

**SISC III  
HEALTH BENEFITS PROGRAM  
BOARD OF DIRECTORS MEETING  
JULY 19, 2006 - 1:00 P.M.**

**A G E N D A**

**I. CONSENT CALENDAR**

A.	Approval of Minutes for June 2006 Board of Directors Meeting		Russell Bigler
B.	Report of Activity for the Month of June 2006 and ratification of payment as follows:		Russell Bigler
	DELTA DENTAL CLAIMS	\$ 4,526,744.85	
	DELTA DENTAL ASO	297,407.14	
	DENTAL COALITION CLAIMS	996,651.98	
	DENTAL COALITION ASO	65,480.03	
	DELTACARE/PMI PREMIUM	<u>4,787.68</u>	
	TOTAL DENTAL		\$5,891,071.68
	VISION SERVICE PLAN CLAIMS	\$ 775,710.33	
	ASO	82,300.08	
	MES CLAIMS	\$ 14,800.91	
	ASO`	2,721.00	
	TOTAL VISION		\$875,532.32
	PACIFICARE/BEHAV HLTH	\$ 405,113.05	
	CIGNA BEHAVIORAL HEALTH		\$ 18,541.30
	SEC HORIZ PREM (PACIFICARE)	\$ 9,856.38	
	SENIOR ADVANTAGE PREMIUM (KAISER)	\$ 33,764.00	
	SENIORITY PLUS PREMIUM (HEALTHNET)	\$ 86,341.58	
	BLUE SHIELD HMO PREMIUM	\$ 1,638,470.14	
	HEALTH NET PREMIUM	\$ 846,226.00	
	CALIFORNIA CARE PREMIUM	\$ 703,450.88	
	KAISER PREMIUM	\$ 2,170,819.85	
	PACIFICARE PREMIUMS	\$ 10,941.16	
	PACIFIC UNION DENTAL PREMIUM	\$ 2,412.19	
	UNITED HEALTHCARE (LIFE INSURANCE)	\$ 157,367.41	
	NAT'L BENEFIT RESOURCES (STOP LOSS)	\$ 64,755.42	

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BLUE CROSS HEALTH CLAIMS	\$ 29,895,463.66	
BLUE SHIELD HEALTH CLAIMS	\$ 1,487,324.83	
BEHAVIORAL HEALTH CLAIMS	\$ 262,138.78	
ITS CLAIMS	\$ 944,286.06	
COMPANION CARE CLAIMS	\$ 114,541.87	
<b>TOTAL BLUE CROSS AND BLUE SHIELD CLAIMS</b>		<b>\$ 32,703,755.20</b>
BLUE CROSS NETWORK ASO	\$ 906,391.09	
FOUNDATION ADJUDICATION ASO	\$ 462,199.43	
BLUE SHIELD ASO	\$ 88,041.94	
BEHAVIORAL HEALTH ASO	\$ 135,082.13	
ITS ASO	\$ 91,639.01	
COMPANION CARE ASO	\$ 23,619.30	
<b>TOTAL BLUE CROSS AND BLUE CHILD ADMIN</b>		<b>\$ 1,706,972.90</b>
<b>TOTAL BLUE CROSS AND BLUE SHIELD</b>		<b>\$34,410,728.10</b>
MERCK CLAIMS	\$ 12,759,442.12	
ASO-COPAY	\$ 329,077.20	
M/O - DISCOUNT CARD	\$ 145,509.37	
ASO - DISCOUNT CARD	\$ 3,974.00	
<b>TOTAL MERCK CLAIMS</b>		<b>\$13,238,002.69</b>
<b>TOTAL BC, BSC AND MERCK</b>		<b>\$47,648,730.79</b>

**II. PUBLIC COMMENT**

**III. ACTION ITEMS**

- |   |                |
|---|----------------|
| A. Financial Report - Financial Statements For Prior Month Presented For Approval | Cindy Sproles  |
| B. Election of Vice President   | Russell Bigler |
| C. Election of Secretary/Treasurer  | Russell Bigler |

**V. DISCUSSION AND INFORMATION ITEMS**

- |   |  |
|---|--|
| A. Monthly Blue Cross/SISC PPO Trend History Through June 2004    | Russell Bigler   |
| B. Show the Board a Newspaper Article on High Deductible Accounts | Russell Bigler   |
| C. Show the Board a Newspaper Article on Holistic Dentists        | Russell Bigler   |
| D. Review the Investment Policy                                   | Cindy Sproles  |
| E. Update the Board on Our Prilosec OTC Program                   | Russell Bigler   |
| F. Policies for New Board Members                                 |  |
| G. Comments from the Board of Directors Will Be Heard             |  |
| H. Adjournment  |  |
| I. Next Meeting:  | Wednesday, August 16, 2006<br>1:00 p.m.<br>SISC Board Room - City Centre |

# SISC III

## HEALTH BENEFITS TERMINOLOGY

**Adjudication:** Determination of the amount of payment for a claim.

**Administrative Services Only (ASO):** An arrangement under which an insurance carrier or an independent organization will, for a fee, handle the administration of claims, benefits and other administrative functions for a self-insured group but does not assume any financial risk for the payment of benefits.

**Balance bill:** Refers to the leftover sum that a provider bills to the patient after insurance has only partially paid the charge that was initially billed.

**Calendar Year Deductible:** The dollar amount for covered services that must be paid during the calendar year (January 1 – December 31) by members before any benefits are paid by the Plan.

**Centers of Expertise (COE) Network:** The network of health care providers that have entered into contracts with the carrier and/or one or more of its affiliates. These providers have agreed to participate in a transplant program or other designated specialty program that is/are to be based upon the member's benefit agreements.

**Coinsurance:** An arrangement under which the member pays a fixed percentage of the cost of medical care after the deductible has been paid. For example, an insurance plan might pay 80% of the allowable charge, with the member responsible for the remaining 20%, which is then referred to as the coinsurance amount.

**Coinsurance Maximum:** The total amount of coinsurance that an individual pays each year before the carrier pays 100% of allowable charges for covered services. Coinsurance amounts differ with each contract.

**Coordination of Benefits:** The anti-duplication provision to limit benefits for multiple group health insurance in a particular case to 100% of the covered charges and to designate the order in which the multiple carriers are to pay benefits. Under a COB provision, one Plan is determined to be primary and its benefits are applied to the claim. The unpaid balance is usually paid by the secondary Plan to the limit of its liability.

**Co-Payment:** The fixed dollar amount a patient pays for a medical service.

**Deductible:** An amount the covered person must pay before payments for covered services begin. The deductible is usually a fixed amount. For example, an insurance plan might require the insured to pay the first \$250 of covered expense during a calendar year.

**Dependent:** Person, (spouse or child), other than the subscriber who is covered under the subscriber's benefit certificate.

**Employee Assistance Program (EAP):** A worksite-based program that is designed to assist in the identification and resolution of productivity problems associated with personal concerns of employees. The program provides employees and their dependents with access to confidential, short-term counseling by qualified practitioners, in person or over the phone.

**Explanation of Benefits (EOB):** A form sent to the covered person after a claim for payment has been processed by the carrier that explains the action taken on that claim. This explanation might include the amount that will be paid, the benefits available, reasons for denying payment, or the claims appeal process.

**Flexible Spending Account:** Accounts that let workers set aside pre-tax money from their paycheck toward premiums or costs not covered by their health plan, such as co-payments. All the money must be used within the plan year or it is lost.

**Health Assessment –** More companies are asking workers to fill out such assessments, which give health improvement tips. Companies can give workers financial incentives to do so.

**Health Insurance Portability and Accountability Act (HIPAA):** A federal health benefits law passed in 1996, effective July 1, 1997, which among other things, restricts pre-existing condition exclusion periods to ensure portability of health-care coverage between plans, group and individual; requires guaranteed issue and renewal of insurance coverage; prohibits plans from charging individuals higher premiums, co-payments, and/or deductibles based on health status.

**Health Maintenance Organization (HMO):** An organization that provides a wide range of comprehensive health care services for a specified group at a fixed periodic payment; a prepaid health care plan under which people may enroll by paying a set annual fee. Members then receive all the medical services they need through a group of contracting doctors and hospitals, often with no additional copayments or fees. Members are generally limited to using providers designated by the HMO.

**Health Savings Account** – The accounts are paired with a high deductible. Employees can fund these accounts, tax-free, to help offset the deductible. Employers can also fund such plans. Money not used within the plan year is rolled over to the next year.

**ID Card/Identification Card:** A card issued by a carrier to a covered person, which allows the individual to identify himself or his covered dependents to a provider for health care services. The card is subsequently used by the provider to determine benefit levels and to prepare billing statement.

**IBNR:** An acronym for "incurred but not reported". This is an accounting estimate used by health plans to accrue for care that was provided "incurred" in one accounting period, but not paid or "reported" until another accounting period.

**In-Network:** Refers to the use of providers who participate in the carrier's provider network. Many benefit plans encourage covered persons to use participating (in-network) providers to reduce the individual's out of pocket expense.

**Lifetime Maximum:** Maximum amount the plan will pay toward a member's coverage in a lifetime.

**Medigap:** A private insurance policy purchased by many of the elderly to pay for expenses not covered by Medicare.

**Negotiated Rate:** The amount participating providers agree to accept as payment in full for covered services. It is usually lower than their normal charge. Negotiated rates are determined by Participating Provider Agreements.

**Open Enrollment:** For employers with a dual or multiple choice of health plans, the annual time period in which employees can select among the plans offered.

**Out-Of-Network:** The use of health care providers who have not contracted with the carrier to provide services. HMO members are generally not reimbursed if they go out-of-network except in emergency situations. Covered persons of preferred provider organizations and HMOs with point-of-service options may go out-of-network, but must pay additional costs including deductibles and co-insurance.

**Participating Provider:** A physician, hospital, pharmacy, laboratory or other appropriately licensed provider of health care services or supplies, that has entered into an agreement with a managed care entity to provide such services or supplies to a patient enrolled in a health benefit plan.

**Pre-Authorization:** A procedure used to review and assess the medical necessity and appropriateness of elective hospital admissions and non-emergency outpatient services before the services are provided.

**Preferred Provider Organization (PPO):** A type of managed care organization that has a panel of preferred providers who are paid according to a discounted fee schedule. The enrollees do have the option to go to out-of-network providers at a higher level of cost sharing.

**Reasonable and Customary:** The amount customarily charged for the service by other physicians in the area (often defined as a specific percentile of all charges in the community) and the reasonable cost of services for a given patient after medical review of the case. Also known as Usual and Customary (U&C) or Customary and Reasonable (C&R).

**Skilled Nursing Facility:** An institution (or a distinct part of an institution) that is primarily engaged in providing skilled nursing care and related services for patients who require medical care, nursing care or rehabilitation services.

**Subscriber:** The individual in whose name a contract is issued or the employee covered under an employer's group health contract.

**Transparency.** With regard to medical care it means: The ability for patients to have easy access to understandable information about the cost and quality of their health care options. They should be able to obtain this information from their health plan and medical providers prior to the time of treatment.

# SISC III

## HEALTH BENEFITS PROGRAM BOARD OF DIRECTORS MEETING WEDNESDAY, JUNE 21, 2006 1:00 P.M.

### MINUTES

The regular meeting of the Board of Directors of SISC III Health Benefits Program was called to order at 1:05 p.m. on Wednesday, June 21, 2006, in the SISC Board Room on the 5<sup>th</sup> Floor of the Kern County Superintendent of Schools Office, 1300 17<sup>th</sup> Street, Bakersfield, California, with the following in attendance:

**MEMBERS PRESENT:**

Russell Bigler  
Dennis Franey  
Nelson Heisey  
Russell Miller  
Dan Munis  
Dennis Scott

**ALTERNATES PRESENT:**

Judy Marty  
John Stenerson

**OTHERS PRESENT:**

Wanda Carl  
Cindy Sproles  
Bonnie Bowles  
Carmen Gonzales  
Lynn LaValley  
JoeAnna Reynoso, Buckman-Mitchell  
Judy Fussel, Buckman-Mitchell  
Carolyn Temple, Kern Foundation  
Karen Morovich  
Bill Hornback, Schools Legal Services  
Tom Valos

#### CONSENT CALENDAR

Motion was made by Director Franey, seconded by Director Miller and carried to approve the Consent Calendar as follows:

**Minutes.** Minutes for the May 2006 Regular Board of Directors Meeting.

**Report of Activity for the Month of May 2006 and Ratification of Payment as follows:**

DELTA DENTAL CLAIMS	\$ 4,046,899.20	
SISC ASO	265,881.29	
DENTAL COALITION CLAIMS	851,012.12	
DENTAL COALITION ASO	55,911.51	
DELTACARE/PMI PREMIUM	4,891.76	
TOTAL DENTAL		\$5,224,595.88
VISION SERVICE PLAN CLAIMS	751,373.16	
ASO	82,292.96	

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MES CLAIMS	14,187.70	
ASO	<u>2,725.00</u>	
TOTAL VISION		850,578.82
PACIFICARE/BEHAVIORAL HEALTH	404,844.09	
CIGNA BEHAVIORAL HEALTH	18,225.32	
SECURE HORIZONS PREMIUM (PACIFICARE)	10,082.34	
SENIOR ADVANTAGE PREMIUM (KAISER)	36,282.00	
SENIORITY PLUS PREMIUM (HEALTHNET)	89,707.58	
BLUE SHIELD HMO PREMIUM	1,589,037.57	
HEALTH NET PREMIUMS	760,957.03	
CALIFORNIA CARE PREMIUMS	696,948.77	
KAISER PREMIUMS	2,152,505.21	
PACIFICARE PREMIUMS	20,268.57	
PACIFIC UNION DENTAL PREMIUM	2,412.19	
UNITED HEALTHCARE (LIFE INSURANCE)	156,864.03	
NATIONAL BENEFIT RESOURCES(Stop Loss)	64,610.64	
BLUE CROSS HEALTH CLAIMS	29,608,918.96	
BLUE SHIELD HEALTH CLAIMS	1,573,297.15	
BEHAVIORAL HEALTH CLAIMS	303,458.99	
ITS CLAIMS	1,123,204.96	
COMPANION CARE CLAIMS	122,460.46	
TOTAL BLUE CROSS AND BLUE SHIELD CLAIMS		32,731,340.52
BLUE CROSS NETWORK ASO	904,627.82	
FOUNDATION ADJUDICATION ASO	461,284.67	
BLUE SHIELD ASO	87,449.63	
BEHAVIORAL HEALTH ASO	134,694.21	
ITS ASO	92,211.06	
COMPANION CARE ASO	24,208.80	
TOTAL BLUE CROSS AND BLUE SHIELD ADMIN		<u>1,704,476.19</u>
TOTAL BLUE CROSS AND BLUE SHIELD		34,435,816.71
MERCK CLAIMS	8,505,835.74	
ASO-COPAY	319,255.55	
M/O - DISCOUNT CARD	87,664.19	
ASO - DISCOUNT CARD	<u>3,586.49</u>	
TOTAL MERCK CLAIMS		8,916,341.97
TOTAL BC, BSC AND MERCK		43,352,158.68

**PUBLIC COMMENT**

**ACTION ITEMS**

**Financial Report.** Cindy Sproles reviewed with the Board the Financial Report for the period ending June 30, 2006. She noted that the LAIF rate is 4.56%. After discussion, motion was made by Director Miller, seconded by Director Scott and carried approving the Financial Report as presented.

**Request Approval of 2006-2007 Meeting Times, Dates and Places.** Director Bigler reviewed with the Board a memorandum containing the time, date and location of the 2006-2007 monthly Board Meetings. He noted that all meetings are on the third Wednesday of the month except the months of September, March and May. September and March are months that annually have conflicts on the third Wednesday of the month. May is the Annual Board Meeting/Workshop. After discussion, motion was made by Director Miller, seconded by Director Franey and carried approving the 2006-2007 Meeting Dates as proposed.

**Request Approval of the 2005 Defined Benefit Program Audit.** Cindy Sproles reviewed with the Board the 2005 Defined Benefit Program Audit performed by Daniells, Phillips, Vaughan and Bock. After discussion, motion was made by Director Miller, seconded by Director Doug Franey and carried to approve the 2005 Defined Benefit Program Audit as presented.

**Request Approval of the GASB-45 Program.** Director Bigler reminded the Board that a year or so ago the Board requested that SISC III put together its own GASB-45 Plan. We have put together a plan that, although we have updated the Board several times, it has not been formally approved via an action item. The problem is that the Kern County Treasurer will not allow SISC III to set up a separate fund until we provide the County Treasurer with proof the SISC III Board approved the SISC III GASB-45 Plan. After discussion, motion was made by Director Scott, seconded by Director Franey and carried approving the SISC III GASB-45 Plan and execution of the attendant Resolution.

#### **INFORMATION AND DISCUSSION ITEMS**

**Monthly Blue Cross/SISC PPO Trend History Through May 2006.** John Stenerson reviewed with the Board the Blue Cross/SISC PPO monthly trend history for the month of May 2006.

**Show the Board a Newspaper Article From the Cal PERS Magazine.** Director Bigler reviewed with the Board an article from the Cal PERS Magazine stating CalPERS has just selected Medco as their new Pharmacy Benefits Manager (PBM). This is also the PBM SISC uses.

**Comments From the Board.** There were no comments from the Board at this time.

#### **ADJOURNMENT**

There being no further business to come before the Board, motion was made by Director Doug Franey, seconded by Director Scott and carried adjourning the meeting at 1:35 p.m.

#### **NEXT MEETING**

The next meeting of the Board of Directors will be held **Wednesday, July 19, 2006**, at 1:00 p.m. in the SISC Board Room on the Fifth Floor of the Kern County Superintendent of Schools Office, 1300 17<sup>th</sup> Street, Bakersfield, California.

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DOUG MILLER, Secretary

July 19, 2006

TO: SISC III Board of Directors  
FROM: Russell E. Bigler, Chief Executive Officer  
Insurance Services  
SUBJECT: Election of Vice President

**BACKGROUND INFORMATION**

We need to elect a Vice President for the 2005-2006 fiscal year.

**ARTICLE VII(c) - BYLAWS.** The Board shall, at the regular July meeting of each year, elect from its membership a vice president, a secretary and a treasurer to serve as officers of the Board for a term of one (1) year.

REB:wkc

July 19, 2006

TO: SISC II Board of Directors  
FROM: Russell E. Bigler, Chief Executive Officer  
Insurance Services  
SUBJECT: Election of Secretary/Treasurer

**BACKGROUND INFORMATION**

We need to elect a Secretary/Treasurer for the 2005-2006 fiscal year.

**ARTICLE VII(c) - BYLAWS.** The Board shall, at the regular July meeting of each year, elect from its membership a vice president, a secretary/ treasurer to serve as officers of the Board for a term of one (1) year.

REB:wkc

## SISC III

### INFORMATION ITEMS

- A. **Monthly Blue Cross/SISC PPO Trend History Through June 2006.** John Stenerson will review the monthly Blue Cross/SISC PPO Trend history through June 2004.
- B. **Show the Board a Newspaper Article on High Deductible Accounts.** We can review this article at the meeting.
- C. **Show the Board a Newspaper Article on Holistic Dentists.** We can review this article at the meeting.
- D. **Review the Investment Policy.** Pursuant to Ed. Code we are required to bring the SISC Investment Policy to you on an annual basis. We are not requesting any changes and Cindy Sproles will review the present policy with you.
- E. **Update the Board on Our Prilosec OTC Program.** At the April Board Meeting I mentioned that we would be initiating a new program concerning prescription drugs called Proton Pump Inhibitors. They are used to treat heartburn. See attachments.  
  
John Stenerson has some figures that although they are only two months old, show that the program looks very promising.
- F. **Policies for New Board Members.** I will go over these at the meeting.
- G. **Comments From the Board of Directors.** Comments from members of the Board will be heard at this time.



**INVESTMENT POLICY  
FOR**

**SELF-INSURED  
SCHOOLS  
OF  
CALIFORNIA**

1300 17th Street - CITY CENTRE  
P.O. Box 1847  
Bakersfield, CA 93303-1847

OCTOBER 2005

## **1.0 Policy Statement**

It is the policy of Self-Insured Schools of California (SISC) to invest funds in a manner which will provide maximum security of principal invested. The secondary objective is the liquidity of capital to meet expenditure requirements. The third objective is to achieve a positive return on the funds invested. This policy shall conform to all applicable State statutes governing the investment of public funds. (CA Gov Code 53601)

## **2.0 Scope**

This investment policy applies to all surplus funds not required for the immediate operating need of Self-Insured Schools of California. These funds are accounted for in the monthly financial report and include all or a portion of:

- 9110.00 Kern County Treasurer
- 9150.01 California Local Agency Investment Fund (LAIF)
- 9150.03 Investments

## **3.0 Prudence**

SISC is a Joint Powers Agreement (JPA), comprised of public school districts and county offices that have come together to self-insure various programs. Investment law imposes the role of trustee on California's local government agencies or persons authorized to make investment decisions for them, in effect making them a fiduciary subject to the prudent investor standard. (CA Gov Code 53600.3)

A fiduciary is "a person who has legal responsibility for the conservation and management of property in which another person has a beneficial interest." As a governing body and fiduciary investing public funds, the standard of prudence to be used when investing SISC funds shall be the "Prudent Investor Standard." This Standard states that the fiduciary shall act with care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with those matters, would use in the conduct of funds of a like character and with like aims to safeguard the principal and to maintain the liquidity needs of the agency.

## **4.0 Objective**

The primary objectives, in order of priority, of the Self-Insured Schools of California's investment activities shall be:

- 4.1 **Safety:** Safety of principal is the foremost objective of the investment program. SISC investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 4.2 **Liquidity:** SISC's investment portfolio will remain sufficiently liquid to enable SISC to meet all operating requirements which might be reasonably anticipated.
- 4.3 **Return on Investment:** SISC's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account SISC's investment risk constraints and the cash flow characteristics of the portfolio.

## **5.0 Delegation of Authority**

The SISC Board is responsible for the management and oversight of the investment program. The SISC Finance Department shall monitor and review all investments for consistency and compliance with this investment policy. The Board may delegate the daily investment decision making execution authority to the Chief Executive Officer or his designee. The Chief Executive Officer shall follow this policy and such other written instructions as provided. Further, he or she shall be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of appropriate staff members.

## 6.0 Authorized Financial Dealers and Institutions

Investment services may be provided only by institutions and security broker/dealers authorized by SISC. Criteria used to select broker/dealers shall be credit worthiness and verification of authorization to provide investment services in California.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply SISC with the following:

- Annual Audited Financial Statements
- Proof of National Association of Security Dealers Certification
- Proof of California Registration
- Verification of having read SISC's Investment Policy and agreement to comply with said Policy

Where applicable, the broker/dealer will facilitate a competitive pricing approach when purchasing securities. It is also understood that the broker/dealer will adhere to applicable Government Code specifications and stay abreast of Government Code revisions and advise the client in a timely fashion of changes that may affect the investment policy or portfolio assets.

## 7.0 Authorized & Suitable Investments

SISC is empowered by California Government Code 53601 to invest in the following types of securities:

- U.S. Treasury obligations
- Federal agency securities
- Obligations of the State of California, its agencies, and local agencies within California
- Repurchase Agreements
- Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Medium-Term Notes
- Shares of beneficial interest issued by diversified management companies
- Mortgage Pass-Through Securities
- Equipment Lease-Backed Certificates
- Consumer Receivable Pass-Through Certificates
- California Local Agency Investment Fund
- Local Treasury
- Insured savings account or money market account

SISC further reduces its investment risk by establishing a fixed income portfolio restricted to the following types of securities:

- U.S. Treasury obligations:  
10 year maximum maturity
- Federal agency securities:  
10 year maximum maturity
- Corporate Medium-Term Notes, including corporate bonds:  
5 year maximum maturity
- Mortgage Pass-Through Securities:  
5 year maximum maturity
- Consumer Receivable Pass-Through  
Certificates (Asset-Backed Securities):  
5 year maximum maturity
- Commercial Paper:  
270 days maximum maturity
- Bankers' Acceptances:  
180 days maximum maturity
- Negotiable Certificates of Deposit (CD) :  
10 year maximum maturity

- Cash Equivalent Securities

Funds may also be invested with:

- California Local Agency Investment Fund
- Local Treasury

Additionally:

Each individual portfolio established by an approved broker/dealer will adhere to the following guidelines:

1. Corporate securities shall be rated at least 'A' by Moody's and 'A' by Standard and Poor's. If a security rating drops below 'A,' the security will be evaluated by the SISC Finance Department for continuance in the portfolio. A report of the downgrade and the course of action taken will be presented to the SISC Board at the next regularly scheduled meeting.
2. No security shall have a stated maturity date in excess of five years, except those investment types approved by the SISC Board for a maximum maturity up to ten years.
3. The portfolio shall be comprised of no more than 30 percent in Medium-Term Notes or corporate bonds, or any combination of the two.
4. The portfolio shall be comprised of no more than 20 percent in Mortgage Pass-Through Securities, or Consumer Receivable Pass-Through Certificates, or any combination of the two.
5. Purchases of eligible Commercial Paper may not exceed 270 days maturity nor represent more than 10 percent of the portfolio.
6. Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the portfolio.
7. The portfolio shall be comprised of no more than 30 percent in negotiable CDs.
8. All assets selected for the portfolio must have a readily available market value and be marketable.

Further, SISC or a SISC approved security broker/dealer shall not invest in derivatives, such as, but not limited to, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

Note: Although funds held in SISC's bank accounts are not considered surplus under this Policy, they are deposited in a Premium Interest Checking account that is fully collateralized at 110%, provides daily liquidity, and earns a competitive rate of interest.

#### **8.0 Safekeeping and Custody**

All security transactions entered into by SISC shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the SISC Board and evidenced by safekeeping receipts. (CA Gov Code 53635)

#### **9.0 Diversification**

In an effort to reduce overall portfolio risk while attaining market average rates of return, diversification will be utilized in terms of maturity, as well as security type and issuer. The portfolio will be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security.

## **10.0 Maximum Maturities**

The SISC Finance Department will match its investments with anticipated cash flow requirements. Furthermore, SISC will not invest in any single security with a stated maturity date in excess of five years, except the security types approved by the SISC Board for a maximum ten year maturity. Further, at any one time no more than 30% of the portfolio shall be invested in securities with maturities up to ten years.

## **11.0 Internal Control**

Internal controls shall be utilized to maintain efficiency and prevent fraud. Controls may include, but are not limited to, separation of functions, checks and balances, screening of employees and consultants, and training. The SISC Finance Department shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## **12.0 Performance Standards**

The investment portfolio will be designed to obtain a positive market rate of return, taking into account SISC's investment risk constraints and cash flow needs.

### **12.1 Market Return-On-Investment (Benchmark):**

The basis used by the SISC Finance Department to determine whether market returns are being achieved shall be the return for the California Local Agency Investment Fund (LAIF).

## **13.0 Reporting**

The SISC Finance Department is charged with the responsibility of including a market report on investment activity and returns in SISC's Financial Statements. Quarterly Investment Reports will include:

- Type of Investment
- Issuer
- Purchase Date
- Par/Face Value
- Dollar amount invested (cost)
- Security Rating at Purchase
- Security Rating at Current Quarter
- Yield-to-Maturity at Current Quarter
- Maturity Date
- Security Reduced by Principal Payments (%)
- Principal Balance (%)
- Market Value and source of valuation
- A description of funds or investments under the management of contracted parties:

**California Local Agency Investment Fund  
Kern County Treasurer**

Further, the Quarterly Report shall verify that the SISC investment portfolio is in compliance with SISC's investment policy. The report will also include a statement indicating the ability of SISC to meet its cash requirements for the ensuing six months or to provide an explanation as to why sufficient money shall not or will not be available. A copy of the Quarterly Report will be rendered to SISC's Chief Executive Officer, the internal auditor, and the Board within 60 days following the end of the quarter. (CA Gov Code 53646)

#### **14.0 Investment Policy Adoption**

**SISC's Investment Policy shall be adopted by the Board. The Policy will be reviewed on an annual basis by the SISC Finance Department, and any modifications made thereto must be approved by the SISC Board.**

**Adopted: January 4, 1989**

**Revised: September 16, 1992**

**Revised: September 15, 1993**

**Revised: June 19, 1996**

**Revised: October 16, 1996**

**Revised: July 15, 1998**

**Revised: October 19, 2005**