



AGENDA

MEETING OF THE
FINANCE COMMITTEE
OF THE
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A PUBLIC AGENCY
FRIDAY, OCTOBER 17, 2008

8:30 A.M

SANTA BARBARA MTD AUDITORIUM
550 OLIVE STREET, SANTA BARBARA, CA 93101

1. **CALL TO ORDER**
2. **ROLL CALL OF THE FINANCE COMMITTEE**
John Britton, Chair; Sharon Anderson, Director; Chuck McQuary, Director
3. **REPORT REGARDING POSTING OF AGENDA**
4. **PUBLIC COMMENT**
Members of the public may address the Committee on items within the jurisdiction of the Committee that are not scheduled for public hearing. The time allotted per speaker will be at the discretion of the Committee Chair. Please complete and deliver to the MTD Board Clerk, **before the meeting is convened**, a "Request to Speak" form including a description of the subject you wish to address.
5. **HEALTH INSURANCE- RETIREES (Attachment- action may be taken)**
Staff will present the Finance Committee with a recommendation that MTD's Board of Directors renew MTD's current group medical retiree plan with Secure Horizons after review of alternate plan design.
6. **INSURANCE COVERAGE (Attachment- action may be taken)**
Staff will present the Finance Committee with information related to its recommendation regarding fleet, earthquake and flood insurance.
7. **CASH MANAGEMENT (Attachment- action may be taken)**
Staff will present the Finance Committee with a recommendation that MTD's Board of Directors pass a resolution authorizing the General Manager to invest funds in the State of California's Local Agency Investment Fund program.
8. **ADJOURNMENT**

AMERICANS WITH DISABILITIES ACT: If you need special assistance to participate in this meeting, please contact the MTD Administrative Office at 963-3364 at least **48 hours in advance** of the meeting to allow time for MTD to attempt a reasonable accommodation.

To: Finance Committee:
Sherrie Fisher, General Manager
From: Gabriel Garcia, Manager of Human Resources & Risk
Date: October 17, 2008
Re: Secure Horizons Group Medicare Supplemental Plan Renewal

Brown and Brown Insurance Company sought bids on retiree health on behalf of MTD. The only quote available that accommodates MTD's need for both Staff and Union employees continues to be PacifiCare Secure Horizons.

The 2008 renewal quote at current benefit levels represents an increase of approximately 12.7% over 2008 premium.

Secure Horizons offers an option with an alternate plan design that would slightly reduce the monthly premium. However the alternative plan would decrease benefits, in particular for prescriptions, and increase co-pays. The savings would be \$23.03 per employee per month for the alternate plan.

MTD retirees could choose to enroll as individuals in Secure Horizons. However, the prescription benefit is greatly decreased and anyone who leaves the group plan may never return to it.

BUDGET/FINANCIAL INFORMATION

Item	Current rate	New rate effective 01/01/09
Secure Horizon Retiree Group Health	\$233.63	\$262.87

ANALYSIS OF FINANCIAL IMPACT

Renewal of the current benefit plan will result in an additional annual cost of \$6,040. The additional cost to MTD would be \$4,384 with the remaining balance covered by the retiree.

RECOMMENDATION:

Staff recommends renewal of MTD's current group medical retiree plan with Secure Horizons after review of alternate plan design.

To: Finance Committee:
Sherrie Fisher, General Manager
From: Gabriel Garcia, Manager of Human Resources & Risk
Date: October 17, 2008
Re: Additional Insurance Coverage

As per the request of the MTD Board of Directors, staff researched and received quotes on various insurance additions. These additions include catastrophic bus fleet, earthquake and flood insurance. This report outlines our findings. We look forward to discussion of these items at the Finance Committee meeting as scheduled.

Fleet Coverage

Coverage, approximate fleet net book value of \$15 million

Cost, estimated \$60K annual premium

Comprehensive and collision insurance are very similar. The main difference is that comprehensive covers damage caused to MTD buses by any unknown party or "act of God" therefore extends to cover fleet losses due to vandalism, flood, theft, and fire.

Comprehensive coverage will pay up to the fair market value of the bus fleet (less applicable insurance deductible).

Earthquake Insurance

From the business insurance standpoint, earthquakes represent the worst kind of risk - the one that everyone believes is going to happen "someday." Currently, MTD property insurance coverage excludes losses due to earthquakes.

"Insurance Company of the West" has provided a quote for losses resulting from an earthquake. The endorsement covers structural building and property damage caused by shaking during an earthquake. The cost of the endorsement is approximately \$18,895 annually with a deductible of 10% of the value of individual MTD buildings and assets located in the buildings or a minimum of \$50K per occurrence.

Flood Insurance

Hartford Fire Insurance Company has provided a quote for flood insurance through the National Flood Insurance Program (NFIP). The premium is approximately \$20,525 with a \$2K deductible.

Flooding is defined by the NFIP as a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties from:

- Overflow of inland or tidal waters
- Unusual and rapid accumulation or runoff of surface waters from any source
- Mudflows
- Collapse or subsidence of land along the shore of a lake or other body of water, as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood

Building coverage for nonresidential buildings includes:

- Unfinished drywall for walls and ceilings, including nonflammable insulation
- Electrical junction and circuit breaker boxes, and required utility connections
- Central air-conditioning units
- Furnaces, hot-water heaters, fuel tanks, and the fuel inside tanks and heat pumps
- Light fixtures
- Built-in cabinets
- Foundation elements
- Cleanup

Business coverage limits:

Maximum \$500,000 of building coverage and \$350,000 of contents coverage.

Mr. Robert Fatch, Vice President at Brown and Brown Insurance Agency will be in attendance to provide information and consultation for inquiries.

Recommendation:

Staff recommends that MTD not extend its coverage to include any of the three additions discussed. MTD has not opted to purchase comprehensive fleet coverage in the past due primarily to cost versus risk. As indicated by the result of a survey of other California Transit Agency's, earthquake and flood insurance are not usually purchased due to likelihood of federal aid grants.

To: Finance Committee
Sherrie Fisher, General Manager
From: Jerry Estrada, Assistant General Manager/Controller
Date: October 13, 2008
Subject: Cash Management & Collateralization

Due to the recent turmoil surrounding many financial institutions, staff felt compelled to provide the Finance Committee with some background regarding the District's cash management requirements. Additionally, one board member recently requested that staff brief the Finance Committee on the District's options regarding the deposit of funds and collateralization.

In summary, staff has identified two topics for discussion:

- (a) Cash Deposit Requirements (Public funds)
- (b) Cash Management (Distribution of funds among authorized entities)

Cash Deposit Requirements (Public funds)

MTD has contracted with Santa Barbara Bank & Trust, a division of Pacific Capital Bank, N.A. to act as "Depository". Consistent with State law, all public funds will be deposited subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code, which requires collateralization.

MTD and the Depository (Santa Barbara Bank & Trust) have authorized the Bank of New York Western Trust Company to act as the "Agent of Depository" to **hold the eligible securities posted as collateral.**

The "Agent of Depository" has filed with the Administrator of Local Agency Security of the State of California an agreement to comply in all respects with the provisions of Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code.

State law requires that all public funds be secured. As such, the Depository maintains eligible securities having a market value at least 10% in excess of the actual total amount of local agency moneys on deposit with the "Agent of Depository". If any eligible security is determined by the Administrator of Local Agency Security of the State of California in accordance with Government Code Section 53661 to be not qualified to secure public deposits, additional security shall be substituted immediately by the Depository.

Below is a relevant excerpt from MTD's Enabling Act:

"§ 95536. Deposit of district securities

With the consent of the board, the general manager may:

- (a) Authorize the trust department of any state or national bank in this state, or a trust company authorized to act as such in this state, to receive as his agent deposits of any securities acquired by the district.
- (b) Place and maintain for safekeeping as a trust deposit with the trust department of any state or national banks in this state, or a trust company authorized to act as such in this state, any securities owned by the district.

The bank or trust company selected shall have a total paid-in capital of at least one million dollars (\$1,000,000). The general manager shall take from the trust department or trust company a receipt for the securities, and neither the general manager nor the district is responsible for the custody and safe return of the securities until they are withdrawn from the trust department or trust company by the general manager. Any trust department or trust company to which securities are delivered, either as agent or depository for the general manager shall make such deposition of the securities as the general manager directs and is responsible only for strict compliance with written instructions given to it by the general manager. All such securities are at all times subject to the order of the general manager.”

Assessment

MTD cash deposit practices appear to be in full compliance with all regulatory requirements. All funds are secured and the “Agent for Depository” is in compliance with the State of California Government Code.

Cash Management (Distribution of funds among authorized entities)

MTD’s financial investments have typically been conducted with Santa Barbara Bank & Trust. While this practice may have limited the return on investments to a certain degree it has insured that all funds were managed in a manner consistent with State law. Historically, MTD requests rate of return quotes from other local banks prior to investing in CD’s with Santa Barbara Bank & Trust to ensure fair market value.

MTD has not adopted an official “Investment Policy” but has conducted all investments in a manner consistent with the California Government Code. It is our understanding that local jurisdictions such as the cities of Santa Barbara and Goleta utilize the State of California’s Local Agency Investment Fund (LAIF)¹ in combination with a local financial institution.

“The Local Agency Investment Fund (LAIF) is a voluntary program created by statute; began in 1977 as an investment alternative for California's local governments and special districts and it continues today under Treasurer Bill Lockyer's administration. The enabling legislation for the LAIF is Section 16429.1 et seq. of the California Government Code.”

The LAIF currently provides a competitive rate of return to Santa Barbara Bank & Trust and affords the participant with liquidity and security. A concern that immediately came

¹ See Page 4, Attachment A – Local Agency Investment Fund, Program Description

to mind pertaining to the LAIF program was the possibility that the State might seize or borrow the deposited funds to balance its budget. Fortunately, the legislature added Section 16429.4 to the California Government Code in 2002 that reads as follows:

"the right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, or denied in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year."

Recommendation

Staff recommends that MTD's Board of Directors pass a resolution authorizing the general manager to invest funds in the LAIF program.

Local Agency Investment Fund

Program Description

“The Local Agency Investment Fund (LAIF) is a voluntary program created by statute; began in 1977 as an investment alternative for California's local governments and special districts and it continues today under Treasurer Bill Lockyer's administration. The enabling legislation for the LAIF is Section 16429.1 et seq. of the California Government Code.

This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer. This in-house management team is comprised of civil servants who have each worked for the State Treasurer's Office for an average of 20 years.

The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1955 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members as designated by statute. The Chairman is the State Treasurer or his designated representative. Two members qualified by training and experience in the field of investment or finance, and the State Treasurer appoints two members who are treasurers, finance or fiscal officers or business managers employed by any county, city or local district or municipal corporation of this state. The term of each appointment is two years or at the pleasure of the appointing authority.

All securities are purchased under the authority of Government Code Section 16430 and 16480.4. The State Treasurer's Office takes delivery of all securities purchased on a delivery versus payment basis using a third party custodian. All investments are purchased at market and a market valuation is conducted monthly.”

Additionally, the PMIA has Policies, Goals and Objectives for the portfolio to make certain that our goals of Safety, Liquidity and Yield are not jeopardized and that prudent management prevails. These policies are formulated by investment staff and reviewed by both the PMIB and the LIAB on an annual basis.

The State Treasurer's Office is audited by the Bureau of State Audits on an annual basis and the resulting opinion is posted to the STO website following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. All investments and LAIF claims are audited on a daily basis by the State Controller's Office as well as an in-house audit process involving three separate divisions.

Attachment A – Local Agency Investment Fund Program Description

Under Federal Law, the State of California cannot declare bankruptcy, thereby allowing the Government Code Section 16429.3 to stand. This Section states that "moneys placed with the Treasurer for deposit in the LAIF by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following: (a) transfer or loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency."

The LAIF has grown from 293 participants and \$468 million in 1977 to more than 2,697 participants and \$24.24 billion at the end of July 2008."

Source: <http://www.treasurer.ca.gov/pmia-laif/laif-program.asp>