

Serving:

Anaheim

Brea

Buena Park

Cypress

Fountain Valley

Fullerton

Garden Grove

Huntington Beach

Irvine

La Habra

La Palma

Los Alamitos

Newport Beach

Orange

Placentia

Santa Ana

Seal Beach

Stanton

Tustin

Villa Park

County of Orange

Costa Mesa
Sanitary District

Midway City
Sanitary District

Irvine Ranch
Water District

Yorba Linda
Water District



Orange County Sanitation District

10844 Ellis Avenue, Fountain Valley, CA 92708

714.962.2411 • www.ocsd.com

December 4, 2019

NOTICE OF MEETING

ADMINISTRATION COMMITTEE ORANGE COUNTY SANITATION DISTRICT

Wednesday, December 11, 2019 – 5:00 P.M.

Administration Building
10844 Ellis Avenue
Fountain Valley, California 92708
WWW.OCSD.COM

A regular meeting of the Administration Committee of the Orange County Sanitation District will be held at the above location, date, and time.

***Our Mission:** To protect public health and the environment by providing effective wastewater collection, treatment, and recycling.*

| ADMINISTRATION COMMITTEE MEETING DATE | BOARD MEETING DATE |
|--|---------------------------|
| 12/11/19 | 12/18/19 * |
| JANUARY DARK | 01/22/20 |
| 02/19/20 ** | 02/26/20 |
| 03/11/20 | 03/25/20 |
| 04/08/30 | 04/22/20 |
| 05/13/20 | 05/27/20 |
| 06/10/20 | 06/24/20 |
| 07/08/20 | 07/22/20 |
| AUGUST DARK | 08/26/20 |
| 09/09/20 | 09/23/20 |
| 10/14/20 | 10/28/20 |
| 11/10/20 ** | 11/18/20 * |

**** Meeting will be held on the third Wednesday of the month***

***** Meeting will be held on the second Tuesday of the month***

ROLL CALL
ADMINISTRATION COMMITTEE
Finance, Information Technology, Environmental Services
and Human Resources

Meeting Date: December 11, 2019

Time: 5:00 p.m.

Adjourn: _____

COMMITTEE MEMBERS (13)

| | |
|---------------------------------|--|
| Chad Wanke, Chair | |
| Richard Murphy, Vice-Chair | |
| Jim Ferryman | |
| Cecilia Iglesias | |
| Peter Kim | |
| Mark Murphy | |
| Steve Nagel | |
| Andrew Nguyen | |
| Glenn Parker | |
| Erik Peterson | |
| Christina Shea | |
| David Shawver (Board Chair) | |
| John Withers (Board Vice-Chair) | |

OTHERS

| | |
|-----------------------------|--|
| Brad Hogin, General Counsel | |
| | |

STAFF

| | |
|--|--|
| Jim Herberg, General Manager | |
| Rob Thompson, Assistant General Manager | |
| Lorenzo Tyner, Assistant General Manager | |
| Celia Chandler, Director of Human Resources | |
| Kathy Millea, Director of Engineering | |
| Lan Wiborg, Director of Environmental Services | |
| Wally Ritchie, Controller | |
| Kelly Lore, Clerk of the Board | |

ORANGE COUNTY SANITATION DISTRICT
BOARD OF DIRECTORS
Complete Roster

Effective 05/22/2019

| AGENCY/CITIES | ACTIVE DIRECTOR | ALTERNATE DIRECTOR |
|----------------------|------------------------|---------------------------|
| Anaheim | Lucille Kring | Denise Barnes |
| Brea | Glenn Parker | Steven Vargas |
| Buena Park | Fred Smith | Sunny Park |
| Cypress | Mariellen Yarc | Stacy Berry |
| Fountain Valley | Steve Nagel | Patrick Harper |
| Fullerton | Jesus J. Silva | Jan Flory |
| Garden Grove | Steve Jones | John O'Neill |
| Huntington Beach | Erik Peterson | Mike Posey |
| Irvine | Christina Shea | Anthony Kuo |
| La Habra | Tim Shaw | Tom Beamish |
| La Palma | Peter Kim | Marshall Goodman |
| Los Alamitos | Richard Murphy | Dean Grose |
| Newport Beach | Brad Avery | Joy Brenner |
| Orange | Mark Murphy | Kim Nichols |
| Placentia | Chad Wanke | Ward Smith |
| Santa Ana | Cecilia Iglesias | David Penaloza |
| Seal Beach | Sandra Massa-Lavitt | Schelly Sustarsic |
| Stanton | David Shawver | Carol Warren |
| Tustin | Allan Bernstein | Chuck Puckett |
| Villa Park | Robert Collacott | Chad Zimmerman |

Sanitary/Water Districts

| | | |
|-------------------------------|-------------------|------------------|
| Costa Mesa Sanitary District | James M. Ferryman | Bob Ooten |
| Midway City Sanitary District | Andrew Nguyen | Al Krippner |
| Irvine Ranch Water District | John Withers | Douglas Reinhart |
| Yorba Linda Water District | Phil Hawkins | Brooke Jones |

County Areas

| | | |
|----------------------|--------------|----------------|
| Board of Supervisors | Doug Chaffee | Michelle Steel |
|----------------------|--------------|----------------|



**Orange County Sanitation District
ADMINISTRATION COMMITTEE
Regular Meeting Agenda
Wednesday, December 11, 2019 - 5:00 PM
Board Room
Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433**

ACCOMMODATIONS FOR THE DISABLED: Meeting Rooms are wheelchair accessible. If you require any special disability related accommodations, please contact the Orange County Sanitation District Clerk of the Board's office at (714) 593-7433 at least 72 hours prior to the scheduled meeting. Requests must specify the nature of the disability and the type of accommodation requested.

AGENDA POSTING: In accordance with the requirements of California Government Code Section 54954.2, this agenda has been posted outside the main gate of the Sanitation District's Administration Building located at 10844 Ellis Avenue, Fountain Valley, California, and on the Sanitation District's website at www.ocsd.com not less than 72 hours prior to the meeting date and time above. All public records relating to each agenda item, including any public records distributed less than 72 hours prior to the meeting to all, or a majority of the Board of Directors, are available for public inspection in the office of the Clerk of the Board.

AGENDA DESCRIPTION: The agenda provides a brief general description of each item of business to be considered or discussed. The recommended action does not indicate what action will be taken. The Board of Directors may take any action which is deemed appropriate.

MEETING AUDIO: An audio recording of this meeting is available within 24 hours after adjournment of the meeting. Please contact the Clerk of the Board's office at (714) 593-7433 to request the audio file.

NOTICE TO DIRECTORS: To place items on the agenda for a Committee or Board Meeting, the item must be submitted in writing to the Clerk of the Board: Kelly A. Lore, MMC, (714) 593-7433 / klore@ocsd.com at least 14 days before the meeting.

FOR ANY QUESTIONS ON THE AGENDA, BOARD MEMBERS MAY CONTACT STAFF AT:

General Manager: Jim Herberg, jherberg@ocsd.com / (714) 593-7300
Asst. General Manager: Lorenzo Tyner, ltyners@ocsd.com / (714) 593-7550
Asst. General Manager: Rob Thompson, rthompson@ocsd.com / (714) 593-7310
Director of Human Resources: Celia Chandler, cchandler@ocsd.com / (714) 593-7202
Director of Engineering: Kathy Millea, kmillea@ocsd.com / (714) 593-7365
Director of Environmental Services: Lan Wiborg, lwiborg@ocsd.com / (714) 593-7450

CALL TO ORDER**PLEDGE OF ALLEGIANCE****DECLARATION OF QUORUM:****PUBLIC COMMENTS:**

If you wish to address the Committee on any item, please complete a Speaker's Form (located at the table outside of the Board Room) and submit it to the Clerk of the Board or notify the Clerk of the Board the item number on which you wish to speak. Speakers will be recognized by the Chairperson and are requested to limit comments to three minutes.

REPORTS:

The Committee Chairperson and the General Manager may present verbal reports on miscellaneous matters of general interest to the Directors. These reports are for information only and require no action by the Directors.

CONSENT CALENDAR:

Consent Calendar Items are considered to be routine and will be enacted, by the Committee, after one motion, without discussion. Any items withdrawn from the Consent Calendar for separate discussion will be considered in the regular order of business.

1. APPROVAL OF MINUTES**[2019-787](#)****RECOMMENDATION:**

Approve Minutes of the Regular Meeting of the Administration Committee held November 13, 2019.

Originator: Kelly Lore

Attachments: [Agenda Report](#)
[11-13-2019 Administration Committee Minutes](#)

2. PAYMENT OF ANNUAL NATIONAL POLLUTANT DISCHARGE AND ELIMINATION SYSTEM (NPDES) PERMIT FEES**[2019-778](#)**

RECOMMENDATION: Recommend to the Board of Directors to:

Approve payment of \$653,081 for annual NPDES (ocean discharge) permit fees.

Originator: Lan Wiborg

Attachments: [Agenda Report](#)

NON-CONSENT:**3. INVEST AND/OR REINVEST ORANGE COUNTY SANITATION DISTRICT'S FUNDS AND ADOPT INVESTMENT POLICY STATEMENT [2019-674](#)**

RECOMMENDATION: Recommend to the Board of Directors to:

Adopt Resolution No. OCSD 19-XX, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the Orange County Sanitation District's Treasurer to Invest and/or Reinvest Orange County Sanitation District's Funds, Adopting the Orange County Sanitation District's Investment Policy Statement and Performance Benchmarks, and Repealing Resolution No. OCSD 18-23.

Originator: Lorenzo Tyner

Attachments: [Agenda Report](#)
[OCSD Calendar Year 2020 Investment Policy Statement \(Clean\)](#)
[OCSD Calendar Year 2019 Investment Policy Statement \(Redline\)](#)
[Proposed Resolution No. OCSD 19-XX](#)

INFORMATION ITEMS:**4. ORANGE COUNTY SANITATION DISTRICT'S PROCUREMENT PROCESS [2019-797](#)**

RECOMMENDATION:

Information Item.

Originator: Lorenzo Tyner

Attachments: [Agenda Report](#)

5. ORANGE COUNTY SANITATION DISTRICT - ENVIRONMENTAL SERVICES [2019-798](#)

RECOMMENDATION:

Information Item.

Originator: Lan Wiborg

Attachments: [Agenda Report](#)

DEPARTMENT HEAD REPORTS:**OTHER BUSINESS AND COMMUNICATIONS OR SUPPLEMENTAL AGENDA ITEMS, IF ANY:****BOARD OF DIRECTORS INITIATED ITEMS FOR A FUTURE MEETING:**

At this time Committee members may request staff to place an item on a future agenda.

ADJOURNMENT:

The next Administration Committee meeting is scheduled for Wednesday, February 19, 2020 at 5:00 p.m.



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2019-787

Agenda Date: 12/11/2019

Agenda Item No: 1.

FROM: James D. Herberg, General Manager
Originator: Kelly A. Lore, Clerk of the Board

SUBJECT:

APPROVAL OF MINUTES

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Approve Minutes of the Regular Meeting of the Administration Committee held November 13, 2019.

BACKGROUND

In accordance with the Board of Directors Rules of Procedure, an accurate record of each meeting will be provided to the Directors for subsequent approval at the following meeting.

RELEVANT STANDARDS

- Resolution No. OCSD 19-19

ATTACHMENT

The following attachment(s) are included in hard copy and may also be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- Minutes of the Administration Committee meeting held November 13, 2019



CALL TO ORDER

A regular meeting of the Administration Committee of the Orange County Sanitation District was called to order by Committee Chairman Chad Wanke on November 13, 2019 at 5:04 p.m. in the Administration Building of the Orange County Sanitation District. Director Erik Peterson led the Flag Salute.

DECLARATION OF QUORUM:

A quorum was declared present as follows:

Present: Chad Wanke, James Ferryman, Cecilia Iglesias, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver, John Withers, Kim Nichols (Alternate) and Dean Grose (Alternate)

Absent: None

STAFF PRESENT:

Jim Herberg, General Manager; Rob Thompson, Assistant General Manager; Lorenzo Tyner, Assistant General Manager; Celia Chandler, Director of Human Resources; Kathy Millea, Director of Engineering; Lan Wiborg, Director of Environmental Services; Tina Knapp, Assistant Clerk of the Board; Janine Aguilar; Kim Cardenas; Daisy Covarrubias; Rhea de Guzman; Al Garcia; Bryce Hockensmith; Laura Maravilla; Riaz Moinuddin; Nasrin Nasrollahi; Adam Nazaroff; Ddaze Phuong; Tyler Ramirez; Kevin Schuler; Eros Yong; and Ruth Zintzun.

OTHERS PRESENT:

Brad Hogin, General Counsel; Amanda Eom and Peter George, Macias Gini & O'Connell (MGO).

PUBLIC COMMENTS:

None.

REPORTS:

Chair Wanke and General Manager Jim Herberg did not provide reports.

Lorenzo Tyner, Assistant General Manager, reported that a firm was recently selected to conduct internal audit services for the next fiscal year.

CONSENT CALENDAR:

1. APPROVAL OF MINUTES

[2019-640](#)

Originator: Kelly Lore

MOVED, SECONDED, AND DULY CARRIED TO:

Approve Minutes of the Regular Meeting of the Administration Committee held September 11, 2019.

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

2. 2019 CONFLICT OF INTEREST CODE

[2019-666](#)

Originator: Kelly Lore

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Adopt Resolution No. OCSD 19-XX entitled, "A Resolution of the Board of Directors of Orange County Sanitation District adopting a Conflict of Interest Code which supersedes all prior Conflict of Interest Codes and amendments previously adopted".

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

3. UPDATE TO THE ESTABLISHED RULES OF PROCEDURE FOR THE CONDUCT OF BUSINESS OF THE ORANGE COUNTY SANITATION DISTRICT

[2019-699](#)

Originator: Kelly Lore

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Adopt Resolution No. OCSD 19-XX entitled, "A Resolution of the Board of Directors of Orange County Sanitation District establishing Rules of Procedure for the Conduct of Business of the Orange County Sanitation District; and repealing Resolution No. OCSD 18-12".

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

4. GENERAL MANAGER APPROVED PURCHASES AND ADDITIONS TO THE PRE-APPROVED OEM SOLE SOURCE LIST [2019-709](#)

Originator: Lorenzo Tyner

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

A. Receive and file Orange County Sanitation District purchases made under the General Manager's authority for the period of July 1, 2019 to September 30, 2019; and

B. Approve the following additions to the pre-approved OEM Sole Source List for the period of July 1, 2019 to September 30, 2019:

- ALLEN-BRADLEY - Medium Voltage Variable Frequency Drive
- CLEAVER-BROOKS - Burner Elements
- EATON - Self-Cleaning Strainers
- SONETICS - Wireless headsets and system
- TRM/Maximo - Rules Manager SE and Lock out Tag Out (LOTO) Software
- VAUGHAN - Mixing Nozzles

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

5. **CONSOLIDATED FINANCIAL REPORT FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2019** [2019-707](#)

Originator: Lorenzo Tyner

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Receive and file the Orange County Sanitation District First Quarter Financial Report for the period ended September 30, 2019.

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

6. **LEASE AGREEMENT WITH MEGDAL GREEN, LLC PROVIDING ORANGE COUNTY SANITATION DISTRICT PARCEL FOR PARKING AND/OR RELATED ACTIVITIES** [2019-702](#)

Originator: Lorenzo Tyner

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Approve a five-year lease agreement with Megdal Green, LLC, a California limited liability company, to allow paving, striping, parking, and related improvements over a 4-foot wide portion of the Orange County Sanitation District's 50-foot wide utility corridor which abuts 21532 South Brookhurst Street in Huntington Beach owned by Megdal Green, LLC, at an annual cost of \$250, for a term of five-years.

Ayes: Chad Wanke, James Ferryman, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Cecilia Iglesias, Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

NON-CONSENT:

Director Cecilia Iglesias arrived at 5:08 p.m., at the start of the presentations for Item No. 7.

7. ORANGE COUNTY SANITATION DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE YEAR END JUNE 30, 2019 [2019-705](#)

Originator: Lorenzo Tyner

Mr. Tyner introduced Wally Ritchie, Controller, who introduced various staff members and outside auditors that contributed to the preparation of the audit and provided a PowerPoint presentation on this item. The presentation included information on the purpose of the Consolidated Annual Financial Report (CAFR), an overview of the CAFR and three areas of review, financial position, capital assets, available resources, and financial performance - debt service and operations.

In response to a request from the Board Chair, staff committed to providing the Board with a summary of the amount the Sanitation District has potentially saved by paying off unfunded pension liability.

Mr. Ritchie introduced Peter George, MGO, who provided a PowerPoint presentation that included the responsibilities and deliverables of MGO and required communications to the Administration Committee.

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Receive and file the Orange County Sanitation District's Comprehensive Annual Financial Report for the year ended June 30, 2019, prepared by staff and audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, along with the following reports prepared by MGO:

1. Report to the Board of Directors; and
2. Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets.

Ayes: Chad Wanke, James Ferryman, Cecilia Iglesias, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

8. PROFESSIONAL RISK MANAGEMENT CONSULTANT AGREEMENT [2019-708](#)

Originator: Lorenzo Tyner

Mr. Tyner provided a verbal report on this item including providing background on how this individual was selected.

MOVED, SECONDED, AND DULY CARRIED TO:

Approve a sole source Professional Consultant Services Agreement with John J. Preston, Specification No. SSJ 2174, to perform professional risk management consulting services for the Orange County Sanitation District, which includes overseeing property and general liability loss control and setting loss control requirements on public bids and contracts, risk transfer, loss prevention, and risk reduction in an amount not to exceed \$150,000 per year, for a term of one year beginning December 1, 2019 - November 30, 2020; with a one-year renewal option.

Ayes: Chad Wanke, James Ferryman, Cecilia Iglesias, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver and John Withers

Noes: None

Absent: Kim Nichols (Alternate) and Dean Grose (Alternate)

Abstentions: None

Alternate Director Kim Nichols arrived at 5:23 p.m., prior to the verbal report on Item No. 9.

9. POSITION CHANGES FOR FISCAL YEAR 2019-20 [2019-711](#)

Originator: Celia Chandler

Celia Chandler, Director of Human Resources, provided a verbal report on this item. Ms. Chandler and Rob Thompson, Assistant General Manager, responded to questions from the Committee regarding this item. Staff agreed to provide milestone reports on preventative maintenance optimization on some recurring basis to be determined, perhaps quarterly.

MOVED, SECONDED, AND DULY CARRIED TO: Recommend to the Board of Directors to:

Approve a position exchange and corresponding salary upgrade from a vacant Senior Mechanic (Salary Grade LOC67) position to Maintenance Specialist (Salary Grade PRO80).

Ayes: Chad Wanke, James Ferryman, Cecilia Iglesias, Peter Kim, Steve Nagel, Andrew Nguyen, Glenn Parker, Erik Peterson, Christina Shea, David Shawver, John Withers and Kim Nichols (Alternate)

Noes: None

Absent: Dean Grose (Alternate)

Abstentions: None

INFORMATION ITEMS:

Board Vice-Chair Withers departed the meeting at 5:36 p.m., prior to Item No. 10.

Alternate Director Dean Grose arrived at 5:50 p.m., during the presentation on Item No. 10.

10. CLIMATE RESILIENCY STUDY, PROJECT NO. SP-152

[2019-713](#)

Originator: Kathy Millea

Kathy Millea, Director of Engineering, introduced Nasrin Nasrollahi, Senior Engineer, who provided a PowerPoint presentation on this item. The presentation included information on reducing greenhouse gas emissions, regulatory drivers, recent climate science references, planning horizons for vulnerability assessment, climate forces, extreme flow events, sea level rise, adaptation example, protecting the treatment plant, summary of impacted facilities, study recommendations, and OCSD policy. Ms. Nasrollahi and Mr. Thompson responded to questions from the Committee. Staff committed to researching the reduction of insurance costs in relationship to the expense of recommended protective efforts.

THIS ITEM WAS RECEIVED AS AN:

Information Item.

OTHER BUSINESS AND COMMUNICATIONS OR SUPPLEMENTAL AGENDA ITEMS, IF ANY:

None.

BOARD OF DIRECTORS INITIATED ITEMS FOR A FUTURE MEETING:

None.

ADJOURNMENT:

Chair Wanke declared the meeting adjourned at 6:11 p.m. to the Regular meeting to be held on Wednesday, December 11, 2019 at 5:00 p.m.

Submitted by:

Tina Knapp, MMC
Assistant Clerk of the Board



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2019-778

Agenda Date: 12/11/2019

Agenda Item No: 2.

FROM: James D. Herberg, General Manager
Originator: Lan C. Wiborg, Director of Environmental Services

SUBJECT:

PAYMENT OF ANNUAL NATIONAL POLLUTANT DISCHARGE AND ELIMINATION SYSTEM (NPDES) PERMIT FEES

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve payment of \$653,081 for annual NPDES (ocean discharge) permit fees.

BACKGROUND

Under the Clean Water Act, Orange County Sanitation District's (Sanitation District) discharge to the ocean requires an NPDES permit, which is jointly administered by the Santa Ana Regional Water Quality Control Board and the USEPA. The payment of annual permit fees is required by Sections 13260 & 13269 of the California Water Code in order to maintain this permit. The fee is based on the Sanitation District's facility design flow for dry weather.

Sanitation District staff has verified this year's fee amount is consistent with the 13.4% increase presented by the State Water Resources Control Board during their August 2019 Water Quality Fees Stakeholder Workshop. The anticipated fee increase for next year is 4%.

RELEVANT STANDARDS

- Comply with California Water Code Sections 13260 & 13269
- Comply with environmental permit requirements
- Maintain collaborative and cooperative relationships with regulators, stakeholders, and neighboring communities

PROBLEM

N/A

PROPOSED SOLUTION

N/A

TIMING CONCERNS

If not paid in a timely manner, the Sanitation District may be subject to late fees.

RAMIFICATIONS OF NOT TAKING ACTION

If not paid, the Sanitation District would be subject to penalties under provision of the Water Code Section 13261. These actions could include daily penalties in addition to the fee or other actions deemed appropriate by the Regional Board.

PRIOR COMMITTEE/BOARD ACTIONS

This fee is invoiced and paid annually per approval by the Sanitation District's Board.

ADDITIONAL INFORMATION

N/A

CEQA

N/A

FINANCIAL CONSIDERATIONS

This request complies with authority levels of the Sanitation District's Purchasing Ordinance. This item has been budgeted. (Budget Update FY2019-20, Line item: Page 43, Operating Expense, Other).

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

N/A



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2019-674

Agenda Date: 12/11/2019

Agenda Item No: 3.

FROM: James D. Herberg, General Manager
Originator: Lorenzo Tyner, Assistant General Manager

SUBJECT:

INVEST AND/OR REINVEST ORANGE COUNTY SANITATION DISTRICT'S FUNDS AND ADOPT INVESTMENT POLICY STATEMENT

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Adopt Resolution No. OCSD 19-XX, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the Orange County Sanitation District's Treasurer to Invest and/or Reinvest Orange County Sanitation District's Funds, Adopting the Orange County Sanitation District's Investment Policy Statement and Performance Benchmarks, and Repealing Resolution No. OCSD 18-23.

BACKGROUND

There were no significant changes on the Investment Policy Statement or the Local Agency Investment Guidelines based on the California Government Code investment statutes over the past year. This agenda item presents an update to the Orange County Sanitation District's (Sanitation District) Investment Policy Statement to the Administration Committee for consideration in the Committee's capacity as the oversight committee for the Investment Policy (Section 18.2). With adoption of the Resolution, the Board of Directors would readopt the Sanitation District's current Investment Policy Statement, portfolio performance benchmarks, and monitoring and reporting requirements for calendar year 2020.

The Sanitation District's Investment Policy Statement was previously approved by the Administration Committee and the Board of Directors for calendar year 2019 in December 2018.

RELEVANT STANDARDS

- Comply with OCSD Policy - Orange County Sanitation District Investment Policy
- California Government Code Sections 53607 and 53646

PROBLEM

California Government Code Section 53607 allows for the Board of Directors to delegate authority to invest and/or reinvest the Sanitation District's funds to the Treasurer for a one-year period. California

Government Code Section 53646 requires the Sanitation District to review its Investment Policy annually and readopt its Policy at a public meeting, which will establish specific performance benchmarks and objectives, and specific monitoring and reports. On December 19, 2018, the Board of Directors adopted Resolution No. OCSD 18-23, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the District's Treasurer to Invest and/or Reinvest District's Funds, Adopting District's Investment Policy Statement and Performance Benchmarks; and Repealing Resolution No. OCSD 17-17". Authority delegated by the Board of Directors to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer to invest and/or reinvest the Sanitation District's funds expires on December 31, 2019. Pursuant to California Government Code Section 53646, the Sanitation District's Investment Policy must be reviewed and readopted prior to December 31, 2019.

PROPOSED SOLUTION

With adoption of the Resolution, the Board of Directors would renew its delegation of investment authority to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer for a one-year period, January 1, 2020 to December 31, 2020, in compliance with the requirements of California Government Code Section 53607. Each year, the Board of Directors will consider similar actions, along with the annual reconsideration of the Sanitation District's Investment Policy.

TIMING CONCERNS

The Board of Directors delegation of authority to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer to invest and/or reinvest the Sanitation District's funds will expire on December 31, 2019. Pursuant to California Government Code Section 53646, the Sanitation District's Investment Policy must be reviewed and readopted prior to December 31, 2019.

RAMIFICATIONS OF NOT TAKING ACTION

The Sanitation District's Assistant General Manager & Director of Finance and Administrative Services/Treasurer will not have the authority to invest and/or reinvest the Sanitation District's funds and the Sanitation District will not be in compliance with California Government Code Section 53646.

PRIOR COMMITTEE/BOARD ACTIONS

December 2018 - Board adopted Resolution No. OCSD 18-23, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the District's Treasurer to Invest and/or Reinvest District's Funds, Adopting District's Investment Policy Statement and Performance Benchmarks; and Repealing Resolution No. OCSD 17-17".

ADDITIONAL INFORMATION

The Sanitation District Investment Policy Statement is a comprehensive document describing the policy, authorizations, benchmarks, delegations, and investment limitations.

The Investment Policy will govern the investment activities of Chandler Asset Management, the Sanitation District's external money manager, on behalf of the Sanitation District.

Annual Review of Investment Policy

The Investment Policy includes the requirement that the Sanitation District shall review its Investment Policy annually (Sections 1.2 and 18.1). Chandler Asset Management reviewed the existing policy to ensure that the language remains current with the California Government Code. The proposed Investment Policy is attached with redlined changes from the most recent approved policy in December 2018.

Annual Delegation of Investment Authority

Effective January 1, 1997, California Government Code Section 53607 states that governing boards of local agencies may only delegate authority to invest and/or reinvest agency funds to the agency's Treasurer for a one-year period.

CEQA

N/A

FINANCIAL CONSIDERATIONS

N/A

ATTACHMENT

The following attachment(s) are included in hard copy and may also be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- OCSD Calendar Year 2020 Investment Policy Statement (clean)
- OCSD Calendar Year 2019 Investment Policy Statement (redline)
- Proposed Resolution No. OCSD 19-XX

ORANGE COUNTY SANITATION DISTRICT

INVESTMENT POLICY STATEMENT

1.0 **Policy:**

It is the policy of the Orange County Sanitation District (OCSD) to invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonably anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds.

1.1. This Investment Policy is set forth by OCSD for the following purposes:

1.1.1. To establish a clear understanding for the Board of Directors, OCSD management, responsible employees and third parties of the objectives, policies and guidelines for the investment of OCSD's idle and surplus funds.

1.1.2. To offer guidance to investment staff and any external investment advisors on the investment of OCSD funds.

1.1.3. To establish a basis for evaluating investment results.

1.2. OCSD establishes investment policies which meet its current investment goals. OCSD shall review this policy annually and may change its policies as its investment objectives change.

2.0 **Scope:**

This Investment Policy applies to all financial assets of OCSD; except for the proceeds of OCSD's capital projects financing program, which are invested in accordance with provisions of their specific bond indentures; and such other funds excluded by law or other Board-approved covenant or agreement.

These funds are accounted for by OCSD as Enterprise Funds as represented in OCSD's Comprehensive Annual Financial Report.

3.0 **Standard of Prudence:**

The standard of prudence to be used by OCSD internal staff, and any authorized investment advisor(s), shall be as described in Section 53600.3 of the California Government Code as follows: Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the **prudent investor** standard. 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 agency, that a **prudent person** acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

4.0 **Investment Objectives:**

The primary objectives of OCSD's investment activities, in priority order, and as described in Section 53600.5 of the California Government Code, shall be:

- 4.1 **Safety:** The safety and preservation of principal is the foremost objective of the investment program of OCSD. Investments shall be selected in a manner that seeks to ensure the preservation of capital in OCSD's overall portfolio. This will be accomplished through a program of diversification, more fully described in Section 13.0, and maturity limitations, more fully described in Section 14.0, in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 4.2 **Liquidity:** The investment program will be administered in a manner that will ensure that sufficient funds are available for OCSD to meet its reasonably anticipated operating expenditure needs.
- 4.3 **Return on Investments:** The OCSD investment portfolio will be structured and managed with the objective of achieving a rate of return throughout budgetary and economic cycles, commensurate with legal, safety, and liquidity considerations.

5.0 **Delegation of Authority:**

- 5.1 Authority to manage OCSD's investment program is derived from the California Government Code Sections 53600 *et seq.* and Sections 53635 *et seq.* The Board of Directors hereby delegates management responsibility for the OCSD investment program to its Assistant General Manager & Director of Finance and Administrative Services/Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this Policy. The Controller/Assistant Treasurer shall be responsible for day-to-day administration, monitoring, and the development of written administrative procedures for the operation of the investment program, consistent with this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken by OCSD internal staff, and shall establish a system of controls to regulate the activities of internal staff and external investment advisors engaged in accordance with Section 5.3.

- 5.2 The administrative procedures for the operation of OCSD's investment program will provide for, but not be limited to, the following:
- 5.2.1 Formats for monthly and quarterly reports to the Administration Committee and the Board of Directors.
 - 5.2.2 Compliance with generally accepted accounting principles of the Government Accounting Standards Board.
 - 5.2.3 Establishment of benchmarks for performance measurement.
 - 5.2.4 Establishment of a system of written internal controls.
 - 5.2.5 Establishment of written procedures for competitive bids and offerings of securities that may be purchased or sold by internal OCSD staff.
 - 5.2.6 Establishment of a Desk Procedures Manual for treasury operations and management.
- 5.3 The Board of Directors may, in its discretion, engage the services of one or more registered investment advisors to assist in the management of OCSD's investment portfolio in a manner consistent with OCSD's objectives. Such external investment advisors, which shall be selected through a competitive process, shall be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such advisors must be registered under the Investment Advisers Act of 1940 or be exempt from such registration.

6.0 Ethics and Conflicts of Interest:

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

7.0 Authorized Financial Dealers and Institutions:

- 7.1 For investment transactions conducted by OCSD internal staff, the Treasurer will maintain a list of financial institutions authorized to provide investment services to OCSD, including "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital rule), and Federal or State of California chartered banks. No public deposit shall be made except in a qualified public depository as established by State law.

All financial institutions which desire to become qualified bidders for investment transactions with OCSD must supply the following for evaluation by the Treasurer:

7.1.1. Audited financial statements for the institution's three (3) most recent fiscal years.

7.1.2. A statement, in the format prescribed by the Government Finance Officers Association (GFOA), certifying that the institution has reviewed OCSD's Investment Policy and that all securities offered to OCSD shall comply fully and in every instance with all provisions of the California Government Code and with this Investment Policy. The current statement is presented in Appendix "A."

7.1.3. A statement describing the regulatory status of the dealer, and the background and expertise of the dealer's representatives.

Selection of financial institutions, broker/dealers, and banks authorized to engage in transactions with OCSD shall be made through a competitive process. An annual review of the financial condition of qualified institutions will be conducted by the Treasurer.

- 7.2 Selection of broker/dealers used by external investment advisors retained by OCSD, shall be in compliance with contract provisions between OCSD and any external investment advisors, and shall be in substantially the following form:

Use of Securities Brokers: Neither the Investment Advisor nor any parent, subsidiary or related firm shall act as a securities broker with respect to any purchases or sales of securities which may be made on behalf of OCSD, provided that this limitation shall not prevent the Investment Advisor from utilizing the services of a securities broker which is a parent, subsidiary or related firm, provided such broker effects transactions on a "cost only" or "nonprofit" basis to itself and provides competitive execution. The Investment Advisor shall provide OCSD with a list of suitable independent brokerage firms (including names and addresses) meeting the requirements of Government Code Section 53601.5, and, unless otherwise directed by OCSD, the Investment Advisor may utilize the service of any of such independent securities brokerage firms it deems appropriate to the extent that such firms are competitive with respect to price of services and execution.

8.0 **Authorized and Suitable Investments:**

All investments shall be made in accordance with the California Government Code including Sections 16429.1 *et seq.*, 53600 *et seq.*, and 53684, and as described within this Investment Policy. Permitted investments under this Policy shall include:

- 8.1 **Securities, obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by the US Government**, a federal agency, or a US Government-sponsored enterprise pursuant to Section 53601 (f) of the California Government Code. US Treasury securities must make up at least 10% of the portfolio.
- 8.2 **Supranational Obligations** issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Securities must be eligible for purchase in the United States and be US dollar denominated senior unsecured unsubordinated obligations, with a maximum maturity of five years. Securities eligible for purchase under this section must be rated "AA" or better by a Nationally Recognized Statistical Rating Organization (NRSRO) and shall not exceed 30% of the total portfolio.
- 8.3 **Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.** Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section. Purchase of mortgage derivatives, which include interest-only payments (IOs) and principal-only payments (POs); inverse floaters, and RE-REMICs (Real Estate Mortgage Investment Conduits), is hereby prohibited.
- 8.4 **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided by an NRSRO, and issued by a domestic corporation organized and operating in the United States with assets in excess of \$500 million and having a rating of "A" or better on its long-term debt as provided by an NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity from the date of purchase. Purchases of commercial paper shall not exceed 25% of the market value of the portfolio. No more than 5% of the market value of the portfolio, or 10% of the issuer's outstanding paper, may be invested in commercial paper issued by any one (1) eligible corporation.
- 8.5 **Banker's acceptances** issued by institutions, the short-term obligations of which are rated of the highest ranking or the highest letter and number rating as provided by an NRSRO provided that: (a) the acceptance is eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; (c) no more than 40% of the total portfolio may be invested in banker's acceptances; and (d) no more than 5% of the total portfolio may be invested in the banker's acceptances of any one (1) commercial bank.

- 8.6 **Medium term (or corporate) notes** of a maximum of five (5) years maturity issued by corporations organized and operating within the United States, or issued by depository institutions licensed by the United States, or any state, and operating within the United States with assets in excess of \$500 million, and which is rated in a rating category of “A” or better on its long-term debt as provided by an NRSRO. If, after purchase, the rating of an eligible note falls below the minimum rating category stipulated above, the external investment advisor shall notify OCSD of the downgrade, and shall present an analysis and recommendations as to the disposition of the note consistent with the investment objectives of this Investment Policy. No more than 30% of the portfolio may be invested in medium term notes.
- 8.7 **Notes, bonds, or other obligations** that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- 8.8 **Shares of mutual funds** investing in securities permitted under this policy and under Section 53601 (l) of the California Government Code. Such funds must either: (1) attain the highest ranking, or the highest letter and numerical rating, provided by not less than two of the three largest nationally recognized rating services; or (2) have an Investment Advisor registered with the Securities and Exchange Commission with not less than five (5) years of experience investing in the securities and obligations authorized under this Policy and under California Government Code Section 53601, and with assets under management in excess of \$500 million. The purchase price of shares of beneficial interest purchased pursuant to this policy, and the California Government Code may not include any commission that the companies may charge, and shall not exceed 20% of OCSDs surplus money that may be invested pursuant to this section. No more than 10% of OCSD’s surplus funds may be invested in shares of beneficial interest of any one (1) mutual fund pursuant to this section. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.
- 8.9 **Certificates of deposit:**
- 8.9.1 **Secured (collateralized) time deposits** issued by a nationally or state-chartered bank or state or federal savings and loan association, as defined by Section 5102 of the California Financial Code, and having a net

operating profit in the two (2) most recently completed fiscal years. Collateral must comply with Chapter 4, Bank Deposit Law, Section 16500 *et seq.*, and Chapter 4.5, Savings and Loan Association and Credit Union Deposit Law, Section 16600 *et seq.*, of the California Government Code.

8.9.2 **Negotiable certificates of deposit (NCDs)** issued by a nationally or state-chartered bank or state of federal savings and loan association, as defined by Section 5102 of the California Financial Code; and which shall have a rating of "A" or better on its long-term debt as provided by a NRSRO; or which shall have the highest letter and number rating for deposits as provided by a NRSRO; or as otherwise approved by the Board of Directors. No more than 30% of the portfolio may be invested in securities pursuant to this section.

8.9.3 To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured individual loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low and moderate income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

8.10 **Taxable or tax-exempt municipal bonds** issued by any of the 50 United States. Such securities must be rated "A" or higher by a NRSRO; or as otherwise approved by the Board of Directors.

8.11 **The State of California Local Agency Investment Fund (LAIF).** The LAIF is an investment alternative for California's local governments and special districts managed by the State Treasurer's Office. LAIF is more fully described in the Glossary (See Appendix "C"). OCSD shall use LAIF as a short-term cash management facility. Investment of OCSD funds in LAIF shall be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this Policy.

8.12 **The Orange County Treasurer's Money Market Commingled Investment Pool (OCCIP).** The OCCIP is a money market investment pool managed by the Orange County Treasurer's Office. OCCIP is more fully described in the Glossary (See Appendix "C"). OCSD has no funds invested in OCCIP at this time. Investment of OCSD funds in OCCIP would be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this Policy.

8.13 **Repurchase agreements** provided that:

8.13.1 All repurchase agreements shall be collateralized with securities eligible for purchase under this Policy. In order to anticipate

market changes and to provide a level of security for all repurchase agreement transactions, collateralization shall be maintained at a level of at least 102% of the market value of the repurchase agreements and shall be adjusted no less than weekly.

8.13.2 All repurchase agreements must be the subject of a Master Repurchase Agreement between OCSD and the provider of the repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by The Bond Market Association.

8.14 Reverse repurchase agreements provided that:

8.14.1 No more than five percent (5%) of OCSD's portfolio shall be invested in reverse repurchase agreements, and there shall be no long-term reverse repurchase agreements unless otherwise authorized by the Board of Directors.

8.14.2 The maximum maturity of reverse repurchase agreements shall be ninety (90) days.

8.14.3 Reverse repurchase agreements shall mature on the exact date of a known cash flow which will be unconditionally available to repay the maturing reverse repurchase agreement.

8.14.4 Proceeds of reverse repurchase agreements shall be used solely to supplement portfolio income or to provide portfolio liquidity and shall not be used to speculate on market movements.

8.14.5 All reverse repurchase agreements must be the subject of a Master Repurchase Agreement between OCSD and the provider of the reverse repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by The Bond Market Association.

8.15 Sales of OCSD-owned securities in the secondary market may incur losses in order to improve the risk or return characteristics of the portfolio, to prevent anticipated further erosion of principal, or when trading for securities that result in an expected net economic gain to OCSD.

8.16 If securities owned by the OCSD are downgraded below the quality required by this Investment Policy, it shall be OCSD's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a decision is made to retain the downgraded securities in the portfolio, their presence in the portfolio will be monitored and reported quarterly to the OCSD General Manager, the Administration Committee and Board of Directors.

9.0 Review of Investment Portfolio:

The securities held by OCSD must be in compliance with Section 8.0 "Authorized and Suitable Investments" at time of purchase. If at a later date, a security is no longer in

compliance with Section 8.0, the Treasurer shall report the non-compliant security to the Administration Committee and the Board of Directors and shall include a disclosure in the quarterly Treasurer's Report if the security is held at the date the report is prepared.

10.0 **Investment Pools/Mutual Funds:**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. A questionnaire shall be developed that will provide the following information:

- 10.1 A description of eligible investment securities, and a written statement of investment policy and objectives.
- 10.2 A description of interest calculations and how they are distributed, and how gains and losses are treated.
- 10.3 A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
- 10.4 A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- 10.5 A schedule for receiving statements and portfolio listings.
- 10.6 A description of the utilization and level of reserves, retained earnings or other collateral and how they are used by the fund.
- 10.7 A fee schedule, and when and how is it assessed.
- 10.8 Whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

11.0 **Collateralization:**

Generally, the value to secure deposits under this Policy shall comply with Section 53652 of the California Government Code. Collateralization will be required for secured time deposits, as more fully described in Section 8.9.1; and repurchase agreements, as more fully described in Section 8.13.1. Collateral will always be held by an independent third-party, as more fully described in Section 12.0. The right of collateral substitution is granted.

12.0 **Safekeeping and Custody:**

All securities transactions, including collateral for repurchase agreements, entered into by, or on behalf of OCSD, shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by OCSD's third-party custodian bank, which shall be selected through a competitive process, or that agent's representative, or in the agent's

account at the Federal Reserve Bank, ***or within clearing corporations in the U.S.***, and evidenced by book entry statements.

13.0 **Diversification:**

OCSD will diversify its investments by security type, issuer, and financial institution in accordance with the following:

- 13.1 There is no limit on investment in securities issued by or guaranteed by the full faith and credit of the U.S. government.
- 13.2 No more than 20% of the portfolio may be invested in securities of a single agency of the U.S. government, which does not provide the full faith and credit of the U.S. government.
- 13.3 No more than 5% of the portfolio may be invested in securities of any one issuer, other than Supranationals, the U.S. government or its agencies. Investment in mutual funds is not governed by this Section 13.3. See Section 13.8 for conditions of purchase of mutual funds.
- 13.4 No individual holding shall constitute more than 5% of the total debt outstanding of any issuer.
- 13.5 No more than 40% of the portfolio may be invested in banker's acceptances.
- 13.6 No more than 25% of the portfolio may be invested in commercial paper.
- 13.7 No more than 30% of the portfolio may be invested in medium-term (corporate) notes.
- 13.8 No more than 20% of the portfolio may be invested in mutual funds. No more than 10% of OCSD's portfolio may be invested in shares of beneficial interest of any one (1) mutual fund. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.
- 13.9 No more than 30% of the portfolio may be invested in negotiable certificates of deposit.
- 13.10 No more than 10% of the portfolio may be invested in eligible municipal bonds.
- 13.11 No more than 20% of the Long Term Operating Monies portfolio may be invested in a combination of mortgage-backed securities, CMOs and asset-backed securities.
- 13.12 No more than the lesser of 15% of the portfolio or the statutory maximum may be invested in LAIF.

13.13 No more than 15% of the portfolio may be invested in the Orange County Investment Pool.

13.14 No more than 20% of the portfolio may be invested in repurchase agreements.

13.15 No more than 5% of the portfolio may be invested in reverse repurchase agreements.

14.0 **Maximum Maturities:**

To the extent possible, OCSD will attempt to match its investments with reasonably anticipated cash flow requirements. The Treasurer shall develop a five-year cash flow forecast, which shall be updated quarterly. Based on this forecast, the Treasurer shall designate, from time-to-time, the amounts to be allocated to the investment portfolio. OCSD monies invested in accordance with this Policy are divided into two (2) categories:

14.1 **Liquid Operating Monies.** Funds needed for current operating and capital expenditures are known as Liquid Operating Monies.

14.1.1 The maximum final stated maturity of individual securities in the Liquid Operating Monies account portfolio shall be one (1) year from the date of settlement.

14.1.2 The average duration of the Liquid Operating Monies account portfolio shall be recommended by the Treasurer based on OCSD's cash flow requirements but may never exceed 180 days.

14.2 **Long Term Operating Monies.** Funds needed for longer term purposes are known as the Long Term Operating Monies.

14.2.1 The maximum final stated maturity of individual securities in the Long Term Operating Monies account portfolio shall be five (5) years from the date of settlement.

14.2.2 The duration of the Long Term Operating Monies account portfolio shall be recommended by the Treasurer based on OCSD's five-year cash flow forecast but may never exceed 60 months.

14.2.3 The duration of the Long Term Operating Monies account portfolio shall never exceed 120% of the duration as established in accordance with Section 14.2.2.

14.2.4 The duration of the Long Term Operating Monies account portfolio shall never be less than 80% of the duration as established in accordance with Section 14.2.2.

15.0 **Internal Control:**

The Treasurer 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.

16.0 **Performance Objectives and Benchmarks:**

16.1 **Overall objective.** The investment portfolio of OCSD shall be designed with the overall objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and reasonably anticipated cash flow needs.

16.2 **The Liquid Operating Monies.** The investment performance objective for the Liquid Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index approved by the Administration Committee and by the Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OCSD19-XX (see Appendix "B").

16.3 **The Long Term Operating Monies.** The investment performance objective for the Long Term Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index selected by the Administration Committee and approved by the Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OCSD 19-XX (See Appendix "B").

17.0 **Reporting:**

17.1 Monthly transaction reports in accordance with California Government Code Section 53607 shall be submitted by the Treasurer to the Board of Directors.

17.2 Quarterly investment reports will be submitted by the Treasurer to the Administration Committee which shall forward the reports to the Board of Directors. The quarterly reports shall provide clear and concise status information on OCSD's portfolios at the end of each reporting period, including performance measures using the benchmarks described in Section 14.0 of this Investment Policy. These reports shall contain listings of individual securities held at the end of each reporting period, and shall disclose, at a minimum, the following information about the risk characteristics of OCSD's portfolio:

17.2.1 Cost and accurate and complete market value of the portfolio.

17.2.2 Modified duration of the portfolio compared to Benchmark.

17.2.3 Dollar change in value of the portfolio for a one-percent (1%) change in interest rates.

17.2.4 Percent of portfolio invested in reverse repurchase agreements, and a schedule which matches the maturity of such reverse repurchase agreements with the cash flows which are available to repay them at maturity.

17.2.5 For the Liquid Operating Monies account only, the percent of portfolio maturing within 90 days.

17.2.6 Average portfolio credit quality.

17.2.7 Percent of portfolio with credit ratings below "A" by any rating agency, and a description of such securities.

17.2.8 State that all investments are in compliance with this policy and the California Government Code or provide a listing of any transactions or holdings which do not comply with this policy or with the California Government Code.

17.2.9 Time-weighted total rate of return for the portfolio for the prior three months, twelve months, year to date, and since inception compared to the Benchmark returns for the same periods.

17.2.10 State that sufficient funds are available for OCSD to meet its operating expenditure requirements for the next six months, or if not, state the reasons for the shortfall.

17.3 OCSD's Treasurer shall meet quarterly with the Administration Committee to review investment performance, proposed strategies and compliance with this Investment Policy. External investment advisors may be required to attend said meetings at the discretion of the Chairman of the Administration Committee.

18.0 **Investment Policy Adoption and Revision:**

18.1 The Investment Policy of OCSD shall be adopted by resolution of the Board of Directors. The Investment Policy shall be reviewed on an annual basis in accordance with California Government Code Section 53646, by the Administration Committee, which shall recommend revisions, as appropriate, to the Board of Directors. Any modifications made thereto shall be approved by the Board of Directors.

18.2 The Administration Committee shall serve as the oversight committee for OCSD's Investment program and shall adopt guidelines for the ongoing review of duration, quality and liquidity of OCSD's portfolio.

ORANGE COUNTY SANITATION DISTRICT INVESTMENT POLICY STATEMENT

1.0 **Policy:**

It is the policy of the Orange County Sanitation District (OCSD) to invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonably anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds.

1.1. This Investment Policy is set forth by OCSD for the following purposes:

1.1.1. To establish a clear understanding for the Board of Directors, OCSD management, responsible employees and third parties of the objectives, policies and guidelines for the investment of ~~the~~ OCSD's idle and surplus funds.

1.1.2. To offer guidance to investment staff and any external investment advisors on the investment of OCSD funds ~~(see Appendix "A")~~.

1.1.3. To establish a basis for evaluating investment results.

1.2. OCSD establishes investment policies which meet its current investment goals. OCSD shall review this policy annually, and may change its policies as its investment objectives change.

2.0 **Scope:**

This Investment Policy applies to all financial assets of OCSD; except for the proceeds of OCSD's capital projects financing program, which are invested in accordance with provisions of their specific bond indentures; and such other funds excluded by law or other Board-approved covenant or agreement.

These funds are accounted for by OCSD as Enterprise Funds as represented in OCSD's Comprehensive Annual Financial Report.

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conditions and the anticipated needs of the agency, that a **prudent person** acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

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- 4.3 **Return on Investments:** The OCSD investment portfolio will be structured and managed with the objective of achieving a rate of return throughout budgetary and economic cycles, commensurate with legal, safety, and liquidity considerations.

5.0 **Delegation of Authority:**

- 5.1 Authority to manage OCSD's investment program is derived from the California Government Code Sections 53600 *et seq.* and Sections 53635 *et seq.* The Board of Directors hereby delegates management responsibility for the OCSD investment program to its Assistant General Manager & Director of Finance and Administrative Services/Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this Policy. The Controller/Assistant Treasurer shall be responsible for day-to-day administration, monitoring, and the development of written administrative procedures for the operation of the investment program, consistent with this Policy. ~~The current treasury management procedures are presented in Appendix "B."~~ No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken by OCSD internal staff, and shall establish a system of controls to regulate the activities of internal staff and external investment advisors engaged in accordance with Section 5.3.

- 5.2 The administrative procedures for the operation of OCSD's investment program will provide for, but not be limited to, the following:
- 5.2.1 Formats for monthly and quarterly reports to the Administration Committee, and the Board of Directors.
 - 5.2.2 Compliance with generally accepted accounting principles of the Government Accounting Standards Board.
 - 5.2.3 Establishment of benchmarks for performance measurement.
 - 5.2.4 Establishment of a system of written internal controls.
 - 5.2.5 Establishment of written procedures for competitive bids and offerings of securities that may be purchased or sold by internal OCSD staff.
 - 5.2.6 Establishment of a Desk Procedures Manual for treasury operations and management.
- 5.3 The Board of Directors ~~of OCSD~~ may, in its discretion, engage the services of one or more registered investment advisors to assist in the management of OCSD's investment portfolio in a manner consistent with OCSD's objectives. Such external investment advisors, which shall be selected through a competitive process, shall be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such advisors must be registered under the Investment Advisers Act of 1940, or be exempt from such registration.

6.0 **Ethics and Conflicts of Interest:**

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

7.0 **Authorized Financial Dealers and Institutions:**

- 7.1 For investment transactions conducted by OCSD internal staff, the Treasurer will maintain a list of financial institutions authorized to provide investment services to OCSD, including "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital rule), and Federal or State of California chartered banks. No public deposit shall be made except in a qualified public depository as

established by State law.

All financial institutions which desire to become qualified bidders for investment transactions with OCSD must supply the following for evaluation by the Treasurer:

7.1.1. Audited financial statements for the institution's three (3) most recent fiscal years.

7.1.2. A statement, in the format prescribed by the Government Finance Officers Association (GFOA), certifying that the institution has reviewed OCSD's Investment Policy and that all securities offered to ~~OCSD the Districts~~ shall comply fully and in every instance with all provisions of the California Government Code and with this Investment Policy. The current statement is presented in Appendix "AG."

7.1.3. A statement describing the regulatory status of the dealer, and the background and expertise of the dealer's representatives.

Selection of financial institutions, broker/dealers, and banks authorized to engage in transactions with OCSD shall be made through a competitive process. An annual review of the financial condition of qualified institutions will be conducted by the Treasurer.

7.2 Selection of broker/dealers used by external investment advisors retained by OCSD, shall be in compliance with contract provisions between OCSD and any external investment advisors, and shall be in substantially the following form:

Use of Securities Brokers: Neither the Investment Advisor nor any parent, subsidiary or related firm shall act as a securities broker with respect to any purchases or sales of securities which may be made on behalf of OCSD, provided that this limitation shall not prevent the Investment Advisor from utilizing the services of a securities broker which is a parent, subsidiary or related firm, provided such broker effects transactions on a "cost only" or "nonprofit" basis to itself and provides competitive execution. The Investment Advisor shall provide ~~the OCSD Districts~~ with a list of suitable independent brokerage firms (including names and addresses) meeting the requirements of Government Code Section 53601.5, and, unless otherwise directed by OCSD, the Investment Advisor may utilize the service of any of such independent securities brokerage firms it deems appropriate to the extent that such firms are competitive with respect to price of services and execution.

8.0 **Authorized and Suitable Investments:**

All investments shall be made in accordance with the California Government Code including Sections 16429.1 *et seq.*, 53600 *et seq.*, and 53684, and as described within

this Investment Policy. Permitted investments under this Policy shall include:

- 8.1 **Securities, obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by the US Government**, a federal agency, or a US Government-sponsored enterprise pursuant to Section 53601 (f) of the California Government Code. US Treasury securities must make up at least 10% of the portfolio.
- 8.2 **Supranational Obligations** issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Securities must be eligible for purchase in the United States and be US dollar denominated senior unsecured unsubordinated obligations, with a maximum maturity of five years. Securities eligible for purchase under this section must be rated "AA" or better by a Nationally Recognized Statistical Rating Organization (NRSRO) and shall not exceed 30% of the total portfolio.
- 8.3 **Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.** Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section. Purchase of mortgage derivatives, which include interest-only payments (IOs) and principal-only payments (POs); inverse floaters, and RE-REMICs (Real Estate Mortgage Investment Conduits), is hereby prohibited.
- 8.4 **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided by an NRSRO, and issued by a domestic corporation organized and operating in the United States with assets in excess of \$500 million and having a rating of "A" or better on its long-term debt as provided by an NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity from the date of purchase. Purchases of commercial paper shall not exceed 25% of the market value of the portfolio. No more than 5% of the market value of the portfolio, or 10% of the issuer's outstanding paper, may be invested in commercial paper issued by any one (1) eligible corporation.
- 8.5 **Banker's acceptances** issued by institutions, the short-term obligations of which are rated of the highest ranking or the highest letter and number rating as provided by an NRSRO provided that: (a) the acceptance is eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; (c) no more than 40% of the total portfolio may be invested in banker's acceptances; and (d) no more than 5% of the total portfolio may be invested in the banker's acceptances of any one (1)

commercial bank.

- 8.6 **Medium term (or corporate) notes** of a maximum of five (5) years maturity issued by corporations organized and operating within the United States, or issued by depository institutions licensed by the United States, or any state, and operating within the United States with assets in excess of \$500 million, and which is rated in a rating category of "A" or better on its long-term debt as provided by an NRSRO. If, after purchase, the rating of an eligible note falls below the minimum rating category stipulated above, the external investment advisor shall notify ~~the District~~ OCSD of the downgrade, and shall present an analysis and recommendations as to the disposition of the note consistent with the investment objectives of this Investment Policy. No more than 30% of the portfolio may be invested in medium term notes.
- 8.7 **Notes, bonds, or other obligations** that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- 8.8 **Shares of mutual funds** investing in securities permitted under this policy and under Section 53601 (l) of the California Government Code. Such funds must either: (1) attain the highest ranking, or the highest letter and numerical rating, provided by not less than two of the three largest nationally recognized rating services; or (2) have an Investment Advisor registered with the Securities and Exchange Commission with not less than five (5) years of experience investing in the securities and obligations authorized under this Policy and under California Government Code Section 53601, and with assets under management in excess of \$500 million. The purchase price of shares of beneficial interest purchased pursuant to this policy, and the California Government Code may not include any commission that the companies may charge, and shall not exceed 20% of ~~the District~~ OCSD's surplus money that may be invested pursuant to this section. No more than 10% of ~~the District's~~ OCSD's surplus funds may be invested in shares of beneficial interest of any one (1) mutual fund pursuant to this section. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.
- 8.9 **Certificates of deposit:**

8.9.1 **Secured (collateralized) time deposits** issued by a nationally or state-chartered bank or state or federal savings and loan association, as defined by Section 5102 of the California Financial Code, and having a net operating profit in the two (2) most recently completed fiscal years. Collateral must comply with Chapter 4, Bank Deposit Law, Section 16500 *et seq.*, and Chapter 4.5, Savings and Loan Association and Credit Union Deposit Law, Section 16600 *et seq.*, of the California Government Code.

8.9.2 **Negotiable certificates of deposit (NCDs)** issued by a nationally or state-chartered bank or state of federal savings and loan association, as defined by Section 5102 of the California Financial Code; and which shall have a rating of "A" or better on its long-term debt as provided by a NRSRO; or which shall have the highest letter and number rating for deposits as provided by a NRSRO; or as otherwise approved by ~~the District's~~ the Board of Directors. No more than 30% of the portfolio may be invested in securities pursuant to this section.

8.9.3 To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured individual loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low and moderate income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

8.10 **Taxable or tax-exempt municipal bonds** issued by any of the 50 United States. Such securities must be rated "A" or higher by a NRSRO; or as otherwise approved by ~~the District's~~ the Board of Directors.

8.11 **The State of California Local Agency Investment Fund (LAIF).** The LAIF is an investment alternative for California's local governments and special districts managed by the State Treasurer's Office. LAIF is more fully described in the Glossary (See Appendix "CH"). ~~OCSD~~ The District shall use LAIF as a short-term cash management facility. Investment of ~~OCSD~~ District funds in LAIF shall be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this Policy. ~~See Appendix "D" for investment pool questionnaire.~~

8.12 **The Orange County Treasurer's Money Market Commingled Investment Pool (OCCIP).** The OCCIP is a money market investment pool managed by the Orange County Treasurer's Office. OCCIP is more fully described in the Glossary ~~–~~ (See Appendix "CH"). ~~OCSD~~ The District has no funds invested in OCCIP at this time. Investment of ~~OCSD~~ District funds in OCCIP would be subject to investigation and due diligence prior to investing, and on a continual basis to a level of review pursuant to Section 3.0, Standard of Prudence, of this Policy.

8.13 Repurchase agreements provided that:

8.13.1 All repurchase agreements shall be collateralized with securities eligible for purchase under this Policy. In order to anticipate market changes and to provide a level of security for all repurchase agreement transactions, collateralization shall be maintained at a level of at least 102% of the market value of the repurchase agreements, and shall be adjusted no less than weekly.

8.13.2 All repurchase agreements must be the subject of a Master Repurchase Agreement between OCSD and the provider of the repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by The Bond Market Association.

8.14 Reverse repurchase agreements provided that:

8.14.1 No more than five percent (5%) of OCSD's portfolio shall be invested in reverse repurchase agreements, and there shall be no long-term reverse repurchase agreements unless otherwise authorized by ~~the~~ the Districts' Board of Directors.

8.14.2 The maximum maturity of reverse repurchase agreements shall be ninety (90) days.

8.14.3 Reverse repurchase agreements shall mature on the exact date of a known cash flow which will be unconditionally available to repay the maturing reverse repurchase agreement.

8.14.4 Proceeds of reverse repurchase agreements shall be used solely to supplement portfolio income or to provide portfolio liquidity, and shall not be used to speculate on market movements.

8.14.5 All reverse repurchase agreements must be the subject of a Master Repurchase Agreement between OCSD and the provider of the reverse repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by The Bond Market Association.

8.15 Sales of OCSD-owned securities in the secondary market may incur losses in order to improve the risk or return characteristics of the portfolio, to prevent anticipated further erosion of principal, or when trading for securities that result in an expected net economic gain to OCSD.

8.16 If securities owned by the OCSD are downgraded below the quality required by this Investment Policy, it shall be OCSD's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a decision is made to retain the downgraded securities in the portfolio, their presence in the portfolio will be monitored and reported ~~quarterly~~ monthly to the OCSD General

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Manager, the Administration Committee and Board of Directors.

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9.0 **Review of Investment Portfolio:**

The securities held by OCSD must be in compliance with Section 8.0 "Authorized and Suitable Investments" at time of purchase. If at a later date, a security is no longer in compliance with Section 8.0, the Treasurer shall report the non-compliant security to the Administration Committee and the Board of Directors and shall include a disclosure in the quarterly Treasurer's Report if the security is held at the date ~~the date~~ the report is prepared.

10.0 **Investment Pools/Mutual Funds:**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. A questionnaire shall be developed that will provide the following information:

- 10.1 A description of eligible investment securities, and a written statement of investment policy and objectives.
- 10.2 A description of interest calculations and how they are distributed, and how gains and losses are treated.
- 10.3 A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
- 10.4 A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- 10.5 A schedule for receiving statements and portfolio listings.
- 10.6 A description of the utilization and level of reserves, retained earnings or other collateral and how they are used by the fund.
- 10.7 A fee schedule, and when and how is it assessed.
- 10.8 Whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

11.0 **Collateralization:**

Generally, the value to secure deposits under this Policy shall comply with Section 53652 of the California Government Code. Collateralization will be required for secured time deposits, as more fully described in Section 8.9.1; and repurchase agreements, as more fully described in Section 8.13.1. Collateral will always be held by an independent third-party, as more fully described in Section 12.0. The right of collateral substitution is

granted.

12.0 **Safekeeping and Custody:**

All securities transactions, including collateral for repurchase agreements, entered into by, or on behalf of OCSD, shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by OCSD's third-party custodian bank, which shall be selected through a competitive process, or that agent's representative, or in the agent's account at the Federal Reserve Bank, **or within clearing corporations in the U.S.**, and evidenced by book entry statements.

13.0 **Diversification:**

OCSD will diversify its investments by security type, issuer, and financial institution in accordance with the following:

- 13.1 There is no limit on investment in securities issued by or guaranteed by the full faith and credit of the U.S. government.
- 13.2 No more than 20% of the portfolio may be invested in securities of a single agency of the U.S. government, which does not provide the full faith and credit of the U.S. government.
- 13.3 No more than 5% of the portfolio may be invested in securities of any one issuer, other than Supranationals, the U.S. government or its agencies. Investment in mutual funds is not governed by this Section 13.3. See Section 13.8 for conditions of purchase of mutual funds.
- 13.4 No individual holding shall constitute more than 5% of the total debt outstanding of any issuer.
- 13.5 No more than 40% of the portfolio may be invested in banker's acceptances.
- 13.6 No more than 25% of the portfolio may be invested in commercial paper.
- 13.7 No more than 30% of the portfolio may be invested in medium-term (corporate) notes.
- 13.8 No more than 20% of the portfolio may be invested in mutual funds. No more than 10% of ~~the District~~OCSD's portfolio may be invested in shares of beneficial interest of any one (1) mutual fund. Money market mutual funds are limited to 20% per issuer and are not subject to the 10% stipulation.
- 13.9 No more than 30% of the portfolio may be invested in negotiable certificates of deposit.

13.10 No more than 10% of the portfolio may be invested in eligible municipal bonds.

13.11 No more than 20% of the Long Term Operating Monies portfolio may be invested in a combination of mortgage-backed securities, CMOs and asset-backed securities.

13.12 No more than the lesser of 15% of the portfolio or the statutory maximum may be invested in LAIF.

13.13 No more than 15% of the portfolio may be invested in the Orange County Investment Pool.

13.14 No more than 20% of the portfolio may be invested in repurchase agreements.

13.15 No more than 5% of the portfolio may be invested in reverse repurchase agreements.

14.0 **Maximum Maturities:**

To the extent possible, OCSD will attempt to match its investments with reasonably anticipated cash flow requirements. The Treasurer shall develop a five-year cash flow forecast, which shall be updated quarterly. Based on this forecast, the Treasurer shall designate, from time-to-time, the amounts to be allocated to the investment portfolio. OCSD monies invested in accordance with this Policy are divided into two (2) categories:

14.1 **Liquid Operating Monies.** Funds needed for current operating and capital expenditures are known as Liquid Operating Monies.

14.1.1 The maximum final stated maturity of individual securities in the Liquid Operating Monies account portfolio shall be one (1) year from the date of settlement.

14.1.2 The average duration of the Liquid Operating Monies account portfolio shall be recommended by the Treasurer based on ~~the~~ OCSD's Districts' cash flow requirements, but may never exceed 180 days.

14.2 **Long Term Operating Monies.** Funds needed for longer term purposes are known as the Long Term Operating Monies.

14.2.1 The maximum final stated maturity of individual securities in the Long Term Operating Monies account portfolio shall be five (5) years from the date of settlement.

14.2.2 The duration of the Long Term Operating Monies account portfolio shall be recommended by the Treasurer based on ~~the~~

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~~OCSD's~~~~District's~~ five-year cash flow forecast, but may never exceed 60 months.

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14.2.3 The duration of the Long Term Operating Monies account portfolio shall never exceed 120% of the duration as established in accordance with Section 14.2.2.

14.2.4 The duration of the Long Term Operating Monies account portfolio shall never be less than 80% of the duration as established in accordance with Section 14.2.2.

15.0 **Internal Control:**

The Treasurer 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. ~~The current treasury management procedures are presented in Appendix "B."~~

16.0 **Performance Objectives and Benchmarks:**

16.1 **Overall objective.** The investment portfolio of OCSD shall be designed with the overall objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and reasonably anticipated cash flow needs.

16.2 **The Liquid Operating Monies.** The investment performance objective for the Liquid Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index approved by the Administration Committee, and by ~~the the District's~~ Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OCSD1~~98-XX23~~ (see Appendix "~~BE~~").

16.3 **The Long Term Operating Monies.** The investment performance objective for the Long Term Operating Monies shall be to earn a total rate of return over a market cycle which exceeds the return on a market index selected by the Administration Committee and approved by ~~the the District's~~ Board of Directors, when the duration of the portfolio is established. This market index is more fully described in Board Resolution No. OCSD 1~~98-XX23~~ (See Appendix "~~BE~~").

17.0 **Reporting:**

17.1 Monthly transaction reports in accordance with California Government Code Section 53607 shall be submitted by the Treasurer to ~~the the District's~~ Board of Directors.

- 17.2 Quarterly investment reports will be submitted by the Treasurer to the Administration Committee which shall forward the reports to ~~the~~^{the} District's Board of Directors. The quarterly reports shall provide clear and concise status information on ~~OCSD's~~^{the District's} portfolios at the end of each reporting period, including performance measures using the benchmarks described in Section 14.0 of this Investment Policy. ~~Sample quarterly reports are presented in Appendix "F."~~ These reports shall contain listings of individual securities held at the end of each reporting period, and shall disclose, at a minimum, the following information about the risk characteristics of OCSD's portfolio:
- 17.2.1 Cost and accurate and complete market value of the portfolio.
 - 17.2.2 Modified duration of the portfolio compared to Benchmark.
 - 17.2.3 Dollar change in value of the portfolio for a one-percent (1%) change in interest rates.
 - 17.2.4 Percent of portfolio invested in reverse repurchase agreements, and a schedule which matches the maturity of such reverse repurchase agreements with the cash flows which are available to repay them at maturity.
 - 17.2.5 For the Liquid Operating Monies account only, the percent of portfolio maturing within 90 days.
 - 17.2.6 Average portfolio credit quality.
 - 17.2.7 Percent of portfolio with credit ratings below "A" by any rating agency, and a description of such securities.
 - 17.2.8 State that all investments are in compliance with this policy and the California Government Code, or provide a listing of any transactions or holdings which do not comply with this policy or with the California Government Code.
 - 17.2.9 Time-weighted total rate of return for the portfolio for the prior three months, twelve months, year to date, and since inception compared to the Benchmark returns for the same periods.
 - 17.2.10 State that sufficient funds are available for OCSD to meet its operating expenditure requirements for the next six months, or if not, state the reasons for the shortfall.
- 17.3 OCSD's Treasurer shall meet quarterly with the Administration Committee to review investment performance, proposed strategies and compliance with this Investment Policy. External investment advisors may be required to attend said meetings at the discretion of the Chairman of the Administration Committee.

18.0 **Investment Policy Adoption and Revision:**

- 18.1 The Investment Policy of OCSD shall be ~~reviewed by the Administration Committee and shall be~~ adopted by resolution of the Board of Directors ~~of OCSD~~. The Investment Policy shall be reviewed on an annual basis in accordance with California Government Code Section 53646, ~~and this Investment Policy~~, by the Administration Committee, which shall recommend revisions, as appropriate, to the Board of Directors. Any modifications made thereto shall be approved by the Board of Directors.
- 18.2 The Administration Committee shall serve as the oversight committee for ~~OCSD's the District's~~ Investment program and shall adopt guidelines for the ongoing review of duration, quality and liquidity of ~~OCSD's the District's~~ portfolio.

RESOLUTION NO. OCSD 19-XX

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ORANGE COUNTY SANITATION DISTRICT, AUTHORIZING THE ORANGE COUNTY SANITATION DISTRICT'S TREASURER TO INVEST AND/OR REINVEST THE ORANGE COUNTY SANITATION DISTRICT'S FUNDS, ADOPTING THE ORANGE COUNTY SANITATION DISTRICT'S INVESTMENT POLICY STATEMENT AND PERFORMANCE BENCHMARKS, AND REPEALING RESOLUTION NO. OCSD 18-23

WHEREAS, on December 19, 2018, the Board of Directors adopted Resolution No. 18-23, readopting the Orange County Sanitation District's ("OCSD") Investment Policy Statement, and establishing specific performance benchmarks and objectives, together with a schedule of frequency of investment performance reports; and

WHEREAS, pursuant to California Government Code Section 53607, the Board of Directors may delegate authority to invest and/or reinvest OCSD's funds to the Treasurer for a one-year period; and

WHEREAS, pursuant to California Government Code Section 53646, OCSD is required to review its Investment Policy annually and readopt its Policy at a public meeting, which Policy will establish specific performance benchmarks and objectives, and specific monitoring and reports.

NOW, THEREFORE, the Board of Directors of the Orange County Sanitation District, DOES HEREBY RESOLVE, DETERMINE AND ORDER:

Section 1: That the authority of the Board of Directors to invest or reinvest surplus funds, or to sell or exchange securities so purchased, or to deposit for safekeeping the funds and investments of OCSD with depositories, as provided for in California Government Code Sections 53608 and 53630, is hereby delegated to the OCSD's Treasurer for a one-year period, January 1, 2020 through December 31, 2020, as authorized by California Government Code Section 53607.

Section 2: That the Board of Directors hereby adopts the Investment Policy Statement of the Orange County Sanitation District.

Section 3: That the Board of Directors hereby adopts the following specific performance benchmarks for their two investment funds in accordance with Section 16.0 of the OCSDs Investment Policy:

LIQUID OPERATING MONIES: The Short-Term Operating Fund will be compared to the three-month Bank of America Merrill Lynch T-Bill rate, and the Callan Active Cash Flow Income Style Group. The Callan Active Cash Flow Income Style Group represents a peer group of managers who operate with a maximum maturity of one year.

LONG-TERM OPERATING MONIES: The Long-Term Operating Fund will be compared to the Bank of America Merrill Lynch Corporate and Government One-to-Five Year Maturity Index and to the Callan Defensive Fixed Income Style Group.

Section 4: That the Board of Directors hereby adopts a performance monitoring and reporting schedule, as required by Section 17.0 of OCSD's Investment Policy.

Section 5: That Resolution No. OCSD 18-23 is hereby repealed.

PASSED AND ADOPTED at regular meeting of the Board of Directors, Orange
County Sanitation District held December 18, 2019.

David John Shawver
Board Chairman

ATTEST:

Kelly A. Lore, MMC
Clerk of the Board

STATE OF CALIFORNIA)
) ss
COUNTY OF ORANGE)

I, Kelly A. Lore, Clerk of the Board of Directors of the Orange County Sanitation District, do hereby certify that the foregoing Resolution No. OCSD 19-XX was passed and adopted at a regular meeting of said Board on the 18th day of December 2019, by the following vote, to wit:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of Orange County Sanitation District this 18th day of December 2019.

Kelly A. Lore, MMC
Clerk of the Board of Directors
Orange County Sanitation District



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2019-797

Agenda Date: 12/11/2019

Agenda Item No: 4.

FROM: James D. Herberg, General Manager
Originator: Lorenzo Tyner, Assistant General Manager

SUBJECT:

ORANGE COUNTY SANITATION DISTRICT'S PROCUREMENT PROCESS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Information Item.

BACKGROUND

Staff will provide an informational presentation on the Orange County Sanitation District's procurement process.

RELEVANT STANDARDS

- Ensure the public's money is wisely spent
- Participate in local, state, and national cooperative purchasing programs
- Comply with OCSD Policy - Purchasing Ordinance No. OCSD-52

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

N/A



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2019-798

Agenda Date: 12/11/2019

Agenda Item No: 5.

FROM: James D. Herberg, General Manager
Originator: Lan Wiborg, Director of Environmental Services

SUBJECT:

ORANGE COUNTY SANITATION DISTRICT - ENVIRONMENTAL SERVICES

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Information Item.

BACKGROUND

Each month, staff provides an informational presentation on topics of interest to the Board of Directors. This month's topic: Orange County Sanitation District's Environmental Services Department - Regulatory Compliance Program.

RELEVANT STANDARDS

- Use all practical and effective means for resource recovery
- Comply with environmental permit requirements

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

N/A

ORANGE COUNTY SANITATION DISTRICT COMMON ACRONYMS

| | | | | | |
|---------------|---|------------------|---|----------------|--|
| ACWA | Association of California Water Agencies | LAFCO | Local Agency Formation Commission | RWQCB | Regional Water Quality Control Board |
| APWA | American Public Works Association | LOS | Level Of Service | SARFPA | Santa Ana River Flood Protection Agency |
| AQMD | Air Quality Management District | MGD | Million Gallons Per Day | SARI | Santa Ana River Interceptor |
| ASCE | American Society of Civil Engineers | MOU | Memorandum of Understanding | SARWQCB | Santa Ana Regional Water Quality Control Board |
| BOD | Biochemical Oxygen Demand | NACWA | National Association of Clean Water Agencies | SAWPA | Santa Ana Watershed Project Authority |
| CARB | California Air Resources Board | NEPA | National Environmental Policy Act | SCADA | Supervisory Control And Data Acquisition |
| CASA | California Association of Sanitation Agencies | NGOs | Non-Governmental Organizations | SCAP | Southern California Alliance of Publicly Owned Treatment Works |
| CCTV | Closed Circuit Television | NPDES | National Pollutant Discharge Elimination System | SCAQMD | South Coast Air Quality Management District |
| CEQA | California Environmental Quality Act | NWRI | National Water Research Institute | SOCWA | South Orange County Wastewater Authority |
| CIP | Capital Improvement Program | O & M | Operations & Maintenance | SRF | Clean Water State Revolving Fund |
| CRWQCB | California Regional Water Quality Control Board | OCCOG | Orange County Council of Governments | SSMP | Sewer System Management Plan |
| CWA | Clean Water Act | OCHCA | Orange County Health Care Agency | SSO | Sanitary Sewer Overflow |
| CWEA | California Water Environment Association | OCSD | Orange County Sanitation District | SWRCB | State Water Resources Control Board |
| EIR | Environmental Impact Report | OCWD | Orange County Water District | TDS | Total Dissolved Solids |
| EMT | Executive Management Team | OOBS | Ocean Outfall Booster Station | TMDL | Total Maximum Daily Load |
| EPA | US Environmental Protection Agency | OSHA | Occupational Safety and Health Administration | TSS | Total Suspended Solids |
| FOG | Fats, Oils, and Grease | PCSA | Professional Consultant/Construction Services Agreement | WDR | Waste Discharge Requirements |
| gpd | gallons per day | PDSA | Professional Design Services Agreement | WEF | Water Environment Federation |
| GWRS | Groundwater Replenishment System | POTW | Publicly Owned Treatment Works | WERF | Water Environment & Reuse Foundation |
| ICS | Incident Command System | ppm | parts per million | WIFIA | Water Infrastructure Finance and Innovation Act |
| IERP | Integrated Emergency Response Plan | PSA | Professional Services Agreement | WIIN | Water Infrastructure Improvements for the Nation Act |
| JPA | Joint Powers Authority | RFP | Request For Proposal | WRDA | Water Resources Development Act |

ORANGE COUNTY SANITATION DISTRICT GLOSSARY OF TERMS

ACTIVATED SLUDGE PROCESS – A secondary biological wastewater treatment process where bacteria reproduce at a high rate with the introduction of excess air or oxygen and consume dissolved nutrients in the wastewater.

BENTHOS – The community of organisms, such as sea stars, worms, and shrimp, which live on, in, or near the seabed, also known as the benthic zone.

BIOCHEMICAL OXYGEN DEMAND (BOD) – The amount of oxygen used when organic matter undergoes decomposition by microorganisms. Testing for BOD is done to assess the amount of organic matter in water.

BIOGAS – A gas that is produced by the action of anaerobic bacteria on organic waste matter in a digester tank that can be used as a fuel.

BIOSOLIDS – Biosolids are nutrient rich organic and highly treated solid materials produced by the wastewater treatment process. This high-quality product can be recycled as a soil amendment on farmland or further processed as an earth-like product for commercial and home gardens to improve and maintain fertile soil and stimulate plant growth.

CAPITAL IMPROVEMENT PROGRAM (CIP) – Projects for repair, rehabilitation, and replacement of assets. Also includes treatment improvements, additional capacity, and projects for the support facilities.

COLIFORM BACTERIA – A group of bacteria found in the intestines of humans and other animals, but also occasionally found elsewhere, used as indicators of sewage pollution. E. coli are the most common bacteria in wastewater.

COLLECTIONS SYSTEM – In wastewater, it is the system of typically underground pipes that receive and convey sanitary wastewater or storm water.

CERTIFICATE OF PARTICIPATION (COP) – A type of financing where an investor purchases a share of the lease revenues of a program rather than the bond being secured by those revenues.

CONTAMINANTS OF POTENTIAL CONCERN (CPC) – Pharmaceuticals, hormones, and other organic wastewater contaminants.

DILUTION TO THRESHOLD (D/T) – The dilution at which the majority of people detect the odor becomes the D/T for that air sample.

GREENHOUSE GASES (GHG) – In the order of relative abundance water vapor, carbon dioxide, methane, nitrous oxide, and ozone gases that are considered the cause of global warming ("greenhouse effect").

GROUNDWATER REPLENISHMENT SYSTEM (GWRS) – A joint water reclamation project that proactively responds to Southern California's current and future water needs. This joint project between the Orange County Water District and the Orange County Sanitation District provides 70 million gallons per day of drinking quality water to replenish the local groundwater supply.

LEVEL OF SERVICE (LOS) – Goals to support environmental and public expectations for performance.

N-NITROSODIMETHYLAMINE (NDMA) – A N-nitrosamine suspected cancer-causing agent. It has been found in the Groundwater Replenishment System process and is eliminated using hydrogen peroxide with extra ultra-violet treatment.

NATIONAL BIOSOLIDS PARTNERSHIP (NBP) – An alliance of the National Association of Clean Water Agencies and Water Environment Federation, with advisory support from the US Environmental Protection Agency. NBP is committed to developing and advancing environmentally sound and sustainable biosolids management practices that go beyond regulatory compliance and promote public participation to enhance the credibility of local agency biosolids programs and improved communications that lead to public acceptance.

PLUME – A visible or measurable concentration of discharge from a stationary source or fixed facility.

PUBLICLY OWNED TREATMENT WORKS (POTW) – A municipal wastewater treatment plant.

SANTA ANA RIVER INTERCEPTOR (SARI) LINE – A regional brine line designed to convey 30 million gallons per day of non-reclaimable wastewater from the upper Santa Ana River basin to the ocean for disposal, after treatment.

SANITARY SEWER – Separate sewer systems specifically for the carrying of domestic and industrial wastewater. Combined sewers carry both wastewater and urban runoff.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT (SCAQMD) – Regional regulatory agency that develops plans and regulations designed to achieve public health standards by reducing emissions from business and industry.

SECONDARY TREATMENT – Biological wastewater treatment, particularly the activated sludge process, where bacteria and other microorganisms consume dissolved nutrients in wastewater.

SLUDGE – Untreated solid material created by the treatment of wastewater.

TOTAL SUSPENDED SOLIDS (TSS) – The amount of solids floating and in suspension in wastewater.

TRICKLING FILTER – A biological secondary treatment process in which bacteria and other microorganisms, growing as slime on the surface of rocks or plastic media, consume nutrients in wastewater as it trickles over them.

URBAN RUNOFF – Water from city streets and domestic properties that carry pollutants into the storm drains, rivers, lakes, and oceans.

WASTEWATER – Any water that enters the sanitary sewer.

WATERSHED – A land area from which water drains to a particular water body. The Orange County Sanitation District's service area is in the Santa Ana River Watershed.