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FINANCE COMMITTEE MEETING
AGENDA

Wednesday, May 23, 2018
10:30 A.M

Teleconference

All or portions of this meeting will be conducted by teleconferencing in accordance with Government Code Section 54953(b). Teleconference locations are as follows: Bickmore, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833; Foster City City Hall, 610 Foster City Blvd, Foster City, CA 94404; Hillsborough Town Hall, 1600 Floribunda Ave, Hillsborough, CA 94010; Saratoga City Hall, 13777 Fruitvale Ave, Saratoga, CA 95070; San Carlos City Hall, 600 Elm Street, San Carlos, CA 95070; and Half Moon Bay City Hall, 501 Main Street, Half Moon Bay, CA 94022.

Each location is accessible to the public, and members of the public may address the Finance Committee from any teleconference location.

In compliance with the Americans with Disabilities Act, if you need a disability-related modification or accommodation to participate in this meeting, please contact Katie Sullivan at (916) 244-1164 or (916) 244-1199 (fax). Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Documents and materials relating to an open session agenda item that are provided to the ABAG PLAN Finance Committee less than 72 hours prior to a regular meeting will be available for public inspection at 1750 Creekside Oaks Dr., Suite 200, Sacramento, CA 95833.

Page **1. CALL TO ORDER**

2. INTRODUCTIONS

3. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

* Reference materials enclosed with staff report.

Page **4.** **PUBLIC COMMENTS** - This time is reserved for members of the public to address the Committee relative to matters of the ABAG PLAN not on the agenda. No action may be taken on non-agenda items unless authorized by law. Comments will be limited to five minutes per person and twenty minutes in total.

5. CONSENT CALENDAR

If a Committee member would like to discuss any item listed, it may be pulled from the Consent Calendar.

4 *A. Minutes – May 30, 2017, Finance Committee Meeting

Recommendation: Staff recommends the Executive Committee approve the Consent Calendar.

6. FINANCIAL MATTERS

7 *A. Presentation on Investment Manager Services

Recommendation: Staff recommends the Finance Committee review and recommend to the Executive Committee approval of the Investment Policy.

70 *B. Review of the Draft 2018/19 Budget

Recommendation: Staff recommends the Finance Committee recommend approval of the draft budget to the Executive Committee and Board of Directors. The final budget will be presented at the June 20, 2018, Board of Directors meeting for formal consideration and may include some adjustments based on the final excess insurance numbers.

77 *C. Consideration of the Audit Contract for 2018/19 Program Year

Recommendation: Staff recommends the Finance Committee review and recommend to the Executive Committee approval of the one year extension of the Maze & Associates contract to conduct the financial audit for ABAG PLAN for Fiscal Year Ending June 30, 2018.

7. CLOSING COMMENTS

This time is reserved for comments by Finance Committee members and/or staff and to identify matters for future Finance Committee business.

A. Finance Committee
B. Staff

8. ADJOURNMENT

NOTICES:

- The next Executive Committee meeting will be held on June 6, 2018, at 10:00 a.m.
- The next Board of Directors meeting will be held on June 20, 2018, at 9:30 a.m.

* Reference materials enclosed with staff report.

Agenda Item 5.A.

CONSENT CALENDAR

SUBJECT: Consent Calendar

BACKGROUND AND HISTORY:

The Consent Calendar consists of items that require approval or acceptance but are self-explanatory and require no discussion. If the Committee would like to discuss any item listed, it may be pulled from the Consent Calendar.

RECOMMENDATION:

Staff recommends the Finance Committee approve the Consent Calendar.

REFERENCE MATERIALS ATTACHED:

- Minutes from the May 30, 2017, Finance Committee Meeting

DRAFT

ASSOCIATION OF BAY AREA GOVERNMENTS POOLED LIABILITY ASSURANCE NETWORK (ABAG PLAN)

MINUTES OF THE FINANCE COMMITTEE MEETING OF MAY 30, 2017

A regular meeting of the Finance Committee was held on May 30, 2017, at Bay Area Metro Center, 375 Beale Street, Suite 700, San Francisco, CA 94105.

1. **CALL TO ORDER:**

   The May 30, 2017, Finance Committee meeting was called to order and a roll call was taken.

2. **PUBLIC COMMENTS:**

   None.

3. **APPROVAL OF AGENDA AS POSTED (OR AMENDED):**

   A motion was made to approve the minutes from the January 24, 2017 Finance Committee meeting.

4. **REVIEW OF PLAN FINANCIALS AND INVESTMENT REPORTS:**

   A. **Audited Financial Reports for FY 2015/16**

   The Financial Audit was conducted by Maze & Associates which stated that PLAN's financial statements presented fairly, in all material respects.

   The auditors did not identify any deficiencies in Internal Controls that were considered to be material weaknesses during the audit process.

   B. **Quarterly Investment Report as of March 2017**

   ABAG PLAN staff reviewed the Quarterly Investment Report with the Committee and noted PLAN is financially well-positioned and able to meet the expenditure requirements for the next six months. As of March 30, 2017, PLAN's balance sheet

and statement of financial position remains very strong and no issues of meeting financial obligations were anticipated.

A motion was made to approve Financial Statements, MOIC, and Investment Report as presented.

5. <u>TPA CLAIMS ADMINISTRATION:</u>

A. <u>York Claims Administration Contract Renewal:</u>

York has served as PLAN's Claim Administrator since August 1, 2014, after entering a three-year contract for services that would end July 31, 2017. With the contract expiring, a contract amendment to extend the original agreement has been received. This amendment provides for services to continue annually for an additional three years with the provision of a 3% cost escalator on the service fee, that is set to expire July 31, 2020.

The agreement still contains a provision for York to handle member subrogation for a fee of 20%. ABAG staff currently manages this activity and is assisting with recovery efforts for matters below deductible.
A motion was made to approve the contract as presented.

6. REVIEW OF PRELIMINARY ADMINISTRATIVE BUDGET AND COMPARISON TO PRIOR YEAR:

A. <u>PLAN Administrative Budget</u>

ABAG PLAN Staff reviewed the Administrative budget for fiscal year 2017/18 with the Committee and noted with the approval of the contract for services between ABAG and MTC, MTC's budget allocation methodology would be applied going forward.

A motion was made to approve PLAN Administrative Budget for FY 2017/18.

7. OTHER BUSINESS

None.

8. ADJOURNMENT

The Regular Meeting of the PLAN JPA Finance Committee was adjourned.

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Heather McLaughlin, Board Secretary

Agenda Item 6.A.

FINANCIAL MATTERS

SUBJECT: Presentation on Investment Manager Services

BACKGROUND AND HISTORY:

At the February 8, 2018, Special Executive Committee meeting, PFM Asset Management (PFM) was selected to manage PLAN and SHARP's investments. In addition, the Executive Committee also approved participation in California Asset Management Program (CAMP), a California Joint Powers Authority established to provide California public agencies with professional investment services.

Ms. Lesley Murphy, PFM, will be in attendance to review several draft revisions to the Investment Policy for PLAN JPA, provide a presentation on the investment strategy for PLAN and answer any questions of the Committee.

RECOMMENDATION:

Staff recommends the Finance Committee review and recommend to the Executive Committee approval of the Investment Policy.

REFERENCE MATERIALS ATTACHED:

- PLAN Investment Policy Review Memo
- PLAN Investment Policy Review - Redlined
- Investment Strategy Discussion Presentation Slides

May 14, 2018

Memorandum

To: Ritesh Sharma, Manager, Finance and Accounting
Pooled Liability Assurance Network JPA (PLAN)

From: Lesley Murphy, Senior Managing Consultant
PFM Asset Management LLC

Re: Investment Policy Review

We have completed our annual review of the Investment Policy (the "Policy") for the Pooled Liability Assurance Network JPA (PLAN). The Policy is in compliance with the sections of the California Government Code (the "Code") that govern the investment of public funds, and there have been no recent changes made to Code that would require PLAN to update its policy. Rather, our recommended changes are generally designed to provide additional investment diversification and flexibility within the constraints of California Government Code and to accurately reflect PLAN's current governance and operating structure. We have provided a marked-up version of this Policy for your review, and we have summarized our more notable changes below.

Delegation of Authority

We recommend updating this section to reflect PLAN's current governance and operating structure.

8.0 Authorized Financial Dealers and Institutions

We recommend updating this section to reflect the language currently used in California Government Code 53601.5. Further, we recommend that PLAN incorporate language related to the use of an investment advisor.

9.0 Authorized and Suitable Investments

We have made a number of changes to this section which are designed to allow greater investment diversification and flexibility, which could result in higher interest earnings over time. In general, we recommend that PLAN consider increasing the maximum allowable allocation to certain non-government sectors to more closely align with Code guidelines.

We are also recommending that PLAN incorporate four additional sectors to its Policy, which are permitted by Code but are not addressed in PLAN's current policy. These four sectors are: supranational obligations, municipal obligations, asset-backed securities (ABS), and local government investment pools (LGIPs).

Below, we have summarized our changes to PLAN's sector and issuer allocation limits. We are looking forward to discussing these recommended changes in more detail at the upcoming Finance Committee meeting. We have also prepared additional discussion materials which will be presented at the meeting.

Sector	Code Maximum Permitted Allocation	PLAN's Maximum Allocation Sector / Issuer	PFM's Recommended Maximum Allocation Sector / Issuer	PLAN's Rating Requirements	PFM's Recommended Rating Requirements
Supranationals	30%	0%	30% / 30%	N/A	AA
Municipals: • California • Other 49 States	100%	0%	30% / 5%[1]	N/A	A
Commercial Paper	25%	10% / 10%[1]	25% / 5%[1]	A-1 / P-1 / F-1	A-1 / P-1 / F-1
Negotiable CDs	30%	30% / 10%[1]	30% / 5%[1]	AA / A-1	A / A-1
Corporate Notes	30%	10% / 10%[1]	30% / 5%[1]	AA	A
Asset-Backed Securities	20%	0%	20% / 5%[1]	N/A	AA-
LGIPs (e.g., CAMP)	100%	0%	100%	N/A	AAA

We also recommend that PLAN implement a 5% per issuer limitation on non-government sectors and on municipal obligations. This is more stringent than the Policy's current 10% per non-government issuer limitation and is not required by Code. However, we do feel that this restriction is a prudent one and that it will serve to ensure appropriate portfolio diversification.

Further, we recommend that PLAN incorporate downgrade notification procedures which are to be followed in the event that any security's credit rating is downgraded below the minimum credit rating requirements established in this Policy.

Please feel free to contact me at your convenience if you have any questions.

~~ABAG PLAN CORPORATION~~Pooled Liability Assurance Network JPA (PLAN)

Investment Policy

Adopted: September, 1987
Revised: May 6, 1997
Revised: May 22, 2002
Revised: May 25, 2005
Reaffirmed: June 11, 2009
Revised: January 24, 2017
Revised: June 20, 2018

1.0 Policy

It is the policy of the ~~ABAG~~ Pooled Liability Assurance Network JPA (PLAN) ~~Corporation~~ to invest its financial assets in a manner which will provide maximum security with ~~the best investment~~a market rate of return,~~—~~ while meeting ~~the~~ its cash flow demands ~~of the Corporation~~ and conforming to all applicable laws governing the investment of public funds.

2.0 Scope

This I~~i~~nvestment P~~p~~olicy (the "Policy") ~~applies to activities of the Corporation with regard to investing the financial assets of the Administrative, Liability and Property Funds.~~shall apply to all funds and investment activities under the direct control of PLAN.

3.0 Prudence

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of ~~the Corporation~~PLAN are trustees and therefore fiduciaries subject to the prudent investor standard: "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 like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

4.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The primary objectives, in order of priority, of ~~the Corporation~~PLAN's investment activities shall be:

1) Safety. Safety of principal is the foremost objective of the investment program. ~~The Corporation's~~PLAN's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

2) Liquidity. PLAN~~The Corporation~~'s investment portfolio will remain sufficiently liquid to enable PLAN~~the Corporation~~ to meet its reasonably anticipated cash flow requirements.

3) Return on Investment. ~~The Corporation~~PLAN seeks to ~~attain the maximum possible yield~~maximize the return on its investments, consistent with constraints imposed by its objectives of safety and liquidity~~objectives and cash flow consideration~~.

5.0 Delegation of Authority

The investment authority will be vested in the Treasurer. Upon the approval of this Investment Policy on an annual basis, PLAN will be adhering to Government Code Section 53607 which states in pertinent part: "The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until

the delegation of authority is revoked or expires."

The Treasurer may delegate investment decision making and execution authority to an investment advisor. The advisor shall follow the Investment Policy and such other written instructions as are provided.~~The Association~~

~~On an annual basis, the Board hereby delegates its authority to invest funds of the Corporation to the Chief Financial Officer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked. Subject to review, the Board may renew the delegation of authority each year. The Chief Financial Officer shall make all investment decisions and transactions in strict accordance with state law and this investment policy.~~

The ~~Chief Financial Officer~~ Treasurer and the delegated investment officers acting in accordance with written procedures and the I~~i~~nvestment P~~p~~olicy 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.

6.0 Ethics and Conflicts of Interest

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 decisions. Employees and investment officials shall disclose to the President any material financial interests in financial institutions that conduct business with ~~ABAG or the Corporation~~PLAN, and they shall further disclose any material financial interest that could be related to the performance of PLAN~~the Corporation~~, particularly with regard to the time of purchases and sales. For purposes of this section "material financial interests" means any interest described in Government Code Sections 87103(a)-(e), as they may be amended from time to time.

7.0 Internal Controls

The ~~Chief Financial Officer~~Treasurer shall establish a system of written internal controls to regulate ~~the Corporation~~PLAN's investment activities, including the activities of any subordinate officials acting on behalf of PLAN~~the Corporation~~. As part of the annual financial audit, ~~the Corporation~~PLAN's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

8.0 Authorized Financial Dealers and Institutions

A competitive bid process shall be used to place all investment transactions; a minimum of three quotes shall be obtained on all purchase and sales of securities, when practical. It shall be ~~the Corporation~~PLAN's policy to purchase securities only from those authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws.

The ~~Chief Financial Officer~~Treasurer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes. ~~These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).~~The purchase by PLAN of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

~~The Corporation~~ PLAN requires each firm that will be used for the purchase or sale of securities to be evaluated by the ~~Chief Financial Officer~~Treasurer prior to any investments. The firms shall submit current financial statements, and annual audited financial statements each year thereafter, which are to be evaluated by the ~~Chief Financial Officer~~Treasurer. At a minimum, the firm must be financially sound and have been in business a minimum of three years. In addition, the firms must provide: proof o~~f National Association of Security Dealers~~f the ~~certification~~licensing or membership described above, trading resolutions, proof of state registration or exemption, and certificate of having read ~~the Corporation~~PLAN's I~~i~~nvestment P~~p~~olicy.

If PLAN has retained the services of an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of PLAN.

9.0 Authorized and Suitable Investments

~~The Corporation~~PLAN is governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, ~~the Corporation~~PLAN seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. ~~Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased.~~ The maturity and sector allocation limits are applied at the time of purchase.

Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased. In the event of a downgrade below the minimum credit rating requirements listed below, the Treasurer or the investment advisor, if so designated, must notify PLAN of such downgrade within 15 days of the downgrade and will use his/her best professional judgment to determine the appropriate course of action.

The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

1. 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. United States Treasury Issues cannot exceed a maturity of 5 years. There is no limitation as to the percentage of the portfolio that may be invested in this category.

2. 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. Federal Agency Obligations cannot exceed a maturity of 5 years. There is no limitation as to the percentage of the portfolio that may be invested in this category. 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.

~~3.~~ Medium-term notes.** Medium-term notes are defined as all 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. Purchases are limited to securities rated in a rating category of "A~~A~~" or its equivalent or better by a nationally recognized rating service (NRSRO). A maximum of ~~1~~30 percent of the portfolio may be invested in this category. The amount invested in corporate notes of any one issuer in combination with any other securities from that issuer shall not exceed ~~10~~ 5 percent of the portfolio.

3.

4. Bankers' Acceptances. Bankers' acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers

whose short-term debt is rated A-1/P-1 or its equivalent or better by an NRSRO. Bankers' acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. The amount invested in bankers' acceptances with any one financial institution in combination with any other securities from that financial institution shall not exceed ~~10~~ 5 percent of the portfolio.

5. 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: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars ($500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization.

(B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO ~~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 ~~10~~ 25 percent of the portfolio may be invested in this category. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer shall not exceed ~~10~~ 5 percent of the portfolio.

6. Negotiable Certificates of Deposit.** Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases are limited to ~~institutions which have long term debt rated AA or higher with a nationally recognized rating service; and/or have short term debt rated at least "A-1" with a nationally recognized rating service.~~NCDs rated in a rating category of "A" or its equivalent or better for long-term obligations, and "A-1" or its equivalent or better for short-term obligations. NCDs may not exceed 5 years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed ~~10~~ 5 percent of the portfolio.

7. 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 in the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630 et. seq. The ~~Chief Financial Officer~~Treasurer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. PLAN~~The Corporation~~ shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed 5 year in maturity. A maximum of 10 percent of the portfolio may be invested in this category. The amount invested in TCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.

~~8.~~ 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 and following). The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two ~~nationally recognized statistical rating organizations~~NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of

experience managing money market mutual funds with assets under management in excess of five hundred million

~~9.~~8. dollars ($500,000,000). A maximum of 10 percent of the portfolio may be invested in this category.

~~10.~~9. 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. For due diligence, a copy of LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals shall be maintained on file.

Under the California Government Code, LAIF is allowed greater investment flexibility than ~~the Corporation~~PLAN is permitted. As such, LAIF's investment portfolio may contain investments not otherwise permitted under this policy. For funds invested with LAIF, LAIF's investment policy overrides PLAN~~the Corporation~~'s investment policy.

10. Municipal Obligations.** Municipal obligations shall be permissible as described in either paragraph (A), (B), or (C) below:

    (A) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues form a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

    (B) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

    (C) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

    A maximum of 30 percent of the portfolio may be invested in any combination of the municipal obligations as described in paragraphs (A), (B), or (C) above. Further, purchases are limited to municipal obligations rated in a rating category of "A" or its equivalent or better.

11. Asset Backed Securities (ABS). A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category of "A" or its equivalent or better for the issuer's debt as provided by an NRSRO and rated in a rating category of "AAA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the portfolio.

12. Local Government Investment Pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

    (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

Further, the shares of beneficial interest shall be rated in a rating category of AAA or its equivalent by an NRSORO.

~~11.~~13. Supranational Obligations.** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the portfolio.

** The aggregate total of investments in callable notes in is limited to 25.0% of the portfolio.

Please see Appendix A for a summary of authorized and suitable investments.

10.0 Prohibited Investment Practices and Instruments

Any investment in a security not specifically listed in Section 9.0 above, but otherwise permitted by the Government Code, is prohibited without the prior approval of the Board. Section 53601.6 of the Government Code specifically disallows investments in inverse 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: (1) ~~the Corporation~~PLAN shall not engage in leveraged investing, such as in margin accounts or any form of borrowing for the purpose of investment, (2) ~~the Corporation~~PLAN shall not invest in securities with floating coupon interest rates, and (3) no investment will 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.

11.0 Duration and Maximum Maturity

It is the objective of this Policy to provide a system which will accurately monitor and forecast revenues and expenditures so that ~~the Corporation~~PLAN can invest funds to the fullest extent possible. ~~Funds of the Corporation~~PLAN's funds will be invested in accordance with sound treasury management principles.

Assets in the Operating Fund (projected administration expenses and claim payments for a fiscal year) will be invested in pooled funds, LAIF, or other highly liquid securities.

Assets in the Claims Liability Fund and the Long-Term Fund will be invested in an individual portfolio of securities. Claims Liability Fund (assets needed to fully fund the Pool as determined by the actuary) will be invested to achieve an average duration that closely matches the duration of Claims Liability as calculated by the actuary. Assets in the Long-term Fund represent assets in excess of full funding requirements of the Pool. Assets in this category can be invested in securities with durations and yields that are higher than those in the Claims Liability Fund.

The maximum maturity of individual investments shall not exceed the limits set forth in Section 9.0. The Board has approved the investment in U.S. Treasury and Federal Agency obligations with a

maximum maturity of up to five years. No investment shall exceed a maturity of five years from the date of purchase 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.

12.0 Safekeeping and Custody

All security transactions entered into by ~~the Corporation~~PLAN shall be conducted on a delivery-versus- payment (DVP) basis. All cash and securities in PLAN~~the Corporation~~'s portfolio shall be held in safekeeping in ~~the Corporation~~PLAN's name by a third party bank trust department, acting as agent for ~~the Corporation~~PLAN under the terms of a custody agreement executed by the bank and PLAN~~the Corporation~~. The only exception 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 these investments will be held by ~~the Corporation~~PLAN.

13.0 ~~Market Yield~~Performance Benchmark

~~The Corporation~~PLAN 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 ~~Chief Financial Officer~~ Treasurer shall continually monitor and evaluate the portfolio's performance. A comparison of the portfolio's performance against a performance benchmark shall be included in the ~~Chief Financial Officer~~Treasurer's quarterly report. The ~~Chief Financial Officer~~Treasurer shall recommend an appropriate, readily available market index to use as a performance benchmark.

14.0 Reporting

The ~~Chief Financial Officer~~Treasurer shall submit a quarterly investment report to the Finance Committee and the Board. The report shall include the following information for each individual investment: Description of investment instrument, issuer name, maturity date, credit rating, coupon rate, effective yield, purchase price, par value, book value, current market value and the source of the valuation. The quarterly report shall also state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, and include a statement denoting ~~the~~ PLAN's ability ~~of the Corporation~~ to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available. The report shall also include a list of monthly investment transactions. The quarterly report shall be submitted within 30 days following the end of the quarter ~~month~~ covered by the report.

15.0 Policy Adoption

The policy shall be reviewed annually by the Finance Committee. The policy shall be adopted annually by the Board at a public meeting. Any change in the policy shall also be reviewed and approved by the Board at a public meeting.

Appendix A
Summary of Authorized and Suitable Investments

This table is for general reference only. Please see the body of the Policy for a listing of all requirements.

Security Type**	**Maturity Limits**	**Maximum Portfolio Percentage Holdings**	**Rating Requirements**
United State Treasury Securities**	5 years maximum	100%	None
Federal Agency Obligations**	5 years maximum	100% 20% limit on mortgage-backed securities.	None (Agencies are AAA rated)
Medium-Term Corporate Notes**	5 years	1030% 510% limit per issuer (applies across security types)	AA
Bankers' Acceptances	180 days	25% 510% limit per issuer across security	Issuers with a short-term rating of A-1/P-1
Commercial Paper	270 days	1025% 105% limit per issuer (applies across security types)	A-1/P-1/F-1
Negotiable Certificates of Deposit	5 years	30% 10% limit per issuer (applies across security types)	Issuers with an A /A long-term debt rating and/or a A-1 short- term debt rating
Time Certificates of Deposit	5 year	10% 10% limit per issuer (applies across security types)	Must have CRA rating "satisfactory"
Money Market Funds	N.A.	10%	AAA rated fund or manager with a minimum 5 years' experience and $500 million under management
State of California Local Agency Investment Fund	N.A.	100% (may not exceed the maximum allowed by LAIF)	None (LAIF is unrated)
** The aggregate total of investments	5 years	30%	A / A-1
Asset-Backed Securities	5 years	20%	AAA
Local Government Investment Pools	N.A.	100%	AAA
Supranational Obligations	5 years	30%	AA

** The aggregate total of investments in callable notes is limited to 25.0% of the portfolio.
8

Pooled Liability Assurance Network (PLAN)

Investment Strategy Discussion

Presented by:

Lesley Murphy, Senior Managing Consultant

May 23, 2018

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San Francisco, CA 94111

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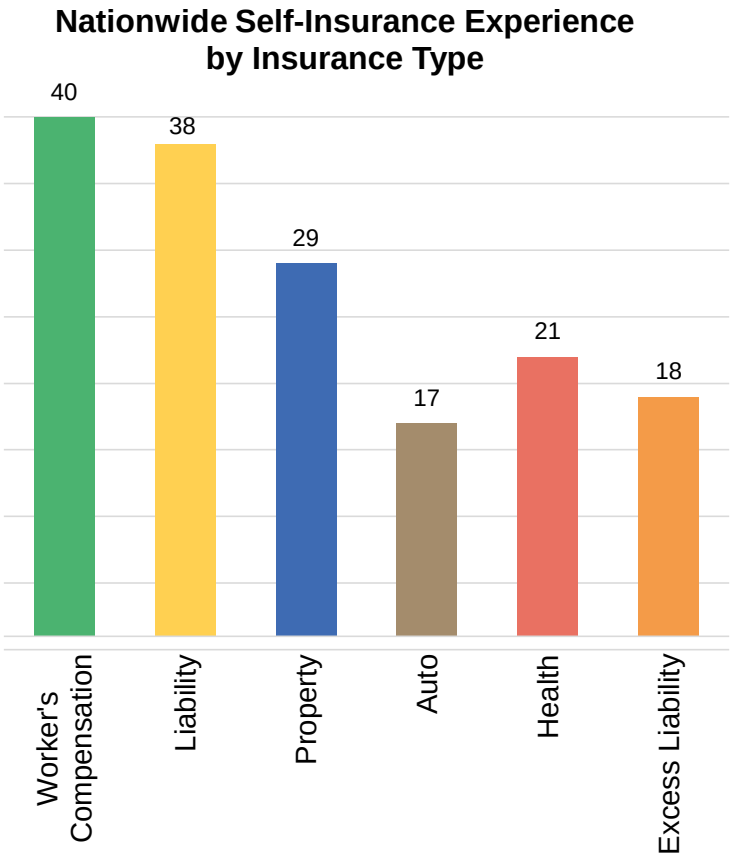
415-982-5544

PFM Asset Management LLC (PFM)

- More than 35 years of public sector experience
- Significant resources and economies of scale
  - **$125.7 billion** total assets, including **$86.8 billion** in discretionary assets under management
  - **$4.4 billion** in insurance assets nationwide
  - **$1.5 billion** for **26** self-insurance pools in California
- Members and educational partners of:
  - California Association of Joint Powers Authorities (CAJPA)
  - Association of Governmental Risk Pools (AGRiP)
  - Government Finance Officers Association (GFOA)



All data is as of March 31, 2018, unless otherwise noted.

Meeting PLAN's Objectives

Objective	Investment Strategies
Safety	• Diversify the portfolio by sector, maturity, industry, and issuer • Ensure compliance with PLAN's Investment Policy • Employ PFM's rigorous credit research process
Liquidity	• Understand elements that impact the General Liability and Property Liability's program liquidity needs (administrative expenses, premium cycle, known case reserves, reinsurance costs, etc.) • Match investment maturities to expected cash needs • Build liquidity cushion for unexpected claims • Utilize local government investment pools
Return on Investment	• Design the investment program aligned with PLAN's liabilities • Establish portfolio duration to match liabilities • Select appropriate benchmark(s) • Enhance returns through active management

Setting the Portfolio Strategy

PLAN's Statement of Net Position

ABAG PLAN CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2017

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	$15,219,389	$896,235	$1,595,876	$17,711,500
Investments, at Fair Value (Note 2)	28,163,985			28,163,985
Total Cash and Investments	43,383,374	896,235	1,595,876	45,875,485
Receivables:				
Due from Members	585,926	4,592		590,518
Interest	127,539			127,539
Total Assets	44,096,839	900,827	1,595,876	46,593,542
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	617,906	3,830	249,827	871,563
Reserves for Claims and Claim Adjustment Expenses (Note 3)	2,106,000	350,000		2,456,000
Total Current Liabilities	2,723,906	353,830	249,827	3,327,563
Noncurrent Liabilities (Note 3):				
Reserves for Claims and Claim Adjustment Expenses	12,581,000			12,581,000
Reserves for Unallocated Loss Adjustment Expenses	1,975,000			1,975,000
Total Noncurrent Liabilities	14,556,000			14,556,000
Total Liabilities	17,279,906	353,830	249,827	17,883,563
NET POSITION (Note 4)				
Unrestricted	26,816,933	546,997	1,346,049	28,709,979
Total Net Position	$26,816,933	$546,997	$1,346,049	$28,709,979

See accompanying notes to basic financial statements

Current Liabilities

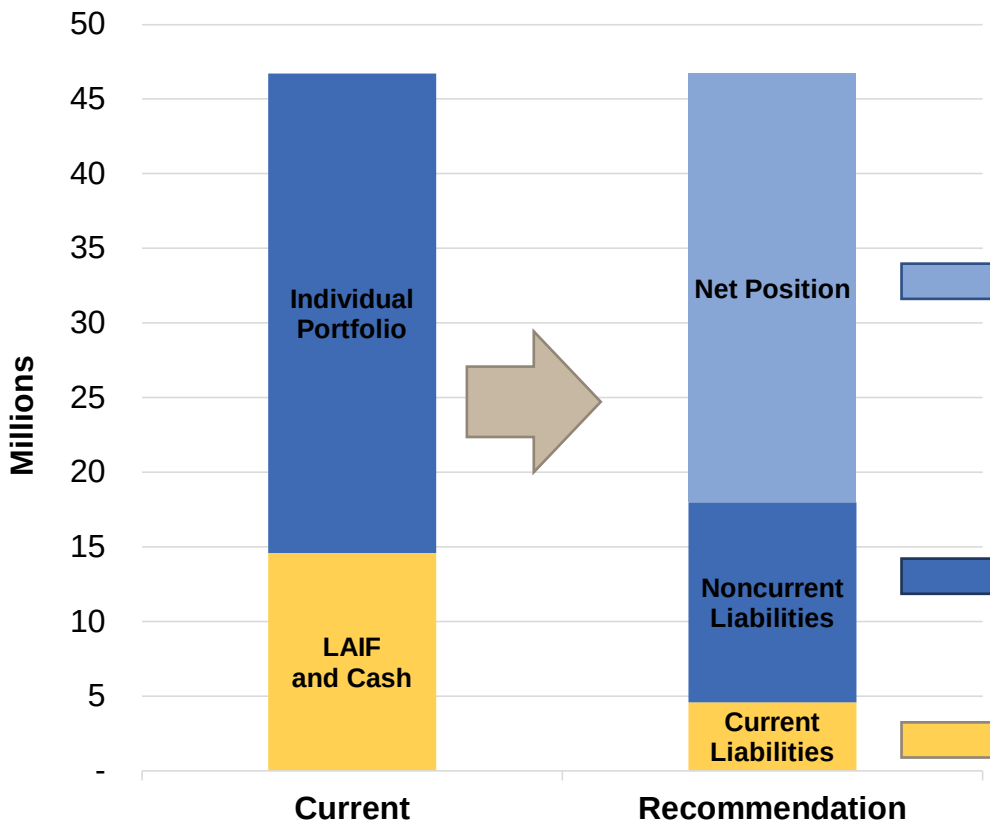
Non-Current Liabilities

Net Position

Source: PLAN Basic Financial Statements, June 30, 2017.

Customized Investment Strategy

- Our investment strategy for PLAN is be tailored to the pool's specific characteristics, including lines of business, expected liabilities, and net position level.



Key Observation:
LAIF balance is high; we recommend transferring $10 million to the individual portfolio

Individual Portfolio: intermediate- and longer-term fixed income

Individual Portfolio: short- and intermediate-term fixed income

Cash, pooled investment vehicles (CAMP, LAIF, money market funds)

Source: PLAN Basic Financial Statements, June 30, 2017.

Claims Projections

- PFM has developed a model to project PLAN's general liability and property liability claims based on the historical relationship between Estimated Limited Ultimate Losses and Losses Paid.
- The projected average duration of PLAN's liabilities 1.91 years.

ABAG PLAN CORPORATION - Liability

Estimated Ultimate Program Losses

Accident Year	Reported Loss Development Method (A)	Paid Loss Development Method (B)	Exposure Method Based on Reported Losses (C)	Exposure Method Based on Paid Losses (D)	Frequency-Severity Method (E)	Selected Estimate of Ultimate Losses (F)
1986-1997	$18,874,096	$18,874,096	$18,874,096	$18,874,096	$18,874,080	$18,874,096
1997-1998	2,462,528	2,462,528	2,462,528	2,462,528	2,462,533	2,462,528
1998-1999	5,606,097	5,606,097	5,606,097	5,606,097	5,606,104	5,606,097
1999-2000	1,200,348	1,199,565	1,200,348	1,199,565	1,200,353	1,200,348
2000-2001	1,866					
2001-2002	4,627					
2002-2003	8,843					
2003-2004	2,574					
2004-2005	1,876					
2005-2006	4,770					
2006-2007	1,666					
2007-2008	6,823					
2008-2009	3,581					
2009-2010	2,502					
2010-2011	2,128					
2011-2012	4,041					
2012-2013	2,604					
2013-2014	7,307					
2014-2015	6,340					
2015-2016	5,391					
2016-2017	8,424					
Totals						

ABAG PLAN - Property

Estimated Ultimate Limited Losses Capped at $225,000 per Claim

Accident Year	Reported Loss Development Method (A)	Paid Loss Development Method (B)	Exposure Method Based on Reported Losses (C)	Exposure Method Based on Paid Losses (D)	Frequency-Severity Method (E)	Selected Ultimate Limited Losses (F)
2010-2011	394,571	394,571	394,571	394,571	394,587	394,571
2011-2012	432,518	432,518	432,518	432,518	432,471	432,518
2012-2013	545,024	545,024	545,024	545,024	596,443	545,024
2013-2014	466,593	419,846	466,593	421,367	697,205	467,000
2014-2015	589,942	542,012	589,942	544,995	774,642	590,000
2015-2016	1,101,086	252,920	1,095,704	286,658	589,104	1,098,000
2016-2017	621,034	564,487	617,446	578,909	545,350	598,000
Totals						$4,125,113

Projected Losses for the Year 2017-2018 (G)	$603,000
Projected Losses for the Year 2018-2019 (H)	$603,000

PLAN Liability Analysis Summary

Year	Projected Liability (PV) Property	GL	Total	CTD
2018	277,612	2,959,210	3,236,823	0.182
2019	233,606	2,820,226	3,053,832	0.516
2020	322,744	1,034,401	1,357,146	0.382
2021	36,202	132,808	169,010	0.067
2022	27,017	304,478	331,495	0.168
2023	24,417	288,699	313,116	0.194
2024	461	157,661	158,122	0.116
2025	-	66,705	66,705	0.056
2026	-	46,197	46,197	0.044
2027	-	54,999	54,999	0.059
2028	-	34,998	34,998	0.041
2029	-	19,511	19,511	0.025
2030	-	1,131	1,131	0.002
2031	-	1,986	1,986	0.003
2032	-	2,723	2,723	0.004
2033	-	3,406	3,406	0.006
2034	-	3,872	3,872	0.007
2035	-	2,237	2,237	0.004
2036	-	6,686	6,686	0.014
2037	-	6,120	6,120	0.013
2038	-	3,058	3,058	0.007
Total	**922,060**	**7,951,111**	**8,873,171**	**1.913**
Duration (years)	**1.82**	**1.92**	**1.91**	

Source: Expected claim outflows are calculated by PFM, based on the losses provided in the Actuarial Review of PLAN's self-insured liability program, dated March 21, 2018 and Actuarial Review of PLAN's self-insured property program, dated August 16, 2017.

Step 1: Setting the Strategy - Benchmark Selection

- Purpose of a Benchmark:
  - Measures and evaluates relative investment performance
  - Provides for comparison of risk and return
  - Defines and evaluates a long-term investment strategy

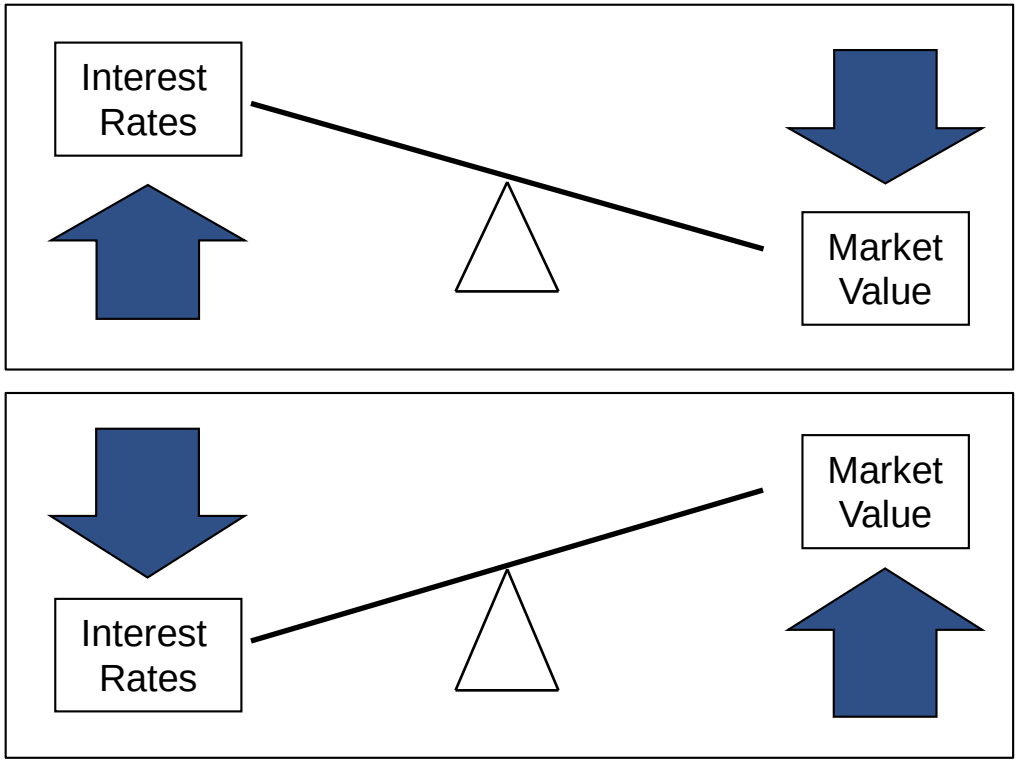
- A Benchmark Should:
  - Be an independent representation
  - Reflect asset mix, credit quality, and average maturity or duration of the portfolio or
  - Be a baseline, such as a U.S. Treasury Index

Understanding Total Return—Yield vs. Total Return

Yield	Total Return
Percentage rate that expresses an annualized rate of return at a point in time	Percentage rate that expresses an annualized rate of return over a specific period
Forward- looking number	Historical number
Assumes no change in cash flow, no change in market value and reinvestment at the same rate	Takes into account all changes in portfolio, including interest earnings, market value changes, reinvestment rates, and all cash flows

Total Return = Income + Change in Market Value

- Market values move inversely to interest rates.

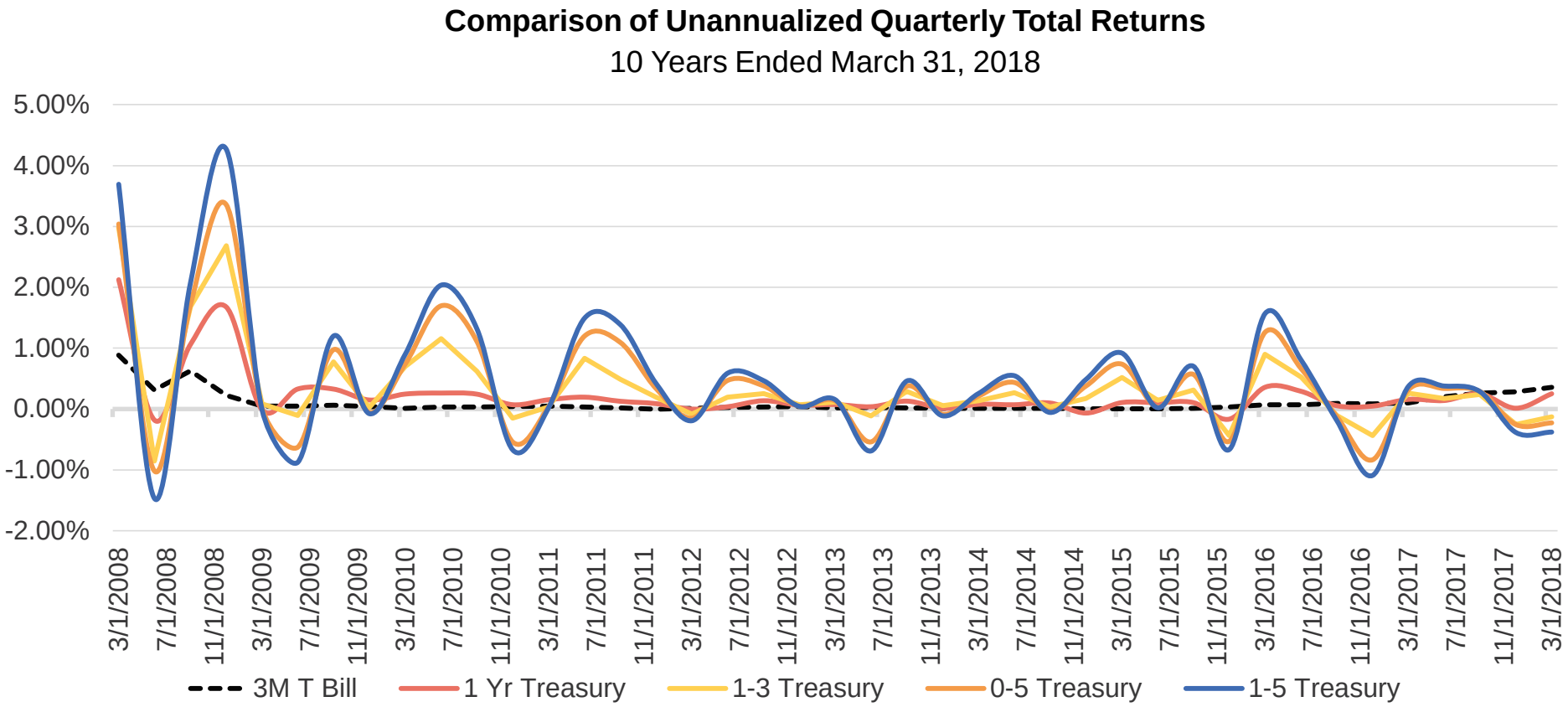


Setting the Appropriate Strategy: How Duration Affects Risk/Return

Risk/Return of Various Investment Strategies 10 Years Ended March 31, 2018					
Strategy	**Duration (years)**	**Yield as of 3/31/18**	**Annualized Total Return**	**Cumulative Value of $30 million**	**Quarters with Negative Total Return**
3 Month Treasury	0.14	1.61%	0.34%	$31,036,932	0 out of 40
1 Year Treasury	0.90	2.11%	0.71%	$32,213,373	5 out of 40
1-3 Year Treasury	1.80	2.27%	1.13%	$33,563,981	10 out of 40
0-5 Year Treasury	2.11	2.23%	1.39%	$34,428,534	13 out of 40
1-5 Treasury	2.59	2.36%	1.62%	$35,240,006	14 out of 40

Source: Bloomberg. Indices shown are ICE Bank of America Merrill Lynch indices. Non-rebalanced durations and yields shown.

Quarterly Unannualized Total Returns—10 Years



Source: Bloomberg.
Indices shown are ICE Bank of America Merrill Lynch indices.

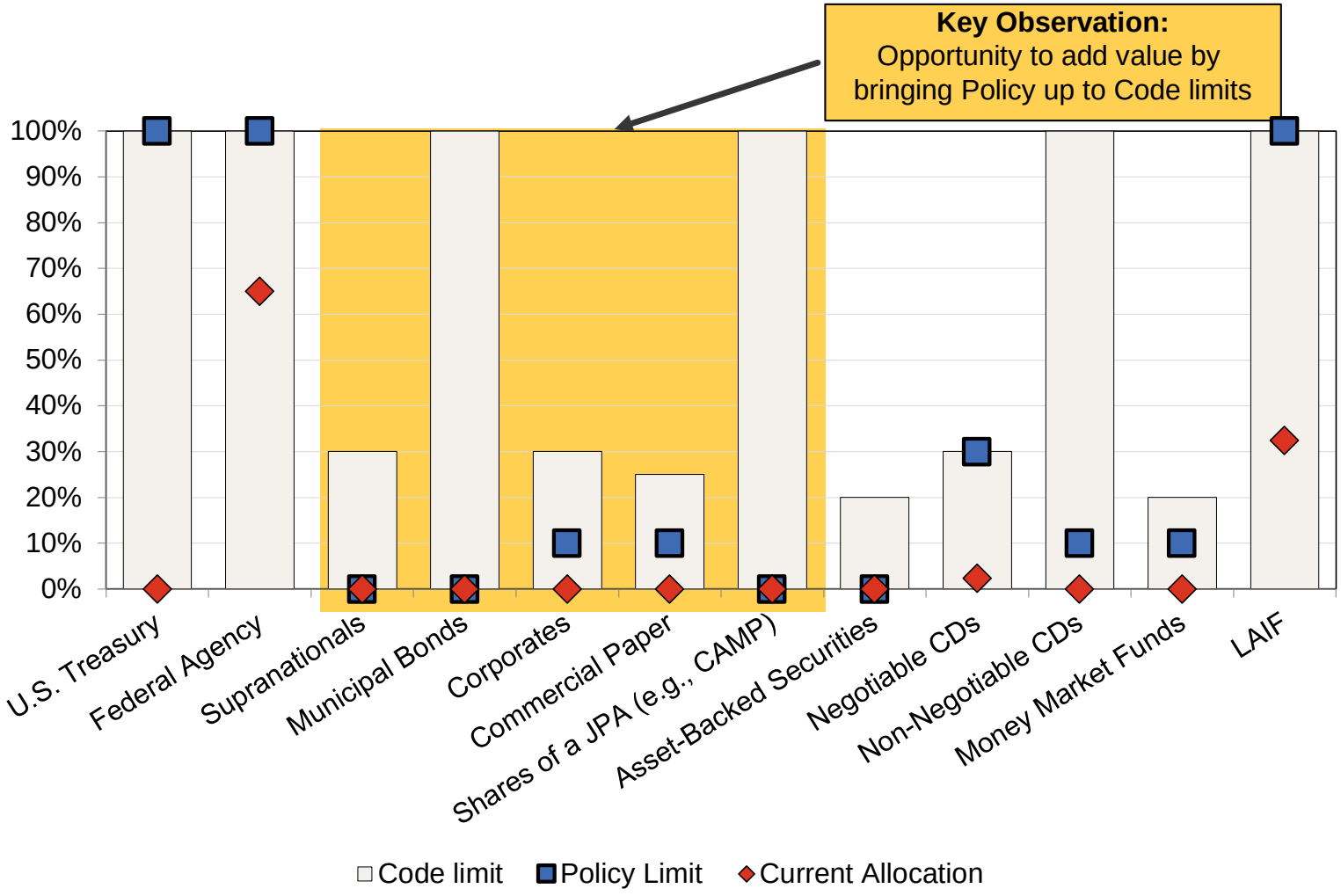
Annual Impact of Changes in Interest Rates on Returns

Annual Returns

Index	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	14 Years Ended 12/31/17
3-Month UST	1.33%	3.07%	4.85%	5.00%	2.06%	0.21%	0.13%	0.10%	0.11%	0.07%	0.03%	0.05%	0.33%	0.86%	1.28%
1 Year UST	0.81%	2.36%	4.32%	5.95%	4.75%	0.80%	0.83%	0.57%	0.24%	0.26%	0.18%	0.15%	0.76%	0.57%	1.59%
1-3 Year UST	0.91%	1.67%	3.96%	7.32%	6.61%	0.78%	2.35%	1.55%	0.43%	0.36%	0.62%	0.54%	0.89%	0.42%	2.00%
0-5 Year UST	1.24%	1.79%	4.07%	7.41%	7.21%	0.30%	3.03%	2.69%	0.75%	-0.11%	1.00%	0.81%	0.97%	0.69%	2.25%
1-5 Year UST	1.31%	1.39%	3.81%	8.16%	8.73%	0.23%	3.61%	3.36%	0.91%	-0.19%	1.24%	0.98%	1.09%	0.65%	2.48%

Source: Bloomberg, ICE Bank of America Merrill Lynch.

Step 2: Selecting the Appropriate Asset Class Mix



Source: PLAN Investment Policy and California Government Code Section 53601.

Investment Policy Recommendations: Summary

We have reviewed PLAN's current Investment Policy and offer the following recommendations to increase diversification and potentially boost earnings:

- In order to use CAMP, add shares of beneficial interest issued by a joint powers authority (i.e., CAMP) as is authorized by California Government Code 53601 subdivision (p).
- More closely align credit sector limits with Code limits:
  - Specifically, consider adding municipal obligations, asset-backed securities (ABS), and supranational obligations, as is authorized by California Government Code 53601, subdivisions (c), (d), (o), and (q).
  - Consider increasing the maximum allocation to corporate notes from 10% to 30% and the allocation to commercial paper from 10% to 25% as is authorized by California Government Code 53601 subdivisions (h) and (k).
  - Consider changing the minimum credit rating for negotiable certificates of deposit and corporate notes and from "AA" to "A" as is authorized by California Government Code 53601 subdivisions (i) and (k).
- Establish a 5% per issuer limit on non-government securities.

Source: PLAN Investment Policy and California Government Code Section 53601.

Recommended Allowable Investment Instruments – Maximum Allocations

Sector	Code Maximum Permitted Allocation	PLAN's Maximum Allocation Sector / Issuer[1]	PFM's Recommended Maximum Allocation Sector / Issuer	PLAN's Rating Requirements	PFM's Recommended Rating Requirements
U.S. Treasuries	100%	100% / 100%	100% / 100%	None	None
Federal Agencies	100%	100% (25% MBS) / 100%	100% (25% MBS) / 100%	None	None
Supranationals	30%	0%	30% / 30%	N/A	AA
Municipals: • California • Other 49 States	100%	0%	30% / 5%[2]	N/A	A
Bankers' Acceptances	40%	25% / 10%[2]	25% / 5%[2]	A-1 / P-1	A-1 / P-1
Repurchase Agreements	100%	0%	0%	N/A	N/A
Commercial Paper	25%	10% / 10%[2]	25% / 5%[2]	A-1 / P-1 / F-1	A-1 / P-1 / F-1
Non-Negotiable CDs	100%	10% / 10%[2]	10% / 10%[2]	None	None
Negotiable CDs	30%	30% / 10%[2]	30% / 5%[2]	AA / A-1	A / A-1
Corporate Notes	30%	10% / 10%[2]	30% / 5%[2]	AA	A
Asset-Backed Securities	20%	0%	20% / 5%[2]	N/A	AA-
LAIF	$65 million	$65 million	$65 million	None	None
LGIPs (e.g., CAMP)	100%	0%	100%	N/A	AAA
Money Market Funds	20%	10% / 10%	10% / 10%	AAA	AAA

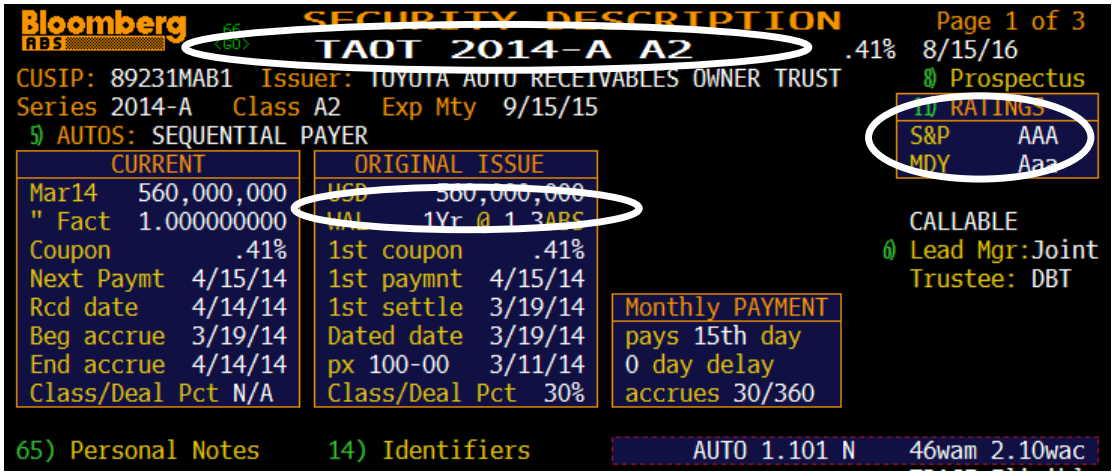
1. *The aggregate total of investments in callable notes is limited to 25% of the portfolio. Currently, approximately 35% of the portfolio is invested in still-callable federal agency securities.*
2. *The per issuer limits shall apply across all sectors.*

Asset-Backed Securities (ABS)

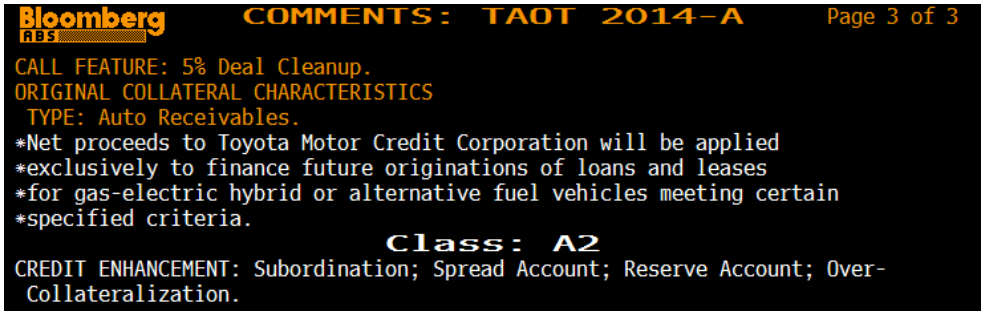
- ABS are issued by a trust and backed by pools of assets. The security represents ownership rights to the cash flow from these assets. The sponsoring company creates a separate trust, which is the issuer, to ensure investors have access to the cash flows from the assets held as collateral.

Characteristics	
Issuer:	Trust
Credit:	Rated by Nationally Recognized Statistical Ratings Organizations (NRSROs)
Credit Enhancements:	Some combination of subordination and credit tranching, over-collateralization, reserve accounts, excess spread, letter of credit, and insurance
Maturity:	Typically up to 10 years
Liquidity:	Moderate
Yield:	Higher than U.S. Treasuries and Federal Agency obligations

Example: Toyota Auto Receivables 2014-A Owner Trust



Characteristics of interest: weighted average life, deal volume, credit ratings, credit enhancements, and issuer comments.



Source: Bloomberg

Credit Enhancement

- To lower credit risk for investors, asset-backed securities may be enhanced through:
  - Subordination (tranches)
  - Reserve Account
  - Over-Collateralization
  - Yield Supplement
  - Excess Spread

CAPITALIZATION OF THE ISSUING ENTITY

The following table illustrates the capitalization of the Issuing Entity as of the Closing Date, as if the issuance and sale of the Notes and the Certificate had taken place on such date:

Class A-1 Notes	$501,000,000.00
Class A-2 Notes	$560,000,000.00
Class A-3 Notes	$480,000,000.00
Class A-4 Notes	$165,250,000.00
Class B Notes	$43,750,000.00
Reserve Account Initial Deposit[1]	$4,375,000.01
Yield Supplement Overcollateralization Amount	$95,073,340.29
Initial Overcollateralization	$5.74
Total	$1,849,448,346.04

Source: Toyota Auto Receivables 2014-A Owner Trust Prospectus.

ABS: An Opportunity To Enhance Earnings

			Period Ended 3/31/2018			
1-5 Year Index	**Effective Duration**	**Yield**	**3 Month**	**1 Year**	**3 Years**	**5 Years**
ABS (0-5 Year Index)	1.45	2.69%	(0.11%)	0.84%	1.11%	1.03%
U.S. Treasury	2.59	2.36%	(0.38%)	(0.10%)	0.47%	0.64%
Agency	2.09	2.37%	(0.18%)	0.26%	0.65%	0.79%
Corp A-AAA	2.61	3.04%	(0.80%)	0.62%	1.31%	1.56%

Source: Bloomberg. Unrebalanced durations shown. Returns for periods greater than one year are annualized.

ABS: Recommended Policy Limitations

California Government Code Limits	PFM's Recommendations to PLAN
"AA" minimum credit rating	"AAA" minimum credit rating
20% maximum	20% maximum
5-year maturity	5-year maturity

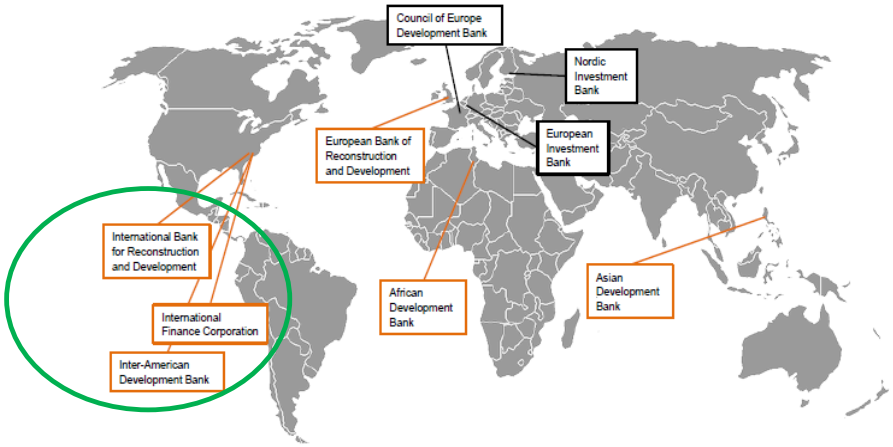
More restrictive than Code

Supranational Obligations Permitted by California Government Code

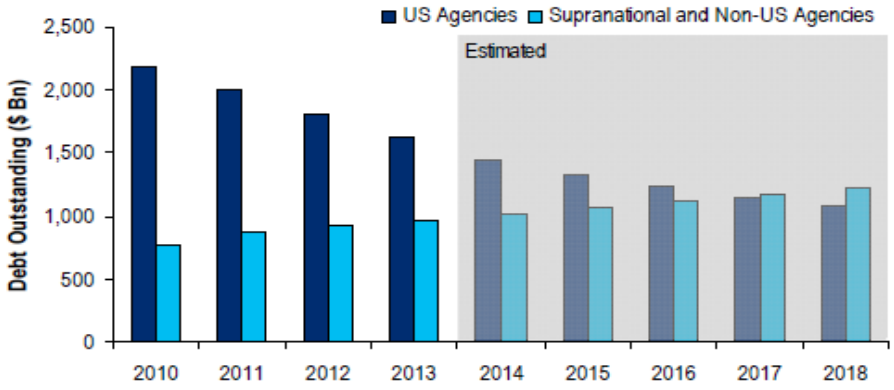
"United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the ***International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank****, with a maximum remaining* ***maturity of five years or less****, and eligible for purchase and sale within the United States. Investments under this subdivision shall be* ***rated "AA" or better*** *by an NRSRO and shall not exceed* ***30 percent*** *of the agency's moneys that may be invested pursuant to this section."*

Key Facts on Supranational Issuers Authorized by CA Code

- Triple-A rated by both S&P and Moody's
- Based in Washington D.C.
- U.S. is largest shareholder
- Issue only senior, unsecured debt
- Financial strength based on:
  - Diversified, sovereign shareholders
  - Substantial liquidity and consistent profitability
  - Strong capitalization
  - Conservative risk management
  - Quality loan portfolio



Market Size Projection



Supranationals: An Opportunity To Enhance Earnings

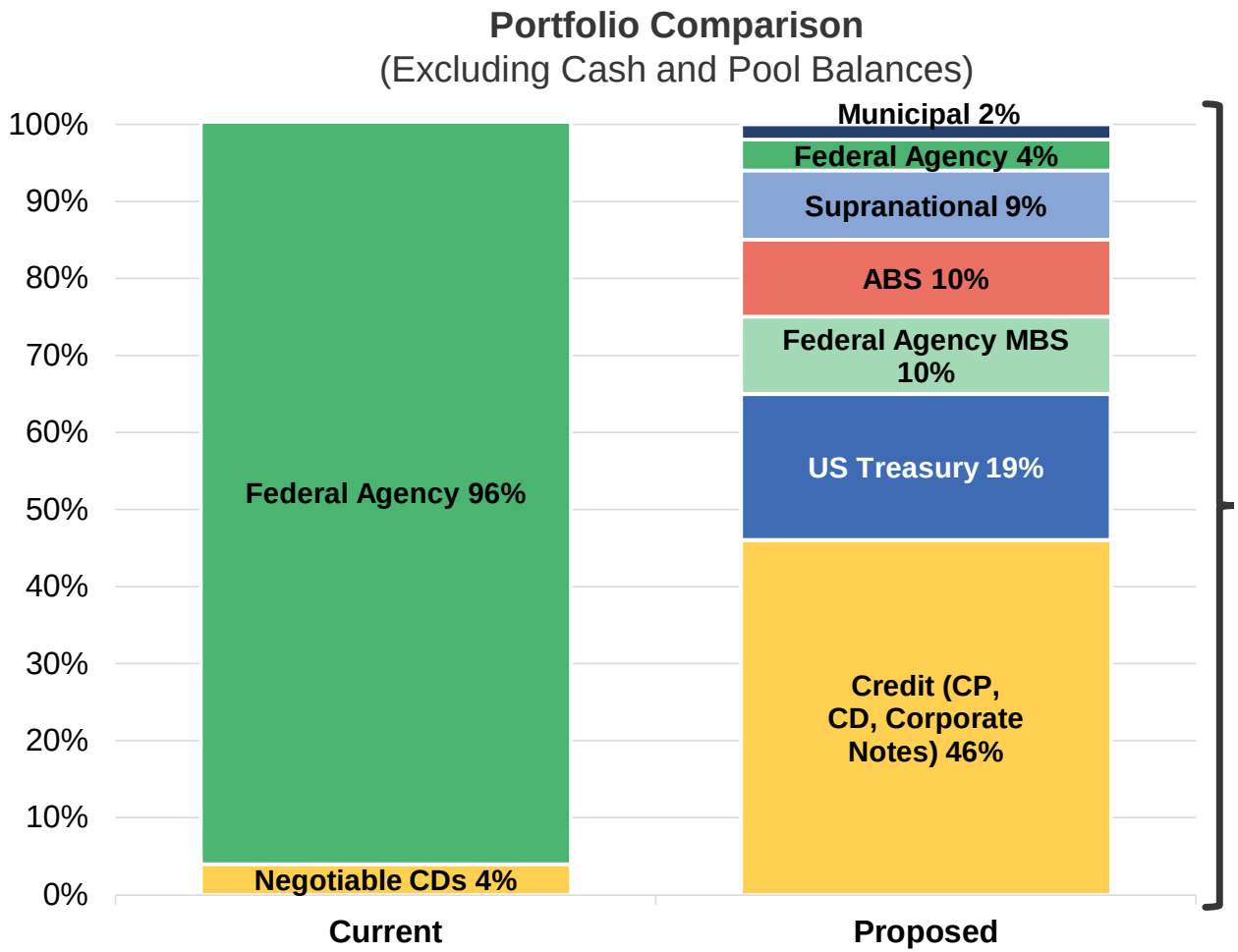
			Period Ended 3/31/2018			
1-5 Year Index	**Effective Duration**	**Yield**	**3 Month**	**1 Year**	**3 Years**	**5 Years**
Supranationals	2.54	2.65%	(0.37%)	0.39%	0.75%	0.95%
U.S. Treasury	2.59	2.36%	(0.38%)	(0.10%)	0.47%	0.64%
Agency	2.09	2.37%	(0.18%)	0.26%	0.65%	0.79%
Corp A-AAA	2.61	3.04%	(0.80%)	0.62%	1.31%	1.56%

Source: Bloomberg. Unrebalanced durations shown. Returns for periods greater than one year are annualized.

Supranationals: Recommended Policy Limitations

California Government Code Limits	PFM's Recommendations to PLAN
"AA" minimum credit rating	"AA" minimum credit rating
30% maximum	30% maximum
5-year maturity	5-year maturity

PLAN Portfolio Composition: Current vs. Proposed



Proposed sample portfolio offers much greater portfolio diversification within the constraints of California Government Code

Source: PLAN's January 31, 2018, Bank of the West custody statement. Note: Sample sector distributions are for illustrative purposes only, subject to changes in the market environment, and may vary based on PLAN's particular circumstances.

Capturing Value Through Broader Diversification

Index	Yield as of April 30, 2018	Annual Additional Earnings over Federal Agencies on $10 million
1-5 Year Federal Agency Index	2.57%	-
0-5 Year Asset-Backed Securities Index	2.83%	$26,000
1-5 Year Supranational Index	2.86%	$29,000
1-5 Year Corporate Index	3.16%	$59,000
2-Year U.S. Agency	2.55%	-
2-Year Negotiable Certificate of Deposit	3.00%	$45,000
9-Month U.S. Agency	2.17%	-
9-Month Commercial Paper	2.55%	$38,000

Sources: PFM Trading Desk, Bloomberg. ICE Bank of America Merrill Lynch (BofA ML) 1-5 Year Federal Agency Index, ICE BofA ML 0-5 Year AAA ABS Index, ICE BofA ML 1-5 Year A-AAA Supra Index, ICE BofA ML 1-5 Year Corporate A-AAA Index.

For illustrative purposes only; not an investment recommendation.

The Value of Diversification Over Time

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
8.73%	12.59%	5.76%	3.66%	5.85%	1.24%	2.12%	1.52%	2.19%	2.24%
7.66%	11.66%	4.17%	3.36%	3.60%	1.14%	1.52%	1.20%	1.70%	1.46%
6.81%	5.56%	3.61%	2.89%	1.97%	0.47%	1.30%	0.98%	1.15%	1.40%
5.65%	5.00%	3.27%	2.55%	1.63%	0.45%	1.30%	0.97%	1.12%	1.39%
-1.94%	2.47%	3.02%	2.44%	1.38%	0.03%	1.24%	0.93%	1.09%	0.86%
-3.16%	0.23%	1.85%	1.92%	0.91%	-0.19%	0.95%	0.92%	0.16%	0.65%

1-5 Treasury	1-5 Agency	1-5 Supranational	1-5 Municipal	1-5 Corporate	0-5 ABS

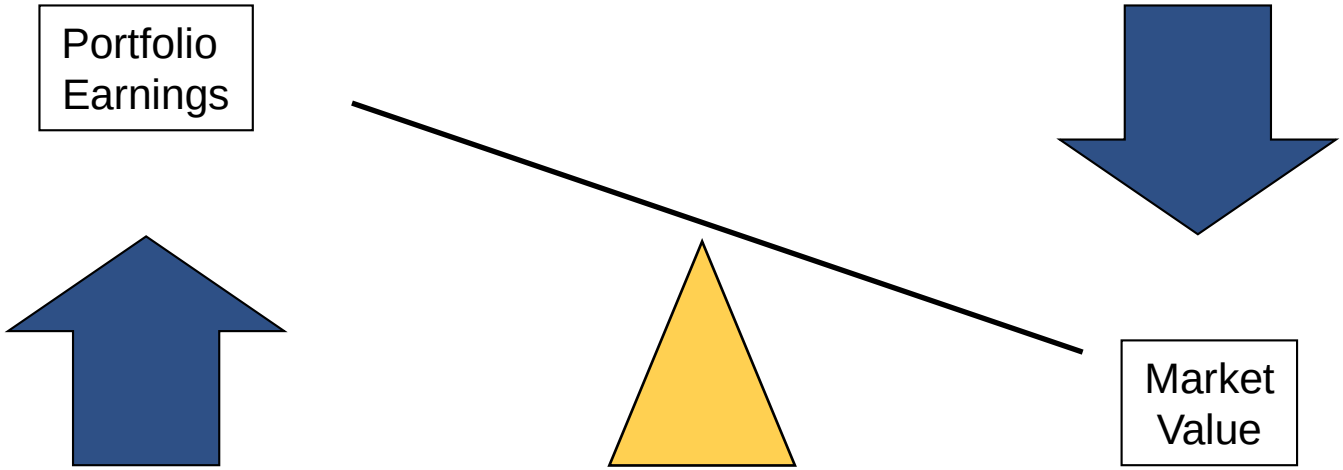
Sources: Bloomberg. ICE Bank of America Merrill Lynch (BofA ML) 1-5 Year Treasury Index, ICE BofA ML 1-5 Year Federal Agency Index, ICE BofA ML 1-5 Year A-AAA Supra Index, ICE BofA ML 1-5 Year Municipal Index, ICE BofA ML 1-5 Year Corporate A-AAA Index, ICE BofA ML 0-5 Year AAA ABS Index.

But What About the Transition Period?

Key Discussion:
Length of transition period

- In this rising interest rate environment, fixed-income investors like PLAN are facing unrealized portfolio losses.
- As of May 2, 2018, the unrealized losses on PLAN's portfolio totaled $624,840.*
- As PFM works to restructure the portfolio, some of these losses will be realized, BUT, over time, interest earnings are likely to increase.

As Interest Rates Increase . . .



**Pricing source: Bloomberg.*

Selling a Security at a Loss

- Securities may be sold at realized losses in order to enhance earnings over time, improve the portfolio's credit quality, or to improve the portfolio's diversification and positioning.
- In this example, PFM actively traded in the portfolio to enhance earnings over time. We sold an FHLB note, realizing a loss of $5,763; however, the earnings generated by the purchase of the International Finance Corp. note will more than offset this realized loss.

Settle Date	Trade Type	Issuer	Par Amount	Maturity Date	Yield at Cost	Yield at Market	Loss on Sale	Earnings	Total Cash Flow
1/25/2018	Sale	FHLB	$350,000	8/5/2019	0.94%	2.04%	($5,763)	($5,026)	($10,790)
1/25/2018	Buy	International Finance Corporation (World Bank)	$350,000	1/25/2021	2.35%	2.35%	--	$12,566	$12,566
								Additional Net Benefit	**$1,776**

The analysis is prepared on an accrual earnings basis. The analysis assumes that the purchased securities will be held to maturity, which may or may not happen. Earnings are calculated to the earliest maturity date of the two securities. The security's performance and earnings will depend on conditions and actions in the future. This information was presented for illustrative purposes only and is not a trade recommendation.

PFM's Ongoing Portfolio Management Services

Cash Flow & Balance Sheet Analysis	• Optimize cash flow for liquidity • Match investments to premium cycle • Recognize amount and timing of current liabilities
Duration Management	• Establish target duration based on analysis of reserves/liabilities • Adjust portfolio duration based on interest rate trends
Sector Selection	• Seek broad diversification • Analyze yield spreads and value amongst permitted sectors
Issue Selection	• Analyze yield curve for areas of value • Carefully analyze issue quality and structure
Competitive Shopping	• Shop aggressively from approved list of 50 broker/dealers • Provide full transparency and documentation

Summary of Recommendations for PLAN's Approval

- Transfer an additional $10 million from liquidity to the individual portfolio
- Select the appropriate long-term performance benchmark
- Amend the Investment Policy to allow additional exposure to credit sectors consistent with California Government Code guidelines

An Introduction to the California Asset Management Program (CAMP)

California Asset Management Program (CAMP)

- The California Asset Management Program ("CAMP") is a California Joint Powers Authority established in 1989 to provide California public agencies with professional investment services.

- Current investment and service options offered through CAMP include:
  - S&P "AAAm" rated Cash Reserve Portfolio (Pool)*
  - Individual Portfolios
  - Investment and safekeeping services
  - Specialized services for bond proceeds

* *Standard & Poor's fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor's rating criteria, the AAAm rating signifies excellent safety of investment principal and a superior capacity to maintain a $1.00 per share net asset value. However, it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold, or sell the securities. For a full description on rating methodology, visit Standard & Poor's website (http://www.standardandpoors.com/en_US/web/guest/home).*

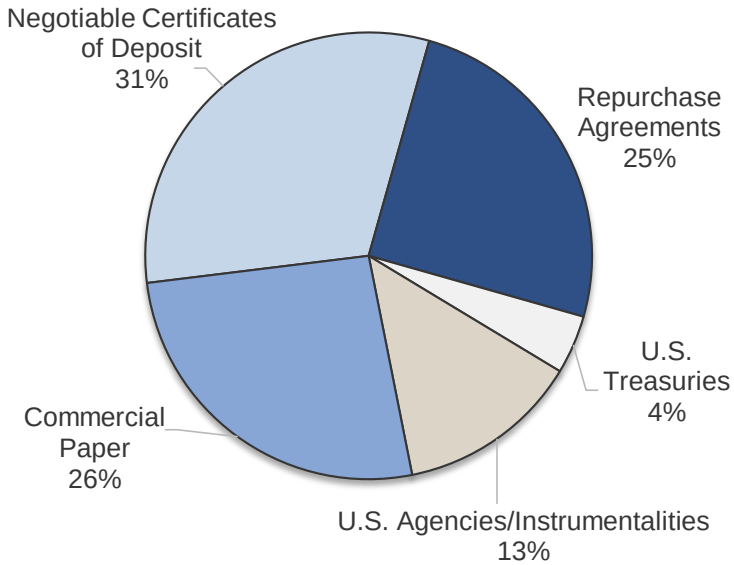
Cash Reserve Money Market Portfolio (Pool) for Current Liabilities and Administration Costs

- Daily liquidity
- Online transactions
- 11:00 a.m. cut-off time for transactions
- Unlimited transactions by wire or check
- Sweep capability
- Subaccounting
- Competitive money market rates

Cash Reserve Portfolio Characteristics as of April 30, 2018

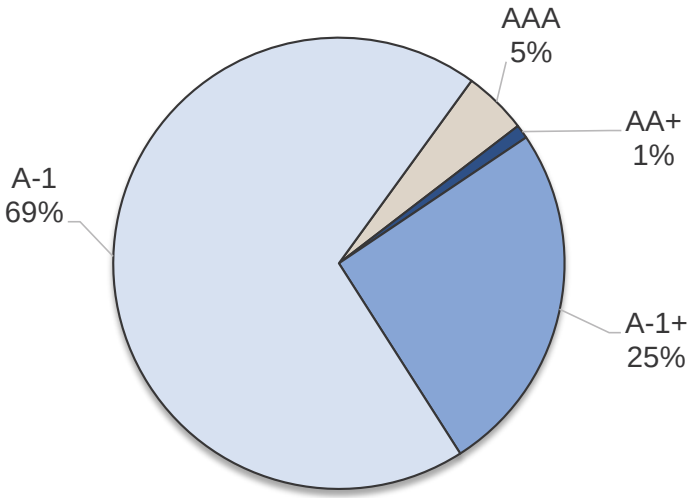
Total Fund Net Assets[1]	$3,988,762,394	**Weighted Average Maturity**	44 Days
Current 7-Day Yield[2]	1.92%	**Net Asset Value per Share**	$1.00

Portfolio Sector Composition



Percentages may not total to 100% due to rounding.

Portfolio Credit Quality Distribution*



** Ratings by Standard & Poor's.*

1. *Total fund net assets, portfolio holdings valued at amortized cost, trade date based.*
2. *Updated Monthly as of April 30,2018, the current seven-day yield of the CAMP Cash Reserve Portfolio may, from time to time, be quoted in reports, literature and advertisements published by the Trust. The current seven-day yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a balance of one share (normally $1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is not indicative of future results and yields may vary.*
3. *Negotiable Certificate of Deposit holdings were under 30% as of the last purchase.*

Pooled Investment Comparison

- Features of each pool vary depending on the type of investment selected and should be carefully reviewed before investing.

CAMP[1]	
Net Asset Value (NAV)	Stable
S&P Rating	AAAm
Weighted Average Maturity	32 days
Interest Payment Frequency	Monthly

LAIF[2]	
Net Asset Value (NAV)	Stable
S&P Rating	Not Rated
Weighted Average Maturity	177 days
Interest Payment Frequency	Quarterly

1. *Source: CAMP website. As of March 31, 2018. Please see important disclosures at the end of this presentation.*
2. *Source: LAIF website. Weighted average maturity is as of March 31, 2018.*
3. *Updated quarterly.*

Individual Portfolio for Noncurrent Liabilities and Net Position

CAMP

Pool

Individual Portfolio[1]

- Tailored to each public agency
- Governed by each agency's investment policy or bond documents
- Competitive shopping for every security
- Goal of enhanced earnings through professional portfolio management
- Investment management and custody services at a reasonable cost

(1) CAMP participants may establish individually managed portfolios by separate agreement with the Program's Investment Advisor and Custodian.

Current Board of Trustees

- The Board of Trustees comprises local government finance directors, treasurers, and executive directors.

Board of Trustees	
Steve Dial, President Deputy Executive Director/CFO San Joaquin Council of Governments	**Wayne Hammar, Vice President** Treasurer-Tax Collector Siskiyou County
Karen Adams, CPA, Treasurer Treasurer-Tax Collector Merced County	**André Douzdjian** Director of Finance San Diego Association of Governments
Duane Wolterstorff, CPA Manager of Fiscal Support Services Modesto City Schools	**Christina Valencia** Chief Financial Officer Inland Empire Utilities Agency
Lauren Warrem City Treasurer/Director of Finance City of Vista	

Professional Service Providers

- The Board of Trustees has contracted for all services with leading national firms.

Services	Service Provider
Program Administrator **Investment Advisor** **Rebate Calculation Agent**	PFM Asset Management LLC
Custodian	U.S. Bank National Association
Auditor	Ernst & Young, LLP
Legal Counsel	Nossaman LLP

Appendix

PFM's Credit Committee Process

Function and Responsibilities

- Manage credit risk
- Formal monthly meetings
- Intra-month meetings as needed
- Review macro events
- Review written credit reports, supporting material
- Monitor credit rating actions

Approved Client List

- Primary credit risk management tool
- Both short-term and long-term views
- Portfolio managers and traders restricted by approved list
- Restrictions integrated into trading and compliance systems
- Limits based on internal credit assessment melded with client needs and policies

Credit Committee	Role at PFM
Robert Cheddar, CFA* *Committee Chair*	Chief Credit Officer / Head Portfolio Manager
Marty Margolis*	Chief Investment Officer
Ken Schiebel, CFA*	Head of Portfolio Strategies Group
Michael Varano*	Head Portfolio Manager, LGIPs
Joseph Creason, CFA	Sr. Portfolio Manager
Michael Downs, CFA	Portfolio Manager
Brain Raubenstine	Sr. Portfolio Manager
Jeffrey Rowe, CFA*	Sr. Portfolio Manager
Kerri Staub	Portfolio Manager
Kyle Jones	Director of Portfolio Strategies Group
Leo Karwejna (ex-officio)*	Chief Compliance Officer

**Denotes Managing Director*

Proactive Credit Review Process

Event	PFM Action
2016 Brexit	• Proactively identified issuers most vulnerable to Brexit • Placed all credit purchases on hold following surprising result • Reevaluated issuers for Brexit impacts & gradually reinstating all issuers except UK/Euro banks
2011/12 European Debt Crisis	• Some issuers are removed from credit list, others are placed on hold or restricted by maturity • Monitored developments in Europe on an ongoing basis • No exposure to Greece, Portugal, Italy, or Ireland
2011 Japanese Tsunami	• March 2011: All Japanese issuers placed on hold • As conditions improved, issuers were re-approved
2008-09 Credit Crisis	• Sep. 2008: Owned no Lehman Brothers, Washington Mutual, IndyMac, AIG, CIT Group, MBIA • Portfolio management team focused on safety and liquidity
2000-01 California Energy Crisis	• After 1998 de-regulation, avoided California utility sector • Owned no PG&E, So. California Edison, or Enron

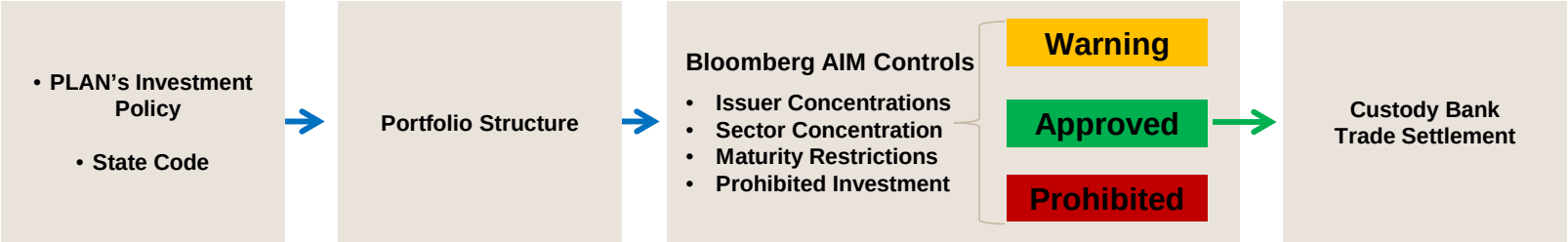
This list does not represent a complete list of all PFM credit review decisions. A complete list is available upon request.

Portfolio Compliance

- ✓ Bloomberg AIM software helps ensure compliance with the District's investment policy in a real-time environment
- ✓ Compliance rules reflecting PLAN's investment policy are entered by the Investment Services Group, reviewed for reasonableness by traders, and verified by our Compliance department

Bloomberg AIM:

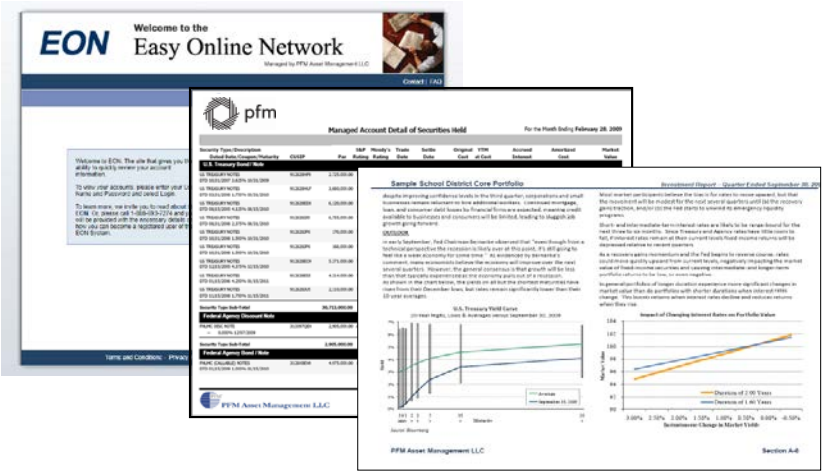
- ✓ Improves the efficiency of trade execution
- ✓ Expands portfolio modeling capabilities
- ✓ Automates communication of trades with the custodian
- ✓ Helps increase integrity of accounting data



Governmental Accounting and Reporting Resources

Accounting Expertise

- 33 staff members focused on governmental accounting and reporting
- GASB 31 and 40 compliant statements
- Transparent reporting: daily updates of transactions and portfolio holdings
- Weekly account reconciliation with custodian
- Earnings calculations and projections



Comprehensive Investment Reporting

Monthly Reports

- Investment holdings & positions
- Transaction detail
- Market values and sources

PFM Client Reporting Website

- 24-Hour online account access
- Daily portfolio holdings
- Transaction updated daily
- Archive of month-end portfolio statements

Quarterly/Annual Reports

- Economic review and outlook
- Trading strategy
- Compliance with policy
- Return vs. benchmark
- Portfolio composition and duration

Disclaimer

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CAMP Disclosure

This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Trust's investment objectives, risks, charges and expenses before investing in the Trust. This and other information about the Trust is available in the Trust's current Information Statement, which should be read carefully before investing. A copy of the Trust's Information Statement may be obtained by calling 1-800-729-7665 or is available on the Trust's website at www.camponline.com. While the Trust seeks to maintain a stable net asset value of $1.00 per share, it is possible to lose money investing in the Trust. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Trust are distributed by ***PFM Fund Distributors, Inc.****, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

Agenda Item 6.B.

FINANCAL MATTERS

SUBJECT: Review of the Draft 2018/19 Budget

Enclosed is the Preliminary Operating Annual Budget (Budget) for PLAN JPA (PLAN) for the 2018/19 fiscal year. The funding model is similar to that which PLAN has approved in the past. Funding rates were compiled by PLAN's actuary. Pages two and three detail the Budget program as follows:

- For the Liability program, member contributions are presented at the 60% confidence level (CL) with a 3% discount factor. PLAN's self-insured retention (SIR) is up to $2.5 million above each individual member's SIR. Reinsurance of $2.5 million is purchased above the pool's SIR and excess coverage is purchased from $5 million to $30 million. These coverage layers are same as the prior year.
- For the Property program, member contributions are presented at the 70% CL with a 3% discount factor. The coverage is pooled from member's SIR up to $225,000 and excess coverage is purchased to $1 Billion. In the prior year, the Property program was funded at Expected.

The major components of the Budget are outlined below:

1. Overall Rates for Coverage

The Preliminary Operating Budget contributions are projected to increase from $9.7 million to $10.9 million; an increase of 12% over the prior year. Contributing factors include an increase in estimated payroll of 8%, an increase in estimated funding rates, and an increase in estimated reinsurance and excess premiums. Below is a summary by program.

Liability Program (Page 2)
The Liability program is projecting a 12% increase in contributions over the 2017/18 Approved Budget. The underlying assumptions used in compiling the preliminary budget include:

1) *Payroll* - Overall, payroll is projected to increase by 8% over the prior year. Estimated member payroll for the 2018/19 fiscal year was requested from the members. While a majority of the members were able to provide estimated payroll, there were some members who were not able to provide the payroll timely. For those members, a current assumption of 5% increase was added to the 2017/18 payroll.
2) *Insurance cost* – Currently estimated increase of 34.17% over the prior year. Due to an increase in loss activity, the preliminary indication through the broker (Alliant) is that the reinsurance premium for the $2.5M x $2.5M layer could increase 46%. The remaining excess layers ($10M x $5M and $15M x $10M) are projected to increase by 21.75%. Other options in the $2.5M x $2.5M layer are currently being investigated.

3) *Administrative Expenses* – Overall, there is an estimated decrease of 3.71% in administration expenses. The decrease in administrative expenses includes addition of Risk Control services in the amount of $305,585, which is a new budget line item and was funded previously from equity. There is a savings of $491,891 or 22.8% when comparing administrative expense from 2017/18 to 2018/19. See note 5 below which outlines the estimated changes.

Experience Modification (ex-mod) Factors:
PLAN's actuary developed the ex-mod factors by using the loss experience and payroll from 2012/13 through 2016/17. The losses were limited to $250,000 per occurrence. Creditability was given to payroll, limited to a minimum of 10% and maximum of 90%. The ex-mod calculation is the same as what has been used in past years. Attached are exhibits for the ex-mod calculation for both the 2018/19 and 2017/18 funding years.

Allocation of Administrative Cost:
Administrative costs are split between fixed and variable costs. The fixed costs (33%) are allocated among the members evenly. The remaining variable costs (67%) are allocated based upon the following: a) one-third of the costs are allocated based upon reported claims greater than $1 and b) two-thirds of the costs are allocated based upon paid losses in the period of 2012/13 to 2016/17. The allocation of administrative costs is same as it has been in the past years.

Property Program (Page 3)
The Property program is projecting a 14% increase over the 2017/18 Approved Budget. The underlying assumptions used in compiling the preliminary budget include:

1. Funding the 2018/19 program year at the **70% CL**. The 2017/18 Property program was funded at the Expected CL;
2. Increasing the Total Insured Value (TIV) by 2.5%;
3. Excess premium includes a projected 10% rate increase;
4. Flood premiums includes a projected 10% rate increase; and
5. Actuarial Report, dated on August 16, 2017, was used to compile the projected contributions for 2018/19.

2. Claims Expense

Total claims expenses for program year 2018/19 are budgeted at the expected confidence level and projected to increase 14.9% for the Liability program due to increased claims activity and remain flat for the Property program.

3. Insurance Expense

Total insurance expense is projected to increase by 23% over prior year. The Liability Program is projected to increase 34.2%, while the Property Program is projected to increase 10% over the prior year.

4. Risk Management Grants

Risk Management Grants are funded out the PLAN equity. The Risk Management Grants are subject to change after the Risk Management Committee meeting.

5. Administration Expenses

Administrative expenses are projected to decrease by 8.6%, over the prior year. The 2018/19 preliminary budget includes the following line item variances from the prior year:

- Cost of salaries line item will decrease by $1.3M from the prior year as Bickmore was selected to provide Pool Administration services (needs to be read in conjunction with the next item);
- Program Administration - $817,614. Per the Pool Administration Services contract, the 2017/18 service cost would have been $793,800 with a 3.1% increase for the 2018/19 fees. Since Bickmore started providing Pool Administration service in November 2017, the 2017/18 fees were prorated for 8 months;
- Financial Audit: $4,000 increase projected over prior year;
- Actuarial Study: $37,000, a 23.3% increase over the prior year, due to increased scope of analysis;
- Claims Administration & Audit – Projecting increase of 5% over prior year budget;
- Legal Counsel – Projecting increase of 5% over prior year;
- Risk Control Services – New "potential" administration budget item projected for $306,000. This was funded using equity funds in prior year; and
- Meeting and Conferences – Projecting a decrease of $7,000 in meeting related expenses.

As mentioned above, the budgeted administration expense includes a new line item (Risk Control Services). By removing the Risk Control Services line item from the budget, there is a savings recognized of 22.8% or $491,891 when comparing administrative expenses from 2017-18 to 2018-19. This savings is a result of ABAG PLAN Board electing to have Bickmore provide administration services.

RECOMMENDATION:

Staff recommends the Finance Committee recommend approval of the draft budget to the Executive Committee and Board of Directors. The final budget will be presented at the June 20, 2018, Board of Directors meeting for formal consideration and may include some adjustments based on the final excess insurance numbers.

REFERENCE MATERIALS ATTACHED:

- Preliminary Operating 2018/19 Budget

PLAN JPA

Preliminary 2018 / 2019 Operating Annual Budget

Summary of Contributions by Program

Member	Liability Program	Property Program	2018/19 Total Contributions	Prior Year Comparison: 2017/18 Total Contributions	Prior Year Comparison: Increase/ (Decrease)	Prior Year Comparison: Percent Change	Payroll Comparison: Estimated Payroll 2018/19	Payroll Comparison: Estimated Payroll 2017/18	Payroll Comparison: % Change	Ex-mod Comparison: 2018/19	Ex-mod Comparison: 2017/18	Ex-mod Comparison: % Change
	Page 2	Page 3										
American Canyon	$181,738	$58,201	**$239,939**	*$204,405*	*$35,534*	*17%*	$ 7,777,859	$ 7,003,700	11.1%	60%	56%	7.1%
Atherton	127,456	11,452	**138,908**	*121,180*	*17,728*	*15%*	5,211,259	4,933,800	5.6%	89%	86%	3.5%
Benicia	654,300	190,346	**844,646**	*723,438*	*121,208*	*17%*	19,448,539	18,777,300	3.6%	142%	136%	4.4%
Burlingame	308,966	149,150	**458,116**	*399,327*	*58,789*	*15%*	24,297,439	23,038,000	5.5%	76%	81%	-6.2%
Campbell	362,317	54,399	**416,716**	*328,932*	*87,784*	*27%*	23,272,000	22,479,100	3.5%	79%	53%	49.1%
Colma	100,763	21,213	**121,976**	*110,752*	*11,224*	*10%*	5,300,000	4,975,000	6.5%	86%	88%	-2.3%
Cupertino	402,710	77,967	**480,677**	*455,657*	*25,020*	*5%*	22,396,280	20,714,500	8.1%	97%	136%	-28.7%
Dublin	318,276	123,383	**441,659**	*378,371*	*63,288*	*17%*	13,814,874	13,276,200	4.1%	67%	70%	-4.3%
East Palo Alto	211,278	17,487	**228,765**	*242,823*	*(14,058)*	*-6%*	11,800,000	10,800,000	9.3%	62%	94%	-34.0%
Foster City	220,386	106,269	**326,655**	*331,141*	*(4,486)*	*-1%*	24,560,000	23,588,600	4.1%	33%	52%	-36.5%
Half Moon Bay	112,150	7,665	**119,815**	*94,010*	*25,805*	*27%*	4,242,218	3,230,000	31.3%	97%	88%	10.2%
Hillsborough	191,787	58,214	**250,001**	*267,072*	*(17,071)*	*-6%*	10,728,645	9,479,800	13.2%	75%	110%	-31.8%
Los Altos Hills	101,155	12,070	**113,225**	*97,268*	*15,957*	*16%*	2,126,232	2,060,900	3.2%	130%	117%	11.1%
Los Gatos	308,270	46,580	**354,850**	*292,902*	*61,948*	*21%*	17,176,819	16,800,800	2.2%	63%	60%	5.0%
Millbrae	205,586	79,779	**285,365**	*229,462*	*55,903*	*24%*	9,560,214	7,702,000	24.1%	171%	83%	106.0%
Milpitas	544,521	153,791	**698,312**	*608,225*	*90,087*	*15%*	40,506,922	37,364,200	8.4%	50%	55%	-9.1%
Morgan Hill	578,710	116,778	**695,488**	*585,602*	*109,886*	*19%*	25,019,034	24,507,100	2.1%	124%	117%	6.0%
Newark	451,478	104,872	**556,350**	*442,711*	*113,639*	*26%*	19,683,040	15,905,400	23.8%	147%	116%	26.7%
Pacifica	481,820	182,402	**664,222**	*533,096*	*131,126*	*25%*	18,189,380	15,819,900	15.0%	169%	131%	29.0%
Portola Valley	55,749	10,838	**66,587**	*58,020*	*8,567*	*15%*	1,684,440	1,545,400	9.0%	82%	80%	2.5%
Ross	81,440	4,764	**86,204**	*75,018*	*11,186*	*15%*	2,400,000	2,283,000	5.1%	117%	112%	4.5%
San Bruno	825,916	73,409	**899,325**	*967,084*	*(67,759)*	*-7%*	30,372,630	28,159,700	7.9%	115%	137%	-16.1%
San Carlos	504,316	47,619	**551,935**	*429,838*	*122,097*	*28%*	9,350,600	8,816,800	6.1%	364%	264%	37.9%
Saratoga	178,502	33,592	**212,094**	*169,472*	*42,622*	*25%*	7,100,000	6,596,900	7.6%	148%	164%	-9.8%
South San Francisco	942,859	245,659	**1,188,518**	*1,191,435*	*(2,917)*	*0%*	57,726,166	53,464,100	8.0%	89%	111%	-19.8%
Suisun City	183,116	29,278	**212,394**	*189,549*	*22,845*	*12%*	6,963,200	6,381,700	9.1%	65%	80%	-18.8%
Tiburon	145,659	15,300	**160,959**	*126,051*	*34,908*	*28%*	5,172,300	4,926,000	5.0%	113%	98%	15.3%
Woodside	76,922	7,495	**84,417**	*68,745*	*15,672*	*23%*	2,333,070	2,161,200	8.0%	84%	81%	3.7%
Total	**$ 8,858,146**	**$ 2,039,970**	**$ 10,898,116**	**$ 9,721,586**	**$ 1,176,530**	*12%*	**$ 428,213,160**	**$ 396,791,100**	**7.9%**			
P/Y Actual	*$7,926,908*	*$1,794,678*	*$9,721,586*									
Incr./(Decr.)	*$931,238*	*$245,292*	*$1,176,530*									
% Change	*12%*	*14%*	*12%*									

Note:
Payroll comparison was obtained from the actuarial study. The payroll numbers are estimates that were used at the time of funding.
The ex-mod comparisons were obtained from actuarial reports. See attached exhibit 1, page 7 for the calculation of ex-mod by members.

PLAN JPA

Preliminary 2018 / 2019 Operating Annual Budget

Liability Program Contribution Schedule

Pool Funding @ 60% Confidence Level, 3.0% Discount Factor

Member	*Member SIR*	Funding for Losses SIR-$2.5 M	Reinsurance/Excess Insurance: Reinsurance $2.5M x $2.5M	Reinsurance/Excess Insurance: Excess $15M x $15M $10M x $5M	Reinsurance/Excess Insurance: Total Insurance	Administration Expense	Unallocated Contributions	Members capped at 30%	Uncapped Members	Allocation of Contributions	2018/19 60% CL Liability Budget	*Budget Comparison: 2017/18 60% CL Liability Budget*	*Budget Comparison: Percent Increase / (Decrease)*
	Note 1	Note 2			Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	*Note 10*	
American Canyon	*$25,000*	$81,989	$26,205	$20,215	$46,420	$53,318	$181,727	$0	$181,727	$181,738	**$181,738**	*$153,197*	*19%*
Atherton	*25,000*	78,477	9,197	7,094	16,291	32,680	127,448	-	127,448	127,456	**127,456**	*111,111*	*15%*
Benicia	*25,000*	470,489	35,372	27,287	62,659	121,112	654,260	-	654,260	654,300	**654,300**	*555,989*	*18%*
Burlingame	*250,000*	163,520	38,231	29,493	67,724	77,703	308,947	-	308,947	308,966	**308,966**	*268,001*	*15%*
Campbell	*100,000*	193,083	54,771	42,252	97,023	72,189	362,295	-	362,295	362,317	**362,317**	*281,100*	*29%*
Colma	*50,000*	67,233	1,941	1,497	3,438	30,086	100,757	-	100,757	100,763	**100,763**	*92,068*	*9%*
Cupertino	*250,000*	189,144	77,415	59,720	137,135	76,406	402,685	-	402,685	402,710	**402,710**	*387,069*	*4%*
Dublin	*50,000*	142,374	73,762	56,902	130,664	45,218	318,256	-	318,256	318,276	**318,276**	*269,850*	*18%*
East Palo Alto	*100,000*	93,796	39,287	30,307	69,594	47,875	211,265	-	211,265	211,278	**211,278**	*227,447*	*-7%*
Foster City	*100,000*	102,765	42,703	32,942	75,645	41,962	220,372	-	220,372	220,386	**220,386**	*237,701*	*-7%*
Half Moon Bay	*50,000*	56,763	16,077	12,402	28,479	26,901	112,143	-	112,143	112,150	**112,150**	*87,271*	*29%*
Hillsborough	*50,000*	112,491	13,980	10,784	24,764	54,520	191,775	-	191,775	191,787	**191,787**	*215,886*	*-11%*
Los Altos Hills	*25,000*	48,126	11,136	8,591	19,727	33,296	101,149	-	101,149	101,155	**101,155**	*86,655*	*17%*
Los Gatos	*50,000*	164,314	38,586	29,766	68,352	75,585	308,251	-	308,251	308,270	**308,270**	*251,945*	*22%*
Millbrae	*100,000*	90,358	29,757	22,956	52,713	62,502	205,573	-	205,573	205,586	**205,586**	*159,314*	*29%*
Milpitas	*100,000*	259,206	97,135	74,933	172,068	113,213	544,487	-	544,487	544,521	**544,521**	*473,159*	*15%*
Morgan Hill	*100,000*	379,720	56,136	43,305	99,441	99,513	578,674	-	578,674	578,710	**578,710**	*482,889*	*20%*
Newark	*100,000*	271,913	57,535	44,384	101,919	77,618	451,450	-	451,450	451,478	**451,478**	*350,499*	*29%*
Pacifica	*50,000*	319,578	48,626	37,511	86,137	76,075	481,790	-	481,790	481,820	**481,820**	*372,468*	*29%*
Portola Valley	*25,000*	24,273	5,811	4,483	10,294	21,179	55,746	-	55,746	55,749	**55,749**	*48,491*	*15%*
Ross	*25,000*	47,535	3,250	2,507	5,757	28,143	81,435	-	81,435	81,440	**81,440**	*70,796*	*15%*
San Bruno	*100,000*	435,224	58,342	45,007	103,349	287,292	825,865	-	825,865	825,916	**825,916**	*902,536*	*-8%*
San Carlos	*100,000*	350,666	36,536	28,185	64,721	89,445	504,832	504,316	-	-	**504,316**	*387,935*	*30%*
Saratoga	*25,000*	57,681	38,868	29,984	68,852	51,958	178,491	-	178,491	178,502	**178,502**	*139,902*	*28%*
South San Francisco	*100,000*	627,286	83,069	64,082	147,151	168,364	942,801	-	942,801	942,859	**942,859**	*975,185*	*-3%*
Suisun City	*25,000*	80,569	37,417	28,865	66,282	36,254	183,105	-	183,105	183,116	**183,116**	*163,723*	*12%*
Tiburon	*50,000*	87,171	11,704	9,029	20,733	37,746	145,650	-	145,650	145,659	**145,659**	*112,566*	*29%*
Woodside	*25,000*	34,566	7,151	5,517	12,668	29,683	76,917	-	76,917	76,922	**76,922**	*62,155*	*24%*
Total		5,030,310	1,050,000	810,000	$1,859,999	$1,967,834	$8,858,145	$504,316	$8,353,314	$8,353,830	**8,858,146**	*7,926,908*	*12%*
Prior Year Actual		4,497,000	721,000	665,279	1,386,279	2,043,629					7,926,908	-	
Incr./(Decr.)		533,310	329,000	144,721	473,720	(75,795)					931,238		
% Change		11.86%	45.63%	21.75%	34.17%	-3.71%					11.75%		

NOTES:

Note 1: Member Selected Self-Insured Retention

Note 2: Adjusted funding needed for SIR to $2,500,000 at the 60% confidence level from draft Actuarial Study dated April 12, 2018.

Note 3: Insurance indications provided by the Alliant, broker; allocation based upon draft actuarial study.

Note 4: Administrative Expense allocation: 33% allocated to the member equally. Of the remaining 67%, one-third is allocated using reported claims and two-thirds using paid losses; these numbers were provided in the draft actuarial study.

Note 5: Unallocated contributions: (Note 2 + Note 3 + Note 4)

Note 6: Capping members who have more than 30% change in contributions from the prior year.

Note 7: Members with contributions below the 30% cap.

Note 8: Allocation of remaining contributions among uncapped members.

Note 9: Preliminary 2018/19 Liability Contributions

Note 10: 2017/18 Contributions paid by members.

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Property Program Contributions Schedule

Pool Funding @ 70% Confidence Level, 3.0% Discount Factor

Member	SIR	Insured Values: *2017/18 Insured Values*	Insured Values: 2018/19 Insured Values	Pool Funding SIR-$225k	Excess Prop. Premium $225k-$1B	Flood Premium	2018/19 Program Deposit	Budget Comparison: *2017/18 Program Deposit*	Budget Comparison: *Percent Increase / (Decrease)*
		Note 1	Note 2	Note 3	Note 4	Note 5	**Note 6**	Note 7	
American Canyon	$5,000	*$68,699,971*	$70,417,470	$20,463	$36,638	$1,100	**$ 58,201**	$51,208	*14%*
Atherton	5,000	*13,777,638*	14,122,079	4,104	7,348	-	**11,452**	*10,069*	*14%*
Benicia	5,000	*225,702,953*	231,345,527	67,228	120,368	2,750	**190,346**	*167,449*	*14%*
Burlingame	5,000	*177,642,505*	182,083,568	52,913	94,737	1,500	**149,150**	*131,326*	*14%*
Campbell	5,000	*65,449,373*	67,085,607	19,495	34,904	-	**54,399**	*47,832*	*14%*
Colma	5,000	*24,197,656*	24,802,597	7,208	12,905	1,100	**21,213**	*18,684*	*14%*
Cupertino	5,000	*92,481,465*	94,793,502	27,546	49,321	1,100	**77,967**	*68,588*	*14%*
Dublin	5,000	*147,123,144*	150,801,223	43,822	78,461	1,100	**123,383**	*108,521*	*14%*
East Palo Alto	5,000	*21,038,634*	21,564,600	6,267	11,220	-	**17,487**	*15,376*	*14%*
Foster City	5,000	*127,855,812*	131,052,207	38,083	68,186	-	**106,269**	*93,440*	*14%*
Half Moon Bay	5,000	*9,221,460*	9,451,997	2,747	4,918	-	**7,665**	*6,739*	*14%*
Hillsborough	5,000	*70,039,118*	71,790,096	20,862	37,352	-	**58,214**	*51,186*	*14%*
Los Altos Hills	5,000	*14,521,897*	14,884,944	4,325	7,745	-	**12,070**	*10,613*	*14%*
Los Gatos	5,000	*56,041,867*	57,442,914	16,693	29,887	-	**46,580**	*40,957*	*14%*
Millbrae	5,000	*95,985,024*	98,384,650	28,590	51,189	-	**79,779**	*70,148*	*14%*
Milpitas	5,000	*181,391,906*	185,926,704	54,029	96,737	3,025	**153,791**	*135,066*	*14%*
Morgan Hill	5,000	*139,175,995*	142,655,395	41,455	74,223	1,100	**116,778**	*102,713*	*14%*
Newark	5,000	*126,175,226*	129,329,607	37,582	67,290	-	**104,872**	*92,212*	*14%*
Pacifica	5,000	*209,527,937*	214,766,135	62,410	111,742	8,250	**182,402**	*160,628*	*14%*
Portola Valley	5,000	*13,038,735*	13,364,703	3,884	6,954	-	**10,838**	*9,529*	*14%*
Ross	5,000	*4,408,604*	4,518,819	1,313	2,351	1,100	**4,764**	*4,222*	*13%*
San Bruno	5,000	*88,321,711*	90,529,754	26,307	47,102	-	**73,409**	*64,548*	*14%*
San Carlos	5,000	*55,967,665*	57,366,857	16,671	29,848	1,100	**47,619**	*41,903*	*14%*
Saratoga	5,000	*39,092,206*	40,069,511	11,644	20,848	1,100	**33,592**	*29,570*	*14%*
South San Francisco	5,000	*285,635,620*	292,776,511	85,079	152,330	8,250	**245,659**	*216,250*	*14%*
Suisun City	5,000	*31,916,760*	32,714,679	9,507	17,021	2,750	**29,278**	*25,826*	*13%*
Tiburon	5,000	*17,083,764*	17,510,858	5,089	9,111	1,100	**15,300**	*13,485*	*13%*
Woodside	5,000	*9,017,543*	9,242,982	2,686	4,809	-	**7,495**	*6,590*	*14%*
Total		***$2,410,532,189***	**$2,470,795,494**	**$718,000**	**$1,285,545**	**$36,425**	**$2,039,970**	***$1,794,678***	***14%***

P/Y Actual	$2,410,532,189	$593,000	$1,168,677	$33,000	$1,794,678
Incr./(Decr.)	60,263,305	125,000	116,868	3,425	245,292
% Change	2.5%	21.1%	10.0%	10.4%	13.7%

Notes:

Note 1: 2017/18 Total Insured property values obtained from Actuarial study

Note 2: 2018/19 Total Insured property values inflated 2.5% per actuarial study.

Note 3: Rate for PLAN pool (from actuarial report dated August 16, 2017) times total Note 2 Insured Value

Note 4: Estimated Premium by Alliant Property Insurance Program (APIP).

Note 5: Flood cost are based upon 2017/18 premiums with a 10% increase in premiums.

Note 6: Total 2018/19 Contributions by member (Total Notes 3 through 5).

Note 7: 2017/18 Contributions

Funding for the Pooled Layer

		17/18	18/19
Expected	Undiscounted	603,000	603,000
Expected	Discounted	593,000	593,000
70% confidence Level	Discounted	718,000	718,000
75% confidence Level	Discounted	781,000	781,000
80% confidence Level	Discounted	856,000	856,000
85% confidence Level	Discounted	950,000	950,000

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	2017/18 Operating Budget	2018/19 Proposed Operating Budget	Prior Year: Increase/ (Decrease)	Prior Year: Percent Incr./(Decr.)	
Revenues:					
Contributions	$9,721,587	**$10,898,116**	*1,176,529*	*12.1%*	
Funding from Equity	1,149,052	**500,000**	*(649,052)*	*-56.5%*	
Investment Income	-	-	-	*0.0%*	
Total Revenues	***10,870,639***	**11,398,116**	*527,477*	*4.9%*	
Expenses					
Claims Expense	4,913,470	5,512,568	*599,098*	*12.2%*	a
Insurance Expense					
Insurance - Liability	1,386,279	1,859,999	*473,720*	*34.2%*	
Insurance - Property	1,168,677	1,285,545	*116,868*	*10.0%*	
Flood Insurance	33,000	36,425	*3,425*	*10.4%*	
	2,587,956	3,181,969	594,013	*23.0%*	b
Risk Management Grants					
Risk Service Credit	361,052	-	*(361,052)*	*-100.0%*	
Risk Management Services	450,000	500,000	*50,000*	*11.1%*	
Training Grants	98,000	-	*(98,000)*	*-100.0%*	
Defensive Driving	20,000	-	*(20,000)*	*-100.0%*	
Sewer Smart	85,000	-	*(85,000)*	*-100.0%*	
Risk Management Services	135,000	-	*(135,000)*	*-100.0%*	
	1,149,052	500,000	*(649,052)*	*-56.5%*	c
Administration					
Salaries *	1,343,708	-	*(1,343,708)*	*-100.0%*	
Program Administration - Bickmore	-	817,614	*817,614*	*0.0%*	
Financial Audit	15,000	19,000	*4,000*	*26.7%*	
Actuarial Studies	30,000	37,000	*7,000*	*23.3%*	
Claims Admin & Audit	662,839	695,981	*33,142*	*5.0%*	
Legal Counsel	39,344	41,155	*1,811*	*4.6%*	
Risk Console Info System	20,000	20,000	-	*0.0%*	
Risk Control Services	-	305,585	*305,585*	*0.0%*	
Website Reconstruction	10,000	7,500	*(2,500)*	*-25.0%*	
Meetings & Conferences:					
Meetings	15,000	16,000	*1,000*	*6.7%*	
Memberships & Conferences	8,500	-	*(8,500)*	*-100.0%*	
Training & Workshops	2,500	3,000	*500*	*20.0%*	
Allowance for Contingencies	7,250	5,000	*(2,250)*	*-31.0%*	
	2,154,141	**1,967,835**	**(186,306)**	*-8.6%*	d
Total Expenses	***10,804,619***	**11,162,372**	***357,753***	***3.3%***	
Budgeted Net Income (Loss)	***66,020***	***235,744***	***169,724***	***257.1%***	

* No longer applicable

Notes:

a Claims expenses are recorded at expected. The breakout of expenses by programs are:

	2017/18	2018/19	*Difference*	*% Difference*
Liability	$4,320,470	$4,919,568	*$599,098*	*13.9%*
Property	593,000	593,000	-	*0.0%*
Total	$4,913,470	$5,512,568	*$599,098*	*12.2%*

b Insurance expenses up by 23%. Liability program premiums will increase due to loss activity (Reinsurance will increase by 46% and excess premiums will go up 21.7%). Property rates are expected to be around 10%

c Risk Management Grants are funded from the equity. Thus, a corresponding revenues has been recorded for budgeting purposes. These numbers are preliminary and subject to change after the Risk Committee

d Administration expenses are expected to decrease in comparison to 17/18 budget. In past year, salaries were associated with the budget. In 18/19, contract with Bickmore for program administration is lower than the cost of salaries. We are preliminary budgeting for Risk Control services to be paid out of the administration fees.

Comparison of admin expenses from prior year; savings projected in 2018-19.

	2017/18	2018/19	*Savings*	*% Difference*
Administration expenses	$2,154,141	$1,662,250	***$491,891***	*-22.8%*

Agenda Item 6.C.

FINANCIAL MATTERS

SUBJECT: Consideration of the Audit Contract for 2018/19 Program Year

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BACKGROUND AND HISTORY:

The objective of a financial audit is to determine whether ABAG PLAN is presented fairly in all material respects. Furthermore, the audit is conducted in accordance with auditing standards generally accepted in the United States of America. A secondary report is provided on memorandum on internal controls and required communications.

The services Maze & Associates have been engaged to provide are:

- Audit of the Basic Financial Statements and Memorandum on Internal Controls
- Preparations of Federal IRS Form 990 and California Forms 199 and RRF-1

Maze & Associates provided the financial audit for ABAG PLAN for the previous three years; therefore, staff is recommending ABAG PLAN engage the firm of Maze & Associates for a one year extension of their contract to conduct the ABAG PLAN financial audit for year ending June 30, 2018. The fee for this one year extension is follows:

- June 30, 2018, Financial Audit – $18,025

RECOMMENDATION:

Staff recommends the Finance Committee review and recommend to the Executive Committee approval of the one year extension of the Maze & Associates contract to conduct the financial audit for ABAG PLAN for Fiscal Year Ending June 30, 2018.

REFERENCE MATERIALS ATTACHED:

- ABAG PLAN Engagement Letter – Fiscal Year Ending June 30, 2018

MAZE & ASSOCIATES

May 2, 2018

Ritesh Sharma
Manager, Finance & Accounting
ABAG Plan Corporation
1750 Creekside Oaks Drive, Suite 200
Sacramento, CA 95833

Dear Ritesh:

We are pleased to confirm our understanding of the services we are to provide for the ABAG Plan Corporation (Plan) for the year ended June 30, 2018. The services we have been engaged to provide are outlined below, but we are also available to provide additional services at your request:

1) Audit of the Basic Financial Statements and Memorandum on Internal Controls

2) Preparation of Federal IRS Form 990 and California Forms 199 and RRF-1

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis, to supplement Plan's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Plan's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

If Plan's financial statements are accompanied by supplementary information other than RSI, we will subject the supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and will provide an opinion on it in relation to the financial statements as a whole.

Other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that information.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

Audit Objective

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the accompanying supplementary information when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America, and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. Our reports will be addressed to the Board of Plan. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with Plan management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or may withdraw from this engagement.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Plan or to acts by management or employees acting on behalf of Plan.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of physical existence of inventories, and direct confirmation of cash, investments and certain other assets and liabilities by correspondence with selected customers, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill Plan for responding to this inquiry. At the conclusion of our audit we will also require certain written representations from management about the financial statements and related matters.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of Plan and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Plan's compliance with certain provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Other Services

We will also assist in preparing the financial statements and related notes in conformity with U.S. generally accepted accounting based on information provided by you.

Management Responsibilities

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. We understand that Plan will provide us with the Closing Checklist information required for our audit and that Plan is responsible for the accuracy and completeness of that information. You are also responsible for providing us with access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, additional information that we may request for the purpose of the audit, and unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management is responsible for adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Management's responsibilities include informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that Plan complies with applicable laws and regulations.

Management is responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Management's responsibilities include acknowledging to us in the representation letter that: management is responsible for presentation of supplementary information in accordance with GAAP; that management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management agrees to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accepting responsibility for them.

Engagement Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

The audit documentation for this engagement is our property and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request in a timely manner to a federal agency providing oversight of direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Maze & Associates personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. We will retain audit documentation for seven years after the report release date pursuant to state regulations.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

We expect to begin our audit in June 2018 and to issue our reports no later than December 31, 2018. Vikki Rodriguez is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services are billed based on our contract with Plan. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if the Plan's account becomes thirty days or more overdue and may not be resumed until Plan's account is paid in full.

These fees are based on anticipated cooperation from Plan personnel, the completion of schedules and data requested on our Checklists, and the assumption that there will be no unexpected increases in work scope, such as new debt issues, etc., or delays which are beyond our control, as discussed on the Fees Attachment to this letter. If significant additional time is necessary, we will discuss it with Plan management and arrive at a new fee before we incur any additional costs.

We understand you will provide us with basic workspace sufficient to accommodate the audit team assigned to your audit. We understand the basic workspace will be equipped with a telephone and direct Internet access, preferably a temporary network outside of your network, a public IP address and a wired connection. We understand you will also provide us with access to a fax machine and read only access to your general ledger system.

Government Auditing Standards require that we provide Plan with a copy of our most recent external peer review report, and any subsequent peer review reports received during the period of the contract. Our most recent peer review report accompanies this letter.

We appreciate the opportunity to be of service to Plan and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return the entire copy to us.

Maze & Associates

Maze & Associates

RESPONSE:
This letter correctly sets forth the understanding of Plan.

By: _____

Title: _____

Date: _____

ABAG Plan Corporation Engagement Letter
Fees Attachment
June 30, 2018

Our fees for the work described in the attached engagement letter will be as follows, unless they are adjusted for one or more of the items below.

Item	Fee
1	$17,325
2	700
Total	$18,025

2018 Fees – Our recurring fees have been adjusted only for the change in the services component of the Bay Area Cost of Living Index for the San Francisco Bay Area of 3.3%, except as noted below:

PDF Copies of Reports – scanned copies of the above reports are available upon request at no charge. These scanned copies (300 dpi) are not high quality and the file sizes may be large, depending on the length of the report. **If you intend to post the CAFR to your website, we do not recommend using the scanned copies to do so.** If you would like a higher quality PDF file, we have listed three options below. Please contact us for more information on the specifics of these options. **Please contact us if you would like us to prepare one of the following three options** for your CAFR, or if you'd like a quote for the preparation of a file for another type of report. In addition, should you decide on one of the following options, please let us know at least a week in advance.

1. INDIVIDUAL PDF CAFR PAGES - $200
2. WEB PDF CAFR - $750
3. CAMERA READY PDF CAFR - $1,000

Additional Services - The above fees are for audit and assurance services described in the accompanying engagement letter. They do not include fees for assisting with closing the books nor providing other accounting services. Should the Plan require assistance beyond audit services we will provide an estimate before proceeding.

Report Finalization - Our fee is based on our understanding that all information and materials necessary to finalize all our reports will be provided to us before we complete our year-end fieldwork in your offices. In the case of financial statements, this includes all the materials and information required to print the financial statements. As in the past, we will provide final drafts of all our reports before we leave your offices. We will schedule a Final Changes Meeting with you for a date no more than two weeks after we complete our fieldwork. At that meeting, we will finalize all reports for printing. After that date, report changes you make and changes required because information was not received timely will be billed at our normal hourly rates.

Post-Closing Client Adjusting Entries - The first step in our year-end audit is the preparation of financial statement drafts from your final closing trial balance. That means any entries you make after handing us your closing trial balance must be handled as audit adjustments, or in extreme cases, by re-inputting the entire trial balance, even if the amounts are immaterial. If you make such entries and the amounts are in fact immaterial, we will bill you for the costs of the adjustments or re-input at our normal hourly rates.

Recurring Audit Adjustments - Each year we include the prior year's adjusting entries as new steps in our Closing Checklist, so that you can incorporate these entries in your closing. If we are required to continue to make these same adjustments as part of this year's audit, we will bill for this service at our normal hourly rates.

BFS Printing - As a convenience, we can send your BFS to a printer we use locally. We do not charge for delivering camera-ready print masters to any printer of your choice and delivering the CAFRs or BFS to you.

However, we will bill you for any additional time spent on the BFS printing at our normal hourly rates. This includes changes after the report goes to the printer, obtaining, reviewing and / or delivering printer's proofs, etc.

We can also help with BFS design, including covers, tabs, dividers, color choices, binding, organization charts, maps, etc. We will estimate these costs for you before processing.

Grant Programs Requiring Separate Audit - Grant programs requiring separate audits represent a significant increase in work scope, and fees for these audits vary based on the grant requirements. If you wish us to determine and identify which programs are subject to audit, we will bill you for that time at our normal hourly rates.

Changes in Plan Personnel - Our experience is that changes and /or reductions in Finance Department staff can have a pronounced impact on costs of performing the audit. If such changes occur, we will meet with you to assess their impact and arrive at a new fee before we begin the next phase of our work. However, we reserve the right to revisit this subject at the conclusion of the audit, based on your actual performance and our actual costs.

POWELL & SPAFFORD, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA (Ret.)
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

SYSTEM REVIEW REPORT

To the Shareholders of
Maze & Associates Accountancy Corporation
and the Peer Review Committee of the CalCPA Peer Review Program

We have reviewed the system of quality control for the accounting and auditing practice of Maze & Associates Accountancy Corporation (the firm) in effect for the year ended May 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Maze & Associates Accountancy Corporation in effect for the year ended May 31, 2014, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Maze & Associates Accountancy Corporation has received a peer review rating of *pass*.

Powell & Spafford

August 27, 2014

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