



BIGHORN-DESERT VIEW WATER AGENCY

Our Mission - "To provide a high quality supply of water and reliable service to all customers at a fair and reasonable rate."

SPECIAL

Finance/Public Relations/Education and Personnel Standing Committee Meeting Minutes Committee Members: Director McKenzie & Director Dicht

**BOARD MEETING OFFICE
1720 N. CHEROKEE TR.
LANDERS, CALIFORNIA 92284**

**TUESDAY April 18, 2023
Time – 4:00 P.M.**

**PUBLIC AND BOARD WISHING TO PARTICIPATE REMOTELY
TELECONFERENCE LINE THRU ZOOM 669-900-6833
OR**

Join Zoom Meeting

Please click the link below to join the webinar:

<https://us02web.zoom.us/j/86894033204?pwd=YVp3QnNIT21aUFG3UVNtQVN0dIRCZz09>

Passcode: 806241

Or

Dial: 1-669-900-6833

Webinar ID: 868 9403 3204

Passcode: 806241

CALL TO ORDER

Chair McKenzie called the meeting to order at 4:03 pm.

PLEDGE OF ALLEGIANCE

Led by Chair McKenzie.

ROLL CALL

Directors Present: Chair McKenzie
Director Dicht

Staff Present: Marina West

Representatives: Mr. Scott Wallace – Treasurer, Pacific Western Bank
Ms. Shelley Licata, Pacific Western Bank
Mark Inskeep, Assistant Treasurer, Pacific Western Bank
Mr. Paul Fuller, CEO, Allied Public Risk

Public Present: 0 member(s) of the public indicated they were participating via teleconference. 0 members of the public were present in the meeting room. 1 member(s) of the Board arrived at 4:26pm and was present in the meeting room as an observer only.

APPROVAL OF AGENDA

Director McKenzie moved to approve the Agenda as presented. Seconded by Director Dicht.

Discussion and Action Items -

1. Presentation by Mr. Scott A. Wallace, EVP, Treasurer, Pacific Western Bank's Collateralizing of Accounts of the Bighorn-Desert View Water Agency

GM West introduced the item. She introduced local bank President, Ms. Shelley Licata who is the main point of contact for our daily banking needs. She then introduced Mr. Scott Wallace and Mr. Mark Inskeep from Pacific Western Bank's corporate office. Mr. Wallace introduced himself as Treasurer and Mr. Inskeep as Assistant Treasurer.

Mr. Inskeep summarized the Local Agency Security Program which the Agency participates in as part of public funds deposits. Weekly the bank reports the program certification to the state of California Local Agency Security Administrator. Therein they identify the balances for qualifying accounts and amounts of collateral required to be pledged which is 110% of the total deposits. He referenced the information in the Agenda noting that funds up to \$250,000 are FDIC insured and therefore removed from the total.

He continued to explain that the total securities pledged exceeds the requirement to allow flexibility for withdraws during the period. All deposits are "pooled together" for compliance purposes and held at US Bank governed by a Tri-Party Agreement, between US Bank, Pacific Western Bank and the Local Agency Security Program.

Chair McKenzie asked if they were limited on what types of accounts or where PWB can put this money for collateral. Mr. Wallace said it has to be with US Bank per the Tri-Party Agreement. She further asked what US Bank has done with the money. Mr. Wallace explained that the use of the collateral is used to pledge to secure all local agency deposits in the PWB deposit portfolio. PWB collateral is being used to secure Agency deposits controlled by the Tri-Party Agreement.

Director Dicht inquired of the total amount shown on the summary page noting that total deposits collateralized requirement is \$403,750,467 which includes Agency's funds. Mr. Wallace concurred. Director asked what department of the state the Local Agency Securities Administration was under. Mr. Inskeep responded that it is the Department of Financial Protection and Innovation (DFPI).

Director McKenzie inquired on how the Agency would access funds if the bank went insolvent. Mr. Wallace noted it is an awkward and difficult conversation but Pacific Western Bank does not expect to ever have to deal with. However, he noted two notable bank failures in March

2023. He stated that the experience of depositors at Silicon Valley Bank and Signature Bank had access to funds restored within one day or so.

Director McKenzie inquired about total balance of funds (checking account, CD's, etc.) being collateralized. Mr. Wallace discussed the CEDARS program which allows for the entire balance of a CD to be FDIC insured. If not CEDARS program then they are collateralized, by law, under the program described herein. Mr. Wallace confirmed that all deposits in excess of \$250,000 are secured through this collateralization process.

Director Dicht inquired about various items on the detail page. Mr. Wallace answered.

Mr. Wallace made a good observation noting that the bottom line on the spreadsheet is market value and the aggregate sum of \$509M market value is approximately \$90M greater than collateralization requirement so there is "a lot of margin for error" in the collateral pool to make sure there is enough value in there to cover the requirement. He further noted the pool is continuous and there is always excess collateral sitting in the pool.

Director Dicht asked if there was anything else we need to understand about the matter. Mr. Wallace answered that the collateralization requirements are really all there is to know about how funds are held and secured. Mr. Wallace said they are available at any time to review this issue with the Board of Directors.

2. Review Proposal Received from CalMutuals JPRIMA for Cybersecurity Insurance

GM West reminded the Committee that this item was first introduced during the draft budget workshop and staff was asked to pursue a quote and more information on the policy. To that end, a policy quote has been obtained and Mr. Paul Fuller, CEO, Allied Public Risk, LLC is present on Zoom to walk the Committee through the policy and answer any questions.

Mr. Fuller began by stating that the Agency has some level of cyber insurance coverage in the general liability/property policy and it covers litigation filed against us by a customer in the event of a data breach that compromises their personal/confidential information is compromised. He continued to explain that he was not able to find coverage, in California, for water and wastewater agencies for ransomware as well as "first party coverages" where the Agency system is compromised and must be restored through data forensics or worse, system is compromised and operations are suspended until ransom is paid. Ransomware coverage is difficult to achieve because the number of ransomware claims in water sector became so prevalent that he couldn't find any providers. After speaking to Lloyd's of London, who originally declined due to the volume of claims. Ultimately, Lloyd's and Allied Public Risk came to "common ground" which provides the water sector affordable protection from ransomware, crisis managers, privacy attorneys, data forensics experts to patch system if breached. In return Allied Public Risk would elevate the security standards for enrollment.

The cost of the insurance is \$3,200 per year. He is not aware of any other offering for small entities with under \$50M in annual revenue. This program is for the under \$50M class but does require upgrade to existing security standards for the Agency at an estimated cost of \$3,000 per year for the "two-factor authentication" or "2FA" processes. However, Mr. Fuller believes these minimum standards will ultimately be required by the government (federal and/or state) in the future.

Director McKenzie asked what security system upgrades will be required by Agency. GM West responded the items being evaluated are a policy on wire transfers, Payment Card Industry Data Security Standard (PCI) compliance and the 2FA. Mr. Fuller stated that our IT Consultant, Pat Grady, has essentially been cleared by Lloyd's stating all the other security measures required are in place currently.

Directors asked questions regarding the policy and costs. (:52min). Director Dicht asked about the level of safety when the Agency implements the requirements. Mr. Fuller stated that Lloyd's has indicated that when fully implemented then the risk is reduced by 87%. He further stated that breaches are costing an average of \$500,000 each. Mr. Fuller noted that the Agency should look at the issue in terms of layers. First layer would be to definitely implement the 2FA (two-factor authentication) standards, then strong IT services followed by cyber insurance then you have done everything you can to protect your customers.

Director Dicht asked about statistics on benefits to the Agency from instituting these measures. Mr. Fuller responded that it is 87% increase in preventing the likelihood of a breach. He also noted that the average breach for a small agency, <\$5M revenue, is approximately \$460,000 ransom and \$100,000 of expenses in patching, etc.

Director McKenzie asked about personal devices being used for work and whether that is the weak link or a factor in breaches. Mr. Fuller explained that the breaches generally comes from a phishing scam, malware, bug where any well intended employee ends up "clicking" on something they should not have. That creates the opening for the breach and allows the system to be "taken over".

Director McKenzie and Director Dicht asked about the claims process and for clarification of the structure between broker, insurance administrator, and Lloyd's of London perceiving that it is basically the same for our Property Liability, Automotive and/or Workers Compensation claim processes. Mr. Fuller explained the background processes. During a cyber-claim we would be working with the Wilson-Elsner, the San Diego law firm that is contracted by Lloyd's of London to cover and adjudicate claims against the policy.

Director McKenzie inquired about what breaches happened, how they happened, and sharing that amongst the other insured entities to make sure others don't fall for the same thing. Mr. Fuller responded that he does speak with the Department of Homeland Security and about

20% of his total 4,000 members have been hacked in the past seven years. He is not able to disclose the details of hacks. He noted only recently is the DHS willing to even discuss this in a public forum.

Director Dicht inquired of one of the bullet points on the list of “what is not insured?” (page 15 of the Agenda packet). Mr. Fuller responded regarding “anti-spam legislation” that these exceptions are boiler plate and this statement is more about being sued for certain codes of ethics like sending unsolicited emails.

Director Dicht inquired about Artificial Intelligence (AI) influence on this issue. Mr. Fuller responded that it is the Microsoft vulnerabilities and operating systems where greatest risk is. Mr. Fuller indicated that he could arrange a webinar with Mr. Brian Keith, Department Homeland Security Cybersecurity and Infrastructure Security Agency (CISA). This would be a “privileged” discussion but could provide more clarity on threat actors and areas of greatest pain for water/wastewater agencies.

Director Dicht noted he thought the cost was reasonable and appropriate backstop. Director McKenzie agreed that it is worth it to the community that the Agency is taking care of it.

3. Public Workshop No. 3: Final Draft Budget for Fiscal Year 2023/2024

GM West stated that the only change to the draft budget since the April 11, 2023 Public Workshop No. 2 was the addition of funds to cover advertising costs for the recruitment and update to the narrative descriptions. GM West stated she didn’t intend to review the budget but the purpose of tonight’s workshop is to keep the item open to the public for their questions, comments or input until such time as the final draft is presented to the full Board for consideration of adoption on May 2, 2023.

GM West answered questions from the Committee members.

4. Consent Items –

- a. FPREP Committee Meeting Minutes **March 21, 2023**
- b. PARS Investment Statement **February 2023**
- c. Grants Status Report **April 13, 2023**

Recommended Action:
Approve as presented (Items a-c):

Committee approved the Consent Items a-c.

5. Public Comment Period

None.

6. Verbal Reports - Including Reports on Courses/Conferences/Meetings.

1. Committee Members' Comments/Reports – None.
2. General Manager's Report – GM West noted that as a follow-up to the April 11, 2023 meeting item regarding the fence installed within the easement, General Counsel Kennedy will be meeting with the Board of Directors in Closed Session on June 13, 2023 to answer questions from the Board and provide legal background on the issue. Thereafter, the Board will reconvene on the matter.

She further reported that the fieldtrip after the April 22, 2023 Workshop will commence no sooner than 11:30am and we will have stops in Landers near an alignment connecting the systems, Goat Mountain Well 13 site, the blending pipeline/intertie pump station site and then Well 4 which has elevated uranium we intend to blend down. She is expecting the fieldtrip portion to last approximately 2 hours.

7. Adjournment

Chair McKenzie adjourned the meeting at 5:35 pm.

Approved by:



JoMarie McKenzie, Committee Chair

