Central Marin Sanitation Agency

FINANCE COMMITTEE MEETING AGENDA
Tuesday, August 28, 2025, 12:00pm
1301 Anderson Drive, San Rafael CA 94901

AGENDA

1. **Call Meeting to Order**

2. **Pledge of Allegiance**

3. **Roll Call**

4. **Agenda Review & Approval**

5. **Open Period for Public Participation**
   Open time for public expression, up to two minutes per speaker, on items within CMSA's jurisdiction and not on the agenda. The Committee will not discuss or take action during open time, but members may briefly respond to statements made or questions proposed by the public, ask for clarification from staff, refer the matter to staff, or request staff to report back to the body at a subsequent meeting concerning any matter, or take action to direct staff to place a matter of business on a future agenda.

6. **Revised Investments Policy – Financial Policy #531**
   Recommendation: Review the Agency's revised Investments Policy and provide comments and/or direction to staff.

7. **Pension Trust Investment Strategy**
   Recommendation: Review the Agency's proposed change in investment strategy for the Section 115 pension trust, and provide comments and/or direction to staff.

8. **Updated OPEB Funding Plan – June 30, 2025**
   Recommendation: Review the updated OPEB Funding Plan and three alternate funding scenarios and prepare a Plan for the September Board meeting.

9. **Committee Oral Reports***

10. **Items for Next/Future Agendas**

11. **Schedule next meeting**

*Information not furnished with Agenda

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Central Marin Sanitation Agency at 415-459-1455. For auxiliary aids or services or other reasonable accommodations to be provided by the Agency at or before the meeting, please notify the Agency at least 3 business days in advance of the meeting date (meeting is the second Tuesday of each month). If the Agency does not receive timely notification of your reasonable request, the Agency may not be able to make the necessary arrangements by the time of the meeting.

Central Marin Sanitation Agency

MEMORANDUM

August 28, 2025

To: CMSA Finance Committee

From: Corey Spray, Administrative Services Manager and Treasurer
Jason Dow, General Manager

Subject: Revised Investments Policy – Financial Policy #531

Recommendation: Approve the revised Investments Policy as presented.

Summary: The Board approved of the Agency's Investments Policy (Policy) at the May 9, 2025, meeting to align with the best practices promulgated by the California Municipal Treasurer's Association (CMTA) for drafting Investment Policy documents. In addition to updating the Policy for revised language, the Policy can be submitted to the CMTA for consideration of the Investment Policy Award under the CMTA Investment Policy Certification Program. The approved Policy was submitted to the CMTA, and it was returned with comments for further updating the Policy for clarification purposes. Staff reviewed their comments and revised the Policy accordingly.

Discussion: The comments received centered around minor and clarifying updates to the Policy's language. Some of the comments included recommendations to follow revised language documented within the California Government Code, and other comments included suggestions on Policy language for better understanding. Highlights of the following changes made are below:

- Revise the "Prudence" section with updated California Government Code language.
- Change the "Types of Agency Investments" section title to "Authorized and Suitable Investments" for clearer Policy language understanding.
- Further clarify the rating scales listed within the "Authorized and Suitable Investments" section by including both Moody's and Standard & Poor's (S&P) ratings, i.e., S&P equivalent of "AA" for Moody's is "Aa".
- Revise the summary "Authorized Investments" table footnotes within the "Authorized and Suitable Investments" section to list only exceptions to the allocation percentages previously described.
- Add a "Review of Investment Portfolio" section to provide guidance on reviewing the portfolio for continual compliance.
- Update the "Collateralization" section California Government Code citations.

- Update the “Diversification” section concentration percentage to be what is referenced throughout the “Authorized and Suitable Investments” section for clarity.

All other changes made were for minor edits for clearer Policy language understanding. If approved by the Finance Committee, the updated Policy will be submitted to the Board for review and approval.

Attachment:
- Revised Financial Policy #531 – Investments

POLICY #:	**531**
SECTION:	**FINANCIAL – TREASURY**
SUBJECT:	**Investments**
DATE:	**05/13/2025**

POLICY

The Agency shall invest public funds in a prudent manner that achieves its three objectives of Safety, Liquidity, and Yield while meeting its daily cash flow requirements and complying with federal, state and local statutes. Every spring, the General Manager and Treasurer shall submit to the Board of Commissioners this *Investments* policy, where the Board shall review any changes in the policy and approve it at a public meeting.

SCOPE

This policy provides guidelines for prudent investment of the Agency's cash. This policy covers all funds and investment activities under the direction of the Agency in accordance with California Government Code Sections 53600, et seq. This policy does not cover funds held in trust for the following activities:

I. Debt Proceeds

Proceeds from debt issuance shall be invested in accordance with the permitted provisions of the specific bond indenture agreements.

II. Proceeds Held in Trust for Retirement Purposes

Funds held and invested in either the Agency's pension, OPEB, or employee deferred compensation funds shall be invested following the permitted investments pursuant to California Government Code Section 53609.

PRUDENCE

~~The Agency shall follow Section 53600.3 of the California Government Code that identifies as trustees those entities, i.e. California Asset Management Program (CAMP) and Local Agency Investment Fund (LAIF), authorized to make investment decisions on behalf of a local agency. Trustees are fiduciaries and are therefore subject to the prudent investor standard when making investment decisions on behalf of the Agency. Investments shall be made 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.~~ 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 aims, to safeguard the principal and maintain the liquidity needs of the agency.

OBJECTIVES

The Agency shall design and manage investments with a high degree of professionalism worthy of the public trust. The primary objectives, in order of priority of the Agency's investment activities, shall be:

I. Safety

Safety of principal is the foremost objective. All investments of the Agency shall be made in a manner that seeks to ensure preservation of capital.

II. Liquidity

The investment portfolio shall remain sufficiently liquid to enable the Agency to meet any cash flow requirements which might be reasonably anticipated.

III. Yield

Investment return becomes a consideration only after the basic measurements of safety and liquidity have been met.

DELEGATION OF AUTHORITY

The Board of Commissioners shall delegate authority to invest the Agency's funds for a one-year period to the Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Board may renew the delegation of authority each year. No person may engage in an investment transaction except as provided under the limits of this policy.

The Treasurer may delegate day-to-day investment decision-making and execution authority to an Investment Advisor. The Advisor shall follow this policy and such other written instructions as are provided.

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

ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall seek to act responsibly as custodians of the public trust according to this policy and the *Ethics* policy. Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions.

INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls to ensure that the assets of the Agency are safeguarded from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that the policy objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the Agency, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

AUTHORIZED INSTITUTIONS, DEPOSITORIES AND SECURITIES BROKERS/DEALERS

To the extent practicable, the Treasurer, in consultation with the General Manager, shall endeavor to complete investment transactions using a competitive bid process whenever possible. The Treasurer, in consultation with the General Manager, will determine which financial institutions are authorized to provide investment services to the Agency. It shall be the Agency's policy to purchase securities only from authorized institutions and firms.

The Treasurer, in consultation with the General Manager, shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions, which are approved for investment purposes that are selected through a process of due diligence as determined by the Agency. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the Agency are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the Agency include:

I. Institutions licensed by the state as a broker-dealer as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.

II. Institutions that are members of a federally regulated securities exchange.

III. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.

IV. Nationally or state-chartered banks.

V. Savings or federal association (as defined in Section 5102 of the Financial Code).

VI. The Federal Reserve Bank.

VII. Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the discretion of the Agency, except where the Agency utilizes an external investment advisor in which case the Agency may rely on the advisor for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment advisor) must supply the Agency with audited financial statements and a certification that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the Agency's investment policy. The Treasurer, in consultation with the General Manager, will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation (FDIC), or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

For investments made by an investment advisor, the Board authorizes the investment advisor to use broker/dealers and financial institutions that the investment advisor has reviewed and approved for investment purposes. The investment advisor's approved list shall be made available to the Agency upon request.

AUTHORIZED AND SUITABLE INVESTMENTS~~TYPES OF AGENCY INVESTMENTS~~

The Agency shall be governed by California Government Code Sections 53600, et seq. Within the investments permitted by the Government Code, the Agency seeks to further restrict eligible investments to those listed below. In the event an apparent discrepancy is found between this policy and the Government Code, the more restrictive parameters shall take precedence.

The Agency's portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

I. United States Treasury Issues

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.

II. Federal Agency Obligations

Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, not more than 30 percent of the portfolio shall be placed in any one Agency. Furthermore, purchases of callable Federal Agency obligations are limited to a maximum of 20 percent of the portfolio. In addition, purchases of Federal Agency mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio.

III. Medium-Term Notes

Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Eligible investment shall be rated AA/Aa by one or more nationally recognized statistical-rating service. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in medium-term notes with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed ~~20~~ 10 percent of the portfolio.

IV. Municipal Securities

Bonds, notes, warrants, or other evidences of indebtedness issued by the State of California or any California local agency. Securities eligible for purchase shall be rated AA/Aa, as rated by one or more nationally recognized statistical-rating organization. A maximum of 30 percent of the Agency's portfolio may be invested in this category.

V. Negotiable Certificates of Deposit

Negotiable certificates of deposit (NCD) issued by a nationally- or state-chartered bank, a savings association or a federal association, a state or federal credit union, or a state-licensed branch of a foreign bank. No investments shall be made in a bank or credit union if a member of the Board, or any person with investment decision-making authority also serves on the board of directors, or any committee appointed by the board of directors of the bank or credit union issuing the NCD. Purchases are limited to institutions which have long-term debt rated AA/Aa or higher with a nationally recognized statistical-rating service; and/or have short-term debt rated at least ~~AA~~ A-1/P-1 with a nationally recognized statistical-rating service. NCD may not exceed two years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCD with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

VI. Banker's Acceptances

Banker's Acceptances, otherwise known as bills of exchange or time drafts, are those which are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Banker's Acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in Banker's Acceptances with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

VII. Commercial Paper

Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

A. The entity meets the following criteria:

1) Is organized and operating in the United States as a general corporation.

2) Has total assets in excess of five hundred million dollars ($500,000,000).

3) Has debt other than commercial paper, if any, that is rated AA/Aa or higher by a nationally recognized statistical-rating organization.

B. The entity meets the following criteria:

1) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

2) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.

3) Has commercial paper that is rated ~~A~~A-1/P-1 or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days ~~or less and not represent more than 10 percent of the outstanding paper of an issuing corporation~~. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in commercial paper with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed ~~2~~10 percent of the portfolio.

VIII. Repurchase Agreements

A. Repurchase agreements are to be used solely as short-term investments not to exceed 30 days. The Agency may enter into repurchase agreements with primary government securities dealers rated AA/Aa or better by two nationally recognized statistical-rating services. Counterparties should also have:

1) A short-term credit rating of at least A-1/P-1;

2) Minimum assets and capital size of $25 billion in assets and $350 million in capital;

3) Five years of acceptable audited financial results; and

4) A strong reputation among market participants.

B. The following collateral restrictions shall be observed:

1) Only U.S. Treasury securities or Federal Agency securities are acceptable collateral. All securities underlying repurchase agreements shall be delivered to the Agency's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement.

2) The total market value of all collateral for each repurchase agreement shall equal or exceed 102 percent of the total dollar value of the money invested by the Agency for the term of the investment.

3) For any repurchase agreement with a term of more than one day, the value of the underlying securities shall be reviewed on an on-going basis according to market conditions. Market value shall be calculated each time there is a substitution of collateral.

4) The Agency or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The Agency shall have properly executed a Public Securities Association agreement with each counterparty with which it enters into repurchase agreements. A maximum of 25 percent of the portfolio may be invested in this category.

IX. Time Certificates of Deposit

Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder’s equity of the financial institution. To be eligible for purchase, the financial institution shall have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630, et seq.

The Agency, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Agency shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed one year in maturity. A maximum of 20 percent of the portfolio may be invested in this category. ~~Furthermore, the amount invested in TCDs with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.~~

X. Passbook Savings Accounts

Passbook savings accounts placed with commercial banks and savings and loans. To be eligible to receive deposits, the financial institution shall have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. Passbook savings accounts are required to be collateralized as specified under Government Code Section 53630 et. seq.

The Agency, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Agency shall have a signed agreement with the depository per Government Code Section 53649. A maximum of 20 percent of the portfolio may be invested in this category. ~~Furthermore, the amount invested in passbook savings accounts with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.~~

XI. Money Market Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

A. The company shall have met either of the following criteria:

1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

2) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

A maximum of 10 percent of the portfolio may be invested in this category.

XII. California Asset Management Program (CAMP)

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (~~n~~r), inclusive of Government Code Section 53601. There is no limitation as to the percentage of the portfolio that may be invested in this category.

XIII. State of California Local Agency Investment Fund (LAIF)

There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.

XIV. Authorized Investments

The Treasurer and/or the authorized Investment Advisor shall have the authority to invest the Agency's financial resources as shown in the table below.

Investment Type	Authorized for Investment Advisor	Authorized for Agency Treasurer	Authorized Investment Allocation
United States Treasury Issues	X	X	100%
Federal Agency Obligations	X	X	30%(~~3~~1)
Medium-Term Notes	X		30%(3)
Municipal Securities	X	X~~(1)~~	30%
Negotiable Certificates of Deposit(~~5~~2)	X	X~~(2)~~	~~2~~30%(3)
Banker's Acceptances	X		25~~0~~%(3)
Commercial Paper	X		25%~~(4)~~ (3)
Repurchase Agreements	X		25%
Time Certificates of Deposit(~~5~~2)	X	X	20%
Passbook Savings Accounts(~~5~~2)	X	X	20%
Money Market Funds	X	X	10%
CAMP	X	X	100%
LAIF	X	X	100%

~~(1) Municipal Securities must have an AA rating.~~

~~(2) Negotiable Certificates of Deposit must have a minimum AA rating for long-term notes and AA-1 for short term notes.~~

(~~3~~1) The maximum is 20% if the portfolio is comprised of callable Federal Agency Obligations or mortgage-backed securities guaranteed by principal and interest payments.

~~(4) The maximum is 20% if invested with any one single issuer.~~

(~~5~~2) The maximum allowable limit is up to the FDIC limit of $250,000.

(3) The maximum allowable limit is reduced if all invested into one single issuer. Please refer to the specific section for the allocation percentage.

PROHIBITED INVESTMENTS

Any investment in a security not specifically listed above, but otherwise permitted by the California Government Code, is prohibited. Section 53601.6 of the Government Code specifically disallows investments in invoice floaters, range notes, or interest-only strips that are derived from a pool of mortgages. In addition to the limitations in Government Code Section 53601.6, this policy further restricts investments as follows:

I. No investment shall be made that has either (a) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (b) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.

II. No investment shall be made that could cause the portfolio to be leveraged.

III. Any security that could result in zero interest accrual if held to maturity shall not be made.

REVIEW OF INVESTMENT PORTFOLIO

The securities held by the Agency must be in compliance with the "Authorized and Suitable Investments" section at the time of purchase. Because some securities may not comply with this section subsequent to the date of purchase, the Agency should at least annually review the portfolio to identify those securities that do not comply. The Agency should establish procedures to report to the Board, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS

The Agency must conduct a thorough investigation of any pool or mutual fund before making an investment, and on a continual basis thereafter. The Treasurer, in consultation with the General Manager, shall develop a questionnaire which will answer the following questions:

I. A description of eligible investment securities, and a written statement of investment policy and objectives.

II. A description of interest calculations and how it is distributed, and how gains and losses are treated.

IV. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

V. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.

VI. A schedule for receiving statements and portfolio listings.

VII. Are reserves, retained earnings, etc. utilized by the pool/fund?

VIII. A fee schedule, and when and how is it assessed.

IX. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

COLLATERALIZATION

I. Certificates of Deposit (CD)

The Agency shall require any commercial bank or savings and loan association to deposit eligible securities with any agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section ~~52651~~53630, et seq., pledged against a Certificate of Deposit shall be equal to 110% of the face value of the CD for all other classes of security.

II. Collateralization of Bank Deposits

This is the process by which a bank or financial institution pledges securities, other deposits for the purpose of securing repayment of deposited funds. The Agency shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section ~~52651~~53630, et seq.

III. Repurchase Agreements

The Agency requires that Repurchase Agreements be collateralized with only securities authorized in accordance with California Government Code:

A. The securities with collateralize the repurchase agreement shall be priced at market value, including any accrued interest plus a margin. The market value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.

B. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.

C. The Agency shall receive monthly statements of collateral.

SAFEKEEPING AND CUSTODY

All security transactions entered into by or on behalf of the Agency shall conducted on a delivery vs. payment basis. All securities shall be held in the Agency's name by a third-party custodian designated by the Treasurer. The custodian shall act as the Agency's agent under the terms of a custody agreement, of which includes generation of safekeeping receipts or acknowledgments for each security trade and monthly account statements sent to the Agency.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with:

I. Local government investment pools;

II. Time certificates of deposit, and,

III. Money market mutual funds since the purchased securities are not deliverable.

Evidence of each of these investments shall be held by the Treasurer.

TERM OF INVESTMENTS

It is the objective of the Agency to accurately monitor and forecast revenues and expenditures so that the Agency can invest funds to the fullest extent possible. Funds of the Agency shall be invested in accordance with sound treasury management principles.

Where this policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

DIVERSIFICATION AND RISK MANAGEMENT

I. Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to real or perceived change in the ability of the issuer to repay its debt. The Agency will mitigate credit risk by adopting the following strategies:

A. The diversification requirements included in the "Types of Agency Investments" section of this policy are designated to mitigate credit risk in the portfolio.

B. No more than the maximum allowed percent allocation for each security type ~~5% of the total portfolio~~ may be deposited with or invested in issued securities ~~issued by a single issuer unless otherwise specified in this policy~~. Any allowable security classification is exempt from this strategy if otherwise specified.

C. The Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity, or yield of the portfolio in response to market conditions of the Agency's risk preferences.

D. The investment advisor shall monitor the ratings of all investments in their portfolio on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment advisor shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.

E. If a security owned by the Agency is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps are to be performed:

   1) Any actions taken related to the downgrade by the investment advisor will be communicated to the Treasurer, in consultation with the General Manager, in a timely manner.

   2) If a decision is made to retain the security, the credit situation will be monitored and reported to the Agency's Board of Commissioners.

II. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Agency recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Agency will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Agency further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Agency, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

A. The Agency will maintain a target of at least the amount of its operating reserve plus its emergency reserve in short-term investments to provide sufficient liquidity for expected disbursements.

B. The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

C. The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a market benchmark, and index selected by the Agency based on the Agency's investment objectives, constraints and risk tolerances.

PERFORMANCE

The Agency seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow consideration. The Treasurer shall continually monitor and evaluate the portfolio’s performance.

REPORTING

The Treasurer shall submit a monthly Treasurer’s report to the Board that lists the Agency’s individual investments, if any, and pooled investments in short-term investment pools. The report shall include the following information for each individual investment: description of investment instrument, issuer name, maturity date, credit rating, yield to maturity, purchase price, par value, current market value, and the source of the valuation. Investments in pools managed by other governments or mutual funds shall include the following information for each pool: pool name, valuation date, yield at valuation date, cost basis if materially different from market value, and market value of the Agency’s share of the pool at date of valuation of pool using the pool’s valuation method.

The report also shall:

I. State compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance,

II. Include a description of any of the Agency’s funds, investments or programs that are under the management of contracted parties, including lending programs, and

III. Include a statement denoting the ability of the Agency to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money may not be available.

IV. The report shall include a list of monthly investment transactions. The requirement for disclosure of monthly investment transactions does not apply to investment pools. This monthly report shall be submitted with the Board’s monthly meeting agenda for public review.

GLOSSARY

Agencies: Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

Asset Backed Securities: Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

Banker's Acceptance (BA): A draft or bill of or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Callable: A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue at a lower interest rate.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large denominated CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term and unsecured debt issued by very large corporations.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery securities: (1) delivery versus payment and (2) delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt of securities with an exchange of a signed receipt for the securities.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Duration: A measure of sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

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

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked prices is narrow and reasonable size can be done at those quotes.

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

Master Purchase Agreement: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Medium Term Notes: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: A standard of responsibility which applies to fiduciaries. In California, the rule is "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (Repo): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate their for this.

Reverse Repurchase Agreement (Reverse Repo): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a form of borrowing.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission (SEC): An agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15c3-1: An SEC rule setting capital requirements for brokers and dealers. Under the Rule, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with the current client.

Treasurer: Per Agency *Financial Policy #530 – Treasury General*, the Board of Commissioners appoints and delegates a Treasurer to manage the Agency's cash and investments following applicable internal policies and laws. The Board appoints the Administrative Services Manager to serve this position and perform the duties therein.

Treasury Bills: A noninterest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) Income yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Central Marin Sanitation Agency

BOARD MEMORANDUM

August 26, 2025

To: Finance Committee

From: Corey Spray, Administrative Services Manager

Approved: Jason Dow, General Manager

Subject: Pension Trust Investment Strategy

Recommendation: Discuss the pension trust investment strategy options, and provide direction to staff.

Summary: The Agency established an Internal Revenue Code (IRC) Section 115 Pension Stabilization Trust (Trust) with Keenan Financial Services (Keenan) to manage its long-term actuarial pension liability. Keenan serves as an investment advisor to the Agency, and through Keenan, it provided both a Portfolio Manager (Morgan Stanley) and a Safekeeper (Benefit Trust Company). The Agency contributes funds to the Trust following *Financial Policy #556 – Pension Funding Policy* using the savings between the original unfunded actuarial liability (UAL) annual payment to CalPERS *prior to refunding* and the pension obligation bond (POB) debt service *after refunding*. Keenan provides a suite of investment portfolio options ranging from being 100% invested in fixed income securities to having a portfolio mix of 24% allocated into fixed income securities with the remaining 76% in equity securities. The intention is to provide some options for clients on how to best manage their investment portfolio.

Discussion: Keenan offers a uniform array of investment portfolio strategy options to better assist its clients with managing their investment portfolio following one's own risk tolerance. The available options are listed below in descending order of least to aggressive risk:

Strategy Name	Fixed Income Allocation %	Equity Allocation %
Fixed Income	100	0
Conservative	84	16
Moderate	67	33
Moderate Growth	55	45
Growth	39	61
Aggressive Growth	24	76

When the Trust was established in 2022, the Board elected to manage its investment portfolio under the "Moderate" strategy where the portfolio mix is 33% in equity securities and 67% in fixed income securities. This is a relatively lower risk portfolio strategy whereby the majority of any investment income earned is related to interest collections and gyrations in market interest rates. This strategy is ideal for capital preservation as only a lower amount of portfolio growth is allowed from the equity portfolio exposure.

If the Committee prefers more exposure to the equity markets, it does increase short-term volatility. Ways to mitigate short-term volatility is through portfolio diversification. Morgan Stanley does not invest the portfolio into individual stocks and bonds. It invests the portfolio into mutual funds that are already in baskets of securities to mitigate single security pricing risk.

Below is a historical chart of portfolio performance:

Market Value Allocation	***FYE* 6/30/2022**	***FYE* 6/30/2023**	***FYE* 6/30/2024**	***FYE* 6/30/2025**
Fixed Income	$ 6,451	$ 137,140	$ 362,191	$ 1,054,701
Equities	2,441	60,735	511,827	477,247
Alternatives	425	9,917	30,024	51,431
Total account	$ 9,317	$ 207,792	$ 904,043	$ 1,583,379
Total account RoR%, net	-6.80%	0.86%	8.21%	10.07%
Avg return (since inception)	*3.08%*			
ER contributions	$ 10,000	$ 197,389	$ 675,370	$ 586,235

Source: Benefit Trust Investment Account Statements

Lastly, the Agency manages its Section 115 Trust for its Other Post-Employment Benefits (OPEB) Plan through CalPERS' California Employers' Retiree Benefit Trust (CERBT) program. Within the CERBT program, three investment strategies are allowed. Strategy 1 is the most aggressive and Strategy 3 is the most conservative. The Board selected Strategy 1 when the CERBT was established around 2011, and has consistently remained there since. Strategy 1 maintains a portfolio mix of 49% in equity and 51% in fixed income. Strategy 1 has overall appreciated 7% annual returns over the last eight fiscal years.

Central Marin Sanitation Agency

FINANCE COMMITTEE MEMORANDUM

August 26, 2025

To: CMSA Finance Committee

From: Corey Spray, Administrative Services Manager
Jason Dow, General Manager

Subject: Updated OPEB Funding Plan – June 30, 2025

Recommendation: Discuss the updated OPEB Funding Plan and provide direction to staff, as appropriate.

Discussion: Staff updated the FY25 Other Post-Employment Benefits (OPEB) Funding Plan (Plan) with the June 30, 2025 OPEB Trust Fund balance and updated the future retiree medical cost increases. CMSA needs approximately $3 million in the OPEB Trust by FY39 to fund future retiree health benefits. The updated plan is attached, and staff is looking for Finance Committee direction on the future OPEB Trust funding amount, investment rate of return assumption, annual retiree medical cost reimbursement amount, and future retiree medical cost increases. Staff will present the Committee's recommendations to the Board at its September 9, 2025, meeting.

Last year, the Committee recommended, and the Board approved the following Plan changes.

1) Fund the OPEB Trust with the Governmental Accounting Standards Board (GASB) 75 Actuarially Determined Contribution (ADC) from FY26 - FY39, which was $23,746.

2) Continue to use the estimated retiree medical expenses increase estimates of 10% for FY25 and FY26, then reduce the annual increase to 4.5%.

3) Continue to use the OPEB Trust investment rate of return at 6.75% through FY39.

4) Increase the annual retiree medical cost reimbursement from 75% to 80%.

Background: The Agency established a CalPERS defined retiree health benefit on January 1, 1990, that provided all employees with fully paid retiree health insurance for life. This benefit is only allowed for the single employee, i.e., no spouse or dependents are allowed. Currently, the Public Employees' Medical & Hospital Care Act of 1961 (PEMHCA) requires that all public employers contribute a minimum amount to cover a retiree's (including spouse) health insurance premium each month. This per retiree monthly rate is currently at $158 per month. CalPERS's benefit terms specify the Agency paying an additional amount, in excess of PEMHCA, to fully cover the retiree's monthly health insurance premium for life.

In 2010, the Board established a defined contribution health reimbursement account (HRA), and an Internal Revenue Code (IRC) Section 115 trust with CalPERS under the California Employers' Retirement Benefit Trust (CERBT) program to fund future retiree health benefit payments. Employees hired prior to June 30, 2010, receive the CalPERS defined retiree health benefit and those hired after that date receive the PEMCHA benefit and an annual HRA plan contribution of 1.5% of base salary.

Over the last nine (9) fiscal years, the CERBT has experienced an average annual return of 8.14%, and in FY25, the rate of return was 12%.

In prior years, the Agency has reimbursed itself for its retiree medical benefit payments to Plan participants using the CERBT investment earnings and principal balance to draw down the Plan assets. The goal is to draw down the Plan assets to meet a projected benefit liability and maintain a nearly funded Plan by 2039. This strategy has proven to be very successful with managing the Plan.

CENTRAL MARIN SANITATION AGENCY

OPEB FUNDING PLAN (UPDATED FROM 10/9/2024 FINANCE COMMITTEE)

AS OF FISCAL YEAR ENDED JUNE 30, 2025

Scenario: Update current year reimbursement rate from 75% to 100% and then 80% for all succeeding years, and no current year contribution.

Annual Status as Estimated or Actual	Fiscal Year	Beginning Balance	Contribution	Investment Rate of Return at 6.75% Net of Fees	Retiree Medical Cost Reimb at 80%	Ending Balance	PEMHCA Min Cost Actual / Estimated	Classic OPEB Cost Actual / Estimated	Total Retiree Medical Cost Actual / Estimated	Retiree Medical Cost Growth Act / Est
Actual	2019-20	$ 2,715,805	$ 39,424	$ 96,099	$ -	$ 2,851,328	$ 84,579	$ 95,857	$ 180,436	-1.1%
Actual	2020-21	2,851,328	46,584	787,355	-	3,685,268	77,101	93,698	170,799	-5.3%
Actual	2021-22	3,685,268	-	(480,652)	(176,305)	3,028,311	75,868	100,590	176,458	3.3%
Actual	2022-23	3,028,311	-	193,197	(170,047)	3,051,460	76,489	93,556	170,046	-3.6%
Actual	2023-24	3,051,460	23,746	335,256	(168,962)	3,241,501	80,954	112,668	193,621	13.9%
Actual	2024-25	3,241,501	-	385,933	(193,621)	3,433,812	83,005	155,566	238,571	23.2%
Estimated	2025-26	3,433,812	23,746	231,656	(190,857)	3,498,357	85,495	178,901	264,396	10.8%
Estimated	2026-27	3,498,357	23,746	235,981	(211,517)	3,546,567	88,060	205,736	293,796	11.1%
Estimated	2027-28	3,546,567	23,746	239,211	(235,037)	3,574,487	90,702	220,138	310,840	5.8%
Estimated	2028-29	3,574,487	23,746	241,082	(248,672)	3,590,643	93,423	233,346	326,769	5.1%
Estimated	2029-30	3,590,643	23,746	242,164	(261,415)	3,595,138	96,226	247,347	343,573	5.1%
Estimated	2030-31	3,595,138	23,746	242,466	(274,858)	3,586,492	99,113	260,209	359,322	4.6%
Estimated	2031-32	3,586,492	23,746	241,886	(287,458)	3,564,666	102,086	271,918	374,004	4.1%
Estimated	2032-33	3,564,666	23,746	240,424	(299,203)	3,529,633	105,149	284,154	389,303	4.1%
Estimated	2033-34	3,529,633	23,746	238,076	(311,442)	3,480,013	108,303	296,941	405,244	4.1%
Estimated	2034-35	3,480,013	23,746	234,752	(324,195)	3,414,316	111,552	310,303	421,855	4.1%
Estimated	2035-36	3,414,316	23,746	230,350	(337,484)	3,330,928	114,899	324,267	439,166	4.1%
Estimated	2036-37	3,330,928	23,746	224,764	(351,333)	3,228,105	118,346	338,859	457,205	4.1%
Estimated	2037-38	3,228,105	23,746	217,874	(365,764)	3,103,961	121,896	354,108	476,004	4.1%
Estimated	2038-39	3,103,961	23,746	209,556	(380,803)	2,956,460	125,553	370,043	495,596	4.1%
						AA				

Funding Comparison:

Variables that can be changed for the analysis

Ending CERBT balance @ 2039	2,956,460	**AA**
Estimated OPEB liability (*PEMHCA only*)	2,303,893	**See OPEB liability derivation**
Excess / (deficiency) of proceeds for diminishing Classic	*652,567*	*Appropriate target range*

Assumptions:

1) Estimated investment rate of return = 6.75% *-> consistent with OPEB actuarial*
2) Total retiree medical payments (PEMHCA & Classic) are expected to grow 10% in FY25 and FY26, and then drop off to steady rate of 4.5%.
3) CERBT fee rate applied is 0.05%.
4) Reimbursement rate applied against CERBT for retiree medical costs is 100% for current year and 80% for all succeeding years.