

**Health Service Board
Governance Manual
Revised and Approved April 9, 2015**

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Note re Terminology

In the documents that follow, the terms “**Board**” and “**HSS**” are used to refer to the “Health Service Board” and “Health Service System,” respectively.

SAN FRANCISCO HSS
Board
TERMS OF REFERENCE

Introduction

- 1) The San Francisco HSS has established the following mission statement:

The San Francisco HSS is dedicated to providing outstanding health and other employee benefits to its members while adhering to the highest standards of customer service.
- 2) In order to carry out its mission and the responsibilities of the HSS set out in the City Charter and Administrative Code, the Board believes it must establish clear roles and responsibilities for itself and all other parties involved in the governance and management of the HSS. The Board has established these terms of reference to confirm and build upon the Board's statutory duties.
- 3) In the event of a conflict between the City Charter or the Administrative Code and the terms of reference or governance policies adopted by the Board, the City Charter and Administrative Code will prevail.

Duties and Responsibilities

General Duties

- 4) Consistent with section 12.201 of the City Charter, the Board and each committee of the Board shall confine its activities to policy matters and to matters coming before it as an appeals Board.
- 5) The Board's duties fall into two broad categories:
 - a) Designing benefit plans and benefit changes, and determining rates in connection with the provisions of section A8.422 of the City Charter, subject to final approval by the Board of Supervisors; and
 - b) Health and welfare plan and fund administration in connection with:
 - i) The Health HSS Trust Fund, pursuant to section 12.203;
 - ii) Benefit plans adopted pursuant to A8.422; and
 - iii) Benefit plans administered by the Board pursuant to section 4.102.

Plan Adoption and Benefit Design

- 6) In accordance with section A8.422 of the City Charter, the Board has an important role to play in designing health benefit plans and amendments thereto for adoption by the Board of Supervisors:
 - a) The Board shall have power and it shall be its duty by a majority vote of the entire membership of the Board to adopt a plan or plans for rendering medical care to members of the HSS, or for obtaining and carrying insurance against such costs or for such care. Such plan or plans as may be adopted, shall not become effective until approved by ordinance of the Board of Supervisors, adopted by three-fourths of its members; [A8.422] and
 - b) Consistent with the plan year set by the Board, at a public meeting, the Board shall review and determine the adequacy of health care provided for members of the HSS and the adequacy of fee schedules and the compensation paid for all services rendered and it may make such revisions therein as it deems equitable, but such revisions shall not become effective until approved by ordinance of the Board of Supervisors adopted by three-fourths of its members.
- 7) To facilitate carrying out the duties set out in paragraph 6 above, the Board shall approve:
 - a) The annual benefit and rate setting process; and
 - b) A benefit design policy, which shall set out the goals or objectives that will guide the Board in carrying out the review referred to in paragraph 6 b) above.

Board Governance

- 8) The Board is responsible for ensuring effective governance practices in respect of the Board.
- 9) The Board shall approve, and amend, as necessary:
 - a) An Annual Statement of Purpose (sec.4.102);
 - b) Rules and regulations consistent with the City Charter and Ordinances at least annually and as necessary¹;
 - c) Terms of reference describing the roles and responsibilities of the Board, Board committees, Board officers, the Director, and if applicable the Medical Director;
 - d) Any governance-related policies necessary to help ensure appropriate governance practices at HSS such as, for example, a Board training policy; and

¹ As per City Charter, Article IV, s.4.104(1).

- e) A Board Education Plan.
- 10) The Board shall:
- a) Elect a President and Vice-President of the Board on an annual basis;
 - b) Establish standing or ad hoc committees or task forces as necessary;
 - c) Appoint Board members and a chair to each standing committee, ad hoc committee and task force, upon the recommendation of the President;
 - d) Ensure that a Board orientation and continuing education program is in place to assist Board members in securing the knowledge they require to properly execute their duties;
 - e) Annually conduct a Board performance evaluation, in which the members of the Board may evaluate the performance and practices of the Board during the prior year and suggest opportunities for improvement;
 - f) When budget permits, approve travel requests by Board members for education or other business purposes pertaining to HSS; and
 - g) Ensure that a record of the proceedings of Board and Committee meetings is maintained.²

Benefit Administration

- 11) The Board shall ensure the administration of health and wellness plans adopted by the Board of Supervisors pursuant to A8.422, and health and welfare plans established by the Mayor and the Board of Supervisors pursuant to section 4.102.
- 12) The Board shall ensure that management implements benefit and administration policies intended to ensure efficient and effective administration of all benefit plans it administers, addressing for example such things as membership rules, the annual rates and benefits setting process, service quality standards, member communications, open enrolment rules, confidentiality of member data, and performance evaluation of vendors.
- 13) The Board shall establish and, at least annually, review and if necessary amend the HSS Rules in compliance with section 125 of the internal revenue code.

Investment Administration

- 14) The Board shall administer the Health HSS Trust Fund in accordance with the provisions of the City Charter solely for the benefit of the active and retired members of the HSS and their covered dependents. [Sec. 12.203]

² As per The *San Francisco Sunshine Ordinance*, Administrative Code, Chapter 67.

- 15) The Board shall have control of the administration and investment of the Health HSS Trust Fund, provided that all investments shall be of the character legal for insurance companies in California. [A8.429]
- 16) In keeping with its fiduciary duty to prudently administer the Health Service Trust Fund, the Board shall be responsible for:
 - a) Approving a written investment policy statement, and reviewing, confirming, or amending such policy at least annually.
 - b) Ensuring qualified parties are appointed to manage the assets of the Health HSS Trust Fund.
 - c) Ensuring regular compliance monitoring in regards to the investment policy statement.
 - d) Ensuring ongoing review of the investment performance of the Health Service Trust Fund.

Rates and Accounting

- 17) The Board shall adopt funding policies to ensure the financial health and integrity of each self-funded plan, and shall annually review and, when necessary, amend said policies. The funding policy shall also address any other reserves to be held in the Health HSS Trust Fund. The policy may address, among other things, appropriate reserve targets for unanticipated needs and claims that are incurred but not reported (IBNR), the actuarial methodologies and assumptions to be used in determining reserves, and subsidies.
- 18) At such time consistent with the plan year set by the Board, the Board shall ensure a survey is conducted of the 10 largest counties in California, other than the City and County of San Francisco, to determine the average contribution made by each employer of such county to health benefit coverage. In accordance with said survey, the Board shall determine the average contribution made with respect to each employee by said 10 counties toward the health care plans provided for their employees and shall certify to the Board of Supervisors the amount of such average contribution. [A8.423]
- 19) The Board shall:
 - a) Ensure that management implements mechanisms to collect all required contributions to the Health HSS Trust Fund and to make all distributions in a timely manner;
 - b) Ensure historical records on costs are maintained;
 - c) Ensure appropriate financial and operational controls are established by management;
 - d) Ensure that funding is in place to provide for the external financial audit;
 - e) Review with management significant accounting policy changes, as required; and

- f) Review and accept the annual audited financial statements and external auditors' management letter, and take corrective action if required.

Organizational Planning & Risk Management

- 20) The Board shall annually approve:
 - a) A strategic plan, which may include a mission statement for the HSS, the broad direction and goals of the HSS, and the specific projects that must be completed in order to fulfill the broad direction and goals of the HSS;
 - b) An annual administrative department operating budget;
 - c) The basic organizational structure of the HSS; and
 - d) Outsourcing strategies with respect to cores services of the HSS (i.e. whether certain activities will be performed by an outside agent rather than HSS staff).
- 21) The Board shall ensure management develops, over time, on ongoing system of operational risk management and that management reports to the Board at least annually on such system. This may be accomplished as part of the strategic planning process, if deemed appropriate by management and the Board.

Human Resources

- 22) The Board shall:
 - a) Appoint a Director and determine the duties and responsibilities of the position;
 - b) Establish a process for evaluating the performance of the Director, and annually evaluate the Director accordingly;
 - c) Establish and annually review the compensation of the Director within the ranges of the classification set for the position; and
 - d) Ensure the Director documents the delineation of managerial authority and responsibility within the HSS in the event the Director is absent or unavailable to perform his or her duties for an extended period of time, along with any related procedures to ensure continuity in the operations of the HSS. The Director shall review such documentation, and any updates thereto with the Board, from time-to-time, subject to open meeting law requirements.

Communications

- 23) The Board shall:
- a) Ensure that an annual report is prepared describing its activities, and shall file such report with the Mayor and the Clerk of the Board of Supervisors; [Sec. 4.103]
 - b) Hold meetings open to the public and encourage the participation of interested persons; [Sec. 4.104.2]
 - c) Conduct its meetings in accordance with the *San Francisco Sunshine Ordinance* (San Francisco Administrative Code, Chapter 67), and the public meeting laws set out in the *Ralph M. Brown Act* (California Government Code Section 54950 et seq.);
 - d) Ensure that information is obtained and disseminated to the members of the HSS with regard to plan benefits and costs thereof; [A8.423] and
 - e) Working with the Director, ensure other mechanisms and procedures are in place to enable accurate, co-ordinated, and effective communications between the HSS and its stakeholders, including plan members, the City, employers, and employee groups.

Legislation and Litigation

- 24) The Board may in closed session consider and approve recommendations made by the Director or legal counsel concerning settlements or other legal actions involving HSS.

Selection of Vendors

- 25) The Board shall establish appropriate policies to help ensure effective and prudent selection of service providers.
- 26) The Board recognizes that it is neither effective nor efficient for the Board to be involved in the selection of all service providers. Accordingly, the Board shall be responsible for approving the awarding of final contracts for service providers it deems to be the primary service providers of the HSS, which are named below:
- a) Actuaries;
 - b) Insurance carriers;
 - c) Hearing officers or firms providing the services of hearing officers;
 - d) Third party administrators retained for services in connection with non-charter benefits and with a contract value in excess of \$200,000 annually;
 - e) External information technology consultants retained for services with a value in excess of \$100,000;

- f) Medical Director;
 - g) Investment managers or advisors; and
 - h) Other service providers, as may be determined by the Board.
- 27) It is recognized and understood that the following services are provided or co-ordinated by various departments within the City:
- a) Financial and operational audit services;
 - b) Custody services;
 - c) Legal services;
 - d) Investment management and advisory services; and
 - e) Information technology services.
- 28) The Board shall communicate to the Director in policy form, the secondary service providers or classes of services providers, which the Director shall be authorized to select; and the Board shall determine the controls to be put in place with respect to such authority; such as, for example, dollar limits on expenditure authority.

Monitoring

- 29) The Board shall ensure that appropriate monitoring and reporting practices are established and documented within HSS.
- 30) The Board shall periodically review compliance with, and the continued appropriateness of, any policies adopted by the Board including but not limited to policies in the following areas:
- a) Governance policies and terms of reference;
 - b) Benefit design policy;
 - c) Funding policies:
 - i) Stabilization reserve policy.
 - ii) Incurred but not reported policy.
 - iii) Contingency reserves policy.
 - d) Investment policy;
 - e) Benefit rules;
 - f) Communication policy; and

- g) Accounting policy.
- 31) The Board shall monitor periodically:
 - a) The levels of the reserves (on not less than a quarterly basis);
 - b) The adequacy of rates, including a retrospective review of rate-setting; and
 - c) The investment performance and costs of the Health System Trust Fund.
- 32) The Board shall ensure periodic reviews of the performance of key service providers including but not limited to insurance carriers and third-party administrators relative to pre-established performance criteria.
- 33) The Board shall ensure the periodic monitoring of usage and participation levels by members within the health plans, and the general affordability of the plans it administers.
- 34) The Board shall monitor the levels of service quality provided by the health plans and other benefit plans sponsored by the HSS, developing over time the methodologies necessary to do so.
- 35) The Board shall monitor:
 - a) Implementation of the Strategic Plan; and
 - b) Compliance with the Operating Budget of the HSS.
- 36) At least annually, the Board shall review the performance of:
 - a) The Director; and
 - b) The Board itself.

History

- 37) These terms of reference were adopted by the Board on February 22, 2007; amended on April 9, 2015; amended [month, day, year].

Review

- 38) The Board shall review these terms of reference at least every three years.

SAN FRANCISCO HSS
President of the Board
TERMS OF REFERENCE

Introduction

- 1) Unless otherwise agreed by the Board, at its regular meeting in June of each year, the Board shall elect one Board member to serve as President. The President so elected shall take office at the regular meeting in the month of July immediately following election and the President's term shall continue until assumption of office by the next President at the regular meeting in the month of July of the following year.

Duties and Responsibilities

- 2) The President shall exercise the powers and shall perform the duties and functions as specified herein:
 - a) Preside at all Board meetings, ensuring that such meetings are conducted efficiently and in accordance with the *San Francisco Sunshine Ordinance* (Administrative Code, Chapter 67), the public meeting laws set out in the *Ralph M. Brown Act* (California Government Code Section 54950 et seq.), and the policies of the Board;
 - b) Recommend to the Board the creation of task forces or ad hoc committees of the Board, and the appointment of members and a chair to each standing committee, ad hoc committee, and task force. Recommendations concerning membership and chairs of standing committees are generally to be made by the President at the Board meeting following the meeting at which the President is elected;
 - c) Authenticate by his or her signature when necessary, or when required by law, all documents authorized by the Board;
 - d) Call special meetings (Note that special meetings may be called by the President, and that they must be called by the President upon the written request of a majority of the members of the Board or authorization by majority of the Board at prior meeting. This provision must be implemented in a manner consistent with applicable open meeting laws);
 - e) In situations that call for a spokesperson to speak on behalf of the HSS, consult with the Director and determine whether the President, Director, or other individual should serve as spokesperson in the situation in question;
 - f) Review the agenda of each Board meeting with the Director prior to the meeting;
 - g) Be available to assist committee chairs in carrying out their duties; and

h) Be available to assist the Director in the orientation process for new Board members.

History

- 3) These terms of reference were adopted by the Board on February 22, 2007 and amended on April 9, 2015.

Review

- 4) The Board shall review these terms of reference at least every three years.

SAN FRANCISCO HSS
Vice President of the Board
Terms of Reference

Introduction

- 1) Unless otherwise agreed by the Board, at its regular meeting in June of each year, the Board shall elect one Board member to serve as Vice President. The Vice President so elected shall take office at the regular meeting in the month of July immediately following election and the Vice President's term shall continue until assumption of office by the next Vice President at the regular meeting in the month of July of the following year.

Duties and Responsibilities

- 2) The Vice-President shall assume the duties of the President when the President is absent, or when the President shall designate the Vice-President to act. In the event of death, resignation, removal from office or permanent disability of the President, the Vice-President shall temporarily act for the President until such time as an election shall be held to elect a new President.

History

- 3) These terms of reference were adopted by the Board on February 22, 2007 and amended on April 9, 2015.

Review

- 4) These terms of reference shall be reviewed by the Board at least every three years.

SAN FRANCISCO HSS
Director
TERMS OF REFERENCE

Introduction

- 1) The Director shall hold office at the pleasure of the Board, and shall be responsible to the Board as a Board, but not to any individual member or committee thereof. [Section 12.201]
- 2) The Director shall provide leadership for the HSS in implementing the programs necessary to achieve the mission, goals and objectives established by the Board; and shall manage the day-to-day affairs of HSS in accordance with the provisions of the Charter.
- 3) The Director is the executive ultimately responsible for the entire operations of HSS. The Director shall ensure proper delegation of duties to senior management and staff so as to maximize the efficiency and effectiveness of the HSS.
- 4) The Director shall provide support to the Board and its committees in establishing all policies of the Board including identifying and analyzing issues requiring Board policy, and providing policy options and clear, well-supported policy recommendations for consideration by the Board or its committees.
- 5) In addition to having operational responsibility for HSS, the Director is responsible for assisting and supporting the Board and its standing committees in carrying out the duties and responsibilities set out in their respective terms of reference.

Duties & Responsibilities

Governance

- 6) The Director shall assist the Board in its governance function by:
 - a) Recommending terms of reference and other policies to ensure appropriate governance practices;
 - b) Coordinating new Board member education and training and additional education within budget limitation in accordance with the Board Education Policy and Board Education Plan; and
 - c) Coordinating Board member travel within budget limitations.

Benefit Administration and Operations

- 7) The Director shall direct and oversee all administrative and operational activities of the HSS including, but not limited to:
 - a) Developing and implementing all policies necessary to ensure effective administration of member benefits and reporting to the Board, and directing administrative staff involved in the delivery of service to plan members and in the operations of the HSS;
 - b) Developing and recommending a strategic plan to the Board;
 - c) Developing an annual operating budget, as well as applicable departmental budgets, and presenting them to the Board for approval as part of the City's budget process;
 - d) Ensuring a system of operational risk management is in place, which addresses, among other things, sound records and data management and security;
 - e) Ensuring prudent fiscal management, oversight, and reporting of HSS;
 - f) Negotiating and executing agreements and authorizing payments related to the administration of HSS and the appointment of all service providers, consistent with the operating budget and internal controls of HSS;
 - g) Ensuring effective and timely communications with members and stakeholders on matters relating to the administration of HSS; and
 - h) Representing the HSS at the Board of Supervisors and other City departments on the budget and other matters affecting the HSS.

Human Resources

- 8) Consistent with the City's administrative code, applicable civil service rules, the operating budget, and collective bargaining agreements, the Director shall hire, direct, supervise and may terminate senior executives of the HSS, and shall oversee the hiring, management, and termination of staff. The Director shall manage the employee grievance process relating to HSS staff in accordance with the City Charter, Administrative Code, and the collective bargaining agreements; and shall inform the Board of any issues as appropriate.
- 9) The Director shall ensure ongoing assessment of the human resource needs of HSS and the development of appropriate human resource programs and procedures, including succession planning, co-ordinating with other City departments as necessary.

Legislation and Litigation

- 10) The Director shall carry out the following duties with the advice of legal counsel as necessary:
 - a) Monitor trends regarding legislation that may have a significant impact on HSS;
 - b) Report to the Board on any legislative proposals that could significantly affect the HSS, and recommend whether the Board should take any action;
 - c) Manage and coordinate, with legal counsel, all legal proceedings involving HSS;
 - d) Provide recommendations to the Board concerning member appeals, settlement or other legal action involving HSS;
 - e) Make recommendations or proposals to the Board on a proactive basis regarding Charter amendments that are consistent with the Mission of the HSS; and
 - f) Recommend to the Board that obsolete provisions of the Administrative Code be eliminated, or that various provisions of the Administrative Code be amended to reflect Charter amendments and/or new or revised State legislation.

Service Providers

- 11) The Director shall:
 - a) Initiate and conduct the solicitations for contracts, and shall apprise the board of information about the selection process.
 - b) Negotiate and execute all agreements approved in connection with service providers/vendors.
 - c) Appoint those service providers for which the Board has delegated appointing authority to the Director, in accordance with the Service Provider/Vendor Selection Policy or other action of the Board; and
 - d) Regularly monitor the performance of all service providers, and report regularly to the Board on all such monitoring efforts.

Monitoring and Reporting

- 12) The Director shall ensure that monitoring and control mechanisms are in place to ensure that policies and procedures are properly implemented and that the operations of the HSS of effective.
- 13) The Director shall provide the Board with relevant, appropriate and timely information to enable it to properly carry out its oversight responsibilities. Furthermore, the Director shall apprise the Board in a timely manner of all significant issues, problems, or developments pertaining to HSS, and provide recommended courses of action as appropriate.

History

- 14) These terms of reference were adopted by the Board on February 22, 2007 and amended on April 9, 2015.

Review

- 15) The Board shall review these terms of reference at least every three years.

SAN FRANCISCO HSS
Budget and Finance Committee
TERMS OF REFERENCE

Introduction

- 1) The Budget and Finance Committee has been established by the Board to assist the Board in the financial oversight of the HSS, including oversight of all audits of the HSS and the budgeting process. This may be done as a committee of the whole.

Composition

- 2) The Budget and Finance Committee shall be comprised of three Board members, including the Committee Chair, all of whom shall be appointed by the Board, upon the recommendation of the President.
- 3) The Director shall designate a staff member to provide administrative support to the Budget and Finance Committee.

Operational Rules

- 4) The Budget and Finance Committee shall adhere to the following operational rules:
 - a) The presence of a majority shall constitute a quorum;
 - b) All actions of the Budget and Finance Committee shall be by a vote of the majority of the members present at a meeting of the Finance Committee, provided a quorum is present;
 - c) To be effective, all actions of the Budget and Finance Committee shall be approved by the Board; and
 - d) The Budget and Finance Committee shall meet semi-annually, or more often if it deems necessary.
- 5) The Budget and Finance Committee may establish other operational rules, procedures, calendars and agendas for the Committee, as necessary, provided they are consistent with the City Charter and Ordinances, and the policies of the Board.
- 6) The Budget and Finance Committee shall periodically review its terms of reference, and advise the Governance Committee with respect to modifications, as appropriate.

Duties and Responsibilities

Audits and Examinations

- 7) The Budget and Finance Committee shall:
 - a) Provide clear direction to HSS that the external financial auditor is accountable to the Board;
 - b) Receive presentations from management or the external financial auditor regarding the annual audited financial statements, review any responses by management, and recommend any appropriate actions to the Board;
 - c) Provide the appropriate forum to review and comment on finalized management letters that are submitted by the financial auditor, review management's responses thereto, and provide recommendations to the Board, as appropriate; and
 - d) Provide the appropriate forum for handling all policy-related matters with respect to audits, examinations, investigations or inquiries by any appropriate local, state or federal agencies pursuant to the HSS Director's Term of Reference.

Annual Budgeting Process

- 8) The Budget and Finance Committee shall:
 - a) Review the annual Administrative Budget and the Healthcare Sustainability Fund Budget of the HSS and all requested modifications and supplements thereto;
 - b) Recommend the Administrative Budget and the Healthcare Sustainability Fund Budgets to the Board for approval; and
 - c) Monitor HSS' budget variance reports on a quarterly basis, and recommend appropriate action to the Board and the Director, if necessary.

Other

- 9) The Budget and Finance Committee shall:
 - a) Review any significant changes in accounting practices or policies that may have an impact on the financial status of the HSS;
 - b) Report regularly to the Board on its activities; and
 - c) Perform any other duties that are assigned to it by the Board.

History

- 10) These terms of reference were adopted by the Board on February 22, 2007 and amended on April 9, 2015.

Review

- 11) The Board shall review these terms of reference at least every three years.

SAN FRANCISCO HSS
Governance Committee
TERMS OF REFERENCE

Introduction

- 1) The Governance Committee has been established by the Board to assist the Board in:
 - a) Developing, overseeing, and implementing the governance policies and practices of the Board and its committees;
 - b) Coordinating the performance evaluations of the Board and the Director
- 2) The Governance Committee shall be comprised of three Board members, including the committee chair, all of whom shall be appointed by the Board, upon the recommendation of the President.
- 3) The Director shall designate a staff member to provide administrative support to the Governance Committee.

Operational Rules

- 4) The Governance Committee shall adhere to the following operational rules:
 - a) The presence of a majority shall constitute a quorum;
 - b) All actions of the Governance Committee shall be by a vote of the majority of the members present at a meeting of the Committee, provided a quorum is present;
 - c) All actions of the Governance Committee shall be approved by the Board to be effective, unless otherwise provided herein; and
 - d) The Governance Committee shall meet at least annually.
- 5) The Governance Committee shall establish other operational rules, procedures, calendars and agendas for the Committee, as necessary, provided they are consistent with the City Charter and Ordinances, and Board policies.

Duties and Responsibilities

- 6) The Governance Committee shall:
 - a) In consultation with the Director, develop and recommend to the Board terms of reference for the:
 - i) Board;
 - ii) Committees of the Board;
 - iii) President and Vice President of the Board; and
 - iv) Director.
 - b) Periodically recommend to the Board such amendments to the terms of reference as may be necessary or advisable;
 - c) Recommend to the Board any modifications to the committee structure of the Board (i.e. the addition or elimination of any committees);
 - d) Review, develop and recommend to the Board for approval, new governance policies as may be necessary, and review existing governance policies in accordance with the schedule for review established within each policy;
 - e) Recommend to the Board a Board Education Plan and updates thereto;
 - f) Co-ordinate the implementation of the annual Board performance evaluation policy, including approving and amending as necessary any surveys or similar forms used in the evaluation;
 - g) Co-ordinate the implementation of the annual Director performance evaluation policy. The Committee shall recommend to the Board the criteria to be used in evaluating the performance of the Director, but shall have the authority to approve minor amendments as necessary to any surveys or similar instruments used to perform the evaluation;
 - h) Monitor compliance with governance-related policies, rules, and legislation; and address any alleged violations;
 - i) Report regularly to the Board on its activities; and
 - j) At the request of the Board, undertake such other governance-related initiatives as may be necessary or desirable to contribute to the success of HSS.

History

- 7) These terms of reference were adopted by the Board on February 22, 2007 amended on April 9, 2015; amended [month, day, year].

SAN FRANCISCO HSS

Board Operations Policy

Purpose

- 1) This Board Operations Policy is intended to set out the manner in which the Board shall conduct its business, and includes guidelines addressing, among other things, the appointment of officers, the establishment of committees, and the conduct of meetings.

Policy Guidelines

Board Composition

- 2) The Board shall, in accordance with Charter Section 12.200, consist of seven members: one member of the Board of Supervisors appointed by the President of the Board of Supervisors, two members to be appointed by the Mayor, and three members elected from the active and retired members of the HSS from among their number. [Charter Section 12.200]
- 3) The two members appointed by the Mayor shall be appointed in accordance with the requirements set forth in Charter Section 3.100 and Charter Sections 12.100 –12.103. [Charter Section 12.200]
- 4) One member appointed by the Controller and confirmed by a 2/3 vote of the Board per Charter Section 12.200. If the Board fails to calendar the Controller's nomination for consideration at a meeting to occur not later than 60 days after receipt of the Controller's written notice of nomination, the Controller's nominee shall be deemed approved.
- 5) The term of office of each member, except the member of the Board of Supervisors, shall be five years.
- 6) A vacancy on the Board appointed by the Mayor shall be filled by the Mayor. A vacancy in an elective office on the Board shall be filled by a special election within 90 days after the vacancy occurs unless a regular election is to be held within six months after such vacancy shall have occurred. [Charter Section 12.200] A vacancy in the Controller's appointed position shall be filled by the Controller and confirmed by the Board.

Election of President and Vice President

- 7) There shall be a President and Vice President of the Board each of whom shall be a Board member. [HSS Membership Rules and Regulations, A3]

- 8) At its regular meeting in June of each year, the Board shall elect one Board member to serve as President and one Board member to serve as Vice President. The President and Vice President so elected shall take office at the regular meeting in the month of July immediately following election and their terms shall continue until assumption of office by the next President and Vice President at the regular meeting in the month of July of the following year. [HSS Membership Rules and Regulations, A3(a)]
- 9) In electing a President and Vice-President, it is expected that, at a minimum, the following criteria will be considered:
 - a) Demonstrated leadership abilities;
 - b) Committee and committee chairperson experience; and
 - c) Time availability.
- 10) If an officer vacates his office prior to the end of his term, an election shall be held at the next regular meeting of the Board to select a new officer, who shall take office immediately upon election and shall hold office for the unexpired term. Notwithstanding the foregoing, so long as there is no President, the Vice President shall act as President until a new President is elected and takes office. [HSS Membership Rules and Regulations, A3(b)]
- 11) Neither President nor Vice President may hold such office for more than two consecutive one-year terms. Said two-term limit shall not include service in such office for any unexpired term pursuant to paragraph 9 herein. [HSS Membership Rules and Regulations, A3(c)]

Board Committees

- 12) Based on the recommendations of the President, the Board shall:
 - a) Approve the establishment of standing and ad hoc committees; and
 - b) Annually approve the members and chairs of standing and ad hoc committees.
- 13) The standing committees of the Board shall be as follows:
 - a) Budget and Finance Committee
 - b) Governance Committee
- 14) The Governance Committee shall be responsible for recommending to the Board terms of reference for each standing committee of the Board.
- 15) Committees shall be comprised of not more than three Board members, one of whom shall be the committee chair.
- 16) In the event of a vacancy on any standing or ad hoc committee, the President shall appoint a replacement to hold office for the balance of the unexpired term.
- 17) The term of office for chairs of standing committees shall be one year. No chair of a standing committee may hold such office for more than two consecutive one-year terms. This two-term

limit shall not include service in such office for any unexpired term pursuant to paragraph 16 above.

- 18) Members and chairs of ad hoc committees shall serve until the dissolution of the committee, or until the Board determines otherwise.
- 19) In the absence of a committee chair, the committee chair may designate in advance another committee member to act as chair for a particular meeting, failing which the remaining committee members shall designate one of themselves to act as chair for such meeting.
- 20) The Director shall designate a staff member to provide administrative support to each committee.

Meetings of the Board and Committees

- 21) The time and location of Board meetings shall be as follows:
 - a) Regular meetings of the Board shall be held at 1:00 p.m. on the second Thursday of the month at room 416 City Hall, San Francisco, or at such other time or place as the Board, at a prior regular meeting, may designate. In the event this day is a holiday, the meeting shall be held on the third Thursday, unless otherwise determined by the Board. [HSS Membership Rules and Regulations, A1(a)]
 - b) Special meetings of the Board may be called at any time by the President or by a majority of the Board. However, special meetings of the Board for closed sessions with legal counsel may precede the regular meeting of the Board and shall be attempted to be held at 12:00 P.M. immediately preceding the regular Board meeting. [HSS Membership Rules and Regulations, A1(b)]
- 22) All meetings shall be open and public and all persons shall be permitted to attend any meetings of the Board. Notwithstanding the foregoing, the Board may meet in closed session when authorized by the Ralph M. Brown Act of the State of California (the "Brown Act"), the San Francisco Sunshine Ordinance, Chapter 67 of the San Francisco Administrative Code, and Section 4.104 (2) of the Charter. [HSS Membership Rules and Regulations, A1(c)]

Committee Meetings

- 23) Standing committees shall meet at times and places agreed to by the committee. Ad hoc committees shall meet as required.
- 24) If possible, committee meetings shall take place at City Hall, San Francisco. To assist committee members in planning ahead to attend meetings, each standing committee shall, if feasible, establish an annual forward agenda or meeting schedule.

Teleconferencing

- 25) Board members may not participate by teleconference in Board or committee meetings, except as provided for by law.

- 26) Advisors and other vendors may participate by teleconference at Board and committee meetings, to the extent permitted by law.

Calendar, Meeting Materials, Minutes

- 27) The agenda for Board and committee meetings shall be prepared by the Director and, if time permits, reviewed and approved by the President or committee chair respectively. Board and committee members may request that the Director, President, or committee chair calendar any item for a Board or committee meeting, and such requests may be made at or outside a Board or committee meeting. The Director, President, and committee chairs shall make a good faith effort to ensure all such requests are calendared within a reasonable period of time.
- 28) Consent agendas may be used to address items that staff considers to be routine and non-controversial. The consent agenda may be approved by one motion if no member of the Board or public wishes to comment or ask questions about any item on the consent agenda. If comment or discussion on any item is desired by anyone, the item will be removed from the consent agenda and will be considered separately by the Board.
- 29) The Board shall receive an advance calendar and the related meeting materials no later than the Friday preceding the next scheduled meeting.
- 30) Only items that have been calendared will be heard by the Board at any meeting. The Board may consider emergency items provided they have been noticed in writing at least 24 hours in advance of the Board meeting, consistent with the Ralph M. Brown Act.
- 31) A request that a calendared item be heard out of order shall be presented at the start of the meeting to the President. The President shall decide if the request shall be granted based on the reason for the request.
- 32) All calendared matters to be postponed shall be announced at the start of the meeting. During the course of a meeting any Board member or any interested party may request postponement of an action. The President shall approve or reject any request to postpone an action being considered by the Board at its meeting.
- 33) With respect to minutes:
- a) The Secretary to the Board shall record in the minutes the time and place of each Board and committee meeting, the names of the Board members present, all official acts of the Board or committee, and the votes of the members; and
 - b) The minutes shall be written and presented for correction and approval within a reasonable time. The minutes, or a true copy thereof, shall be certified by the Secretary to the Board.

Resolutions

- 34) The term "resolution" shall mean any action of the Board which prescribes or defines in written form a Board policy or decision.
- 35) The Board shall enact and adopt resolutions in accordance with the following procedures:
 - a) At any regular or special Board meeting, any Board member may move the adoption of a resolution which may be stated orally or in writing;
 - b) The Director shall be responsible for performing, or causing to be performed, all necessary research and analysis to support resolutions prior to their adoption by the Board;
 - c) Prior to its adoption, the proposed resolution shall be prepared by the Director in proper format and the Director may if he deems necessary forward the resolution to the City Attorney's Office for approval as to format and legality. The proposed resolution shall thereafter be presented to the Board for action; and
 - d) An adopted resolution shall be signed and dated by the President and the Director.
- 36) All adopted resolutions shall be numbered in orderly sequence and shall be retained in the office of the Director. Said resolutions shall be readily accessible to members of the HSS and the public-at-large.
- 37) The Director shall notify the Board of any legislative or court action which would require the rescinding, amending, or modifying of Board resolutions.

Quorum, Rules of Order, and Voting

- 38) The presence of a majority of the members of an appointive Board, commission or other unit of government shall constitute a quorum for the transaction of business by such body. Unless otherwise required by the Charter, the affirmative vote of a majority of the members shall be required for the approval of any matter, except that the Operations Policy or Membership Rules may provide that, with respect to matters of procedure, the body may act by the affirmative vote of a majority of the members present, so long as the members present constitute a quorum. [Charter Section 4.104.]
- 39) The majority of the members of each committee shall constitute a quorum, and committees may act by a majority of the members present at a committee meeting, provided a quorum is in attendance.
- 40) Board and committee members may not vote by proxy, but must be present at a meeting in order to vote.
- 41) Except as otherwise provided in this Operations Policy, Robert's Rules of Order, in its latest revision, shall guide the Board as to rules of order in the event of a dispute among Board members.

- 42) When a Board member desires to address the Board, he shall seek recognition by addressing the presiding officer. When recognized, the Board member shall proceed to speak, confining his remarks to the question before the Board. No discussion shall take place until a resolution or motion has been moved and seconded, or until a calendared item has been introduced. [HSS Membership Rules and Regulations, A6]
- 43) The Board may take action only upon a motion by a Board member, which has been seconded by another Board member.
- 44) Each member of the Board present at a regular or special meeting must vote “yes” or “no” when a question is put, unless excused from voting by a motion adopted by a majority of the members present. [Charter Section 4.104]
- 45) Tie votes shall be handled as follows:
 - a) A tie vote on an affirmative motion shall be deemed to be a failure to adopt such motion, and the matter or request before the Board is denied; and
 - b) A tie vote on a negative motion shall be deemed to be a failure to adopt such motion, but the matter or request remains before the Board for action.
- 46) Nothing in this policy shall prohibit the President or a committee chair from making or seconding a motion, voting on a motion, and otherwise participating as a Board member.
- 47) A motion to reconsider a Board action can only be proposed by a Board member who voted with the prevailing side. However, a Board member who is not eligible to move to reconsider may briefly state their reasons for reconsideration. A request for reconsideration can only be made at the same meeting the vote to be reconsidered was taken. Motions for reconsideration cannot be renewed. If the Board does not consent to hear the matter, the request is denied, and the previous action is final.
- 48) Requests for rulings on moot or hypothetical questions will not be permitted by the Board.

Attendance

- 49) Except in the event of a notified absence (defined below), each member of the Board is expected to attend each regular or special meeting of the Board and each meeting of any committees on which they serve. The Commission Secretary shall maintain a record of members' attendance.
- 50) A Board member's absence shall constitute a notified absence where the Board member, in advance of the meeting, informs the President, Director, or Commission Secretary that the member will be absent. An absence due to unforeseen circumstances such as illness or emergency shall also qualify as a notified absence where the member reports such absence to one of the above mentioned parties as soon as reasonably possible. The Commission Secretary shall record as non-notified all absences involving neither advance notice nor unforeseen circumstances.

- 51) The Commission Secretary shall report all instances of non-notified absences as well as any instance of three consecutive absences of a member from Board or committee meetings in a fiscal year to the member's appointing authority.
- 52) At the end of each fiscal year, the Commission Secretary shall submit a written report to the appointing authorities of the Board detailing each Board member's attendance at all meetings of the Board and its committees for that fiscal year.

Public Comment

- 53) Before taking a vote on any action item, the Board shall ask for public comment. Each speaker shall be limited to three (3) minutes of comments with respect to each action item. This rule may be waived at the discretion of the presiding officer or by vote of a majority of the Board members present. Staff may be asked to time each speaker and to notify such speaker when the time limit has expired. Notwithstanding the foregoing, when a large number of speakers wish to comment on a particular action item, a reasonable overall time limit may be placed on public comment for such action item, and each speaker may thereby be limited to a period of comment that is less than **three minutes**. [HSS Membership Rules and Regulations, A5]
- 54) Speakers who wish to make public comment shall be requested to fill out a speaker card in advance, provided that a speaker may nevertheless choose to remain anonymous. [HSS Membership Rules and Regulations, A5]
- 55) Each speaker's comments must be pertinent to the item under consideration by the Board. The presiding officer of the meeting shall be the sole judge of such pertinence and may limit comments to the extent they do not pertain to the item under consideration or are duplicative of points made by previous speakers. Members of the Board need not respond after each speaker's comments. [HSS Membership Rules and Regulations, A5]
- 56) Members of the public may address the Board on any matter within the Board's jurisdiction during the "Other Business" item on the agenda. No formal action shall be taken on any matter raised during such agenda item unless such action is permitted under the Brown Act and the Sunshine Ordinance. [HSS Membership Rules and Regulations, A5]
- 57) If an agenda item is continued from one meeting to another, any member of the public who commented on such item at the initial meeting need not be permitted to comment on such item at the next meeting. This rule shall not apply, however, if the agenda item is modified in any manner after the initial meeting. [HSS Membership Rules and Regulations, A5]
- 58) Members of the public who disrupt a meeting by making noise, speaking out of turn, or otherwise refusing to comply with these Rules shall be given warning and an opportunity to correct his or her behavior. Thereafter, the Board may take action to have any such member removed from the meeting. [HSS Membership Rules and Regulations, A5]

Policy Review

- 59) The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Policy History

- 60) This policy was adopted by the Board on February 22, 2007 and amended on April 9, 2015.

SAN FRANCISCO HSS

Board Education Policy

Policy Objectives

- 1) The Board recognizes that Board members come to the Board with varying levels of knowledge and experience in the health and other employee benefits areas, and that all Board members can benefit from a formal Board education program. Furthermore, a well-designed Board education program will benefit HSS and its members and therefore justifies prudent budgeting for, and expenditure of, administrative funds or resources of the HSS.
- 2) The objectives of this policy are to establish policy guidelines to help ensure:
 - a) That Board members have adequate opportunity and assistance to acquire the knowledge they need to effectively carry out their duties;¹ and
 - b) That any expenditure of HSS funds or resources is prudent, cost-effective, and consistent with the best interests of the HSS and its beneficiaries.

Assumptions

- 3) This policy sets out various expectations concerning the efforts Board members should make to educate themselves on matters pertaining to health and other employee benefits. It is understood that any actual efforts undertaken by the Board or individual Board members shall be contingent on the availability of budget resources.
- 4) Though there may be limited resources available to fund attendance at educational conferences, a Board education policy is nevertheless necessary to define and guide other approaches to education available to the Board.
- 5) No single method of educating Board members is optimal; therefore, a Board education program should include a variety of educational methods and tools.

General Provisions

- 6) As fiduciaries, Board members are required to be knowledgeable of all matters concerning health and employee benefit policy and oversight. Accordingly, and within the constraints of available resources:

¹ The scope of this policy is limited to the education of the members of the Board.

- a) Board members agree to develop and maintain an adequate level of knowledge and understanding of relevant issues pertaining to HSS oversight and policy-setting throughout their terms on the Board; and
 - b) Board members agree to pursue appropriate education across a range of employee-benefit related areas, including:
 - i) Governance and fiduciary duty;
 - ii) Health and welfare plan design;
 - iii) Funding of health and welfare plans;
 - iv) Actuarial science;
 - v) Benefits administration; and
 - vi) Regulatory and legal environment of HSS.
- 7) In addition to technical knowledge, the Board recognizes that the Board training program should provide Board members with an understanding of the environment in which HSS operates, including the HSS's relationship to the Board of Supervisors, the employers participating in the HSS, and other departments within the City.
- 8) The Board considers the following types of vehicles to be appropriate for training its Board members and encourages Board members to take advantage of them, where budget resources permit:
- a) External conferences, seminars, workshops, roundtables, and similar events (henceforth referred to as conferences);
 - b) Meetings of associations or other similar bodies within the health and welfare industry;
 - c) In-house educational seminars or briefings by staff, City Administration, the Board's service providers, or other special advisors;
 - d) Relevant periodicals, journals, textbooks, or similar materials; and
 - e) Electronic media including webinars and pod casts.
- 9) Where budget resources permit, the Director shall, on an ongoing basis, identify appropriate educational opportunities and include details of such through electronic means to Board members and in Board meeting packages for Board members' consideration. Board members are also encouraged to suggest educational programs that may provide value to the Board.

Conferences requiring overnight lodging or other significant travel-related expenses should include an average of at least 5 hours of substantive educational content per day.

- 10) Board members shall attempt to meet the following minimum goals, provided sufficient budget resources are available:
 - a) To secure, over time, a useful level of understanding in each of the topic areas listed in paragraph 6b) herein;
 - b) To attend at least one conference annually, which includes at least 5 hours of substantive educational content per day of the conference; (Recommended conferences are listed in Appendix 1 of this policy)
 - c) Regularly attend on-line educational events (e.g. webinars) that may be identified as being relevant to the Board; and
 - d) Participate in any in-house educational seminars or briefings that may be organized from time to time.
- 11) Board members shall annually complete the City training program on the Sunshine Ordinance and any other training programs mandated by the City. Attendance at such programs will be documented and reported to the Board Secretary on an annual basis.

Education Plan

- 12) The Board shall adopt a Board Education Plan covering a 1-3 year period and shall update the Plan as necessary.
- 13) The Board Education Plan may set out the education goals of the Board, with key topics to be covered over time by the Board and individual board members, and shall cover both external and in-house education efforts. The Plan shall include a tentative schedule of topics to be addressed and associated timing.

Orientation Program

- 14) A formal orientation program, covering the general topic areas outlined in paragraphs 6 b) and 7 above, will be developed by the Director for new Board members. The aim of the orientation program will be to ensure that new Board members are in a position to contribute fully to Board and committee deliberations, and effectively carry out their duties as soon as possible after joining the Board.

- 15) As part of the orientation process, new Board members shall, within 45 days of their election or appointment to the Board, be provided one or more general orientation sessions, during which they shall:
 - a) Be briefed by the Director on the history, background, and structure of HSS;
 - b) Be oriented by the Director and President on current issues before the Board;
 - c) Be provided an overview of the current health plans and benefits, and the benefit and funding policies of the Board, and how all such plans, benefits, and policies have evolved over time;
 - d) Be introduced to members of senior management;
 - e) Be provided a tour of HSS offices;
 - f) Be briefed on their fiduciary duties, conflict of interest guidelines, *The Brown Act*, the *Sunshine Ordinance* and other pertinent legislation; and
 - g) Be provided with:
 - i) A Board Member Reference Manual (the contents of which are listed in Appendix 2 of this policy);
 - ii) A listing of recommended educational programs; and
 - iii) Other relevant information and documentation deemed appropriate by the Director.
- 16) Within 30 days of being appointed or elected to the Board or leaving the Board, Board members must complete a *Statement of Economic Interest and any other disclosure forms required by law*. The Board Secretary shall provide new Board members with any necessary assistance. Thereafter, Board members shall complete and file said disclosure forms on an annual basis or consistent with the requirements of applicable laws.
- 17) As part of the orientation process, the Director shall also make available a series of in-house education seminars for the benefit of new Board members, generally within 4 months of their election or appointment to the Board. Seminars will be designed and scheduled in consultation with the Board member(s) in question. Although intended for new Board members, any Board member may attend. The seminars will cover, at a minimum, basic health and welfare-related topics including health plan design, actuarial topics, HSS operations, legislation, and trust/fiduciary law.

- 18) The Director shall review and update the Board Reference Manual as needed. A master copy of the Board Member Reference Manual will be available for use by Board members at the HSS offices.

Continuing Education – In-House Education Seminars

- 19) Annually, the Director shall, after seeking Board input, identify at least two (2) topics of relevance to the Board, and shall organize one or more in-house educational sessions on these topics. Such sessions may be appended to regular Board or committee meetings or be organized as stand-alone sessions.

Attendance at Conferences & Association Meetings

- 20) Approval for attendance and reimbursement of travel expenses in connection with educational conferences or association meetings will be in accordance with the provisions set out in the HSS Board Travel Policy.

Reporting

- 21) Board members shall inform the Director, for information purposes, of all health and welfare-related conferences attended, whether funded by HSS or not.
- 22) Attendees shall complete a brief written assessment of the quality and relevance of each conference attended (see Conference Attendance Form). The Director shall review these assessments and update the list of recommended conferences as appropriate.
- 23) Upon returning from a conference, attendees may report to the Board on information or knowledge attained at the conference for the benefit of Board members who did not attend.
- 24) On an annual basis, the Director shall submit a report to the Board on the educational activities of the Board completed in the prior year. At a minimum, the report will summarize the implementation of the Board Education Plan including for example:
 - a) Attendance by Board members at conferences during the year;
 - b) Webinars made available to Board members;
 - c) Education sessions held during Board meetings;
 - d) Special in-house educational sessions held during the year; and
 - e) Other educational activities undertaken during the year.

Policy Review

- 25) The Board shall review this policy every year to ensure that it remains relevant and appropriate.

Policy History

- 26) The Board adopted this policy on February 22, 2007 and amended it on April 9, 2015; amended [month, day, year].

Health Service Board Education Policy

Plan for FY 2016-2019

Terms of Reference:

Governance Policies and Terms of Reference of the Health Service Board, revised April 2015, Board Education Policy, Pages 31 – 42, Section: Education Plan, Items 12 and 13, require an Education Plan for the Health Service Board. The following is designed to respond to the Terms of Reference requirement for a Health Service Board Education Plan for the period of 2016-2019.

To accomplish the Board Education Goals outlined below, the Health Service Board will annually request budget support from the Board of Supervisors for Board Education Funds through the HSS Budget.

New Board members will receive an updated orientation as outlined in the goals below, which continuing Board members will also access via electronic links.

An annual progress report on the Education Plan accomplishments will be prepared by the Board Secretary.

The Health Service Board Education Goals shall include and not be limited to:

- ❖ Understand and practice the tenets and principles of a fiduciary as a member of the Health Service Board.
- ❖ Be knowledgeable about the trends and cost drivers of health coverage and their influence on access, quality, affordability, underwriting, reserves funding policy, stop/loss determination and premium rate setting.
- ❖ Understand funding options: fully-funded, self-funding, flex-funding.
- ❖ Be aware of changing health delivery and insurance systems and their potential impact on HSS members.
- ❖ Explore structures and alternatives in health benefits provider options and health benefit designs.
- ❖ Stay abreast of pharmaceutical pricing practices and cost trends to determine their impact on HSS members.
- ❖ Gain an improved understanding of claims data analysis and claims auditing and its role in determining benefit premium rates.
- ❖ Enhance the working knowledge of HSS benefits and provisions of Evidence of Coverage (EOCs).

- ❖ Be informed about:
 - Health Service Board Policies and Terms of Reference
 - San Francisco Charter provisions
 - Financial reports/policies
 - Legislative and regulatory changes affecting HSS member benefits
 - Rate calculations
 - Role of actuary

The Health Service Board Educational Methods

Board education can and will occur through a variety of blended learning methodologies which will include but not be limited to:

- ❖ Providing New Board Member Orientation (see Board Education Policy, pages 33-35 of Governance Policies and Terms of Reference under “Orientation Program.”)
- ❖ Providing at least five (5) Health Service Board meeting educational sessions.
- ❖ Promoting Health Service Board member attendance to conferences, workshops and forums provided by a variety of external consultant and organization vendors.
- ❖ Assuring Health Service Board members are provided with membership in the International Foundation of Employee Benefit Plans (IFEBP).
 - The IFEBP web home page has a Trustee Resources Tab. HSB members can also attend IFEBP annual conferences with content for Trustees.
 - Promoting Board member participation in IFEBP online (webinars at no cost) through ACA University - a Virtual Learning Center.
- ❖ Encouraging HSB members to participate in the San Francisco-based annual meeting of the Integrated Benefits Institute.
- ❖ Other Learning Resources:
 - The California Health Care Foundation publishes updates on HealthCare in California at: <http://www.chcf.org/>
 - America’s Health Insurance Plans has a daily briefing sign-up at: <https://www.ahip.org/index.aspx>
 - Kaiser Family Foundation a daily policy update at: <http://kff.org/>
 - Health Service Board Governance Policies and Terms of Reference
 - Charter Provisions

Annual Reporting

- Reporting period: Calendar year beginning January 2017
- No minimum standard (track participation for 1-2 years and re-evaluate, if necessary)
- Quarterly submissions: Send all submissions to Board Secretary
- Quarterly reminders: Board Secretary will send quarterly reminders to members
- Date of final annual report to Board Secretary: December 31 annually (end of reporting period)
- Board Secretary to provide written report to Board in February following deadline.

APPENDIX 1

Suggested Conferences, Seminars and Webinars

The following associations or conference organizers have been found to provide informative educational conferences and webinars. Conferences typically also contain the five (5) hours of substantive educational content per day, as required by the Board's travel policy. Board members are encouraged to visit their websites as a first step in identifying potential conferences to attend.

International Foundation of Employee Benefit Plans

Organizes an annual conference and other conferences and seminars throughout the year

Contact:

P.O. Box 69
Brookfield, WI 53008-0069
(888) 334-3327
<http://www.ifebp.org/>

APPENDIX 2

BOARD MEMBER REFERENCE MANUAL

A Board Member Reference Manual shall include the following materials:

- a) Most recent plan descriptions or member handbooks
- b) Most recent Annual Report
- c) Organizational chart
- d) Contact information for the Director and Board members
- e) Listing of current committee assignments
- f) Relevant City charter provisions
- g) Terms of reference and Board policies
- h) Glossary of key health and welfare administration terms and definitions
- i) HSS Membership Rules and Regulations

APPENDIX 3

Travel Policy

Travel Authorization

- 1) Each Board member is generally limited to one seminar or conference that requires travel outside of San Francisco County and/or overnight lodging per fiscal year. No more than one conference per year may involve travel to a destination outside the United States.
- 2) As a general rule, Board members should incur only those expenses that a reasonable and prudent person would incur when traveling on official business.
- 3) Attendance by Board members at seminars and conferences requiring travel outside of San Francisco County and/or overnight lodging requires prior approval of the Board, and is subject to the limits set out in paragraphs 1.
- 4) Attendance by Board members at association meetings, due diligence visits or other Board business requiring travel outside of San Francisco County and/or overnight lodging also requires prior approval of the Board.
- 5) All requests for business travel require approval in advance by the Board. A travel authorization form must be completed by the requestor and signed by the President of the Board or designee.
 - a) Information required for authorization includes:
 - i) Dates of travel and location
 - ii) Business purpose of travel/training/conference
 - iii) Estimated expenses including, but not limited to, when applicable, registration fee, cost of air ticket, other transportation costs, and lodging must be itemized with details or any changes made by the Controller.
 - b) Authorization form must be forwarded to Chief Financial Officer (CFO) to approve the use of funds and confirm all City requirements are met.
 - c) CFO shall forward the authorization form to the Director for final preauthorization approval.
- 6) The acceptance of any gifts which enable Board members to attend seminars and conferences requires prior approval of the Board in strict compliance with section 18944.2 of Fair Political Practices Commission Regulations.
- 7) Review and approval of educational travel will depend on the cost, substance and quality of the seminar or conference. As a general rule, travel to a conference or

seminar outside of San Francisco County and/or requiring overnight lodging should only be approved if the conference/seminar agenda contains an average of five (5) hours of substantive educational content per day. The Board may waive this requirement if the best interests of HSS would be served by such a waiver.

- 8) The Board recognizes that Board members are often considered experts in their professional fields or as having considerable experience as a Board member. As such, they may often be asked to speak at conferences. While HSS encourages the exchange of professional information, it must be evident that such speaking engagements would provide value to HSS, before attendance is authorized on HSS' behalf.

Cost of Administration

- 9) Travel expenses of Board members shall be direct costs of administration to HSS and may not be paid through third party contracts or otherwise without express approval of the Board or the Director. Board members shall comply with applicable requirements for expenses paid or reimbursed by third parties.

Authorized Expenses

- 10) Authorized Travel Expenses include lodging, transportation costs, registration or attendance fees, meals and other costs reasonably and necessarily incurred when the Board member is required to travel on official HSS Board business.

Limitation on Allowance of Time and Expenses

- 11) Allowance for time and expense shall not exceed that which is usual and reasonable as claimed by others to that precise destination. Normally when meeting, conference, or seminar agendas calendar substantive content prior to 9:30 a.m., travel and arrival the evening before is authorized. When substantive content continues after 5:00 p.m., lodging for that night is authorized. Reasonable additional expenses (i.e. lodging and per diem for extra days either before or after a conference) will be reimbursed if such extension results in lower overall trip costs.

Limitation on Car Rental

- 12) Normally, Board members shall be expected to use airport shuttle service to metropolitan destinations unless it is more economical to rent a car, pay for parking, fuel. etc. Reimbursement of alternative modes of transportation will be limited to the cost of the airport shuttle service unless otherwise justified (e.g. for reasons of

personal safety or scheduling conflicts). As the City is self-insured, auto insurance is not reimbursable.

Cancellation of Travel and Lodging Arrangements

- 13) Normally, Board members are responsible for timely cancellation of travel and lodging arrangements made on his/her behalf which will not be used so that no costs will be incurred by HSS.

Transportation Expense In Lieu Of Airfare

- 14) Airfare should be booked for economy/coach class only. Air ticket must be purchased in advance to take advantage of the most economical fares available. If airline charges for checked luggage, only the cost of the first checked bag may be reimbursed.
- 15) Board members have the option of purchasing air tickets from a City approved vendor or on-line directly. If Board members choose to purchase air travel on-line directly, they must document and demonstrate this option is the most economical by obtaining a comparative quote from a City vendor for the travel dates.

Lodging Expense

- 16) The most economical and practical accommodations available considering the purpose of the meeting, and other relevant factors will be reimbursed. For travel within the United States, the maximum reimbursement is the Federal per-diem GSA (General Services Administration) rate for lodging. To stay within the maximum rates, conference discount rates and "government rates" should be used whenever possible.
- 17) In situations where lodging at GSA rate is not available or business circumstances require the Board members to stay in a hotel that exceeds the federal per diem rate, reimbursement will be allowed if justified by business need, the most economical and practical lodging rates can be demonstrated, and pre-approval by the President of the Board is obtained.

Filing Claims

- 18) Claims for reimbursement of travel expenses shall be submitted to HSS Finance staff within 30 days following completion of the travel for which expenses are claimed.

- 19) Supporting documentation including, but not limited to, approved travel authorization form, air or other itinerary, conference/meeting/workshop schedule and agenda, original itemized receipts, proof of payment must be submitted and itemized when filing travel claims.

Cash Advances

- 20) Cash advances will not be allowed unless specifically approved by the Board.

Expenses for Spouses

- 21) Expenses of travel companions, including spouses, are not reimbursable by HSS.

Semi-Annual Travel Reports

- 22) A semi-annual travel expenditure report covering Board member travel outside San Francisco County shall be provided to the Board.

SAN FRANCISCO HSS

Board Performance Evaluation Process

Objectives

- 1) The Board recognizes that annual Board evaluation has become an accepted best practice in the area of Board governance. Accordingly, in keeping with the Board's desire to reflect best practice in all of its operations, the Board has adopted this Board Performance Evaluation Policy.
- 2) The objective of this policy is to set out a process by which the Board may engage in periodic self-assessment for the purposes of continuously developing and improving its own effectiveness as a governing body.

Principles

- 3) The Board performance evaluation process should include the participation of all Board members, and be consistent with the provisions of *The Sunshine Ordinance* and *The Brown Act*.⁴
- 4) Management input into the Board's performance may be highly beneficial to the evaluation process, provided Management is given whatever level of anonymity it desires in the process.
- 5) The scope of the Board performance evaluation and any resulting actions should be limited to the activities and decision-making practices of the Board and Board members. Separate policies or practices will be used to evaluate the performance of the Director.

Guidelines

Roles & Responsibilities

- 6) The Governance Committee shall be responsible for coordinating the implementation of this policy, including the approval of any survey forms or similar instruments to be used in the evaluation process, and the making of recommendations to the Board for addressing issues arising out of the evaluation.

⁴ The *San Francisco Sunshine Ordinance* and The Ralph M. Brown Act, California Government Code Sections 54950 et seq.

Procedures

Board Member Surveys

- 7) In about the fourth quarter of each fiscal year, the Governance Committee shall review any survey tools to be used in the evaluation process and make modifications, as appropriate. Due to cost considerations, it is expected that the evaluation will normally be administered using a survey.
- 8) The purpose of any Board survey instrument shall be to provide Board members with a framework for reviewing the performance of the Board and for raising, in an anonymous manner, if desired, any concerns or suggestions Board members may have to improve the Board's performance. Survey forms may take any format deemed appropriate by the Governance Committee, but must provide an opportunity for Board members to provide written comments or suggestions.
- 9) In about the fourth quarter of each year, copies of any Board surveys to be used will be distributed to each Board member with instructions for completing and submitting the survey.
- 10) Board members are required to complete and submit the survey within 14 days of receiving it. The Governance Committee shall determine the method for distributing, submitting, and tabulating the Survey (e.g. mail, internet, etc.). Any summary report of findings will display the findings in a confidential manner.

Management Input

- 11) The Director shall have the option of providing input on the Board's performance from members of HSS Management or staff, using the same survey instrument used by Board members. Alternatively, the Director may develop a separate survey tailored for use by Management and staff and shall review the survey with the Governance Committee. Any such surveys shall provide opportunity for written comments and suggestions.
- 12) The Director shall determine which members of HSS Management or staff shall be invited to complete a board evaluation survey. Such surveys shall be completed and tabulated in a manner that ensures anonymity. To that end, the Director shall invite as many members of Management and staff as is reasonable and appropriate.
- 13) The Director shall approve the summary of Management's survey results prior to the results being shared with any member of the Board.

Reporting

- 14) The Board and Management survey results shall be summarized by an independent party, to be determined by the Governance Committee, and reviewed by the Governance Committee. Based on the results, the Governance Committee shall develop Committee recommendations for the Board's consideration.
- 15) The Governance Committee Chair shall report to the Board on the discussions, conclusions, and any recommendations of the Governance Committee.
- 16) The Board's discussions and any actions arising out of the evaluation shall be summarized in the minutes of the Board meeting.

Interviews

- 17) The Governance Committee may recommend to the Board that in certain years the above surveys be replaced or supplemented with personal interviews of Board members and Management by an independent party in order to obtain more detailed or robust results.

Policy Review

- 18) The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

Policy History

- 19) The Board adopted this policy on February 22, 2007; amended it on April 9, 2015; amended it [month, day, year].

SAN FRANCISCO HSS

Director Performance Evaluation Policy

Background and Purpose

- 1) The Board believes that selecting, directing, and evaluating the HSS's Director are some of its most important responsibilities. In keeping with this responsibility, the Board has adopted this policy, which sets out an annual process to be followed in assessing the Director's performance and communicating the results to the Director.

Policy Guidelines

- 2) The Governance Committee shall be responsible for coordinating the Director performance evaluation process.
- 3) The Governance Committee, in consultation with the Director, shall develop the criteria to be used in performing the evaluation. Quantitative criteria shall have a weight of 65% within the overall evaluation and qualitative criteria shall have a weight of 35%.

Qualitative Criteria

- 4) Qualitative criteria will generally be evaluated using a survey instrument or similar tool, to be developed by the Governance Committee and refined over time, with input from the Board as appropriate. Assessments of qualitative criteria by board members that correspond to above or below "Satisfactory Performance" must be accompanied by examples and comments or they will not be considered. In cases where such assessments were not accompanied by examples or comments, the party responsible for administering the survey shall follow-up with Board members and encourage them to provide such commentary.
- 5) All members of the Board are expected to complete any survey instruments or tools developed by the Governance Committee as part of the Director's evaluation.

Quantitative Criteria

- 6) Quantitative criteria shall reflect the strategic plan and shall be developed and refined over time, as the HSS develops methods for obtaining any necessary data and developing meaningful measures of performance.

- 7) To the extent possible, the Governance Committee shall obtain the necessary information or data to assess the quantitative criteria from independent sources (for example, the financial auditor).

Timing & Process

- 8) In the fourth quarter of each calendar year, Board members shall be provided copies of an evaluation survey addressing qualitative criteria and will have two weeks to complete and return them. Accompanying the survey will be a report from the Director containing the Director's own assessment and any supporting information and documentation the Director believes may be of value to the Board members in completing the survey.
- 9) The Chair of the Governance Committee shall work with the Director and other parties as necessary to gather and synthesize any data and information necessary to assess the objective criteria.
- 10) The Chair of the Governance Committee, with the assistance of the Board Secretary, shall ensure that all the information necessary to facilitate the evaluation of the Director (quantitative and qualitative) is tabulated and summarized in a report, and will review the results with the Governance Committee. Any board member input that is provided shall not be anonymous.
- 11) In closed session, the Chair of the Governance Committee shall present to the Board a summary of the evaluation results along with the Committee's findings and recommendations for Board discussion and approval. A summary of the evaluation will be placed in the Director's personnel file.
- 12) The Director shall be allowed to attend any meetings of the Board or its committees at which the Director's performance is to be reviewed and discussed and the Director shall have an opportunity to respond to any of the Board's findings prior to the Board completing its evaluation. Such meetings will be held in closed session, as provided for by applicable open meeting laws. If the Director chooses not to attend the Board meeting at which the Board finalizes the Director's performance evaluation, the Chair of the Governance Committee and the President of the Board shall subsequently meet with the Director to review the Director's evaluation.
- 13) Minor changes to the Director Evaluation Survey may be made by the Governance Committee provided the survey continues to reflect the subjective evaluation criteria approved by the Board. Material changes to the Survey shall be reviewed with the Board.

- 14) The Governance Committee shall generally hold a mid-year review with the Director to assess progress, adjust goals and objectives if necessary, and identify potential issues or concerns. The Governance Committee shall report the results of the mid-year review to the Board along with any recommended adjustments to the evaluation criteria.

Compensation and Bonuses

- 15) The Board annually shall review the Director's compensation and consider changes that may be feasible under existing City policies or programs.

Policy Review

- 16) The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Policy History

- 17) This policy was adopted by the Board on February 22, 2007 and amended on April 9, 2015. Amended [month, day, year]

HSS Director Performance Evaluation Survey

Qualitative Performance Measures - DRAFT

Introduction

As set out in the *Director Performance Evaluation Policy*, all Board members are expected to complete this survey, which is designed to allow Board members to assess qualitative aspects of the Director's performance. The survey addresses the following five areas:

1. Leadership and Vision
2. Resource Management and Governance
3. Management of People
4. Collaboration and Communication
5. Client Service Focus

Rating Scale & Definitions:

This survey uses a five-point scale along with a sixth option of Unable to Assess. The scale is defined below:

Exceptional Performance – is significant overachievement of expectations. (5)

Above Expectations – is often beyond expectations. (4)

Performance Meets Expectations – consistently fulfills expectations. (3)

Performance Improvement Needed – is inconsistent performance, with expectations only partially achieved. Deficiencies should be addressed in the performance appraisal. (2)

Unsatisfactory Performance – is the failure to achieve the majority of expectations. Deficiencies should be specifically addressed in the performance appraisal. (1)

Unable to Assess – this option may be selected if a board member is relatively new to the Board or feels he or she has not been sufficiently exposed to a particular aspect of the Director's performance to provide an accurate rating.

When selecting any rating other than “Performance Meets Expectations” or “Unable to Assess” **Board members shall provide written examples and comments to support their rating. Failure to do so shall result in the rating being excluded** from the summary of results, and thus not factoring into the Director’s evaluation.

Leadership and Vision

The Director envisions future possibilities and articulates a clear and compelling vision that inspires the staff to achieve strategic goals and organizational results. Identifies and capitalizes on strategic and operational opportunities that are consistent with the HSS mission, vision and goals. Models integrity, leadership and management behaviors expected of others. Demonstrates an executive-level knowledge and understanding of the technical and professional aspects of HSS (e.g. legal, actuarial, benefits, technology, City dynamics, etc.) and works to maintain such knowledge over time.

- | | |
|---|---|
| <input type="checkbox"/> Exceptional Performance | <input type="checkbox"/> Improvement Needed |
| <input type="checkbox"/> Above Expectations | <input type="checkbox"/> Unsatisfactory Performance |
| <input type="checkbox"/> Satisfactory Performance | |

As evidenced by: (Provide examples or comments to support the rating):

Resource Management and Governance

Working with staff and the Board, the Director defines ambitious yet realistic long-term and annual goals and objectives in a manner consistent with the HSS mission. Demonstrates accountability, discretion, and sound judgment when using and managing HSS resources (operational, financial, and human). Given political constraints and circumstances, is effective in obtaining/maintaining necessary resources. Manages risk and compliance appropriately and assures that staff exercise their accountabilities for managing risk and compliance. Provides sound, well supported policy analysis and recommendations to the Board as appropriate.

- | | |
|---|---|
| <input type="checkbox"/> Exceptional Performance | <input type="checkbox"/> Improvement Needed |
| <input type="checkbox"/> Above Expectations | <input type="checkbox"/> Unsatisfactory Performance |
| <input type="checkbox"/> Satisfactory Performance | |

As evidenced by: (Provide examples or comments to support the rating):

Management of People

Fosters an environment of individual growth and professional development. Recognizes and utilizes the skills of others through delegation and clearly outlining performance expectations. Provides timely performance feedback and recognizes superior performance. Recruits, retains, mentors and effectively coaches a talented diverse staff. Maximizes organizational results and individual effectiveness by defining measures of success.

- Exceptional Performance
- Above Expectations
- Satisfactory Performance
- Improvement Needed
- Unsatisfactory Performance

As evidenced by: (Provide examples or comments to support the rating):

Collaboration and Communication

Collaborates with key constituents to successfully achieve organizational goals. Proactively establishes relationships with employees, clients, partners, the City, and the community. Understands the needs of these individuals and shares information and knowledge to meet HSS objectives. Develops relationships that are built on confidence and trust. Seeks perspectives and opinions from others to ensure sound decision making that leads to understanding the strategic and operational direction of HSS. Clearly expresses ideas, orally and in writing, and demonstrates skill in actively listening and interacting with others. Adapts to varying and unexpected situations and is flexible in the approach to resolving organizational challenges. Ensures the Board is provided with all necessary and timely information and kept abreast of all important developments.

- Exceptional Performance
- Above Expectations
- Satisfactory Performance
- Improvement Needed
- Unsatisfactory Performance

As evidenced by: (Provide examples or comments to support the rating):

Client Service Focus

Demonstrates a commitment to client service and works to create a culture of service quality within HSS. Identifies and communicates service needs and objectives and establishes ongoing communication processes that are both proactive and responsive. Resolves service problems promptly and professionally. Seeks to continually assess the quality of member service. Values and delivers high quality, responsive and innovative service to all clients.

- | | |
|---|---|
| <input type="checkbox"/> Exceptional Performance | <input type="checkbox"/> Improvement Needed |
| <input type="checkbox"/> Above Expectations | <input type="checkbox"/> Unsatisfactory Performance |
| <input type="checkbox"/> Satisfactory Performance | |

As evidenced by: (Provide examples or comments to support the rating):

SAN FRANCISCO HSS

Monitoring and Reporting Policy

Introduction

- 1) In carrying out its responsibility to monitor and oversee the operations of the HSS, the Board receives numerous reports on various topics, from different parties, and with different frequencies. While some of the reports are ad hoc in nature, many are routine. The Board has adopted this policy to help ensure that the system of routine reporting is clear and systematic, and will evolve over time to continue to meet the needs of the Board.

Policy Guidelines

- 2) The Board shall be provided the routine reports including but not limited to those outlined in Appendix 1 of this policy with a frequency also set out in Appendix 1.
- 3) Requests by Board members for additional routine reports shall require Board approval and an amendment to Appendix 1 of this policy.

Policy Review

- 4) The Board shall review this policy, along with Appendix 1 of the policy, at least once every three years to ensure that it remains relevant and appropriate.

Policy History

- 5) The Board adopted this policy on February 22, 2007 and amended it on April 9, 2015.

APPENDIX 1
Scheduled Board Reports – As proposed by Cortex

Report Name	Frequency	Prepared By	Presented By	Description and Purpose of Report
<i>Governance Reports</i>				
1) Report to the Mayor	Annually	Director	Director	As required by Charter Section 4.103, the Board is required to file an annual report of its activities with the Mayor's office and the Clerk of the Board of Supervisors.
2) Board Education Plan	Annually	Governance Committee	Chair of GC	Summarizes the education goals of the Board and tentative schedule/timing of topics to be addressed.
3) Report on Board Education	Annually	tbd	Chair GHRC	Summarizes the training and educational activities (both external and in-house) of the Board and individual Board members.
4) Board Performance Evaluation Report	Annually	tbd	Chair GHRC	Summarizes the results of the Board's self-evaluation process, including follow-up actions.
5) Board Travel Expense Report	Semi-annually	CFO	Director	Summarizes Board member travel expense reimbursement and confirmation that such expenses are consistent with travel expenditure policies and guidelines.
6) Director Evaluation Report	Annually	Governance Committee	Chair of GC	Summarizes the results of the Director Evaluation process.
<i>Investment Reports</i>				
7) Investment Policy Compliance Report	Annually	CFO	tbd	An assessment of the extent to which the Board's investment policy statement was complied with during the prior year.
8) Investment Performance Report	Annually	CFO	tbd	Summarizes investment performance of the Health Service Trust Fund in the past year.

Benefits Administration and Member Services Reports				
9) Member Services Review	Annually	tbd	tbd	An assessment of the adequacy of health care provided for members of the HSS, fee schedules, compensation paid for all services rendered, and the general affordability of the plans it administers.
10) Demographics Report	Annually	tbd	tbd	Review of the participation levels by members within the health plans.
11) County Survey Report	Annually	tbd	tbd	Summarizes results from a survey of the 10 largest counties in California that assessed the average contribution made by county employees to health benefit coverage.
Funding and Accounting Reports				
12) Audit Report	Annually	External Auditor	External Auditor	Review of annual audited financial statements and external auditor's management letter.
13) Report on Reserves	Quarterly	CFO	CFO	Summarizes the levels of the reserves.
Operations and Risk Management Reports				
14) Service Provider Review	Annually	Director	Director	An assessment of the performance of key service providers, including but not limited to insurance carriers and third-party administrators, relative to pre-established performance criteria.
15) Risk Management Report	Annually	Director	Director	Summarizes ongoing system of operational risk management.
16) Strategic Plan Report	Annually	Director	Director	Review of Strategic Plan, and its ongoing implementation.

SAN FRANCISCO HSS

Board Communications Policy

Introduction & Objectives

- 1) Effective, coordinated, and accurate communication by the Board and Board members is essential to ensuring compliance with fiduciary obligations and to achieving operational effectiveness. To help achieve this, the Board has adopted this policy to guide Board member communications. The policy is intended to:
 - a) Ensure efficient and effective communications among Board members, staff, service providers, and stakeholders;
 - b) Serve and protect the interests of plan members and beneficiaries through consistent and accurate communication; and
 - c) Maintain a reputation of professionalism and integrity.

Principles

- 2) The Board is most effective when it communicates as one body with a single voice.

Definitions

- 3) Throughout this policy, the term *communication* shall refer to all forms of communication including written, oral, or electronic communication.

Guidelines

Communication with Board Members and Staff

- 4) Board members shall communicate in a respectful, honest, and constructive manner during all Board and committee meetings, and in all interactions with staff, service providers, and the public at large.
- 5) Only the Board or a committee may request information from staff or assign work to the Director.

Public Communications

- 6) Public communications on the part of the Board or HSS shall generally occur through a spokesperson designated by the Board or the Director respectively. The designated spokesperson for the Board shall normally be the President or the Director. The Board

expects that the President and Director shall confer to determine which of them shall act as spokesperson on a case-by-case basis.

- 7) In carrying out their duties, spokespersons shall:
 - a) Confer with the Director, President, the Board, or City Attorney as appropriate prior to engaging in official communications;
 - b) Communicate only official positions of the Board, and not make unilateral commitments on the part of the Board; and
 - c) Report back to the Board on any communications undertaken in their capacity as spokesperson.
- 8) Board members who are not designated spokespersons, and who nevertheless wish to communicate publicly on matters relating to the HSS, shall take all reasonable steps to ensure they communicate the policies, positions, and deliberations of the Board in a clear and accurate manner.
- 9) As a courtesy, Board members are encouraged to apprise the President and the Director of any public communications they may have concerning the HSS. At a minimum, however, Board members shall inform the Director and the President or Vice-President of any communication they engage in that might reasonably be expected to result in media exposure for the HSS.
- 10) Board members are strongly advised to review in advance with the President and the Director any communications they intend to make or release publicly, and to make any modifications recommended by them regarding the accuracy of the intended communications.
- 11) If any board member publicly communicates a personal opinion that is inconsistent with a policy or decision of the Board, they shall clearly disclose to their audience that they are in fact expressing a personal opinion and that such opinion does not reflect the policies or decisions of the Board.
- 12) If a Board member votes with the losing side on an issue, the member is expected to nevertheless respect and support the decision of the majority. Reconsideration of Board actions may occur consistent with the Board Operations Policy and Robert's Rules of Order. The Board recognizes that some Board members must function in capacities other than that of a Board member, and as such may believe they must express publicly their disagreement with a decision of the Board. In such instances, the Board expects that they shall do so in an open, constructive, and professional manner.

Communication with Members and Beneficiaries

- 13) The Board does not intend to unduly restrain communication by Board members with plan members and beneficiaries. The Board, however, also recognizes that Board members are generally not qualified to communicate technical details concerning the HSS and its

numerous benefit plans, and that providing inaccurate or incomplete information to members may cause confusion or harm.

Accordingly, Board members shall exercise judgement and discretion whenever communicating with plan members and beneficiaries, and shall be aware of and comply with the following guidelines, intended to protect the HSS, Board members, and, most importantly, plan members and beneficiaries:

- a) Board members may communicate general information or simple, factual, information to members and beneficiaries only where there is no risk of communicating inaccurate or conflicting information;
- b) Board members may not provide plan members or beneficiaries with education, advice, or technical information pertaining to the benefit provisions of HSS. Instead, Board members agree to refer such members or beneficiaries to the HSS website, the HSS Member Services Department, or the Director, as appropriate;
- c) Board members who, in their capacity as members of the Board, wish to meet with groups of plan members, beneficiaries, or stakeholders for the purposes of conducting a meeting, presentation, or similar exchange shall exercise discretion and may:
 - i) Inform the Director and, when possible, arrange for a HSS staff person to be present at the meeting in order to help ensure all communications accurately reflect the policies, positions, or benefit provisions of HSS; or
 - ii) Provide the Director copies of any written materials the Board member intends to distribute at the meeting.

External Communications – Service Providers

- 14) Board members agree to abide by the black-out period provisions pertaining to service providers, as specified in the Service Provider Selection Policy.
- 15) Individual Board members shall not direct or otherwise assign work to service providers. Instead, all direction or requests to service providers shall occur at a Board or committee meeting or be channelled through the Director. Furthermore, Board members shall not direct plan members to contact service providers directly, but rather HSS staff.

Policy Review

- 16) This policy shall be reviewed by the Board at least every three years.

History

- 17) This policy was adopted by the Board on February 22, 2007 and amended on April 9, 2015.

SAN FRANCISCO HSS
Service Provider/Vendor Selection Policy

Purpose

- 1) The Service Provider/Vendor Selection Policy is intended to establish general guidelines by which service providers will be selected, evaluated, or terminated by HSS.

Roles and Responsibilities

- 2) The role of the Board with respect to the selection of service providers is to:
 - a) Establish appropriate policies to help ensure prudent and sound selection decisions are made, including, but not limited to, providing input to management about broad policy directions or specific goals and guidelines, prior to the drafting of the RFP;
 - b) Monitor compliance with such policies;
 - c) Approve the award of a contract with the following primary service providers:
 - i) Actuary;
 - ii) Insurance carriers;
 - iii) Hearing officers or firms providing the services of hearing officers;
 - iv) Third party administrators retained for services in connection with non-charter benefits and with a contract value in excess of \$200,000 annually;
 - v) Information technology consultants retained for services with a value in excess of \$100,000;
 - vi) Medical Director; and
 - vii) Other service providers, as may be determined by the Board.
- 3) The Director shall be responsible for selecting service providers/vendors other than the above primary service providers, consistent with the operating budget and other applicable policies of the Board and the City and County of San Francisco, and for keeping the Board apprised of such appointments, when material.
- 4) Notwithstanding paragraph 3 above, if the Director determines that specific circumstances suggest that it would be prudent for the Board to approve the award of a contract to a particular service provider that is not a primary service provider, the Director may elect instead to recommend a candidate to the Board for its approval.

- 5) The Director and department personnel shall initiate and conduct the solicitation for contracts and shall apprise the HSS Board about the selection process.
- 6) It is recognized and understood that the following services are provided or co-ordinated by various departments within the City:
 - a) Financial and operational audit services;
 - b) Custody services;
 - c) Legal services;
 - d) Investment management and advisory services; and
 - e) Information technology services.
- 7) The Director shall be responsible for ensuring that all necessary search and due diligence activities are carried out, with assistance from external advisors or experts as required.

The Search Process

General Guidelines

- 8) The selection of all service providers shall be made in the best interests of the members and beneficiaries of HSS, in keeping with the fiduciary responsibilities of the Board and staff, and will be consistent with the policies of the HSS and the City and County of San Francisco.
- 9) The Board and the Director shall make a good faith effort to retain and utilize the services of disadvantaged business enterprises, on a primary or sub-contract basis, when those services or products are provided consistent with the fiduciary responsibilities of the Board and staff.

Black-Out Periods

- 10) The Board shall initiate a “black-out period” when notified that HSS will initiate a search process resulting in the release of a request for proposals (RFP), request for qualifications (RFQ) or other formal solicitations for the selection of a primary service provider or the expansion of a relationship with an existing primary service provider.
- 11) Black-out periods will be instituted at a Board or committee meeting. Written notification will be issued to all Board members not present at said meeting. A black-out period may also be instituted between Board meetings at the discretion of a committee of the Board or the Director, subject to ratification by the Board at its next meeting. The Director shall provide written notification to all Board members of all black-out periods instituted between Board or

committee meetings as soon as possible, and Board members shall comply with the black-out period restrictions upon receipt of the Director's notification.

- 12) The initiation of a black-out period, and types of providers to which it applies, will be specified in the minutes of the Board meeting at which it was approved or ratified by the Board. Where it is not possible to specifically define the types of service providers to which the black-out period applies, Board members shall make a good faith effort to comply with the intent of the black-out period provisions by taking all reasonable efforts to determine if service providers they may communicate with are potential candidates in a HSS search process.
- 13) During black-out periods, Board members shall not communicate with the service providers who may provide the types of services for which the solicitation is being issued, except during Board or committee meetings. Board members who need to communicate with such service providers for reasons unrelated to HSS business agree to disclose such need in writing to the Director and the Board prior to undertaking such communications. Disclosure to the Board shall be made at a meeting of the Board. If time does not permit timely disclosure to the Board, the Board member shall then provide written disclosure of the intended communication to the President, or to the Vice President if the Board member in question is the President.
- 14) During black-out periods, service providers participating in or considering participating in an HSS search process shall not communicate with board members except during Board or committee meetings. This requirement shall be included in all RFPs and RFQs issued by HSS. Any service provider found to be in violation of the black-out provision may be subject to disqualification from the search process by the Board.
- 15) Board members that are found to have knowingly violated the black-out provisions may be subject to any penalties or other actions of the Board as set out in the HSS Statement of Incompatible Activities [or the Code of Conduct].
- 16) For the purpose of black-out period provisions, communications include telephone conversations, letters, and e-mail.
- 17) A black-out period will cease when a successful bidder enters into a contractual arrangement with the City and County of San Francisco or the search process is otherwise ended by the Board.

Contracts

- 18) The Director shall negotiate and execute all agreements approved in connection with service providers. In negotiating contracts or contract renewals, the Director may seek the assistance of Board members as appropriate.
- 19) All contracts and similar arrangements for the engagement of service providers shall comply with applicable laws and regulations.
- 20) Annually, the Director shall provide the Board a two year budget which provides details on the types of services that the HSS will be issuing solicitations for during that time period. The notice of the “black-out” will serve as notification that HSS has created a RFP or RFQ. The Board shall approve the award of the contract.

Monitoring and Reporting

- 21) All service providers shall be subject to regular monitoring of performance and expenditures and periodic reviews, as appropriate, throughout the term of their contract. Criteria for review may include performance, staff satisfaction, competitiveness of fees, quality of reporting, and accuracy of assumptions and forecasts and adherence to budget.
- 22) The Director shall report regularly to the Board on all monitoring efforts involving service providers, identifying any material issues or actions taken in a timely fashion.
- 23) All monitoring and reporting provisions contained in this policy serve as minimum requirements. If more stringent requirements are established within other policies of HSS, such requirements will prevail.
- 24) The Director shall report to the Board any material failures by named service providers to comply with the terms of their contract.

Policy Review

- 25) The Board shall review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

- 26) The Board adopted this policy on February 22, 2007 and amended it on April 9, 2015.

SAN FRANCISCO HSS

Strategic Planning Policy

Introduction

- 1) Like every complex organization, HSS continually faces new challenges and opportunities, and has limited resources with which to address them. Organizational success requires that HSS have an effective planning process that allows it to set the strategic direction of the HSS, identify specific business priorities, effectively allocate resources to such priorities, and plan for their successful completion. The Board has established this Strategic Planning Policy to provide guidance to the HSS's planning process.

Objectives

- 2) The objectives of the Strategic Planning Policy are to:
 - a) Ensure HSS actively and systematically plans for the future needs of the HSS; and
 - b) Facilitate consensus by the Board and the Director on the direction, needs, and priorities of the HSS.

Principles

- 3) An effective planning process should strike an appropriate balance between ensuring a systematic approach to planning, encouraging creativity in identifying business issues and solutions, and ensuring sufficient flexibility to respond to changing circumstances.

Policy Guidelines

Roles and Responsibilities

- 4) The Director shall be responsible for:
 - a) Identifying risks, opportunities, and needs of the HSS;
 - b) Identifying and prioritizing business initiatives; and
 - c) Recommending a Strategic Plan to the Board for its consideration.
- 5) The Board shall be responsible for playing a policy and oversight role in the planning process, which will include:
 - a) Approving the Strategic Planning Policy and any amendments thereto;
 - b) Providing the Director with input into the broad direction of the HSS and possible initiatives to be included in the Strategic Plan;

- c) Approving the Strategic Plan and ensuring adequate resources are in place to successfully implement it; and
- d) Monitoring the implementation of the Strategic Plan.

The Annual Planning Process

- 6) In approximately the fourth quarter of each calendar year, the Director shall present and discuss the following issues with the Board:
 - a) The status of the current year's Strategic Plan which can be in the form of the draft annual report;
 - b) Current business needs, risks, or opportunities of the HSS; and
 - c) A prioritized list of proposed business initiatives with supporting rationale.
- 7) On the basis of the above review and discussions, the Director with input from senior staff, shall prepare a draft Strategic Plan. The Director shall have discretion in determining the most effective or appropriate format for the Strategic Plan but it is expected that the plan will generally include the following components:
 - a) The mission statement of HSS and any necessary detail or elaboration;
 - b) A discussion of current business needs, risks, and opportunities;
 - c) Proposed business initiatives accompanied by rationale and appropriate analysis, data, and parameters including for example:
 - i) Expected outcomes of each initiative;
 - ii) Timelines for completion;
 - iii) Assignment of responsibilities for implementation;
 - iv) Resource implications;
 - v) Risk analysis; and
 - vi) Criteria for assessing the success of the initiative.
- 8) In the first quarter of each year, the Director shall present the draft Strategic Plan to the Board for its consideration and approval.

- 9) Should the Director determine that changing circumstances will not allow the Director to meet a particular parameter associated with a Strategic Plan initiative, the Board shall be informed in a timely manner

Review of Strategic Plan Status

- 10) The Director shall review the status of each initiative in the Strategic Plan mid-year.

Strategic Session

- 11) As a separate but complementary element of the HSS's strategic planning process, the Board shall strive to organize at least one strategic session annually to engage in informal strategic discussions and related education or information-sharing. The focus of such session may vary each year, but should be forward looking in attempt to identify and understand trends or issues that may affect the future of health care. The session should allow for more informal interaction among board members, senior staff and potentially service providers or stakeholders. The strategic session may, but need not, result in specific initiatives for inclusion in the strategic plan.

Policy Review

- 12) The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Policy History

- 13) The Board adopted this policy on February 22, 2007 and amended it on April 9, 2015.

INVESTMENT POLICY STATEMENT
FOR THE
CITY AND COUNTY OF SAN FRANCISCO
HEALTH SERVICE SYSTEM TRUST FUND

Effective January 2017

1.0 Background and Purposes

The City and County of San Francisco Health Service System ("HSS") was established through a City Charter amendment in 1937. City and County of San Francisco Charter ("City Charter") Section A8.420. The City Charter Section 12.203 (*see also* City Charter Sections A8.423 and A8.428) established the Health Service System Fund ("Fund"). It provides:

The Health Service System fund shall be a trust fund administered by the Health Service Board in accordance with the provisions of this Charter solely for the benefit of the active and retired members of the Health Service System and their covered dependents. The City and County, School District and Community College District shall each contribute to the Health Service System Fund amounts sufficient to efficiently administer the Health Service System.

The Fund was established to facilitate the contributions and disbursements of the System, while also providing a funding source to ensure payments could be made if disbursements exceeded contributions for a period of time. *See also* City Charter A8.429, which provides as follows:

The health service board shall determine and certify to the controller the amount to be paid monthly by the members of the system to the health service system fund for the purposes of the system hereby created. The controller shall deduct said sums from the compensation of the members and shall deposit the same with the treasurer of the City and County to the credit of the health service system fund.

Such deductions shall not be deemed to be a reduction of compensation under any provision of this Charter.

The health service board shall have control of the administration and investment of the health service system fund, provided that all investments shall be of the character legal for insurance companies in California. Disbursements from the fund shall be made only upon audit by the controller and the controller shall have and exercise the accounting and auditing powers over the health service system fund which are vested in him by this Charter with respect to all other municipal boards, officers, and commissions

The purpose of this Investment Policy Statement is to set forth the objectives and constraints on the Fund, and to establish appropriate guidelines and options for investing Fund assets.

This statement is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements.

2.0 Definitions

- **Recordkeeper:** The term "Recordkeeper" shall mean the individual, entity, or organization responsible for maintaining and updating the information regarding the Fund balance, reserves, and other duties necessary to maintain the proper accounting of the Fund.
- **Custodian:** The term "Custodian" shall mean the custodian bank which holds the assets of the Fund.
- **Investment Advisor:** The term "Investment Advisor" shall mean a registered investment advisor who the Board may, but is not required to, retain to provide advice or other assistance to the Board with respect to the Fund investments and administration.

3.0 Statement of Investment Goals and Objectives

The purchase and administration of health and other benefits necessitates significant cash inflows and outflows in the Fund. Therefore, the primary objective of the Fund is to act as a temporary repository of assets before such assets are disbursed. The Fund's investment objectives include the following:

- **Safety:** To maintain safety of the principal and ensure that investment of the Fund assets are undertaken in a manner that seeks to preserve capital, while complying with relevant statutory requirements;
- **Liquidity:** To maintain sufficient liquidity to enable the HSS to meet all obligations when due;
- **Cost Control:** To control costs of administering the Fund and managing Fund Assets while assuring sufficient flexibility to meet future needs; and
- **Return on Investment:** To enable the Fund to maximize return within reasonable and prudent levels of risk consistent with investment objectives with low risk assets.

4.0 Fiduciary Standards

The San Francisco Health Service Board ("Board") is the fiduciary for the Fund and is charged with governing the Fund. As Trustees of the Fund, Board members are fiduciaries. As fiduciaries, the Board members must comply with applicable fiduciary standards including, but not limited to, the prudent person standard set forth in: California Constitution Article 16, Section 17(c); the California Uniform Prudent Investor Act ("UPIA"); and California Government Code Section 53600.3.

In addition, the HSS Board Governance Manual requires that the Board shall be responsible for approval and subsequent review of a written policy statement, ensuring responsible management thereof, compliance with the policy, and ongoing review of investment performance.

5.0 Use of Investment Advisor and Other Professionals

The Board may retain a registered investment advisor ("Investment Advisor") to provide advice and other assistance to the Board to help it fulfill its obligations with respect to the Fund investments and administration. The Investment Advisor's services and the fees charged for those services must be set out in a written agreement with the Board under which the Investment Advisor acknowledges that it is a co-fiduciary with respect to the Fund.

6.0 Allocation of Responsibilities

6.1. Board's Responsibilities

As set forth in Charter Section A8.429, the Board "shall have control of the administration and investment of the health service system fund, provided that all investments shall be of the character legal for insurance companies in California." Charter Section A8.429; *see also* California Insurance Code sections 1170-1202 and Government Code sections 53600 et seq. In performing this function, the Board shall:

- Prepare and maintain a written investment policy statement (*e.g.*, this Statement), review the statement periodically, and make changes to such statement, as appropriate from time to time;
- Designate certain investments that may be made under the Fund;
- Establish and implement a disciplined process for selecting, monitoring, and retaining or terminating investments; and
- Take appropriate action if investment objectives are not met or investment policies or guidelines are not followed.

The Board shall also:

- Select and monitor the performance and fees of the Investment Advisor, if retained, a Recordkeeper, and other providers for the Fund as it deems appropriate; and
- Review all agreements between the Fund and service providers to ensure adherence to statutory requirements.

6.2. Controller Responsibilities

The Controller shall have the responsibilities set out by law, which shall include:

- Deducting the requisite amounts, as determined by the Board, from the members' compensation;
- Depositing such amounts with the Treasurer; and
- Exercising accounting and auditing powers over the Fund.

6.3. Custodian's Responsibilities

The Custodian is responsible for safekeeping the Fund's assets. The duties and responsibilities of the Custodian include:

- Maintaining possession of the Fund assets (directly or through a sub-custodian);
- Collecting all income and dividends owed to the Fund;
- Settling all transactions (buy-sell orders);
- Valuing the Fund's holdings; and
- Providing monthly reports that detail transactions, cash flows, securities held, their current value, and other portfolio statistics in accordance with the California Government Code.

6.4. Investment Advisor's Responsibilities

The Investment Advisor, if retained, shall provide investment advice to the Board concerning the investment of Fund assets consistent with the investment objectives, policies, and constraints included in this Investment Policy Statement, as amended from time to time. The Investment Advisor's responsibilities include:

- Assisting in the creation, review, and revision of a written investment policy statement (*e.g.* this Statement);
- Assisting in the establishment and implementation of a disciplined process for selecting, monitoring, and retaining or terminating investments;
- Providing independent and unbiased information;
- Assisting in investment option mapping where deemed appropriate;
- Assisting in the control of investment expenses, including helping to negotiate investment, Recordkeeper, and other service provider fees;

- Reporting annual investment performance results to enable the Board to evaluate investment performance in light of existing goals and objectives; and
- Performing such other services for the Fund as agreed to by the Board and the Investment Advisor from time to time.

6.5. Treasurer's Responsibilities

The Treasurer shall be responsible for those funds required for daily cash flow and for all additional funds delegated to the Treasurer for investment which exceed the amounts necessary for daily cash flows and reserves.

7.0 Investment Options

The Board, with the assistance of the Investment Advisor, if retained, shall consider several factors when determining the most prudent course of investing the Fund's assets in excess of the amount needed for daily cash flow and reserves, including:

- The goals and constraints of the Fund (see Section 3.0 Statement of Objectives above);
- The investment's track record;
- The performance as compared to an appropriate benchmark;
- The investment risk;
- The investment strategy, any changes in investment strategy, and adherence to stated strategy over time;
- The fees and expenses associated with the investment;
- Qualitative characteristics, including, but not limited to, management strategy, strategy of assets under management, turnover, and recent portfolio activity in view of the current market conditions; and
- Such other information as the Board and Investment Advisor deem appropriate.

In selecting investment options for the Fund, the Board shall comply with California Government Code, Section 53600, and may not invest in any investments not specifically authorized by California Government Code, Section 53600. In general, Section 53600 limits local agency investment funds to high quality, fixed income securities with maturities of less than five years. Securities with a maturity of greater than five years require approval by the Board of Supervisors. For example, permitted securities include:

- Obligations of the United States Government ("Treasuries"), federal agencies, municipalities, and negotiable Certificates of Deposits ("CD") are allowed with a maximum maturity of five years.
- Medium-term corporate bonds ("A" or better) and asset-backed securities with a maximum maturity of five years;
- Repurchase agreements with a maximum maturity of one year;
- Commercial paper with a maximum maturity of 270 days; and
- Bankers' acceptances notes with a maximum maturity of 180 days.

Prohibited securities include, but are not limited to, Commercial Mortgage Backed Securities, high yield bonds, convertibles, non-United States denominated investment grade bonds, emerging market debt, equities, commodities, real estate, hedge funds, and private equity. Additional guidelines on permissible and prohibited investments are set forth in Government Code sections 53600¹ to 53610 attached hereto.

The following options currently satisfy the above factors:

1. Investing assets in the City and County of San Francisco's Treasury Pool² (which complies with California Government Code 53600). Investment in the City and County of San Francisco's Treasury Pool also meets Section 16 of the Health Service Board's Governance Manual (referenced above). If adopted, the Board shall receive quarterly written updates on the performance of the Treasury Pool and an annual update from Treasurer and Tax Collector staff;
2. Investing assets with external investment managers to run a portfolio that will comply with the California Government Code; or
3. Making direct purchases of investment assets.

Investment options #2 and #3 above are limited to investing the fund balance less: (i) obligations (funds required for daily cash flow); and (ii) reserves.

8.0 Monitoring of Investments

The Board shall decide the most appropriate options for investment of the Fund, pursuant to Section 7.0 above, and shall monitor the investment options on an ongoing quarterly basis. No less than every three (3) years the Board shall review the Fund's performance in detail. Material changes in market conditions or changes to the investment team managing the Fund assets or the team's strategy would require a more timely review.

9.0 Investment Policy Review

The Board shall review this Investment Policy Statement periodically, but not less than every three (3) years, to determine whether the investment objectives are still relevant. It is not expected that this Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to this Investment Policy Statement.

¹ This Investment Policy Statement acknowledges that Section 53600 of the Government Code is more restrictive than the California Insurance Code, however, both must be considered when investing Fund assets.

² The City and County of San Francisco's Treasury Pool's investment priorities of safety, liquidity, and return should align with the objectives of the HSS Fund. The Treasury Pool's Investment Policy is reviewed and monitored by the Treasury Oversight Committee pursuant to City and County Administrative Code Section 10.80-1.

10.0 Effective Date

The policy is effective immediately upon Board approval. This Investment Policy Statement shall guide the Board and the Investment Advisor, if retained, and shall remain in effect until amended by the Board. Nothing contained in this Statement shall provide to any participant or beneficiary the right to challenge the terms of this Investment Policy Statement. Subject to relevant statutory requirements, the Board shall have full discretion as to how it selects and monitors the investments and the application of this Investment Policy Statement to any specific situation.

Attachment: Gov't Sections 53600 to 53610.



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TITLE 5. LOCAL AGENCIES [50001 - 57550] (Title 5 added by Stats. 1949, Ch. 81.)

DIVISION 2. CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 55821] (Division 2 added by Stats. 1949, Ch. 81.)

PART 1. POWERS AND DUTIES COMMON TO CITIES, COUNTIES, AND OTHER AGENCIES [53000 -

54999.7] (Part 1 added by Stats. 1949, Ch. 81.)

CHAPTER 4. Financial Affairs [53600 - 53997] (Chapter 4 added by Stats. 1949, Ch. 81.)

ARTICLE 1. Investment of Surplus [53600 - 53610] (Article 1 added by Stats. 1949, Ch. 81.)

53600. As used in this article, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

(Amended by Stats. 1987, Ch. 887, Sec. 2.)

53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter 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.

(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)

53600.5. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

(Amended by Stats. 1996, Ch. 749, Sec. 5. Effective January 1, 1997.)

53600.6. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

(Added by Stats. 1995, Ch. 784, Sec. 13. Effective January 1, 1996.)

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any

portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, 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.

(b) 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.

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

(d) 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.

(e) 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.

(f) 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.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) 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 (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars (\$500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

- (i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.
- (ii) Financing of a local agency's activities.
- (iii) Acceptance of a local agency's securities or funds as deposits.
- (5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.
- (B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.
- (C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.
- (D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.
- (E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
- (F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.
- (k) Medium-term notes, 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. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.
- (l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
- (2) 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 et seq.).
- (3) If investment is in shares issued pursuant to paragraph (1), 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 NRSROs.
- (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
- (4) If investment is in shares issued pursuant to paragraph (2), 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 NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) 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 "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to 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).

(q) 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 agency's moneys that may be invested pursuant to this section.

(Amended by Stats. 2016, Ch. 366, Sec. 12. Effective January 1, 2017.)

53601.1. The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

(Added by Stats. 1983, Ch. 534, Sec. 3.)

53601.2. As used in this article, "corporation" includes a limited liability company.

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

53601.5. The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not 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, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

53601.6. (a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(Amended by Stats. 2009, Ch. 332, Sec. 68.1. Effective January 1, 2010.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) The deposits placed pursuant to this section and Section 53635.8 shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(i) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

(Amended (as amended by Stats. 2013, Ch. 228, Sec. 1) by Stats. 2015, Ch. 181, Sec. 1. Effective January 1, 2016. Repealed as of January 1, 2021, by its own provisions. See later operative version, as amended by Sec. 2 of Stats. 2015, Ch. 181.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States for the local agency's account.

(c) The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(d) The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

(e) At the same time the local agency's funds are deposited and the certificates of deposit are issued, the selected depository institution shall receive an amount of deposits from other commercial banks, savings banks, savings and loan associations, or credit unions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment.

(f) Notwithstanding subdivisions (a) to (e), inclusive, no credit union may act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more certificate of deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) This section shall become operative on January 1, 2021.

(Amended (as added by Stats. 2013, Ch. 228, Sec. 2) by Stats. 2015, Ch. 181, Sec. 2. Effective January 1, 2016. Section operative January 1, 2021, by its own provisions.)

53602. The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

(Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

(Amended by Stats. 1953, Ch. 537.)

53604.

The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

(Amended by Stats. 1953, Ch. 537.)

53605. From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

(Amended by Stats. 1953, Ch. 537.)

53606. The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds then uncanceled. While held uncanceled, the bonds may be resold.

(Added by Stats. 1949, Ch. 81.)

53607. 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, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

53608. The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

(Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

53609. Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.

(Amended by Stats. 1979, Ch. 373.)

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

(Added by Stats. 2009, Ch. 634, Sec. 5. Effective October 19, 2009.)



(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

- (i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.
- (ii) Financing of a local agency's activities.
- (iii) Acceptance of a local agency's securities or funds as deposits.
- (5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.
- (B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.
- (C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.
- (D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.
- (E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
- (F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.
- (k) Medium-term notes, 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. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.
- (l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
- (2) 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 et seq.).
- (3) If investment is in shares issued pursuant to paragraph (1), 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 NRSROs.
- (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
- (4) If investment is in shares issued pursuant to paragraph (2), 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 NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) 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 "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to 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).

(q) 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 agency's moneys that may be invested pursuant to this section.

(Amended by Stats. 2016, Ch. 366, Sec. 12. Effective January 1, 2017.)

53601.1. The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

(Added by Stats. 1983, Ch. 534, Sec. 3.)

53601.2. As used in this article, "corporation" includes a limited liability company.

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

53601.5. The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not 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, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

53601.6. (a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(Amended by Stats. 2009, Ch. 332, Sec. 68.1. Effective January 1, 2010.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) The deposits placed pursuant to this section and Section 53635.8 shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(i) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

(Amended (as amended by Stats. 2013, Ch. 228, Sec. 1) by Stats. 2015, Ch. 181, Sec. 1. Effective January 1, 2016. Repealed as of January 1, 2021, by its own provisions. See later operative version, as amended by Sec. 2 of Stats. 2015, Ch. 181.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States for the local agency's account.

(c) The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(d) The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

(e) At the same time the local agency's funds are deposited and the certificates of deposit are issued, the selected depository institution shall receive an amount of deposits from other commercial banks, savings banks, savings and loan associations, or credit unions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment.

(f) Notwithstanding subdivisions (a) to (e), inclusive, no credit union may act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more certificate of deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) This section shall become operative on January 1, 2021.

(Amended (as added by Stats. 2013, Ch. 228, Sec. 2) by Stats. 2015, Ch. 181, Sec. 2. Effective January 1, 2016. Section operative January 1, 2021, by its own provisions.)

53602. The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

(Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

(Amended by Stats. 1953, Ch. 537.)

53604.

The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

(Amended by Stats. 1953, Ch. 537.)

53605. From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

(Amended by Stats. 1953, Ch. 537.)

53606. The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds then uncanceled. While held uncanceled, the bonds may be resold.

(Added by Stats. 1949, Ch. 81.)

53607. 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, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

53608. The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

(Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

53609. Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.

(Amended by Stats. 1979, Ch. 373.)

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

(Added by Stats. 2009, Ch. 634, Sec. 5. Effective October 19, 2009.)

