ACCEL
Authority for California Cities Excess Liability
c/o Alliant Insurance Services
Corporation Insurance License No. 0C36861
560 Mission Street, 6th Floor, San Francisco, CA 94105

AGENDA

LEGEND : A – Action may be taken
I - Information
1 - Included
2 - Handout
3 - Separate
4 – Verbal

JPA: **ACCEL SPECIAL BOARD OF DIRECTORS MEETING**

DATE/TIME: Wednesday, September 21, 2022 at 11:30 AM

LOCATION: Teleconference
Link: https://alliantinsurance.zoom.us/j/98842556066?pwd=L3c3UDVrK3ZtSXU1bVlQZ2todm03dz09
Dial: (669) 900-6833
Meeting ID: 988 4255 6066
Passcode: 028457

In accordance with the requirements of the Brown Act, notice of this meeting must be posted in publicly accessible places, 24 hours in advance of the meeting, at the office of ACCEL's Secretary.

Per Government Code section 54954.2, persons requesting disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, are requested to contact Alliant Insurance Services at (415) 403-1411, 24 hours in advance of the meeting. Access to some buildings may require routine provision of identification to building security. However, ACCEL does not require any member of the public to register his or her name, or to provide other information, as a condition to attendance at any public meeting and will not inquire of building security concerning information so provided. See Government Code section 54953.3.

MEMBER LOCATIONS VIA TELE - CONFERENCE

- **City of Anaheim**, 201 South Anaheim Blvd., Suite 503, Anaheim, CA 92805
- **City of Bakersfield**, 1600 Truxtun Ave., 4th Floor, Bakersfield, CA 93301
- **City of Burbank**, 275 E. Olive Ave., Burbank, CA 91510
- **City of Modesto**, 1010 10th St., Modesto, CA 95353
- **City of Monterey**, 735 Pacific St., Suite A, Monterey, CA 93940
- **City of Mountain View**, 500 Castro St., 2nd Floor, Mountain View, CA 94041
- **City of Ontario**, 200 North Cherry Ave., Ontario, CA 91764
- **City of Palo Alto**, 250 Hamilton Ave., 1st Floor, Palo Alto, CA 94301
- **City of Salinas,** 200 Lincoln Ave., Salinas, CA 93901
- **City of Santa Barbara**, 735 Anacapa St., Santa Barbara, CA 93101
- **City of Santa Cruz**, 1200 Pacific Ave, Suite 290, Santa Cruz, CA 95060
- **City of Santa Monica**, 1685 Main St., Room 131, Santa Monica, CA 90401
- **City of Visalia**, 220 N. Santa Fe St., Visalia, CA 93292

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A. CALL TO ORDER

B. REPORTS

1. UNFINISHED BUSINESS

2-7 *1* a) Short and Long Term Investment of Funds – Continued Discussion (A)
Members will review the Project Cash Flow Obligations Report and hear an update from Chandler regarding its investments. Action may be taken or direction given.

C. PUBLIC COMMENTS (I)
4 *The public is invited at this point to address the Board of Directors on issues of interest to them.*

ADJOURNMENT

ACCEL

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Item No. B.1.a
Special Board of Directors
September 21, 2022

SHORT AND LONG TERM INVESTMENT OF FUNDS – CONTINUED DISCUSSION

ISSUE: At the June 2022 Board Meeting, Carlos Oblites from Chandler provided the Board an investment update on the $10M it transferred in two $5M batches from its short term account with Local Agency Insurance Fund (LAIF) to its long term account with Chandler. The first batch was after the January 2022 Board Meeting and second batch was after the March 2022 Board Meeting.

The Board did not want to transfer additional funds long term at the June 2022 Board Meeting and gave direction to Carlos and the Program Administrators to monitor the market and schedule a Special Board Meeting if anything arises between then and the October 12, 13, 14, 2022 Board Meeting.

The Program Administrators reached out the Carlos, who advised it may be advantageous for the Board to act now.

The *draft* Projected Cash Flow Obligations as of June 30, 2022 is attached. Please note the following:

- This 6/30 report is typically provided at the October Board Meetings, and this version may have minor changes from today's meeting and the upcoming October 2022 Board Meeting.
- Claims details for the George Hills (GH) estimated loss payments are reviewed by the Claims Committee (CC) prior to being present to the Board, but due to the timing of the today's agenda the CC has not seen the claims details. The CC meeting is set for September 29, 2022.
- The $1,034,415 Retro Assessment Receivable by 6/30/2022 is the sum of:
  - **2022 retro:** $373,818 assessment from Anaheim, Bakersfield, Ontario, and Visalia (all paid in full)
  - 2020 payment plan Gardena 3rd installment (last installment of payment plan): $251,825 plus $1,109 interest
  - 2021 payment plan Ontario 2nd and 3rd installment (City paid off early): $203,307 + $203,307 = $406,614 plus $1,049 interest

Carlos will also be in attendance at the October 12, 13, 14, 2022 Board Meeting.

RECOMMENDATION: The Board will review the attached cash flow report and may take action to transfer money to longer term investment, or take another action, or provide direction as needed.

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Additional Consideration

In favor: If money is shifted long term, we would expect to earn higher rates of return allowing for increases in the discount rate for outstanding liabilities and annual funding. Carlos Oblites from Chandler Asset Management will be at the meeting and prepared to discuss anticipated gains by moving money to long term.

Against: If we shift too much money long term, and ACCEL needs to pay short-term obligations in excess of short-term investments, ACCEL would need to sell investments prior to their maturity, reducing overall investment income.

FISCAL IMPACT: Cannot be determined at this time. The goal of any reallocation of short and long-term funds would be to increase investment returns.

We have confirmed that as of September 8, 2022 ACCEL's LAIF balance is $40,823,456. From this balance, we expect to pay approximately $22M in claims payments prior to next year's deposits. This means that we will have an anticipated lowest balance of about $18,800,000.

Based on prior Board action, we expect the Board to consider a transfer of $5M to $10M, and revisit at the next Board meeting in October.

BACKGROUND: From time to time, the ACCEL board may considering moving funds shorter or longer term depending on forthcoming loss payments, deposit premiums paid, and investment market considerations.

At the January 2022 Board Meeting, the Board took action to move $5M from LAIF into the investment accounts with Chandler.

At the March 31 and April 1, 2022 Board Meeting, the Board took action to move an additional $5M from LAIF into the investment accounts with Chandler. In total, ACCEL has transferred $10M to date.

Carlos Oblites from Chandler attended each of those Board Meetings and provided a summary of the effects of those transfer decisions.

ATTACHMENT:

1. Summary of Investment Memo provided by Chandler.
2. *Draft* ACCEL's Projected Cash Flow Obligations as of June 30, 2022.

September 9, 2022

Conor Boughey, ARM
SVP, Alliant Specialty
Authority for California Cities Excess Liability (ACCEL)
560 Mission Street, 6th Floor,
San Francisco, CA 94105

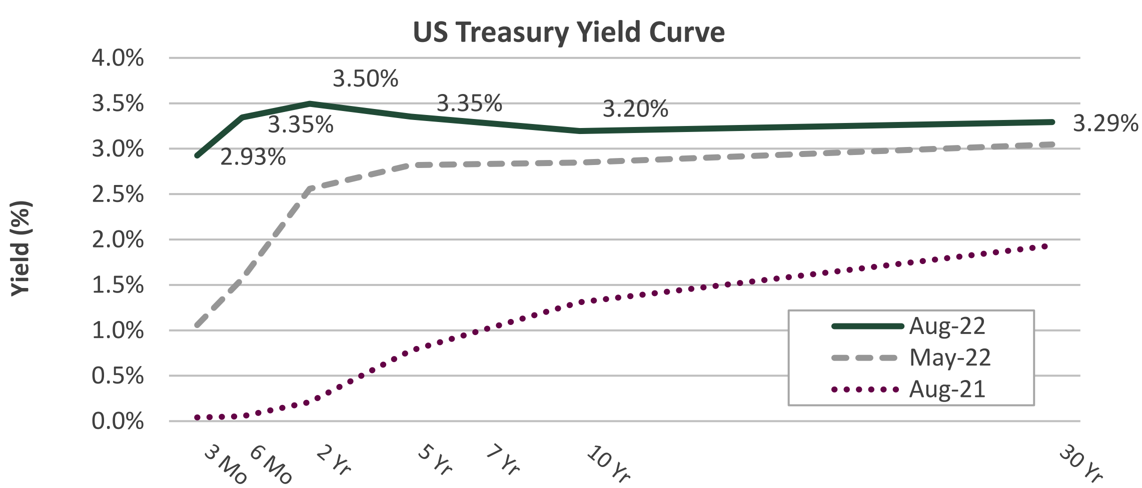
Dear Conor,

The purpose of this memo is to provide ACCEL with a summary of investment opportunities for funds currently held in Local Agency Investment Fund (LAIF) not needed for immediate liquidity needs for the 6-12 months that may be redeployed in the Authority's portfolio of securities.

Current Financial Conditions

The financial landscape is significantly different than six to nine months ago, with heightened volatility and tighter conditions as central banks implement more restrictive monetary policies to combat persistent inflation. While evidence of slower economic conditions has begun to mount, we expect the Federal Reserve to continue to raise rates until a sustainable improvement in inflationary conditions has been achieved. Over the near-term, we expect financial market volatility to remain intensified and conditions to tighten with persistent inflation, geopolitical risk, supply chain bottlenecks, and the Fed's hawkish monetary policy.

At the July meeting, the Federal Open Market Committee (FOMC) delivered another 75-basis point increase to the Fed Funds Rate, increasing the range to 2.25% to 2.50%. The FOMC acknowledged spending and production were trending lower, offset by a strong labor market and elevated inflation metrics. We anticipate additional rate hikes as the Fed remains focused on lowering inflation. The aforementioned conditions have led to higher market rates. In August, yields rose, and the yield curve



inverted further. The 2-year Treasury yield increased 61 basis points to 3.50%, the 5-year Treasury yield rose 68 basis points to 3.35%, and the 10-year Treasury yield gained 54 basis points to 3.20%. Though the U.S. Treasury Yield Curve continues to be inverted, a possible harbinger of a future recession, rates continue at significantly higher levels than twelve months ago.

Investment Opportunities

As of August 31, the Authority's portfolio of securities was expected to generate 1.90% over the next twelve months, assuming interest payments received can be reinvested at the same rate. This is the portfolio's yield to maturity (Average Purchase Yield). This rate changes as securities mature or are sold and replaced with new securities. As of the same date, the portfolio's *market* yield is **3.58%**. This represents the yield that the Authority *would* earn for the next twelve months if the same securities had been purchased on August 31, 2022. This is also an indication of the yield level that any new money invested into the portfolio would earn if invested for the first time in securities structured similarly to the portfolio. It is noteworthy that both purchase and market yields as of month-end are significantly higher than three months prior, as a result of the aforementioned forces. To compare, the market yield for LAIF investments on the same day was **1.38%**, for an outperformance of **220 basis points annually (2.20%)** for new funds invested in the Authority's portfolio of securities.

ACCEL Long Term Portfolio

	08/31/2022	05/31/2022
	Portfolio	**Portfolio**
Average Maturity (yrs.)	2.70	2.64
Modified Duration	2.40	2.36
Average Purchase Yield	1.90 %	1.73 %
Average Market Yield	**3.58 %**	**2.65 %**
Average Quality**	AA/Aa1	AA/Aa1
Total Market Value	40,580,347	40,914,857

** ICE BofA 1-5 Yr US Treasury & Agency Index*

*** Benchmark is a blended rating of S&P, Moody's, and Fitch. Portfolio is S&P and Moody's respectively.*

For a $5 million investment, this yield outperformance equates to a $110,000 difference annually. It is clear that on a yield basis, the current yield environment favors longer-duration strategies such as the strategy implemented in the Authority's portfolio of securities. It is also important to note that the strategy emphasizes longer-duration securities than those securities held in LAIF, which, if purchased, will be more sensitive on a fair value basis if interest rates shift, than shorter-term investments (LAIF's weighted average maturity as of month's end was 0.83 years, while the portfolio of securities maintained a weighted average maturity of 2.7 years and an average duration of 2.4 years.

If the Authority opted to shift more funds from LAIF to the portfolio of securities, we would proceed to invest them gradually as we have done with prior tranches in dollar-cost average our entry into new securities during volatile times. It must be emphasized that any amount of funds the Authority is contemplating redeploying into new investments in the portfolio should not be needed for immediate liquidity needs in the near future.

Please do not hesitate to contact me with any questions you may have on the trades we have executed, or on our plan for the remaining funds.

Sincerely,

Carlos Oblites,
Senior Portfolio Strategist
Chandler Asset Management

ACCEL's Projected Cash Flow Obligations

As of: 6/30/22

		Funds
LAIF Funds and UBC Checking at 6/30/22	$	19,458,702
GH Estimated Loss Payments 6/30/22 - 9/30/22	$	(3,000,000)
Estimated Reinsurance Recovery for Prior Payments	$	-
Retro Payable by 12/31/22	$	-
Estimated Future Period Balance as of 9/30/22	**$**	**16,458,702**

ACCEL **Net** Contributions at 8/1/22	$	26,092,130
Retro Assessment Receivable at 6/30/22	$	1,034,415
Retro Payable by 12/31/22	$	-
GH Estimated Loss Payments 10/1/22 - 12/31/22	$	(3,350,000)
Estimated Reinsurance Recovery for Above Payments	$	-
Estimated Future Period Adjustments as of 12/31/22	**$**	**23,776,545**
Estimated Future Period Balance as of 12/31/22	**$**	**40,235,247**

GH Estimated Loss Payments 12/31/23 - 6/30/23	$	(21,000,000)
Estimated Reinsurance Recovery for Above Payments	$	2,000,000
Estimated Future Period Adjustments as of 6/30/23	$	(19,000,000)
Estimated Future Period Balance as of 6/30/23	**$**	**21,235,247**

ACCEL **Net** Contributions at 8/1/23	$	28,700,000
Retro Assessment Receivable by 6/30/23	$	3,313,852
Estimated Retro Payable by 12/31/23	$	-
GH Estimated Loss Payments 7/1/23 - 12/31/23	$	(20,700,000)
Estimated Reinsurance Recovery for Above Payments	$	2,000,000
Estimated Future Period Adjustments as of 12/31/23	$	13,313,852
Estimated Future Period Balance as of 12/31/23	**$**	**34,549,099**

Current Report Portfolio Allocation

As of: 6/30/22

Information Item:			**Percent of Total Investments**
Long Term Investments at 6/30/22	$	40,512,004	68%
Short Term Investments at 6/30/22	$	19,458,702	32%
Total Investments	**$**	**59,970,706**	

Prior Report Portfolio Allocation

As of: 3/31/22

Information Item:			**Percent of Total Investments**
Long Term Investments at 3/31/22	$	35,899,460	54%
Short Term Investments at 3/31/22	$	30,085,380	46%
Total Investments	**$**	**65,984,840**	