



LOCAL AND REGIONAL GOVERNMENT
SERVICES AUTHORITIES

Providing Solutions to California Public Agencies

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**RGS EXECUTIVE COMMITTEE AND LGS EXECUTIVE COMMITTEE
JOINT STUDY SESSION**

Agenda materials may be viewed on the Agency's web site or by contacting the Executive Director prior to the meeting.

Yountville Community Center

Board Room

6516 Washington St.

Yountville, CA 94599

January 12, 2012

Following the LGS Executive Committee Meeting

Approximately 10:30 a.m.

1. **CALL TO ORDER**
2. **CHANGES TO THE ORDER OF AGENDA**
3. **EMPLOYMENT LAW CONSIDERATIONS** – Presentation by Director of Human Resources and Executive Director on Employment Law considerations for RGS and LGS.
4. **STRATEGIC PLANNING – Where are we going and how do we get there** - Presentation by Executive Director and Director of Human Resources on JPA challenges and opportunities.
 - A. Financial Performance History
 - B. JPA Administrative staffing structure and flexibility
 - C. Current Mix of Services
 - i. Consulting Services (interims, projects)
 - ii. Grant-Funded Positions
 - iii. Shared Services Positions (limited implementation, great opportunities)
 - iv. Training (limited implementation to full implementation)
 - v. Financing (limited implementation)
 - vi. Employer of Record for New Agencies (and potentially existing agencies in other retirement systems)
 - D. Creating a Defined Benefit Plan in RGS
 - i. Stable Costs (e.g. 10% ER, 5% EE)
 - ii. More Affordable, thus Sustainable (e.g. low assumed return, benefits not enhanced)
 - iii. Actuarial Study underway to determine if feasible
 - E. Alternative Investments
5. **COMMITTEE MEETINGS SCHEDULE:** Discussion concerning revising the Executive Committee Meeting schedule from monthly telephonic to quarterly in-person meetings.
6. **PUBLIC COMMENT:** Each speaker is limited to two minutes. If you are addressing the Executive Committee (EC) on a non-agenda item, the EC may briefly respond to statements made or questions posed as allowed by the Brown Act (Government Code Section 54954.2). However, the EC's general policy is to refer items to staff for attention, or have a matter placed on a future EC agenda for a more comprehensive action or report.
7. **NEXT STUDY SESSION MEETING:** In conjunction with June Executive Committee Meeting.

Americans with Disabilities Act

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Richard Averett at (650) 587-7301. Notification in advance of the meeting will enable Agency to make reasonable arrangements to ensure accessibility.

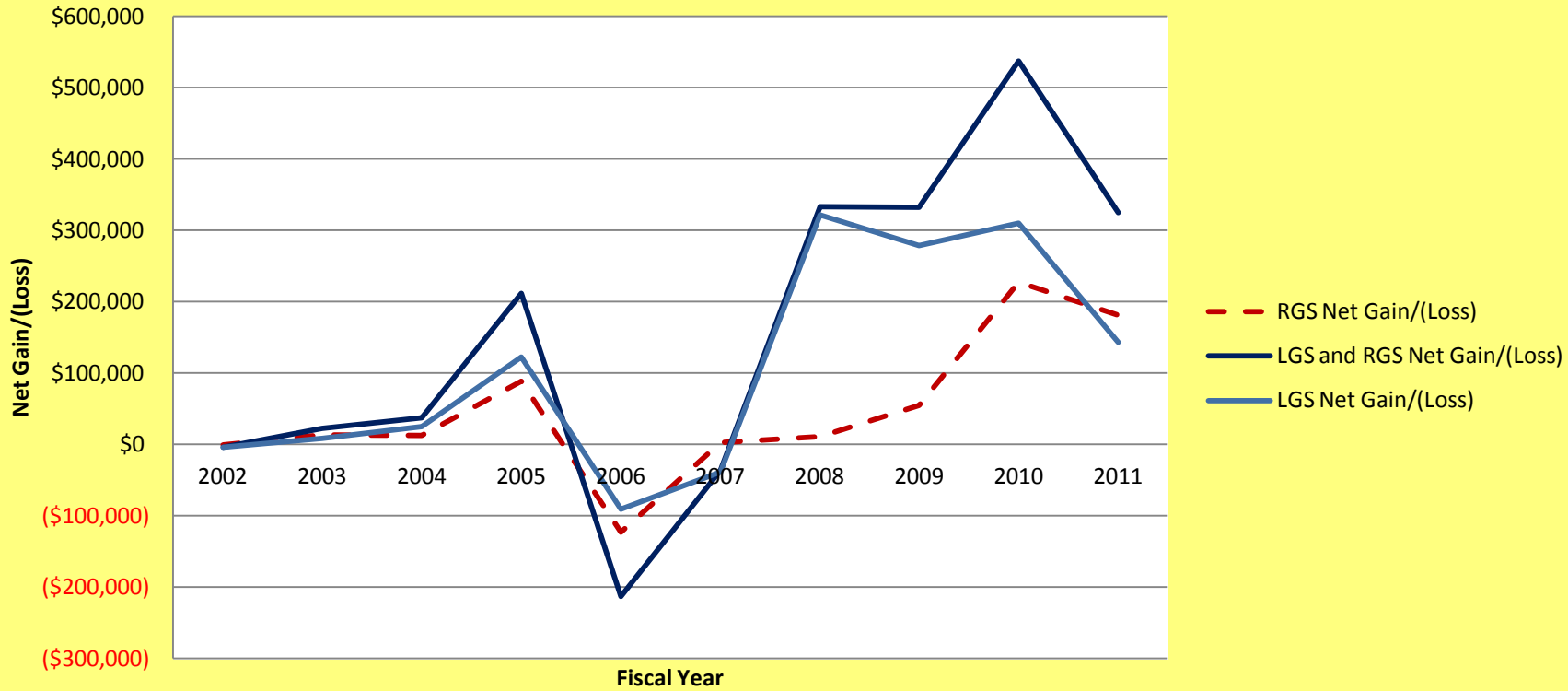
*Administrative Offices:
Human Resources:*

P.O. Box 1350 · Carmel Valley, CA 93924
P.O. Box 1077 · Camarillo, CA 93011

ph: 831/308-1508
ph: 650/587-7316

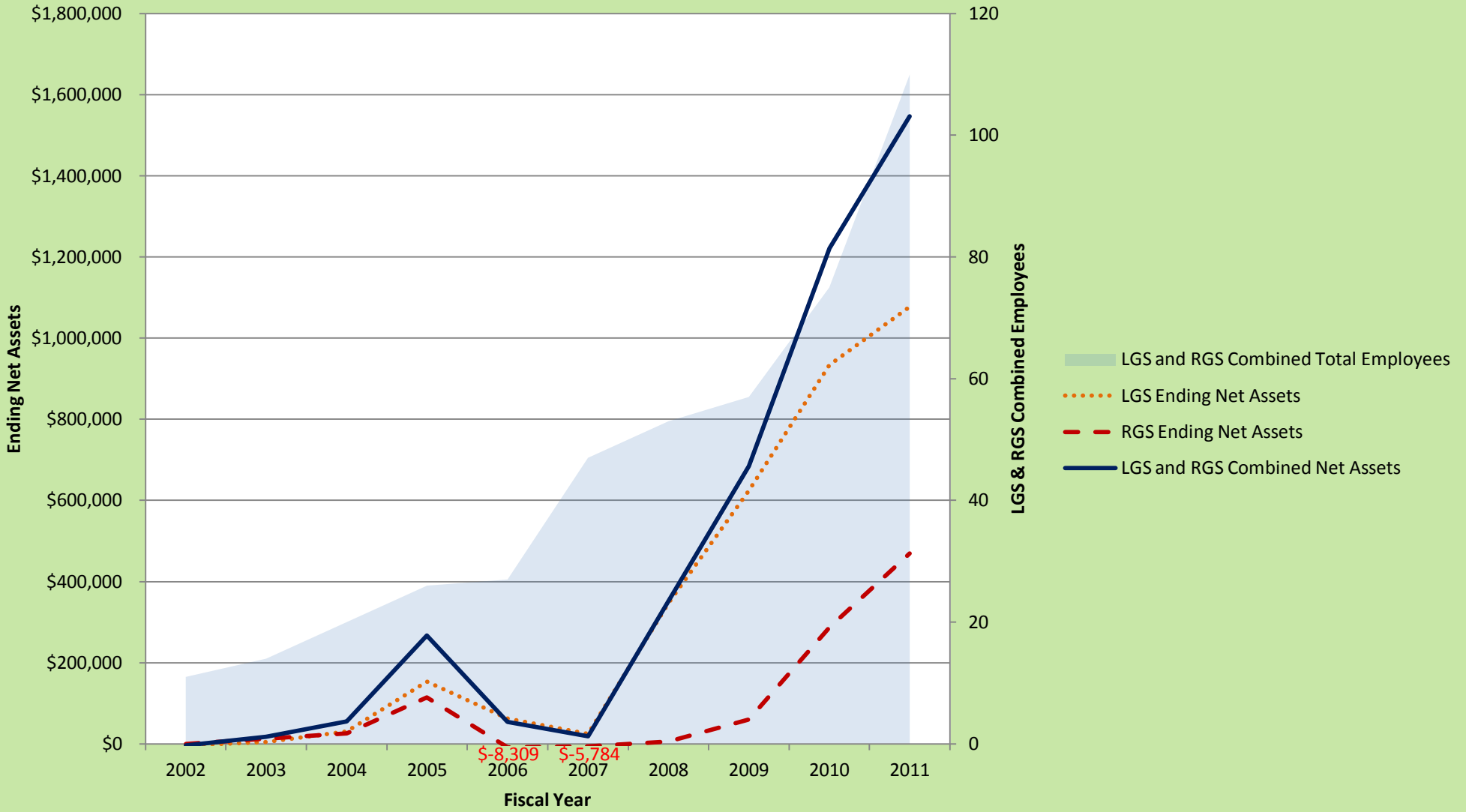
fax: 831/308-1509
fax: 650/587-7317

Fiscal Year Net Gain/(Loss)



<u>FY</u>	<u>LGS Total Employees</u>	<u>LGS Ending Net Assets</u>	<u>LGS Net Gain/(Loss)</u>	<u>LGS Reserved Net Assets</u>	<u>RGS Total Employees</u>	<u>RGS Ending Net Assets</u>	<u>RGS Net Gain/(Loss)</u>	<u>RGS Reserved Net Assets</u>	<u>LGS and RGS Combined Total Employees</u>	<u>LGS and RGS Combined Net Assets</u>	<u>LGS and RGS Net Gain/(Loss)</u>
2002	10	(\$3,769)	(\$3,769)		1	(\$439)	(\$439)		11	(\$4,208)	(\$4,208)
2003	11	\$4,754	\$8,523		3	\$13,181	\$13,620		14	\$17,935	\$22,143
2004	17	\$30,133	\$25,379		3	\$25,528	\$12,347		20	\$55,661	\$37,726
2005	16	\$152,903	\$122,770		10	\$114,297	\$88,769		26	\$267,200	\$211,539
2006	18	\$62,574	(\$90,329)		9	(\$8,309)	(\$122,606)		27	\$54,265	(\$212,935)
2007	30	\$24,069	(\$38,505)		17	(\$5,784)	\$2,525		47	\$18,285	(\$35,980)
2008	36	\$346,150	\$322,081		17	\$5,354	\$11,138		53	\$351,504	\$333,219
2009	40	\$624,466	\$278,316		17	\$59,734	\$54,380		57	\$684,200	\$332,696
2010	42	\$934,301	\$309,835	\$467,151	33	\$287,369	\$227,635	\$143,684	75	\$1,221,670	\$537,470
2011	50	\$1,077,362	\$143,061		60	\$468,982	\$181,613		110	\$1,546,344	\$324,674

Cumulative Ending Net Assets



Regional Government Services Authority Board of Directors

Regional Government Services Authority Executive Committee

Executive Director

*Richard Averett
f-t, 100% Admin.*

Director of Human Resources

*Jennifer Bower
p-t .9, 90% Admin.*

Clerical Assist.

*Angie Zavala
p-t .25, 100% Admin*

HR Tech.

p-t .5, .1% Admin

Consultants to Clients

Financial Services

*McGilloway, Ray, Brown &
Kauffman*

Executive Assistant

*Tiffany Buraglio
p-t .5, 100% Admin*

Administrative Projects

*Glen Lazof
p-t .6, 10% Admin*

Project Consultant

*Jeff Kise
p-t .8, 90% Admin*

IT & Website Support

*IT Solution Services; Rowlett-
systems consultant; Chris Nelson-
web design*

Client Organizations



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TO: RICHARD H. AVERETT, EXECUTIVE DIRECTOR **Study Session: 1-12-12**
FROM: GLENN LAZOF, RGS CONSULTANT **Item: 4E**
**SUBJECT: PERMISSIBLE INVESTMENTS IN PUBLIC AGENCIES AND
COLLABORATION OPTIONS FOR PUBLIC AGENCY INVESTMENTS**

RECOMMENDATION

Consider using a portion of surplus funds to provide additional services to other public agencies.

BACKGROUND

RGS and LGS have been operational for ten years and have accumulated net equity of nearly \$2.0 million by 2011 calendar-year-end. Because our three largest clients (and many other smaller clients as well) pay in advance of each month's services, the JPAs have \$3+ million invested at any given time. Investments are primarily in statewide pools – Local Agency Investment Fund and CalTRUST – with occasional loans to clients in the form of receivables for JPA services. These latter investments have all been paid in full, with no current outstanding receivables from the two clients with these pre-established lines of credit.

Investment earnings rates vary considerably, with the pool rates (as of late December 2011) ranging from 0.38 percent (LAIF yield) to 1.19 percent (CalTRUST medium-term yield). Sixty-five percent of the JPAs' investments are in the CalTRUST medium-term fund, about 32 percent in CalTRUST short-term account (paying 15 basis points more than LAIF), with the remainder in LAIF for same-day funding needs. All of these investment funds are readily accessible without penalty and have limited exposure to market fluctuation; LAIF funds are accessible the same day as requested, CalTRUST short-term are next-day available, and CalTRUST medium-term fund access is limited to once per month at month-end. Yields are comparable to federal agency notes, but pool funds are more accessible and less vulnerable to market fluctuations.

As the JPAs' investible funds grow, staff has continued to seek uses of those assets that protect our principle, build our capacity to offer additional services and provide another hedge against an ever-changing business climate. Traditional investment vehicles for municipalities are investment pools run by public agencies (e.g. counties, CalTRUST JPA and LAIF/State Treasurer) and various publicly traded debt instruments. The underlying investment in these traditional vehicles is primarily private and government-backed debt – in other words, municipal investments primarily benefit corporations, federal government agencies and the brokers and traders who sell, package and manage these investment instruments. Interest earnings to the investing municipal agency are relatively low, due to the nature of traditional investment offerings presented to public agencies by 'the market'.

When public agencies need financing, they often use financial services providers to package and sell their debt to the private sector. The cost, both in staff time and in fees to financial advisors, underwriters, rating agencies, etc, to issue debt diminishes agencies' ability to do more with their staff and monetary resources. Thus public agencies are paying private vendors and pools to invest their surplus funds and paying private vendors to raise debt funds.

Several convergent factors have caused staff to consider alternative investments (for excess funds above our cash flow and operational needs) to the traditional investments, which would help RGS-LGS and our client agencies.

1. Public agencies need short-term (five years or less) financing and RGS-LGS should be able to be more responsive in many instances than the usual sourcesⁱ
2. The process and costs to obtain financing require considerable staff time and divert debt proceeds from community benefit. Additionally, due to costs of issuance, financing of lesser amounts is often highly inefficient. RGS-LGS have funds available to loan to public agencies, if adequate security is obtained.
3. The JPA could protect and enhance their financial sustainability by diversifying their revenue sources, providing a hedge against adverse developments in its primary business offerings – staffing and consulting services.
4. The yield to the JPAs would be higher than traditional investments and the cost to borrowing agencies would be lower than traditional sources. (If both parties do not benefit, then no transaction occurs.)

Initially, transactions would be limited in amount, number and complexity, and would be managed by existing staff just as current contracts for services are managed. If the JPAs can prove this model successful on a small, easily manageable scale, other agencies with much greater investment portfolios can be invited to participate in the program. This would greatly expand the funding available to public agencies and could significantly add to the JPAs service offering.

Staff has researched the concept of more actively loaning to other public agencies in order to determine if there were insurmountable or limiting obstacles to the JPAs providing short-term financing. The results are below.

RESEARCH ON LOANING RESOURCES TO OTHER PUBLIC AGENCIES

What types of non-traditional Public Agency investments are permitted under California Code?

Category 1 - Standard Investments: Section 53601 of the Government Code is controlling. The code specifically sets forth requirements for a few investments without restriction subject to approval of the governing board. The most common of these are federal, state and local agency bonds.

Other investments are subject to limitations which can include limits on the percentage of surplus funds which may be invested by type.ⁱⁱ This group of investment includes: bank certificates, commercial paper, corporate debt, money market funds, as well as various repurchase agreements and other more esoteric investments.

Additionally the Authority may invest our employees' deferred compensation funds as long as we utilize the same type of investments in which the JPA may invest its own funds.ⁱⁱⁱ

The Authority may purchase these investments directly from the issuer. There are a variety of requirements regarding broker qualifications, should the agency opt to purchase such vehicles from a broker dealer.^{iv}

Category 2 - Loans to other local agencies: Loans to other local agencies are a permitted activity under the Government Code^v and the JPAs' investment policy. The Code provides that a local agency can purchase the debt of another local agency.

Category 3 - Advancing agency funds to provide services: The JPAs were formed to provide direct services to our members and other agencies. The Code does not address this type of 'receivable loaning', leaving the decision and repayment terms to agency agreement. The JPA's investment policy specifically provides this authority.^{vi}

Prohibited Investments: Section 53601 also prohibits certain investments – such as inverse floaters, range notes, and mortgage-derived interest-only strips.^{vii} Other investments carry restrictions on the dollar amount, the percentage of assets that may be invested, or both. For example, purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys.^{viii}

Determine Pooled Funds Options available to RGS

A joint powers authority can accept pooled funds from JPA member agencies if the funds are to be used for any purpose set forth in the joint powers agreement.^{ix} RGS/LGS current member agencies may not have the funds or desire to pool their surplus funds – through loans to the JPA that then loans to agencies needing funds - but a new JPA could be created with members with more cash and the desire to invest in this way.

Discussion of Specific Investment Options

Advancing agency funds to provide services

Description: RGS/LGS provides the services now, the client agency pays later, possibly over a period of time.

Benefits: The JPA has already demonstrated the mutual benefits of this type of lending, wherein a balance of a receivable is held for longer periods as dictated by the client agencies' short term cash flow needs, in return for an additional fee. The JPA received financing fees from two clients which represented a substantially enhanced return (more than three times greater) relative to the best rate earned via CalTRUST medium-term investments. Additionally, the JPA gains from being able to provide staffing or other services in a wider variety of circumstances.

Drawbacks: The potential default of the party indebted to the JPA. Thorough financial and risk analysis would remain the best protection from adverse consequences.

Leasing of Equipment and Facilities

Description: The JPA purchases equipment needed by a local agency and leases it to said agency. The leasing agency could be, but need not be, a JPA member agency. For example the JPA may use surplus funds to buy equipment needed by an agency, and charge a fee for the use of that equipment.

The JPA may also purchase land, buildings and other facilities and lease or rent these to local agencies or non-profits or private parties (including for profit businesses, public employees or unrelated parties.) Of course, any and all specific agreements would be subject to JPA legal counsel review and Executive Committee approval.

Benefits: The JPA can be a valued alternative source of lease or purchase financing for local agencies, as our availability, cost effectiveness, and insight into their business needs gives us an advantage over alternative sources. Since we would not intend to resell this financing as a debt security in the public marketplace, the administrative and legal cost is further reduced. Meanwhile, there is an increased financial benefit to the JPA from a higher return on our surplus funds. This is an important service to clients which we would provide subject to our ability to achieve cost efficiencies.

Drawbacks: There are associated risks, such as default of the party indebted to the JPA. These will be mitigated by contract provisions, the residual value of JPA owned equipment and property, and thorough financial and risk analysis.

Loans to Other Agencies

Description: Examples of loans to other public agencies include: start up costs for multi-agency agreements or possibly new or proposed JPAs; provision of bridge financing for multi-agency projects when third party funding may be advantageous; and short-term, cash flow loans where we could offer better rates and/or efficiencies than available alternatives. The situations and potential returns from this type of investment vary widely, and each would need to be evaluated on the particulars of the individual proposal.

Benefits: The JPA would only engage in such transactions when a unique and valued service can be provided to the client agency and risk is negligible to the JPA. The JPA benefits from higher returns on surplus funds and diversification of revenue.

Drawbacks: There are associated risks, such as default of the party indebted to the JPA. Risks will be assessed and mitigated, where possible, by contract provisions, possible collateral agreements, and other mechanisms as deemed appropriate to the situation. Thorough financial and risk analysis and/or iron-clad collateral (such as intercepted property tax receipts) would remain the best protection from adverse consequences.

Next Steps

Feedback: provide the Executive Director feedback on:

1. The current practice of advancing or loaning funds to clients in the form of receivables; and
2. The approved but not implemented alternative investment of making loans, leases, and other forms of credit available to public agencies as another JPA service offering.

Based on feedback the JPA Executive Director will develop enabling policies for Board and/or Executive Committee approval, and prepare internal documents (e.g. contracts, purchasing guidelines, etc) and processes (e.g. risk management, ownership and transfer of ownership, standards and templates for cost benefit evaluations, payment schedules and terms, document templates for agreements, MOU's, and disclosures). The Director will also be responsible for identifying and implementing, if required, additions to the current organizational capacity of the authority.

The Executive Director will develop and implement an outreach (i.e. marketing) plan, and establish ongoing evaluation of results to ensure continuous improvement.

ⁱ One client, the SAWS Consortium IV (C-IV) JPA, is required by their State Oversight agency to lease most of their data processing equipment assets over a five year period. Timely acquisition of this equipment is required in order to meet core functions of the Consortium. C-IV has been dependant on costly leases from vendors supplemented by a State leasing program. There have been several critical periods where the State Leasing program has been excluded from the leasing market, (owing to the State's issues not C-IV's) which left our client with risks which an RGS program could have mitigated to the financial benefit of each.

ⁱⁱ Restrictions are found in section 53601 and additionally, for investment pools 53635.

ⁱⁱⁱ 53601.9

^{iv} 53601.5

^v 53601 section e) I was unable to find a limit on the percentage of agency or pooled funds that can be invested in this manner, other than standard requirement of prudence.

^{vi} JPA Investment Policy, Section IV, item 6

^{vii} An inverse floater is a bond whose interest rate is variable and falls when interest rates rise. A range floating rate note is a fixed income structured product that pays a coupon whose amount depends on the number of time a specified floating rate stays within a certain range during a specific period of time. Mortgage strips are the interest portion of mortgage, which is separated and sold individually from the principal portion of those same payments.

^{viii} Bankers' acceptances are very similar to T-bills and are often used in money market funds.

^{ix} Government Code 6504, 6509.5; and RGS agreement Article I Section 4 subsection f