



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, October 14, 2020

12:00 Noon

Regional Fire Operations and Training Center

Board Room

1 Fire Authority Road
Irvine, California 92602

Gene Hernandez, Chair

Elizabeth Swift, Vice Chair

Ed Sachs • Shelley Hasselbrink • Joe Muller
Sergio Farias • Don Sedgwick • Tri Ta • Vince Rossini
Jennifer Cervantez, Ex Officio

This Agenda contains a brief general description of each item to be considered. Except as otherwise provided by law, no action or discussion shall be taken on any item not appearing on the following Agenda. Unless legally privileged, all supporting documents, including staff reports, and any writings or documents provided to a majority of the Budget and Finance Committee after the posting of this agenda are available for review at the Orange County Fire Authority Regional Fire Operations & Training Center, 1 Fire Authority Road, Irvine, CA 92602 or you may contact the Clerk of the Authority at (714) 573-6040 Monday through Thursday, and every other Friday from 8 a.m. to 5 p.m. and available online at <http://www.ocfa.org>



In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, you should contact the Clerk of the Authority at (714) 573-6040 and identify the need and the requested modification or accommodation. Please notify us as soon as is feasible, however 48 hours prior to the meeting is appreciated to enable the Authority to make reasonable arrangements to assure accessibility to the meeting.

NOTICE REGARDING PUBLIC PARTICIPATION DURING COVID-19 EMERGENCY

During the Statewide COVID-19 Emergency, the public is not permitted to convene in person for this public meeting. However, the public may still view and comment on the meeting as follows:

- To watch the meeting online, please go to website at www.OCFA.org
- To submit an e-comment, please email to PublicComments@ocfa.org.

You may comment on items on the agenda or not on the agenda. Your comments will be forwarded electronically and immediately to the members of the Committee. Comments related to a particular agenda item will only be considered prior to the close of public comments on that item.

CALL TO ORDER

PLEDGE OF ALLEGIANCE by Director Ta

ROLL CALL

1. PRESENTATIONS

No items.

PUBLIC COMMENTS

Please refer to instructions on how to submit a public comment during COVID-19 Emergency on Page 1 of this Agenda.

2. CONSENT CALENDAR

All matters on the consent calendar are considered routine and are to be approved with one motion unless a Director or a member of the public requests separate action on a specific item.

A. Minutes for the September 9, 2020, Budget and Finance Committee Meeting

Submitted by: Maria Huizar, Clerk of the Authority

Recommended Action:

Approve as submitted.

3. DISCUSSION CALENDAR

A. Monthly Investment Reports

Submitted by: Tricia Jakubiak, Treasurer

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 22, 2020, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

B. Approval of Annual Statement of Investment Policy, Broker/Dealer List and Investment Authorization

Submitted by: Robert Cortez, Assistant Chief/Business Services Department and Tricia Jakubiak, Treasurer

Recommended Actions:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of October 22, 2020, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2021.
2. Review and approve the Broker/Dealer list for a term of three years through October 31, 2023.
3. Pursuant to Government Code Sections 53601 and 53607, renew delegation of investment authority to the Treasurer for a one-year period, to be effective January 1, 2021.

REPORTS

- Forecast of November Budget and Finance Committee meeting agenda items

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, November 4, 2020, at 12:00 noon.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury and as required by the State of California, Government Code § 54954.2(a), that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Training and Operations Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting.

Maria D. Huizar, CMC
Clerk of the Authority

UPCOMING MEETINGS:

Executive Committee Meeting

Thursday, October 22, 2020, 5:30 p.m.

Board of Directors Meeting

Thursday, October 22, 2020, 6:00 p.m.

Budget and Finance Committee Meeting

Wednesday, November 4, 2020, 12 noon

MINUTES ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, September 9, 2020
12:00 Noon

Regional Fire Operations and Training Center
Board Room
1 Fire Authority Road
Irvine, CA 92602

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on September 9, 2020, at 12:00 p.m. by Chair Hernandez.

PLEDGE OF ALLEGIANCE

Director Sedgwick led the assembly in the Pledge of Allegiance to our Flag.

ROLL CALL

Present: Gene Hernandez, Yorba Linda, Chair*
Beth Swift, Buena Park, Vice Chair*
Shelley Hasselbrink, Los Alamitos*
Joseph Muller, Dana Point*
Tri Ta, Westminster*
Don Sedgwick, Laguna Hills*
Ed Sachs, Mission Viejo*

Absent: Vince Rossini, Villa Park
Sergio Farias, San Juan Capistrano

Also present were:

Fire Chief Brian Fennessy
Deputy Chief Pokey Sanchez
Assistant Chief Randy Black
Clerk of the Authority Maria Huizar
General Counsel David Kendig

Deputy Chief Lori Zeller
Assistant Chief Robert Cortez
Assistant Chief Kenny Dossey
Assistant Chief Jim Ruane
Director of Human Resources Stephanie Holloman

1. PRESENTATIONS

No Items.

PUBLIC COMMENTS

Chair Hernandez opened the Public Comments portion of the meeting. Chair Hernandez closed the Public Comments portion of the meeting without any comments from the general public.

2. CONSENT CALENDAR

On motion of Director Ta and second by Director Hasselbrink, and following a roll call vote, declared passed 7-0 (Director Farias and Rossini were absent) to approve Items 2A through 2C as submitted.

A. Minutes for the July 8, 2020, Budget and Finance Committee Meeting (FILE 12.02D1)

Action: Approve as submitted.

B. Fourth Quarter Financial Newsletter (FILE 15.07)

Action: Approve and direct staff to place the item on the agenda for the Executive Committee meeting of September 24, 2020, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

C. Annual Investment Report (FILE 11.10D)

Action: Review the proposed annual agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 24, 2020, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

D. Carryover of FY 2019/20 Uncompleted Projects (FILE 15.04)

Action: Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of September 24, 2020, with the Budget and Finance Committee's recommendation that the Board of Directors authorize the following proposed budget adjustments:

1. Approve a budget adjustment in the FY 2020/21 General Fund (121) increasing revenues by \$7,853,974 and expenditures by \$10,468,027.
2. Approve a budget adjustment in the FY 2020/21 General Fund CIP (12110) increasing expenditures by \$4,251,843.
3. Approve a budget adjustment in the FY 2020/21 Fire Stations and Facilities Fund (123) increasing expenditures by \$6,021,771.
4. Approve a budget adjustment in the FY 2020/21 Communications and Information Systems Fund (124) increasing expenditures by \$2,948,389.
5. Approve a budget adjustment in the FY 2020/21 Fire Apparatus Fund (133) increasing expenditures by \$2,409,530.

6. Approve a budget adjustment in the FY 2020/21 Settlement Agreement Fund (139) increasing expenditures by \$1,500,000.
7. Approve a budget adjustment in the FY 2020/21 Structural Fire Entitlement Fund (171) increasing expenditures by \$1,226,020.

3. DISCUSSION CALENDAR

A. Monthly Investment Reports (FILE 11.10D2)

Treasurer Tricia Jakubiak presented the Monthly Investment Reports.

On motion of Director Ta and second by Director Hasselbrink, and following a roll call vote declared passed 7-0 (Director Farias and Rossini were absent) to review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 24, 2020, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

B. Organizational Service Level Assessment Results & Approval of Next Phase of Citygate Services (FILE 17.16)

Assistant Chief Cortez introduced Citygate Consultant Stewart Gary who presented a PowerPoint presentation. Fire Chief Fennessy presented a brief follow up to the presentation.

On motion of Director Swift and second by Director Ta, and following a roll call vote, declared passed 6-0 (Directors Farias, Hasselbrink, and Rossini were absent) to review the proposed agenda items and direct staff to place the items on the agenda for the Board of Directors meeting of September 24, 2020, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Receive and file the Citygate Organizational Service Level Assessment (SLA) results presentation and final reports for Field Deployment, Emergency Medical Services, Emergency Command Center, Fleet Services and Executive Leadership.
2. Approve and authorize the Purchasing Manager to issue individual Purchase Orders to Citygate Associates, LLC, under the general terms and conditions of the previously authorized Master Agreement, for each of the following:
 - a. Business Services Department SLA – \$68,356
 - b. Community Risk Reduction Department SLA - \$70,792
3. Direct staff to increase expenditures in the FY 2020/21 General Fund (121) budget by \$139,148 to fund the SLA's and Strategic Plan outlined above.

REPORTS

No Items.

COMMITTEE MEMBER COMMENTS

The Committee Members offered no comments.

ADJOURNMENT – Chair Hernandez adjourned the meeting at 1:38 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, October 14, 2020, at 12:00 noon.

Maria D. Huizar, CMC
Clerk of the Authority



Orange County Fire Authority
AGENDA STAFF REPORT

Budget and Finance Committee Meeting
October 14, 2020

Agenda Item No. 3A
Discussion Calendar

Monthly Investment Reports

Contact(s) for Further Information

Robert Cortez, Assistant Chief,
Business Services Department

robertcortez@ocfa.org

714.573.6012

Tricia Jakubiak, Treasurer
Treasury & Financial Planning

triciajakubiak@ocfa.org

714.573.6301

Summary

This agenda item is a routine transmittal of the monthly investment reports submitted to the Committee in compliance with the investment policy of the Orange County Fire Authority and with Government Code Section 53646.

Prior Board/Committee Action

Not Applicable.

RECOMMENDED ACTION(S)

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 22, 2020, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

Impact to Cities/County

Not Applicable.

Fiscal Impact

Not Applicable.

Background

Attached is the final monthly investment report for the month ended August 31, 2020. A preliminary investment report as of September 25, 2020, is also provided as the most complete report that was available at the time this agenda item was prepared.

Attachment(s)

Final Investment Report – August 2020/Preliminary Report – September 2020

Orange County Fire Authority Monthly Investment Report



Final Report – August 2020

Preliminary Report – September 2020



Monthly Investment Report Table of Contents

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Orange County Fire Authority

Final Investment Report

August 31, 2020



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of August 2020, the size of the portfolio decreased by \$21.5 million to \$150.5 million. Significant receipts for the month included cash contract payments, an apportionment of property taxes, intergovernmental agency and grant payments and other charges for current services totaling \$6.9 million. Significant disbursements for the month included primarily two biweekly payrolls which were approximately \$13.0 million each with related benefits. Total August cash outflows amounted to approximately \$27.2 million. The portfolio's balance is expected to decrease in September as there are no major receipts scheduled for the month.

In August, the portfolio's yield to maturity (365-day equivalent) declined by 4 basis points to 0.49%. The effective rate of return decreased by 2 basis points to 0.43% for the month, and the average maturity of the portfolio shortened by 14 days to 16 days to maturity.

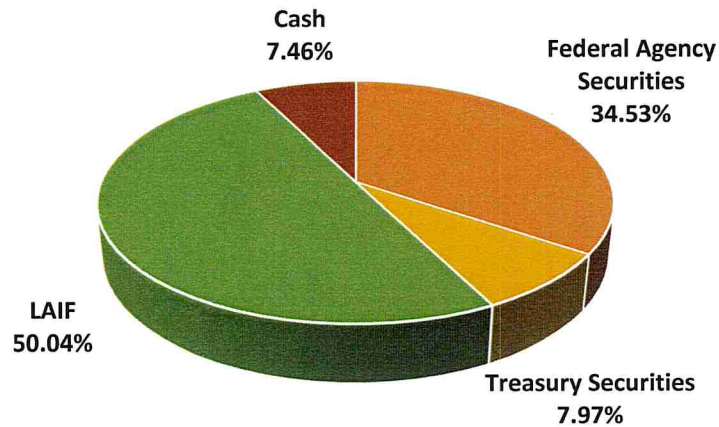
Economic News

The U.S. economy continued to recover in August after the steep decline triggered by the coronavirus pandemic. The labor market added 1.4 million jobs, and the unemployment rate fell for the fourth straight month from 10.2% to 8.4%. Retail sales rose 0.6%, but the rebound slowed as federal relief for jobless Americans and small businesses dried up and the pandemic continued to weigh on activity. Consumer confidence measures fell unexpectedly to their lowest levels in six years as households grew increasingly worried about the economy following a sustained surge in coronavirus cases this summer. Both manufacturing and non-manufacturing/service sector grew in August. Industrial production - the combined output of factories, utilities, and mines - rose for the fourth consecutive month but at a much lower rate than earlier this summer, a sign the manufacturing recovery is slowing. The Consumer Price Index rose for the third straight month. Prices were up 0.4% from last month and 1.7% from last year. Existing homes sales rose 2.4% to a 14 year high as prices jumped 11.4% from a year ago. New home sales rose 4.8% and prices declined 4.3% following a 6.3% increase the month before. On September 16, 2020, the Federal Open Market Committee voted to keep the federal funds rate unchanged at the target range of 0.0% - 0.25% where it has been since March. The Fed also indicated it will hold interest rates at that range at least until 2023 to help the U.S. economy recover from the pandemic.

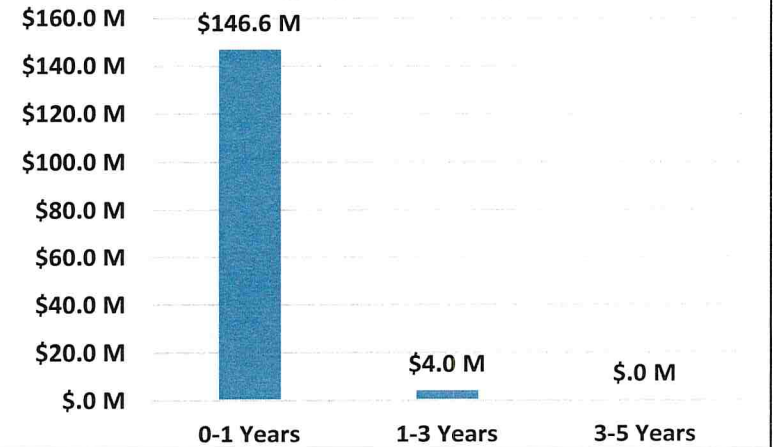


PORTFOLIO HAS AMPLE LIQUIDITY AND IS EXCEEDING TREASURY BENCHMARKS AS OF AUGUST 31, 2020

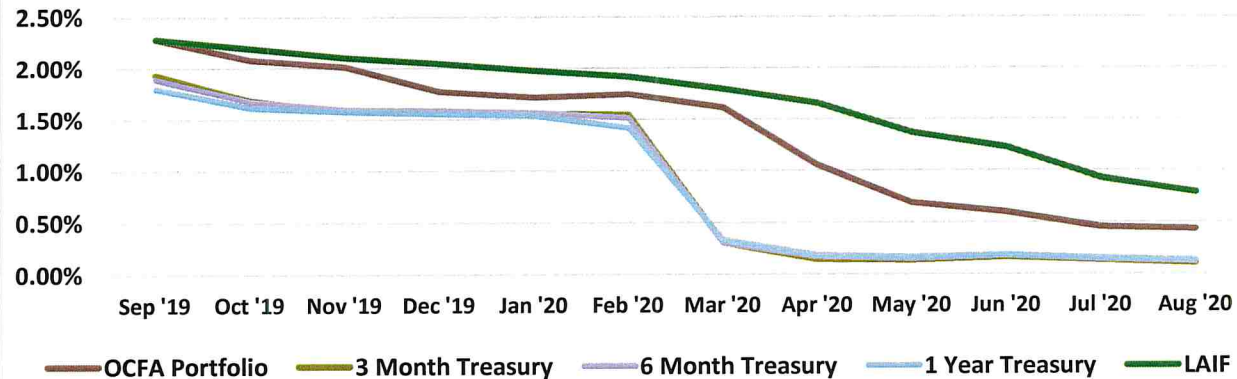
Market Value \$150,606,222



Aging Summary



12 Month Benchmarks



**BENCHMARK COMPARISON AS OF AUGUST 31, 2020**

3 Month T-Bill: 0.10%

1 Year T-Bill: 0.13%

6 Month T-Bill: 0.12%

LAIF: 0.78%

OCFA Portfolio: 0.43%

PORTFOLIO SIZE, YIELD, & DURATION

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Book Value-	\$150,598,712	\$172,131,134	\$146,709,174
Yield to Maturity (365 day)	0.49%	0.53%	2.26%
Effective Rate of Return	0.43%	0.45%	2.25%
Days to Maturity	16	30	27



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
August 31, 2020

Orange County Fire Authority
1 Fire Authority Road
Irvine, CA 92602
(714)573-6301

(See Note 1 on page 10)

(See Note 2 on page 10)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Call / Maturity	YTM / Call 360 Equiv.	YTM / Call 365 Equiv.
Federal Agency Coupon Securities	4,000,000.00	4,002,040.00	4,001,847.05	2.88	1,092	49	0.404	0.410
Federal Agency Disc. -Amortizing	48,000,000.00	47,996,160.00	47,994,966.67	34.53	145	31	0.117	0.118
Treasury Discounts -Amortizing	12,000,000.00	11,998,560.00	11,998,093.33	8.63	105	44	0.132	0.134
Local Agency Investment Funds	75,000,000.00	75,368,459.63	75,000,000.00	53.96	1	1	0.773	0.784
	139,000,000.00	139,365,219.63	138,994,907.05	100.00%	91	16	0.481	0.487
Investments								
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	11,240,752.07	11,240,752.07	11,240,752.07		1	1	0.000	0.000
Accrued Interest at Purchase		250.00	250.00					
Subtotal		11,241,002.07	11,241,002.07					
Total Cash and Investments	150,240,752.07	150,606,221.70	150,235,909.12		91	16	0.481	0.487

Total Earnings	August 31 Month Ending	Fiscal Year To Date
Current Year	58,138.87	127,406.83
Average Daily Balance	157,611,665.96	168,906,935.05
Effective Rate of Return	0.43%	0.44%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2020. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

Patricia Jakubiak, Treasurer

9/4/20

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 150,235,909.12
GASB 31 Adjustment to Books (See Note 3 on page 9)	\$ 362,803.09
Total	\$ 150,598,712.21

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
August 31, 2020

(See Note 1 on page 10)

(See Note 2 on page 10)

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Call / Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	Federated Treasury Obligations		07/01/2020	0.00	0.00	0.00	0.010	0.010	1	
Subtotal and Average			10,877,469.21		0.00	0.00	0.00		0.000	0	
Federal Agency Coupon Securities											
3135G03D3	1005	Fed Natl Mortg Assoc (Callable on 10/20/20)		04/23/2020	4,000,000.00	4,002,040.00	4,001,847.05	0.750	0.410	49	04/20/2023
Subtotal and Average			4,002,376.00		4,000,000.00	4,002,040.00	4,001,847.05		0.410	49	
Federal Agency Disc. -Amortizing											
313396J20	1000	Freddie Mac		04/23/2020	12,000,000.00	11,999,040.00	11,998,863.33	0.110	0.113	31	10/02/2020
313396G49	1001	Freddie Mac		04/23/2020	12,000,000.00	11,999,640.00	11,999,376.67	0.110	0.113	17	09/18/2020
313396E66	1002	Freddie Mac		04/23/2020	12,000,000.00	11,999,880.00	11,999,890.00	0.110	0.113	3	09/04/2020
313384P45	1008	Fed Home Loan Bank		06/30/2020	12,000,000.00	11,997,600.00	11,996,836.67	0.130	0.134	73	11/13/2020
Subtotal and Average			55,734,377.42		48,000,000.00	47,996,160.00	47,994,966.67		0.118	31	
Treasury Discounts -Amortizing											
9127962R9	1009	US Treasury Bill		07/02/2020	12,000,000.00	11,998,560.00	11,998,093.33	0.130	0.134	44	10/15/2020
Subtotal and Average			11,997,443.33		12,000,000.00	11,998,560.00	11,998,093.33		0.134	44	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			75,000,000.00	75,368,459.63	75,000,000.00	0.784	0.784	1	
Subtotal and Average			75,000,000.00		75,000,000.00	75,368,459.63	75,000,000.00		0.784	1	
Total and Average			157,611,665.96		139,000,000.00	139,365,219.63	138,994,907.05		0.487	16	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
August 31, 2020

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10033	10033	Revolving Fund		07/01/2020	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2020	11,220,752.07	11,220,752.07	11,220,752.07		0.000	1
Average Balance			0.00	Accrued Interest at Purchase		250.00	250.00			1
				Subtotal		11,241,002.07	11,241,002.07			
Total Cash and Investments			157,611,665.96			150,240,752.07	150,606,221.70	150,235,909.12	0.487	16

Orange County Fire Authority

In service of others!



ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of September 1, 2020

Orange County Fire Authority
1 Fire Authority Road
Irvine, CA 92602
(714)573-6301

					Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval:	0 days	(09/01/2020 - 09/01/2020)	4 Maturities	0 Payments	86,240,752.07	57.40%	86,240,752.07	86,609,211.70
Aging Interval:	1 - 30 days	(09/02/2020 - 10/01/2020)	2 Maturities	0 Payments	24,000,000.00	15.97%	23,999,266.67	23,999,520.00
Aging Interval:	31 - 60 days	(10/02/2020 - 10/31/2020)	2 Maturities	0 Payments	24,000,000.00	15.97%	23,996,956.66	23,997,600.00
Aging Interval:	61 - 91 days	(11/01/2020 - 12/01/2020)	1 Maturities	0 Payments	12,000,000.00	7.99%	11,996,836.67	11,997,600.00
Aging Interval:	92 - 121 days	(12/02/2020 - 12/31/2020)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	122 - 152 days	(01/01/2021 - 01/31/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(02/01/2021 - 03/03/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(03/04/2021 - 06/02/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(06/03/2021 - 09/01/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(09/02/2021 - 09/01/2023)	1 Maturities	0 Payments	4,000,000.00	2.66%	4,001,847.05	4,002,040.00
Aging Interval:	1096 days and after	(09/02/2023 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for			10 Investments	0 Payments		100.00	150,235,659.12	150,605,971.70



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2020 includes an increase of \$368,460 to the LAIF investment and a decrease of (\$5,657) to the remaining investments.
- Note 4: The Federated Treasury Obligations money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



Local Agency Investment Fund (LAIF)

As of August 31, 2020, OCFA has \$75,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of June 30, 2020 is 1.004912795. When applied to OCFA's LAIF investment, the fair value is \$75,368,460 or \$368,460 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at August 31, 2020 is included on the following page.



Fair Value Including Accrued Interest	\$	114,412,734,779.37
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Page 12



Orange County Fire Authority

Preliminary Investment Report

September 25, 2020



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
September 25, 2020

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, Irvine, CA 92602
 (714)573-6301

(See Note 1 on page 19)

(See Note 2 on page 19)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Call / Maturity	YTM / Call 360 Equiv.	YTM / Call 365 Equiv.
Federal Agency Coupon Securities	4,000,000.00	4,001,160.00	4,000,904.68	3.28	1,092	24	0.404	0.410
Federal Agency Disc. -Amortizing	24,000,000.00	23,998,560.00	23,997,700.00	19.67	149	27	0.122	0.123
Treasury Discounts -Amortizing	19,000,000.00	18,998,590.00	18,998,176.06	15.57	95	35	0.114	0.116
Local Agency Investment Funds	75,000,000.00	75,368,459.63	75,000,000.00	61.48	1	1	0.773	0.784
	122,000,000.00	122,366,769.63	121,996,780.74	100.00%	81	12	0.530	0.538
Investments								
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	6,558,375.21	6,558,375.21	6,558,375.21		1	1	0.000	0.000
Accrued Interest at Purchase		250.00	250.00					
Subtotal		6,558,625.21	6,558,625.21					
Total Cash and Investments	128,558,375.21	128,925,394.84	128,555,405.95		81	12	0.530	0.538

Total Earnings	September 25 Month Ending	Fiscal Year To Date
Current Year	45,489.82	172,896.65
Average Daily Balance	139,817,064.27	160,547,776.78
Effective Rate of Return	0.48%	0.45%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2020. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

Patricia Jakubiak, Treasurer

10/2/20

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 128,555,405.95
GASB 31 Adjustment to Books (See Note 3 on page 18)	\$ 362,803.09
Total	\$ 128,918,209.04

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
September 25, 2020

(See Note 1 on page 19)

(See Note 2 on page 19)

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Call / Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	Federated Treasury Obligations		07/01/2020	0.00	0.00	0.00	0.010	0.010	1	
Subtotal and Average			10,741,232.31		0.00	0.00	0.00		0.000	0	
Federal Agency Coupon Securities											
3135G03D3	1005	Fed Natl Mortg Assoc (Callable on 10/20/20)		04/23/2020	4,000,000.00	4,001,160.00	4,000,904.68	0.750	0.410	24	04/20/2023
Subtotal and Average			4,001,357.02		4,000,000.00	4,001,160.00	4,000,904.68		0.410	24	
Federal Agency Disc. -Amortizing											
313396J20	1000	Freddie Mac		04/23/2020	12,000,000.00	11,999,880.00	11,999,780.00	0.110	0.113	6	10/02/2020
313384P45	1008	Fed Home Loan Bank		06/30/2020	12,000,000.00	11,998,680.00	11,997,920.00	0.130	0.134	48	11/13/2020
Subtotal and Average			33,596,536.13		24,000,000.00	23,998,560.00	23,997,700.00		0.123	27	
Treasury Discounts -Amortizing											
9127962R9	1009	US Treasury Bill		07/02/2020	12,000,000.00	11,999,640.00	11,999,176.67	0.130	0.134	19	10/15/2020
9127963B3	1010	US Treasury Bill		09/10/2020	7,000,000.00	6,998,950.00	6,998,999.39	0.083	0.085	62	11/27/2020
Subtotal and Average			16,477,938.81		19,000,000.00	18,998,590.00	18,998,176.06		0.116	35	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			75,000,000.00	75,368,459.63	75,000,000.00	0.784	0.784	1	
Subtotal and Average			75,000,000.00		75,000,000.00	75,368,459.63	75,000,000.00		0.784	1	
Total and Average			139,817,064.27		122,000,000.00	122,366,769.63	121,996,780.74		0.538	12	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
September 25, 2020

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10033	10033	Revolving Fund		07/01/2020	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2020	6,538,375.21	6,538,375.21	6,538,375.21		0.000	1
Average Balance			0.00	Accrued Interest at Purchase		250.00	250.00			1
				Subtotal		6,558,625.21	6,558,625.21			
Total Cash and Investments			139,817,064.27		128,558,375.21	128,925,394.84	128,555,405.95		0.538	12

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of September 26, 2020

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, Irvine, CA 92602
 (714)573-6301

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	(09/26/2020 - 09/26/2020)	4 Maturities	0 Payments	81,558,375.21	63.44%	81,558,375.21	81,926,834.84
Aging Interval: 1 - 30 days	(09/27/2020 - 10/26/2020)	2 Maturities	0 Payments	24,000,000.00	18.67%	23,998,956.67	23,999,520.00
Aging Interval: 31 - 60 days	(10/27/2020 - 11/25/2020)	1 Maturities	0 Payments	12,000,000.00	9.33%	11,997,920.00	11,998,680.00
Aging Interval: 61 - 91 days	(11/26/2020 - 12/26/2020)	1 Maturities	0 Payments	7,000,000.00	5.44%	6,998,999.39	6,998,950.00
Aging Interval: 92 - 121 days	(12/27/2020 - 01/25/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(01/26/2021 - 02/25/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(02/26/2021 - 03/28/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(03/29/2021 - 06/27/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(06/28/2021 - 09/26/2021)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(09/27/2021 - 09/26/2023)	1 Maturities	0 Payments	4,000,000.00	3.11%	4,000,904.68	4,001,160.00
Aging Interval: 1096 days and after	(09/27/2023 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for		9 Investments	0 Payments		100.00	128,555,155.95	128,925,144.84



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2020 includes an increase of \$368,460 to the LAIF investment and a decrease of (\$5,657) to the remaining investments.
- Note 4: The Federated Treasury Obligations money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.

GLOSSARY

INVESTMENT TERMS

Basis Point. Measure used in quoting yields on bonds and notes. One basis point is .01% of yield.

Book Value. This value may be the original cost of acquisition of the security, or original cost adjusted by the amortization of a premium or accretion of a discount. The book value may differ significantly from the security's current value in the market.

Commercial Paper. Unsecured short-term promissory notes issued by corporations, with maturities ranging from 2 to 270 days; may be sold on a discount basis or may bear interest.

Coupon Rate. Interest rate, expressed as a percentage of par or face value, that issuer promises to pay over lifetime of debt security.

Discount. The amount by which a bond sells under its par (face) value.

Discount Securities. Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, bankers' acceptances and most commercial paper are issued at a discount.

Effective Rate of Return. Rate of return on a security, based on its purchase price, coupon rate, maturity date, and the period between interest payments.

Federal Agency Securities. Securities issued by agencies such as the Federal National Mortgage Association and the Federal Farm Credit Bank. Though not general obligations of the US Treasury, such securities are sponsored by the government and therefore have high credit ratings. Some are issued on a discount basis and some are issued with coupons.

Federal Funds. Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed Funds are considered to be immediately available funds.

Fed Funds Rate. The interest rate charged by one institution lending federal funds to another.

Federal Open Market Committee. The branch of the Federal Reserve Board that determines the direction of monetary policy.

Local Agency Investment Fund (LAIF). A California State Treasury fund which local agencies may use to deposit funds for investment and for reinvestment with a maximum of \$75 million for any agency (*excluding bond funds, which have no maximum*). It offers high liquidity because

deposits can be converted to cash in 24 hours and no interest is lost. Interest is paid quarterly and the State's administrative fee cannot exceed 1/4 of a percent of the earnings.

Market value. The price at which the security is trading and could presumably be purchased or sold.

Maturity Date. The specified day on which the issuer of a debt security is obligated to repay the principal amount or face value of security.

Money Market Mutual Fund. Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements and federal funds).

Par. Face value or principal value of a bond typically \$1,000 per bond.

Rate of Return. The amount of income received from an investment, expressed as a percentage. A *market rate of return* is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

Treasury Bills. Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes. Intermediate U.S. government debt securities with maturities of one to 10 years.

Treasury bonds. Long-term U.S. government debt securities with maturities of 10 years or longer.

Yield. Rate of return on a bond.

Yield-to-maturity. Rate of return on a bond taking into account the total annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.

ECONOMIC TERMS

Conference Board Consumer Confidence Index. A survey that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

Consumer Price Index (CPI). A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

Durable Goods Orders. An economic indicator released monthly that reflects new orders placed with domestic manufacturers for delivery of factory durable goods such as autos and appliances in the near term or future.

Gross Domestic Product. The monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Industrial Production. An economic indicator that is released monthly by the Federal Reserve Board. The indicator measures the amount of output from the manufacturing, mining, electric and gas industries.

ISM Institute for Supply Management (ISM) Manufacturing Index. A monthly index that monitors employment, production inventories, new orders and supplier deliveries.

ISM Non-manufacturing Index. An index based on surveys of non-manufacturing firms' purchasing and supply executives. It tracks economic data for the service sector.

Leading Economic Index. A monthly index used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

National Federation of Independent Business Small Business Optimism Index. An index based on surveys of small business owners' plans and expectations regarding employment, capital, inventories, economic improvement, credit conditions, expansion, and earnings trends in the near term or future.

Producer Price Index. An index that measures the average change over time in the selling prices received by domestic producers for their output.

University of Michigan Consumer Sentiment Index. An index that measures the overall health of the economy as determined by consumer opinion. It takes into account an individual's feelings toward his or her own current financial health, the health of the economy in the short term and the prospects for longer term economic growth.



Orange County Fire Authority
AGENDA STAFF REPORT

Budget and Finance Committee Meeting
October 14, 2020

Agenda Item No. 3B
Discussion Calendar

**Approval of Annual Statement of Investment Policy, Broker/Dealer List and
Investment Authorization**

Contact(s) for Further Information

Robert Cortez, Assistant Chief
Business Services Department

robertcortez@ocfa.org

714.573.6012

Tricia Jakubiak, Treasurer
Treasury & Financial Planning

triciajakubiak@ocfa.org

714.573.6301

Summary

This annual agenda item is submitted to the Committee in compliance with the Orange County Fire Authority's (OCFA's) Investment Policy that requires the Annual Statement of Investment Policy be reviewed and approved by the Budget and Finance Committee and the Board of Directors. The Broker Dealer List that the Treasurer uses for competitive bidding of investment purchases is updated every three years and is also included for approval.

This item is also being submitted in compliance with Government Code provisions which require the Board of Directors to review and renew the annual delegation of investment authority to the Treasurer for a one-year period.

Prior Board/Committee Action

Not Applicable.

RECOMMENDED ACTION(S)

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of October 22, 2020, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2021.
2. Review and approve the Broker/Dealer list for a term of three years through October 31, 2023.
3. Pursuant to Government Code Sections 53601 and 53607, renew delegation of investment authority to the Treasurer for a one-year period, to be effective January 1, 2021.

Impact to Cities/County

Not Applicable.

Fiscal Impact

Not Applicable.

Background

The Statement of Investment Policy is reviewed annually and revised by the Treasurer, if needed. The proposed Policy is then submitted to the Budget and Finance Committee and Board of Directors for approval to become effective on January 1 for the calendar year. During the past year, there were no significant legislative amendments to the California Government Code regarding investments. Therefore, staff recommends that the investment policy remain unchanged. The Proposed Investment Policy is attached for review and approval, to be effective January 1, 2021. (Attachment 1).

The Investment Policy encourages competitive bidding on investment transactions from an approved list of broker/dealers. The list is reviewed every three years by the Treasurer and revised, if needed. The proposed List is also submitted for approval. The OCFA's policy for selection and use of broker/dealers follows the best practices issued by the Government Finance Officers' Association and is prescribed by policy in the OCFA's Annual Investment Policy (Attachment 1).

To qualify, broker/dealers must meet the following *minimum* requirements:

- Agree to comply with the investment policies of the Authority
- Be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- Have a branch office in California
- Be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies
- Have been in business for at least three years
- Provide current audited financial statements
- Provide proof of Financial Industry Regulatory Authority (FINRA) certification

Staff also reviewed the FINRA reports that provide additional information on any disclosure events where the firm was named as a respondent. FINRA oversees virtually all U.S. stockbrokers and brokerage firms. It writes and enforces the rules based on Federal securities law and is overseen by the Securities and Exchange Commission. The financial industry is heavily regulated and litigated as reflected in the number of disclosure events reported by FINRA.

In reviewing the FINRA reports, staff considered the following in assessing the disclosure events, as well as those areas summarized in Attachment 2:

- Did any events occur in the government sector also known as the municipal market?
- Are the brokers assigned to OCFA's account involved in any events?

If answers to above are "yes"

- Did the firm take action against the employees involved?
- Did the firm take steps to put controls in place to prevent the event from reoccurring?

The following firms are currently on OCFA's list of approved broker/dealers and recommended for renewal: FHN Financial Securities Corp., Raymond James Financial Services Inc., RBC Capital Markets, LLC, Stifel, Nicolaus & Company, Inc., and Wedbush Securities Inc. Their FINRA reports are updates since their last review in 2017. **The Lead Broker from each recommended firm has no disclosure events in FINRA.**

This list shall remain in effect for three years until October 31, 2023 as required by OCFA's Investment Policy. Staff has the ability to discontinue use of the approved brokers at any time, and prior to the conclusion of the three-year period.

Attachment(s)

1. Proposed Investment Policy (to be effective January 1, 2021)
2. FINRA Summary Review Areas of Focus



ORANGE COUNTY FIRE AUTHORITY

INVESTMENT POLICY

Calendar Year 2021



INVESTMENT POLICY

History of OCFA's Investment Policy & Cash Management Program

Following the formation of the Orange County Fire Authority (the Authority) in March 1995, OCFA funds were initially invested in the Orange County Investment Pool (OCIP) and the Local Agency Investment Fund (LAIF). At that time, investment options were limited since the Authority was using County services for treasury, banking, and accounting systems pending implementation of its own systems. During this transitional stage, OCFA staff worked to establish independent banking, custodian, and broker/dealer agreements, installed a portfolio management system, and implemented the Banner Financial System. Staff also researched and drafted a comprehensive Investment Policy. On January 1, 1997, the OCFA Board of Directors adopted the Investment Policy and appointed a Treasurer. Immediately thereafter, OCFA assumed in-house responsibility for Treasury services and implemented its own Cash Management & Investment Services Program.

As the Cash Management program evolved, all remaining funds in the OCIP were gradually withdrawn. The Treasurer invested these funds in individual securities and scheduled maturities to correspond with cash flow needs. Investments included Treasury and Federal Agency securities, prime quality commercial paper, money market mutual funds (U.S. Treasury Obligations), and LAIF.

Since inception in 1997, the Treasurer has continued to refine the Investment Policy on an annual basis to meet the changing needs of the Authority. The Policy has also been formally recognized by the Association of Public Treasurer's of the United States and Canada (APTA US&C). Certification is awarded when an investment policy meets the professional standards set forth by MTA US&C. Agencies may submit for re-certification after significant changes are made to the Policy.

During the past year, there were no significant legislative amendments to the California Government Code regarding investments.



INVESTMENT POLICY

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INVESTMENT POLICY

ORANGE COUNTY FIRE AUTHORITY

1. **Policy:** The Orange County Fire Authority shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives, in priority order, of safety, liquidity, and return on investment.
2. **Scope:** This Investment Policy applies to all financial assets of the Orange County Fire Authority which are available for investment by the Authority's Treasurer; except that funds in the Authority's deferred compensation plan, defined contribution plan, and security deposits held in escrow in lieu of retention are excluded from this investment policy. The funds governed by this policy may be referred to herein as the OCFA portfolio.
 - 2.1. The Authority's funds are accounted for in the Comprehensive Annual Financial Report (CAFR) and include the funds listed below and any new fund created by the Board of Directors unless specifically exempted.

Fund 121 General Fund
Fund 122 Facilities Maintenance and Improvements
Fund 123 Capital Projects
Fund 124 Communications and Information Systems Replacement
Fund 133 Vehicle Replacement
Fund 171 Structural Fire Fund Entitlement
Fund 190 Self-Insurance Fund
Fund 422 Extra-Help Retirement Trust
 - 2.2. Bond fund investments will be held separately and made in accordance with the bond debenture requirements.
 - 2.3. Retiree Medical Trust Funds may be held separately from the OCFA portfolio and invested in accordance with California Government Code Section 53620 to 53622 and/or Section 31694.3.
 - 2.4. Additional trust funds may be set up to help reduce OCFA's unfunded pension

liability. These funds may be held separately from the OCFA portfolio and invested according to guidelines provided by OCFA.

3. **Prudence:** The standard of prudence to be used shall be the “prudent investor” standard (in Probate Code Sections 16040-16042 and 16045-16054 cited as Uniform Prudent Investor Act) and shall be applied in the context of managing the overall portfolio, not to a single item within a diversified portfolio. Investments shall be made with judgment and care (under circumstances then prevailing) which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
4. **Objectives:** The primary objectives of investment activities, in order of priority, shall be:
 - 4.1. *Safety:* Safety of principal is the prime objective of the investment program. The investment program shall be designed and implemented to ensure preservation of capital in the overall portfolio. Invested funds shall be **diversified** to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities.
 - 4.2. *Liquidity:* The investment portfolio shall be structured in a manner which strives to time the maturity of securities with cash requirements. Additionally, since not all possible cash demands can be anticipated, the portfolio should consist of securities with an active secondary or resale market.
 - 4.3. *Return on investment:* The Authority shall attempt to obtain a reasonable return provided that the requirements of safety and liquidity are first met.
5. **Authorization and Delegation of Authority:** Under California Government Code Section 53601, the legislative body of a local agency (i.e., the Authority’s Board of Directors) is authorized to invest surplus moneys as specified in that code section. In accordance with California Government Code Section 53607, this authority is delegated to the Treasurer of the Authority for a one-year period. Subject to review, the Board of Directors may renew the delegation of authority under this code section each year. The Treasurer will be responsible for all investment transactions and shall establish a system of controls to regulate the activities of officials involved in any aspect of the investment program.
 - 5.1. *Investment Procedures:* The Treasurer shall establish written procedures for the operation of the investment program consistent with this Investment Policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. The procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction, except as provided under the terms of this policy and the procedures established by the Treasurer.
 - 5.2. *Delegation in Treasurer’s Absence:* In the Treasurer’s absence, the Treasurer delegates investment authority in the following order to (1) the Assistant Chief, Business

Services and (2) the Deputy Chief, Administration and Support Bureau or Fire Chief's designee.

6. **Duties and Responsibilities:**

- 6.1. *Treasurer:* Charged with responsibility for all public funds and securities belonging to or under the control of the Authority, and for the deposit and investment of those funds in accordance with the principles of sound treasury management and in accordance with the applicable laws, ordinances and policies adopted by the Authority.
- 6.2. *Auditor:* Charged with recording investment activity in the accounting records and with verifying the Treasurer's records with broker confirmations, bank statements and safekeeping records.
- 6.3. *Assistant Chief, Business Services:* Charged with responsibility (in the absence of the Treasurer) for all public funds and securities belonging to or under the control of the Authority and for their deposit. Duties related to investment activities shall be performed by staff other than those responsible for the accounting of those investments.
- 6.4. *Deputy Chief or Fire Chief's designee:* Charged with responsibility (in the absence of the Treasurer and Assistant Chief, Business Services) for all public funds and securities belonging to or under the control of the Authority and for their deposit. Duties related to investment activities shall be performed by staff other than those responsible for the accounting of those investments.
- 6.5. *Fire Chief:* Charged with responsibility for implementation of and conformance to the policies and procedures approved by the Board of Directors for the investment of the Authority's funds.
- 6.6. *Budget and Finance Committee:* Charged with responsibility for investment oversight. The Committee shall review the monthly investment reports and significant investment activity being undertaken. The Committee's recommendations shall be reported in a monthly investment report to the Executive Committee.
- 6.7. *Executive Committee:* Charged with responsibility to receive, review and approve the monthly investment report, following review by the Budget and Finance Committee.
- 6.8. *Board of Directors:* May delegate to the Treasurer for a one-year period the authority to invest the Fire Authority's funds. Subject to review, the Board may renew the delegation of this authority each year. The Board shall also annually consider and approve a written Statement of Investment Policy at a public meeting. Any change to the Investment Policy at any time shall also be considered by the Board at a public meeting.

7. **Ethics and Conflicts of Interest:** All officers, employees, and participants in the Authority's investment process shall:
- 7.1. Act responsibly as custodians of the public trust.
 - 7.2. Avoid any transaction that might impair the public confidence in the Authority's ability to serve the citizens of our area of responsibility.
 - 7.3. Refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
 - 7.4. Abide by the Authority's adopted Conflict of Interest Code, which by reference is incorporated into this Investment Policy.
 - 7.5. The Treasurer, the Assistant Chief, Business Services, the Deputy Fire Chief or Fire Chief's designee and the Fire Chief shall be prohibited from doing personal investment transactions with any broker or securities dealer with whom OCFA does business, with the exception of the OCFA's primary bank for banking services. Employees shall subordinate their personal investment transactions to those of OCFA, particularly with regard to the time of purchases and sales.
8. **Authorized Financial Dealers and Institutions:** To promote the optimum yield on the investment of Authority funds, investment procedures shall be designed to encourage competitive bidding on transactions from approved financial institutions or broker/dealers.
- 8.1. On a triennial basis, the Treasurer shall recommend a list of at least three financial institutions and broker/dealers who are authorized to provide investment services. The list shall be approved by the Budget and Finance Committee and the Executive Committee. All financial institutions and broker/dealers who wish to be considered for the list must meet the following minimum requirements:
 - 8.1.1 Must certify that they have read and agree to comply with the investment policies of the Authority.
 - 8.1.2 Must be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).
 - 8.1.3 Must have a branch office in California.
 - 8.1.4 Must be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies.
 - 8.1.5 Must have been in business for at least three years.

- 8.1.6 Must provide current audited financial statements.
- 8.1.7 Must provide proof of Financial Industry Regulatory Authority (FINRA) certification.
- 8.1.8 Other criteria as may be established in the *Investment Procedures Manual* of the Authority.
- 8.2. All financial institutions in which the Authority's public funds are deposited will supply the Treasurer with the following:
 - 8.2.1 Current audited financial statements.
 - 8.2.2 Depository contracts.
 - 8.2.3 A copy of the latest FDIC call report.
 - 8.2.4 Proof that the institution is state or federally chartered.

9. **Authorized Investment Advisors and Investment Managers:**

Authorized Investment Advisors

Although the Authority does not currently use an investment advisor, these policies and procedures shall be applicable if an investment advisor is utilized in the future to provide advice and guidance for the investment of OCFA portfolio funds. Under Government Code, the Authority is authorized to engage specially trained and experienced firms for economic advice and services. The Board of Directors must approve, in advance, all contracts with an investment advisor, after review by the Authority's Counsel. The investment advisor may only provide advice and may not effectuate trades; he/she may not make investment decisions. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy.

Authorized Investment Managers

The provisions above for authorized investment advisors also apply to authorized investment managers. In addition, an investment manager may effectuate trades upon specific authorization for each transaction; however, he/she may not make investment decisions. All investment decisions must be made and approved by the Treasurer in advance, before the investment manager is authorized to execute a transaction. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy. Upon execution of any trade, the Authority must receive confirmation directly from the broker/dealer and the custodian, not from the investment manager. Investments recommended by the investment manager should be safe kept by the Authority's regular custodian, and not with the investment manager.

10. **Authorized and Suitable Investments:** The Authority is empowered by statute (California

Government Code Section 53600 et seq., 53620 et seq., and Section 5922[d]) to invest in the following types of securities (see Section 15 of this Policy for maximum percentage limits imposed under Authority Policy):

- 10.1. U.S Treasury or Federal Agency securities.
- 10.2. Collateralized or insured passbook savings accounts and demand deposits.
- 10.3. Collateralized or insured certificates of deposit (or time deposits) placed with commercial banks (maximum term five years).
- 10.4. Bankers acceptances (issued by one of the 10 largest domestic banks or 20 largest international banks based on assets) with maturities not to exceed 180 days. State statute restricts bankers' acceptances to no more than 40% of the agency's surplus funds and no more than 30% in any one commercial bank. Authority policy is more restrictive, with a maximum 25% limit (see Section 15.1.4). Bankers' acceptances are to be purchased only from institutions that are well capitalized as the term is defined in the glossary.
- 10.5. Money market mutual funds whose portfolio consists solely of short-term treasury securities (i.e., one year or less remaining until maturity, at purchase). Mutual funds must be AAA rated by at least 2 of the 3 largest rating agencies.
- 10.6. Repurchase agreements whose underlying collateral consists of U.S. Treasury obligations or U.S. government agency obligations and the collateralization level must be in accordance with Government Code section 53601(i)(2), effective January 1, 1996 (maximum maturity of 14 days). A Public Securities Association (PSA) Master Repurchase Agreement is required between the Authority and the bank or broker/dealer for all repurchase agreements transacted. Direct investment in reverse repurchase agreements is prohibited.
- 10.7. Local Agency Investment Fund (State of California Pool).
- 10.8. Commercial paper in compliance with the following requirements:
 - 10.8.1 Must be rated highest-quality by at least two of the following three nationally recognized rating agencies. Highest-quality ratings are defined as (1) Moody's Investor Services rating of P1; (2) Standard & Poor's rating of A1/A1+; (3) Fitch rating of F1/F1+.
 - 10.8.2 Investments will not be made with commercial paper issuers placed on negative credit watch by any one of the above rating agencies.
 - 10.8.3 Commercial paper issuers must be domestic corporations having assets in excess of \$500,000,000 and having an AA or better rating on its long term debentures as provided by Moody's, Standard & Poor's, or Fitch.

- 10.8.4 Purchases of eligible commercial paper may not: (a) exceed 270 days to maturity; or (b) exceed 15% of the cost value of the portfolio. Although Government Code allows a maximum investment in commercial paper of 25%, Authority Policy maintains a 15% maximum, which is more restrictive.
- 10.8.5 The Treasurer shall conduct research on commercial paper issuers prior to investing OCFA funds with those issuers. The Treasurer will avoid investing in issuers with current events that involve negative financial implications that could lead to a downgrade to their credit rating. Sources of research will include, at a minimum, WSJ.com, Bloomberg.com, Marketwatch.com, and CNNMoney.com.
- 10.9. Negotiable certificates of deposit, issued by national or state-chartered banks or state or federal savings institutions, commercial bank, savings bank (savings and loan association), or credit union that uses a private sector entity that assists in the placement of certificates of deposit under specified conditions. Government Code limits negotiable certificates of deposit to 30% of the portfolio. Authority Policy, which is more restrictive, limits investment in these securities to 25% (see Section 15.1.5).
- 10.10. Proceeds of bonds or other indebtedness and any moneys set aside and pledged to secure payment of the bonds may be invested in accordance with the resolution, indenture, or other statutory provisions governing the issuance of those bonds or indebtedness.
- 10.11. Retiree Medical Funds may be held in a separate trust fund and invested as permitted under California Government Code Section 53620 to 53622 and/or Section 31694.3 for the purpose of paying health insurance benefits to retirees.
- 10.12. Additional trust funds may be set up to help reduce OCFA's unfunded pension liability. These funds may be held separately from the OCFA portfolio and invested according to guidelines provided by OCFA.
- 11. **Unallowable Investments / Restrictions:** The Authority shall **not** invest OCFA portfolio funds in the following instruments:
 - 11.1. Derivatives, except for indirect investment through the State's Local Agency Fund.
 - 11.2. Reverse repurchase agreements, although indirect investment through a pool is allowable up to a maximum of ten percent (10%) of the pool's portfolio.
 - 11.3. Financial futures or financial options.

- 11.4. Common stocks or corporate bonds.
- 12. **Investment Pools:** Governmental sponsored pools and/or mutual funds should be carefully reviewed prior to investing and should be monitored on an ongoing basis. Requisite information on the pool includes the following:
 - 12.1. A statement of investment policy and objectives.
 - 12.2. A list of allowable investments.
 - 12.3. Disclosure regarding settlement and safeguarding of investments.
 - 12.4. Description of securities pricing (fair value) and whether GASB 31 compliant.
 - 12.5. An explanation of interest calculations and distributions, plus fee disclosures.
 - 12.6. Deposit and withdrawal restrictions.
 - 12.7. Disclosure of audit findings and reports.
- 13. **Collateralization:** Collateral must always be held by an independent third party with whom the Authority has a current custodial agreement.
 - 13.1. State law regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e., a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer, pursuant to California Government Code Sections 53656 and 53658. Under the provisions of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by: a) pledging government securities with a value of 110% of the principal and accrued interest; b) pledging first trust deed mortgage notes having a value of 150% of the total agency deposit; or c) a letter of credit drawn on the Federal Home Loan Bank at 105% of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to Section 53651. A copy of the Call Report of Local Agency's Deposits and Securities must be supplied to the Authority and retained to document compliance with the collateral requirements.
 - 13.2. Collateralization of repurchase agreements must be at least 102% of the market value of principal and accrued interest. Collateral must consist of U.S. Treasury obligations or U.S. Agency obligations. Other specific requirements on repurchase agreements must be addressed in a master repurchase agreement between the Authority and the bank or broker/dealer.
 - 13.3. The Treasurer, at his/her discretion, may waive the collateral requirements for deposits up to \$250,000 which are fully insured by the Federal Deposit Insurance Corporation. The right of collateral substitution is granted.

14. **Safekeeping and Custody:** All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party qualified custodian and evidenced by safekeeping receipts. The trust department of the Authority's bank may act as third party custodian, provided that the custodian agreement is separate and apart from the banking agreement.
15. **Diversification:** The Authority shall maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, issuer, or security type.
- 15.1. *Restrictions on Securities:* At no time shall the Authority's portfolio be invested in a single security type or in a single financial institution or pool in excess of 15% of the total investment portfolio, with the following exceptions:
- 15.1.1 Treasury securities 100%
- 15.1.2 Local Agency Investment Fund 75% (*Excludes moneys deposited in LAIF bond funds.*)
- 15.1.3 Federal Agency securities 75%
- 15.1.4 Bankers' Acceptances 25%
- 15.1.5 Negotiable CD's 25%
- 15.2. *Exception for Automatic Overnight Sweep:* There shall be no restriction on the amount that is automatically swept from the Authority's bank into the Highmark Money Market Mutual Fund of U.S. Treasury Obligations *on an overnight basis*, in order to accommodate immediate investment of large inflows of property taxes or other receipts, pending diversified investment into other securities by the Treasurer.
- 15.3. *Maturity Diversification:* Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing the market risk. Maximum maturities shall be as follows:
- 15.3.1 At least 50% of the portfolio is limited to a period of one year or less.
- 15.3.2 Unless matched to a specific requirement and approved by the Executive Committee and the Board of Directors, no portion of the portfolio may exceed five years.
16. **Internal Control:**
- 16.1. Internal policies and procedures shall be developed to assure that appropriate controls are in place to document and confirm all transactions. A separate *Investment Procedures Manual* shall be established to assist Treasury staff with daily operations and shall be reviewed at least annually by the Treasurer.

- 16.2. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies and procedures.
- 16.3. To provide further protection of the Authority funds, written instructions require the Authority's bank to obtain verification of all wire transfers from two of the three following officers:
 - 16.3.1 Treasurer.
 - 16.3.2 Assistant Chief, Business Services.
 - 16.3.3 Deputy Fire Chief, or Fire Chief's designee.
- 17. **Performance Standards:** The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.
 - 17.1. *Investment Strategy:* The Authority's basic investment strategy is to buy and hold investments until maturity. However, the Treasurer may sell a security due to adverse changes in credit or market risk or due to unexpected cash flow needs.
 - 17.2. *Market Yield (Benchmark):* The basis used by the Treasurer to determine whether market yields are being achieved shall be the rates of return from the following combination of indices: Local Agency Investment Fund (LAIF) and 3-month, 6-month and 1-year Treasury Bills (constant maturity).
 - 17.3. *Review:* The investment policy shall be reviewed at least annually by the Budget and Finance Committee and approved by the Board of Directors to ensure its consistency with the overall objectives of safety (including diversification), liquidity and return, as well as its relevance to current law and financial/economics trends. The Authority's philosophy prohibits speculation (i.e., purchasing securities with the intent to profit from anticipated changes in future market conditions). Leveraging or borrowing money for the purpose of investing is specifically prohibited.
- 18. **Reporting:**
 - 18.1. *Monthly Reports:* In compliance with Government Code Sections 53607 and 53646, the Treasurer shall file a monthly investment report with the Clerk of the Board, who will submit copies to the Board of Directors, the Executive Committee, the Budget and Finance Committee, the Fire Chief, the Deputy Chief, Administration and Support Bureau, the Assistant Chief, Business Services, the Auditor, and the Authority's outside auditor (as required). The investment report will be agendaized for the monthly meetings of the Budget and Finance Committee and the Executive Committee, and any Board member may request inclusion of the report on the Board's agenda at any time. This report shall certify that the Treasurer has complied with the Authority's

Investment Procedures Manual and will include an *Executive Summary*, which provides a condensed summary of the most important information in the report, plus a detailed report covering the following elements:

- 18.1.1 Type of investments and percent that each type represents in the portfolio.
 - 18.1.2 Issuer.
 - 18.1.3 Purchase date.
 - 18.1.4 Date of maturity.
 - 18.1.5 Amount of deposit.
 - 18.1.6 Face value of the securities.
 - 18.1.7 Current market value of securities.
 - 18.1.8 Portfolio yield and comparison to benchmark.
 - 18.1.9 Interest earnings.
 - 18.1.10 Percentage of portfolio maturing within one year, 1-3 years, 3-5 years and over 5 years.
 - 18.1.11 Statement relating the report to the Investment Policy.
 - 18.1.12 Statement on availability of funds to meet its obligations for the next 30 days and the next 6 months.
 - 18.1.13 Description of funds, investments, or programs managed by contracted parties.
 - 18.1.14 Statement of compliance of the portfolio with the investment policy or manner in which the portfolio is out of compliance.
 - 18.1.15 GASB 31 effects on financial statements.
 - 18.1.16 Comments on the fixed income markets and economic conditions.
 - 18.1.17 Potential changes in future portfolio structure (if any), including risk factors.
 - 18.1.18 Any other information required by the Board.
- 18.2. *Annual Reports:* The Treasurer shall submit an annual report to the Budget and Finance Committee and the Executive Committee, following the close of the fiscal

year which shall certify that the Treasurer has complied with the Authority's investment procedures and detail the following:

- 18.2.1 Analysis of the composition of the investment fund.
- 18.2.2 Discussion of investment risk in the portfolio.
- 18.2.3 GASB 31 impacts.
- 18.2.4 A review of trends regarding the size of the investment fund.
- 18.2.5 Portfolio performance and comparison to benchmark.
- 18.2.6 Investment income.
- 18.2.7 A statement of anticipated investment fund activity in the next fiscal year.

18.3 **Investment Policy Adoption:** The Treasurer shall annually render to the Fire Chief, the Budget and Finance Committee, and the Board of Directors a Statement of Investment Policy.

Glossary

Active Deposits. Funds which are immediately required for disbursement.

Active investment management. An investment strategy that involves the active trading of securities in an attempt to earn above-average returns on a portfolio. Active investment management requires frequent monitoring of financial markets.

Agency. A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

Arbitrage. Generally, transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a difference in prices in the two markets.

Bankers' Acceptances (BA's). Time drafts or bills of exchange that are accepted payment by banks engaged in the financing of international trade. BA's finance the importation, exportation, shipment or storage of foreign and domestic goods. BA's are usually backed by documentation such as invoices, bills of lading, or warehouse receipts. Upon acceptance by a bank, a BA becomes an irrevocable and unconditional obligation of the accepting bank, while it is also an obligation of the drawer as well as any endorser thereof.

Basis point. By common agreement, .01% of yield on a fixed income security (1/100 of 1%).

Bond Equivalent Yield (BEY). An annual yield, expressed as a percentage, describing the return provided to bond holders. A bond equivalent yield is double the simple interest, semiannual yield. Since Treasury and agency notes and bonds pay interest semiannually, the bond equivalent yield is a way to compare yields from discount securities, such as Treasury bills and bankers' acceptances with yields available from coupon securities. From that usage, this yield measure is also known as the coupon yield equivalent. For securities that pay daily, monthly or quarterly interest, the bond equivalent yield understates the benefits obtained from the compounding of those investments.

Book-entry clearance. A system for the transfer of ownership of securities through entries on the records of a centralized agency. The centralized agency holds securities on behalf of their owners; when the securities are sold, ownership is transferred by bookkeeping entry from the seller to the purchaser. In the case of U.S government securities, securities certificates are not issued, and ownership of the securities is evidenced in computer records maintained by the Federal Reserve System. For other types of securities, book entry clearance is made available through linked or interfaced systems maintained by four securities depositories, which hold securities and act on behalf of their participants.

Book-entry security. A security which is not available to purchasers in physical form. Such a security may be held either as a computer entry on the records of a central holder (as is the case with U.S. certain government securities) or in the form of a single, global certificate.

Book value. The value at which a security is carried on the inventory lists or other financial records of an investor. This value may be the original cost of acquisition of the security, or original cost adjusted by the amortization of a premium or accretion of a discount. The book value may differ significantly from the security's current value in the market.

Broker. A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position or take ownership of the security.

Certificate of Deposit (CD). A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula.

Collateralization. Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper. Unsecured short-term promissory notes issued by corporations, with maturities ranging from 2 to 270 days. May be sold on a discount basis or may bear interest. Firms with lower ratings or without well known names usually back their commercial paper with guarantees or bank letters of credit.

Coupon rate. Interest rate, expressed as a percentage of par or face value, that issuer promises to pay over lifetime of debt security.

Credit Risk. The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return). A measure of the simple interest annual yield for interest-bearing investments with maturities of one year or more. To calculate the current yield, the annual coupon interest income is divided by the amount paid to acquire the investment. It is important to note that the current yield is only accurate for investments purchased at par. The current yield calculation includes just one income cash flow - the annual interest income. It ignores the profit or loss resulting from discounts and premiums.

Custody. The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the **custodian**.

Dealer. An individual or firm who, as a matter of regular business, purchases or sells securities for his account and risk.

Delivery versus payment (DVP). A settlement procedure where payment for a securities purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for a securities sale; the securities are transferred as payment is made.

Derivative instrument. A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivative instruments can be highly volatile and result in a loss of principal in changing interest rate environments.

Discount. The amount by which a bond sells under its par (face) value.

Discount securities. Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, bankers' acceptances and most commercial paper are issued at a discount.

Diversification. Dividing investment funds among a variety of securities, offering independent returns, to reduce risk inherent in particular securities.

Effective Annual Yield. A seldom used expression to refer to the yield on an investment expressed on a compound interest basis.

Fed Wire. Computerized network linking the Fed with its district banks, member banks, and primary dealers in government securities.

Federal Agency Securities. A variety of securities issued by several Federally sponsored agencies. Some are issued on a discount basis and some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

Federal funds (Fed Funds). Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Fed Funds Rate - Interest rate charged by one institution lending federal funds to another.

Floater. A floating rate security with an interest rate that resets at specified intervals according to an underlying index, such as LIBOR (the London Interbank Offered Rate), and is based on a predetermined formula. The value of a floater will fluctuate as interest rates change and therefore can be very volatile.

Inactive deposits. Funds not immediately needed for disbursement.

Interest rate risk. The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Inverse floater. A security that reacts inversely to the direction of interest rates. These securities can be very volatile and can lose value in a rising interest-rate environment.

Leverage. An attempt to increase the rate of return on an investment by buying securities on margin or using borrowed funds for investment purposes. This practice can be risky if interest rates rise or if investment yields are lower than expected.

Liquidity. The quality of an asset that permits it to be converted quickly into cash without a significant loss of value.

Local Agency Investment Fund (LAIF). A special fund in the State Treasury which local agencies may use to deposit funds for investment and for reinvestment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$75 million for any agency (*excluding bond funds, which have no maximum*). It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via a check, warrant, or direct deposit to the agency's State Pooled Fund account. The State keeps an amount for reasonable costs of making the investments, not to exceed 1/4 of a percent of the earnings.

Marketability. The measure of ease with which a security can be sold in the secondary market.

Mark-to-Market. The practice of valuing a security of portfolio according to its market value, rather than its cost or book value.

Market Rate of Return. The average yield of the 3-month U.S. Treasury Bill or other index that closely matches the average maturity of the portfolio.

Market Value. The price at which the security is trading and could presumably be purchased or sold.

Maturity Date. The specified day on which the issuer of a debt security is obligated to repay the principal amount, or face value of, a security.

Money Market Mutual Fund. Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Fund. An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines.

Negotiable. Salable.

Par. Face value or principal value of a bond, typically \$1,000 per bond.

Passive investment management. An investment strategy where securities are bought with the

intention of holding them to maturity or investments in benchmark products designed to yield a market rate of return.

Principal. The face amount or par value of a debt instrument.

Primary Dealer. A small group of large banks and brokers that have pledged to make a market for any Treasury securities at any time. They are required to report their inventory positions and volume of activities to the Federal Reserve. Because of this, they are given the right to deal directly with the Federal Reserve in their daily operations.

Prudent Investor Standard. A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Rate of return. The amount of income received from an investment, expressed as a percentage. A *market rate of return* is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

Public Securities Association. The bond market trade association, which publishes a Master Repurchase Agreement that is widely accepted as the industry standard.

Rating. Judgment of creditworthiness of an issuer made by an accepted rating service.

Repurchase Agreement (Repo). A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. A *master repurchase agreement* is a written contract governing all future transactions between the parties and seeks to establish each party's rights in the transaction.

Reverse Repurchase Agreement. A form of secured, short-term investment in which a security is purchased with a simultaneous agreement to sell it back to the seller at a future date.

Safekeeping. A procedure where securities are held by a third party acting as custodian for a fee.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument. The first sale of a financial instrument by the original issuer is said to be done a primary market. All subsequent trades are said to be secondary market.

Securities Investors Protection Corporation (SIPC). A private corporation providing insurance to brokerage firms to cover customer accounts up to \$500,000 in securities which includes a \$250,000 for cash.

Swap. The trading of one asset, or cash flows, for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another. Also used to manage risk; for example, swapping fixed interest rate payments for floating rate payments.

Total return. Interest income paid on the invested principal, plus interest income earned from the successive reinvestment of that interest income, plus projected capital gains (or minus losses) on the investment. Differs from yield to maturity because (1) it can include gains or losses from sales prior to maturity, and (2) it permits the assumption of a reinvestment rate different from the yield earned on the underlying principal.

Treasury Bills. Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes. Intermediate U.S. government debt securities with maturities of one to 10 years.

Treasury Bonds. Long-term U.S. government debt securities with maturities of ten years or longer.

Uniform Net Capital Rule. Securities and Exchange Commission 15C3-1 outlining capital requirements for brokers.

Weighted Average Maturity (WAM). The average maturity of all the securities that comprise a portfolio.

Yield. Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, the income that can be earned from the reinvestment of income received prior to maturity, call or sale and the time from purchase to maturity, call or sale. Different formulas or methods are used to calculate yield. See Yield to Maturity and Total Return Analysis.

Yield-to-maturity. The rate of return yielded by a debt security held to maturity when both the interest payments and the investor's potential capital gain or loss are included in the calculation of the return.

FINRA* Summary Review
August 2, 2017 – August 13, 2020
Areas of Focus

<u>Firm</u>	<u>Lead Broker Experience</u>	<u>Lead Broker Disclosure Events</u>	<u>Firm Disclosure Events for Government Sector</u>	<u>Orange County Clients</u>
FHN	31 years	0	None	County of Orange, Irvine Ranch Water District, Orange, San Clemente, Santa Ana, Stanton, and Tustin
Raymond James	17 years	0	None	Huntington Beach, Irvine, Lake Forest, Orange County Water District, San Clemente, and Santa Ana
RBC Capital	33 years	0	None	County of Orange
Stifel Nicolaus	33 years	0	None	Irvine, Irvine Ranch Water District, Huntington Beach, and Orange
Wedbush	32 years	0	None	Aliso Viejo and Lake Forest