



Midpeninsula Regional  
Open Space District

R-15-116  
Meeting 15-21  
August 12, 2015

## **AGENDA ITEM 5**

### **AGENDA ITEM**

Approval of Revised Statement of Investment Policy and Authorization to Purchase Securities through Stifel, Nicolaus & Company

### **CONTROLLER'S RECOMMENDATION**

Adopt resolutions approving the proposed revised Statement of Investment Policy and the trading of securities through the investment department of Stifel, Nicolaus & Company.

### **SUMMARY**

Approval of the attached resolutions will permit the District Controller to invest District funds in accordance with revised investment policies which reflect the District's enhanced financial position following the initial sale of \$45 million of general obligation (GO) bonds and voter approval to sell up to \$255 million of additional GO bonds over thirty years.

### **DISCUSSION**

On January 28, 2015, the Board extended the District Controller's authority to invest temporarily idle funds for one year, and approved one change to the Statement of Investment Policy, per the provisions of Resolution 15-07 (R-15-03). The attached Resolutions [1] permit the Controller to invest District funds in accordance with a revised Investment Policy and [2] permit trading in securities through the investment department of one of the District's investment banks, Stifel, Nicolaus & Company.

Authorization and successful sale of GO bonds has improved the District's financial position in two important ways, both calling for a revision to District investment policies. First, the District's investible cash balances will almost double during August. The current investment policy only indirectly addresses the investment of GO bond proceeds. Plus, only a fraction of this cash will be spent over the next twelve months, providing the opportunity to invest in longer maturities and earn higher interest income. Second, most capital expenditures will now be covered by GO bond proceeds, no longer requiring the District to hold most of its general fund cash in a highly liquid state in order to be able to respond immediately to land acquisition opportunities. This enhanced financial flexibility allows the District to profit from an investment portfolio with a much longer average maturity.

The proposed revised investment policy specifically addresses the investment of four types of cash balances: [1] Restricted Reserves, [2] General Fund Committed Reserves, [3] General Fund Un-Assigned Reserves, and [4] GO Bond Proceeds. Restricted reserves will continue to be

invested in accordance with the documents creating the funds. A minimum of 50% of the sum of Board-approved committed reserves will be invested in the Santa Clara County Pooled Investment Fund (SCCIF), which provides daily liquidity. As required by the current policy, a minimum of an additional \$10 million will be held in the SCCIF, satisfying the Board-adopted requirement for a minimum \$10 million un-assigned balance in the general fund. Any remaining general fund cash may be invested in authorized and tradable securities with maturities of up to three years. GO bond proceeds will be held by the Fiscal Agent, Zions Bank, and invested in accordance with the Fiscal Agent Agreement, in a series of securities with maturities not to exceed three years and an average maturity of approximately eighteen months. The overall average maturity of the entire District investment portfolio also shall not exceed eighteen months.

It is anticipated that the great majority of investments with maturities exceeding one year will be Federal agency securities, which are very actively traded and can be sold quickly at any time, should an unusually large unforeseen cash need arise. The policy continues to require the General Manager's approval to invest in longer-term securities, although this limit has been increased from 180 days to one year. The policy continues to require a complete monthly investment report from the District Controller, listing the entire (much larger) portfolio and noting recent transactions.

The attached bank resolution is required by Stifel's investment department. The District successfully utilized Stifel's (FKA Stone & Youngberg) investment department prior to 2009 and it is highly qualified to handle the District's general fund cash investments. The investment of GO bond proceeds will be done through the investment department of Zions Bank, as authorized in the Fiscal Agent Agreement to the initial GO bond sale.

#### **BOARD COMMITTEE REVIEW**

This item was not reviewed by any Committee.

#### **FISCAL IMPACT**

Approval of the revised policies will result in higher interest income than is reflected in the current annual District budget. The budget for interest income will be increased appropriately during the mid-year budget process.

#### **PUBLIC NOTICE**

Public notice was provided pursuant to the Brown Act. No additional notice is required.

#### **CEQA COMPLIANCE**

The recommended action is not a project for purposes of the California Environmental Quality Act.

#### **NEXT STEPS**

None

Attachments

1. Resolution Adopting a Statement of Investment Policy and Authorizing the Controller to Invest Surplus Funds Allowed by the California Government Code
2. Resolution authorizing trading in securities through Stifel, Nicolaus & Company
3. Statement of Investment Policy

Prepared by:

Mike Foster, Controller

**RESOLUTION NO. 15-\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE MIDPENINSULA REGIONAL OPEN SPACE DISTRICT ADOPTING A STATEMENT OF INVESTMENT POLICY AND AUTHORIZING THE CONTROLLER TO INVEST SURPLUS FUNDS AS ALLOWED BY THE CALIFORNIA GOVERNMENT CODE**

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WHEREAS, the District needs to maximize the yield on surplus temporarily idle funds in order to help meet capital program objectives, including Measure AA projects; and

WHEREAS, Chapter 4, Division 2 of Title 5 of the Government Code authorizes the District to deposit and invest surplus funds in investments which, at times, yield interest rates higher than achievable through the Santa Clara County Pooled Fund, or the California Pooled Investment Authority; and

WHEREAS, the District can often improve its yield on surplus funds without sacrificing financial safety and flexibility.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION ONE. The Board of Directors of the Midpeninsula Regional Open Space District does hereby authorize the Controller to invest surplus or temporarily idle funds according to the Investment Policy attached hereto as Exhibit "A" and by reference made a part hereof.

SECTION TWO. Before any investments with maturities exceeding one year, the Controller shall consult with the General Manager, or a District employee authorized to act in his behalf, to determine anticipated cash flow needs of the District.

SECTION THREE. This resolution supersedes the prior Resolution No. 15-07 adopted January 28, 2015. This resolution shall no longer be in effect as of August 12, 2016, unless extended, and inactive funds shall then be deposited in the Santa Clara County Pooled Investment Fund, with the California Pooled Investment Authority, or invested through the District's commercial bank.

\* \* \* \* \*

PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on \_\_\_\_\_, 2015, at a regular meeting thereof, by the following vote:

**AYES:**

**NOES:**

**ABSTAIN:**

**ABSENT:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
Secretary  
Board of Directors

\_\_\_\_\_  
President  
Board of Directors

**APPROVED AS TO FORM:**

\_\_\_\_\_  
General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

\_\_\_\_\_  
District Clerk

**RESOLUTION NO. 15-\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE MIDPENINSULA REGIONAL OPEN SPACE DISTRICT CERTIFYING THE ESTABLISHMENT AND MAINTENANCE OF SECURITY ACCOUNTS**

WHEREAS, the Establishment and Maintenance of Security Accounts have been Authorized;

The Board of Directors of the Midpeninsula Regional Open Space District does resolve as follows:

**FIRST:** That the President, Treasurer, or Vice President of this District, or

Stephen Abbors (Name)	(Signature)	General Manager (Title)
Michael Foster (Name)	(Signature)	Controller (Title)

(the “Officers”), whether acting individually or collectively, are hereby authorized and empowered, for and on behalf of this District (the “District ”), to establish and maintain one or more accounts with Stifel, Nicolaus & Company, Incorporated (“Stifel”) for the purpose of purchasing, investing in, or otherwise acquiring, selling (including short sales), possessing, transferring, exchanging, pledging, or otherwise disposing of, or turning to account of, or realizing upon, and generally dealing in and with any and all forms of securities, including, without limitation, bonds, asset-backed securities, debentures, notes, scrip, participation certificates, rights to subscribe, certificates of deposit, mortgages, choses in action, evidences of indebtedness, commercial paper, certificates of indebtedness and certificates of interest of any and every kind and nature, whatsoever, secured or unsecured, whether represented by trust, participating and/or other certificates or otherwise, and any and all commodities and/or contracts for the future delivery thereof, whether represented by trust, participating and/or other certificates or otherwise.

The fullest authority at all times with respect to any such commitment or with respect to any transaction deemed by any of the Officers and/or agents of the District to be proper in connection therewith is hereby conferred, including authority (without limiting the generality of the foregoing) to give written or oral instructions to Stifel with respect to said transactions; to bind and obligate the District to and for the carrying out of any contract, arrangement, or transaction, which shall be entered into by any of the Officers and/or agents of the District with or through Stifel; to order the transfer or delivery thereof to any other person, whatsoever, and/or to order the transfer of record of any securities to any name selected by any of the Officers or agents of the District ; to affix the District seal to any documents or agreements, or otherwise; to endorse any securities in order to pass title thereto; to direct the sale or exercise of any rights with respect to any securities; to sign for the District all agreements, authorizations, certifications, releases, indemnities, powers of attorney, and/or any other documents in connection with any such account, and to agree to any

terms or conditions to control any such account; to direct Stifel to surrender any securities to the proper agent or party for the purpose of effecting any exchange or conversion, or for the purpose of deposit with any protective or similar committee, or otherwise; to accept delivery of any securities; to appoint any other person or persons to do any and all things that any of the Officers and/or agents of the District are hereby empowered to do, and take all action necessary in connection with the account, or considered desirable by the Officers and/or agents of the District with respect thereto.

**SECOND:** That Stifel may deal with any and all of the Officers and/or agents of the District directly or indirectly empowered, by the foregoing resolution, as though they were dealing with the District directly.

**THIRD:** That the Secretary of the District is hereby authorized, empowered, and directed to certify to Stifel:

- a) a true copy of these resolutions;
- b) specimen signatures of each and every person by these resolutions empowered; and
- c) a certificate (which, if required by Stifel, shall be supported by an opinion of the general counsel of the District, or other counsel satisfactory to Stifel) that the District is duly organized and existing, that its charter empowers it to transact the business by these resolutions defined, and that no limitation has been imposed upon such powers by the By-Laws or otherwise.

**FOURTH:** That Stifel may rely upon any certification given in accordance with these resolutions to be continuing as fully effective unless and until Stifel shall receive due written notice of a change in or the rescission of the authority so evidenced and the dispatch or receipt of any other form of notice shall not constitute a waiver of this provision, nor shall the fact that any person hereby empowered ceases to be an officer of the District or becomes an officer under some other title in any way affects the powers hereby conferred. The failure to supply any specimen signature shall not invalidate any transaction if the transaction is in accordance with authority actually granted.

**FIFTH:** That in the event of any change in the office or powers or person hereby empowered, the Secretary shall certify such changes to Stifel in writing in the manner hereinabove provided, which notification, when received, shall be adequate both to terminate the powers of the persons theretofore authorized, and to empower the persons thereby substituted.

**SIXTH:** That the foregone resolutions and the certificates actually furnished to Stifel by the Secretary of the District pursuant thereto are hereby made irrevocable until written notice of the revocation thereof shall have been received by Stifel.

\* \* \* \* \*

PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on \_\_\_\_\_, 2015, at a regular meeting thereof, by the following vote:

- AYES:**
- NOES:**
- ABSTAIN:**
- ABSENT:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
Secretary  
Board of Directors

\_\_\_\_\_  
President  
Board of Directors

**APPROVED AS TO FORM:**

\_\_\_\_\_  
General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

\_\_\_\_\_  
District Clerk



## STATEMENT OF INVESTMENT POLICY

### GOALS

#### Goal 1. Capital Preservation

The primary goal shall be to safeguard the principal of invested funds. The secondary objective shall be to meet the liquidity needs of the District. The third objective shall be to achieve a return on funds consistent with this Policy. Temporarily idle funds shall be invested in a conservative manner, such that funds can always be withdrawn at, or just above or below, full invested value. Investments that offer opportunities for significant capital gains and losses are excluded.

#### Goal 2. Liquidity

Temporarily idle funds shall be managed so that normal operating cash needs and scheduled extraordinary cash needs can be met on a same day basis. Investments shall be sufficiently liquid to provide a steady and reliable flow of cash to the District to insure that all land purchases can be made promptly (within two weeks).

#### Goal 3. Income

Temporarily idle funds shall earn the highest rate of return that is consistent with capital preservation and liquidity goals and the California Government Code.

### GUIDELINES

#### 1. Determination of Idle Funds

The Controller shall prepare a cash flow projection prior to all investment decisions involving securities with a term to maturity exceeding ~~one year~~180 days. This cash flow projection shall be reviewed and evaluated by the General Manager. The General Manager is responsible for approving the Controller's designation of the amount of funds available for investment for longer than ~~one year~~180 days.

#### 2. Restricted Reserves

[a] MROSD Retiree Healthcare Plan: All funds are to be held by CalPERS and managed by CalPERS.

[b] Hawthorn Endowment Fund: All funds will be held in a separate bank account and invested in accordance with this policy.

[c] Debt Service Reserve Funds Held by Bond Trustees: Funds held by such trustees shall be invested in accordance with the bond indenture or other agreement providing for the issuance and management of such debt.

#### ~~2.3. General Fund Committed Reserves~~Contingency Reserve

~~A contingency reserve of at least \$10,000,000 shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund.~~At least one-half of the total general fund committed reserve requirement shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund (SCCPIF).

#### 4. General Fund Un-Assigned Contingency Reserve

In addition to any committed fund reserve requirement, a general fund contingency reserve of at least \$10 million shall be maintained, at all times, with the SCCPIF.

5. General Obligation Bond Proceeds Held by Fiscal Agent  
Bond Proceeds held by the District's Fiscal Agent, either in the Debt Service Fund or Bond Proceeds Fund, shall be invested through the investment department of the Fiscal Agent and in accordance with the Fiscal Agent Agreement.

3.6. Non-Invested Funds

Idle District funds not otherwise invested as permitted by this Policy, ~~or maintained with trustee paying agents and pledged to the payment of District indebtedness,~~ shall be deposited with the Santa Clara County Pooled Investment Fund, the San Mateo County Treasurer's Pooled Investment Fund or the State of California's Local Agency Investment Fund.

4.7. Selection of Investments

The Controller is responsible for selecting investments that fit within the amounts and maturities recommended by the Controller and by the General Manager. The Controller is also responsible for directing security transactions.

5.8. Investments Instruments and Deposit of Funds

Investments and deposits of funds shall be limited to those allowed by and subject to the procedures of Government Code Section 53600 *et seq.* and 53635 *et seq.* In the event of any conflict between the terms of this Policy, and the Government Code, the provisions of the Government Code shall prevail. Investments shall not be leveraged. Investments, and "derivatives," that offer opportunities for significant capital gains and losses are excluded. If after purchase, securities are downgraded below the minimum required rating level, the securities shall be reviewed for possible sale with a reasonable amount of time after downgrade. Significant downgrades and the action taken or to be taken will be disclosed in the next monthly report. ~~All investments, other than investment of bond proceeds and funds held by trustees and pledged to the repayment of bonds or other District indebtedness, shall mature within 180 days, except for [1] U.S. Treasury and U.S. Government Agency bills and notes and [2] Corporate notes carrying a minimum rating of AA from a nationally recognized rating service, which shall mature within two years. Funds held by such trustees and other bond proceeds may be invested in accordance with the indenture or agreement providing for the issuance of such debt.~~

9. Maximum Maturity

The average maturity of the total District investment portfolio shall not exceed eighteen months and no investment, except for debt service reserve funds held by bond trustees, shall have a maturity of more than three years from the date of purchase. The maturity of investments in trustee-held debt service reserve funds shall not exceed the final debt service payment date of the bonds.

6.10. Diversification

Investments shall meet the diversification test of Government Code Section 53601.7(c), stating that no more than 5% of the total investment portfolio may be invested in the securities of any one issuer, except for the obligations of the U.S. Treasury or U.S. Government Agencies. ~~Investments maturing in 181 days or longer shall represent no more than 20% of the total market value of the investment portfolio.~~

7.11. Marketability

For investments other than ~~bank certificates of deposits and investment of funds held by trustees as set out in Section 5,~~ the breadth of ownership and number of securities outstanding shall be sufficient to establish a secondary market in which investments can be readily converted to cash without causing a material change in their market value.

#### 8.12. Acceptable Banks

Bankers' Acceptances and Negotiable Certificates of Deposit may be purchased only from the District's commercial bank or banks and savings and loan associations with over \$1,000,000,000 of deposits and reporting profitable operations and which meet all applicable criteria of the Government Code. Certificates of Deposit may be purchased from other banks within Santa Clara and San Mateo Counties which meet all applicable criteria of the Government Code if the principal is fully insured by the Federal Deposit Insurance Corporation.

#### 9.13. Acceptable Collateral

Securities collateralizing bank or savings and loan deposits must be rated "A" or higher.

#### 10.14. Investments in Name of District

All investments purchased shall stand in the name of the District.

#### 11.15. Reporting

~~The Controller shall report all security transactions to the board no later than the next Regular Meeting of the Board of Directors after any transaction has been made.~~ The Controller shall submit a report of the District's investment portfolios and security transactions to the Board of Directors by the ~~fourth second Wednesday Friday~~ of each calendar month in accordance with Government Code Sections 53607 and 53646. ~~The Controller will render a quarterly investment report to the Board of Directors as required by Government Code Section 53646.~~ Such reports shall also be submitted to the General Manager and to the District's auditor.

#### 12.16. Purchase of Securities

The Controller is authorized to purchase securities through the investment department of the District's ~~commercial bank~~ bond trustees and fiscal agents and as otherwise permitted by the Government Code. Any account resolutions required by bank investment departments will be submitted to the Board of Directors for approval prior to any trading through that bank. The bank or other investment institution from which authorized securities are purchased shall be instructed in writing only to purchase securities in the name of the District and that all matured funds shall be returned to the District's commercial bank account. The bank shall also be instructed to send receipts for all transactions to the General Manager and the District accounting department.