



WEST BASIN MUNICIPAL WATER DISTRICT
17140 S. Avalon Blvd., Suite 210
Carson, CA 90746

AGENDA NO. 11

MAY 13, 2009 – Finance
Smith (Chair), Dear
MAY 26, 2009 – Board Meeting
Prepared by: Margaret Moggia
Submitted by: Margaret Moggia
Approved by: Rich Nagel

ACTION CALENDAR

INVESTMENT RECOMMENDATIONS

SUMMARY:

In March 2009, the Board approved PFM as its Investment Manager to provide staff an additional resource to evaluate investment opportunities and enhance the performance of West Basin's investment portfolio. Staff met with PFM in April 2009 to discuss West Basin's investment strategy and to identify new investment opportunities, cash flow forecasting and establishing an appropriate benchmark. Staff requested their presence at the May 13, 2009 Finance Committee where they will provide an update on the current market conditions and to discuss recommendations outlined below to improve West Basin's portfolio both in terms of yield and diversification.

Benchmark Recommendation

Establishing an investment benchmark provides an independent representation that measures and evaluates relative investment performance and a comparison of risk and return. The benchmark also defines and evaluates a long-term investment strategy.

As Exhibit "A" shows, PFM recommends and West Basin staff supports an interim 1-year Treasury Index. This recommendation is based on a review of current market conditions, a review of cash flow needs and most importantly that it meets the stated objectives of safety, liquidity and yield. Staff supports an interim benchmark strategy as a response to the current low interest rates and awaiting the impact of those rates with the introduction of the various Federal Government Recovery Program. When market conditions normalize, staff will re-evaluate the benchmark recommendation and transition to a longer term index, perhaps Merrill Lynch 1-3 year Index.

Recommendation to Modify to Investment Policy

As noted by PFM's memo shown in Exhibit "B", in October 2008 Federal Deposit Insurance Corporation (FDIC) created the Temporary Liquidity Guarantee Program (TLGP), which guarantees the principal and interest of new senior unsecured bank debt issued through October 31, 2009 of participating financial institutions. Debt that is guaranteed under the TLGP is backed by the full faith and credit of the United States. The expiration date of the FDIC's guarantee on debt issued on or after April 1, 2009, is December 31, 2012.

Staff has reviewed West Basin's investment policy and notes that the above instrument could qualify under our current Section 9, United States Treasuries or Federal Agencies; however, staff

recommends adding additional language to specifically allow for West Basin to invest in TLGPs. The recommended language is shown in Exhibit "C" – West Basin's Investment Policy under Section 9(g)(1).

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 8, Finance – Manage finances to optimize the public's investment return and minimize risk.

COMMITMENT STATEMENT:

Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning, and asset management.

FISCAL IMPACTS:

The addition of Temporary Liquidity Guarantee Program securities provides West Basin additional opportunities to invest its portfolio.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on May 13, 2009 and agendized to the May 26, 2009 Board meeting for consideration.

RECOMMENDED MOTION:

That the Board approves the following actions:

1. Approve a benchmark of Merrill Lynch 1-year US Treasury Index; and
2. Approve the recommended language in the Investment Policy, as shown in Exhibit "C".

LIST OF EXHIBITS:

Exhibit "A" – PFM Memo dated May 2, 2009 "Benchmark Recommendation for District's Portfolio"
Exhibit "B" – PFM Memo dated May 1, 2009 "Addition of Temporary Liquidity Program Securities to District's Investment Policy"
Exhibit "C" – Investment Policy – May 2009