



Midpeninsula Regional  
Open Space District

## ACTION PLAN AND BUDGET COMMITTEE MEETING

R-23-51  
May 16, 2023

### AGENDA ITEM 3

#### AGENDA ITEM

Annual Review of Fiscal Management Policies for Fiscal Year 2023

#### GENERAL MANAGER'S AND CONTROLLER'S RECOMMENDATIONS

1. Review a proposed amendment to Board Policy 3.07 – *Fund Balance Policy*.
2. Review a proposed amendment to Board Policy 3.08 – *Investment Policy*.
3. Affirm Board Policy 3.09 - *Debt Management Policy*.
4. Forward the policies and the proposed amendments to the full Board of Directors for consideration of their approval and affirmation.

#### SUMMARY

Midpeninsula Regional Open Space District (District) staff completed the annual review of the following existing fiscal management policies: *Banking Relationship Management* (3.01), *Capital Expenditure and Depreciable Fixed Assets* (3.05), *Initial and Continuing Disclosures Relating to Bond Issuances* (3.06), *Fund Balance Policy* (3.07), *Investment Policy* (formerly known as *Statement of Investment*) (3.08), and *Debt Management* (3.09). Based on this review, the General Manager and Controller recommend: (1) amendments to Board Policy 3.07 pertaining to the Unassigned Fund Balance, 2) amendments to Board Policy 3.08 pertaining to the investment Goals, Guidelines, and Reporting/Benchmarks, and 3) affirmation that Board Policy 3.09 remains current.

#### DISCUSSION

Each year, the General Manager and Chief Financial Officer together with the Controller review the District's fiscal management policies in preparation for an annual review and affirmation by the Action Plan and Budget Committee (ABC) who then forwards the item to the full Board of Directors (Board) for their consideration. The 2023 review began as part of the budget cycle this past spring and will continue into the coming months.

At this time, the General Manager and Controller recommend changes to two policies. All other policies are deemed current, with no changes proposed. See details below, as well as tracked changes in Attachments 1 and 2, which show the proposed text deletions in ~~strike-through~~ and additions in underline.

3.01 Banking Relationship Policy

No changes proposed.

3.02 General Accounting, Internal Control and Capital Assets Policy

No changes proposed.

3.03 Public Contract Bidding

No changes proposed.

3.04 Budget and Expenditure Authority Policy

No changes proposed.

3.06 Initial and Continuing Disclosures Relating to Bond Issuances

No changes proposed. Staff consulted with the District's Disclosure Counsel.

3.07 Fund Balance Policy

Amendments are recommended to update the minimum Unassigned Fund Balance from "30% of the Budgeted General Fund Tax Revenue" to "30% of the Budgeted General Fund Total Revenue". This proposed change incorporates all revenue sources, including grants, rental income, interest income, and other miscellaneous income. Accounting for all types of revenues will best position the District in responding to unforeseen expenditures or changes in revenues.

3.08 Investment Policy (formerly known as Statement of Investment)

The proposed amendments to the Investment Policy, as edited by the Controller, clarifies the three *Goals* of investment: Capital Preservation, Liquidity, and Income and updates the investment *Guidelines* by incorporating parameters for Authorized Financial Institutions and Dealers, Risk Mitigation, and Authorized Investments. Additionally, under Reporting and Benchmarks, the policy is updated to reflect the Controller's preparation of the Monthly Investment and Security Transaction Report that is provided to the Board. Other minor changes reflect current practice.

3.09 Debt Management Policy

No changes proposed. The Board is requested to affirm the current policy.

**PRIOR BOARD AND COMMITTEE REVIEW**

This item is presented annually to the ABC for review and input prior to forwarding on to the full Board. The last annual review of the Fiscal Management Policies by the ABC occurred on May 3, 2022.

**FISCAL IMPACT**

None

**PUBLIC NOTICE**

Public notice was provided as required by the Brown Act.

**CEQA COMPLIANCE**

This proposed action is not a project under the California Environmental Quality Act and no environmental review is required.

**NEXT STEPS**

Pending review and affirmations from the ABC, the proposed policy amendments would be forwarded to the full Board for their consideration. Once approved by the Board, the revisions would enter into force. Staff will perform the next annual review during Fiscal Year 2023-24.

Attachment:

1. Fund Balance Policy 3.07
2. Investment Policy 3.08

Responsible Staff:

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Mike Foster, Controller  
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Prepared by:

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## Midpeninsula Regional Open Space District

## Board Policy Manual

<b>Fund Balance Policy in Accordance with GASB Statement No. 54</b>	<b>Policy 3.07 Chapter 3 – Fiscal Management</b>
Effective Date: 11/25/14	Revised Date: 06/08/2022
Prior Versions: 11/25/14, 10/26/16, 6/27/2018, 06/26/2019	

**Purpose**

The following policy is created and approved by the Board of Directors in order to [1] provide adequate funding to meet the District’s short-term and long-term plans, [2] provide funds for unforeseen expenditures related to emergencies such as natural disasters, [3] strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls, and [4] maintain an investment-grade bond rating. This policy has been developed, with the counsel of the District auditors, to meet the requirements of GASB 54.

This policy identifies the required components of fund balance, the level of management authorized to approve or change target balances in each fund, the amounts that the District will strive to maintain in each fund, and the conditions under which fund balances may be spent, reimbursed and reviewed.

**Policy**

The components of District fund balance are as follows:

**Non-Spendable** fund balance includes amounts that cannot be spent either because they are not in spendable form, e.g. prepaid insurance, or because of legal or contractual constraints. At all times, the District shall hold fund balance equal to the sum of its non-spendable assets.

**Restricted** fund balance includes amounts that are constrained for specific purposes which are externally imposed by constitutional provisions, enabling legislation, creditors, or contracts. Individual funds will be identified by the General Manager and Controller and the amounts set based on legal or contractual requirements. Funds may only be spent as specified by contract or as externally directed. The continuing need for each fund and the amount reserved will be reviewed annually.

**Committed** fund balance includes amounts that are constrained for specific purposes that are internally imposed by the District Board of Directors. Individual funds and target amounts will be established by the Board. Committed funds may include but are not limited to: Capital Maintenance, Equipment Replacement, Infrastructure, Natural Disasters, and Promissory Note. Projects to be funded by committed funds require the approval of the Board. The continuing need

for each fund and the amount reserved will be reviewed annually. Any changes require the approval of two-thirds of the Board.

**Assigned** fund balance includes amounts that are intended to be used for specific purposes that are neither restricted nor committed. Such amounts may be assigned by the General Manager if authorized by the Board of Directors to make such designations. Projects to be funded by assigned funds require the approval of the General Manager. The continuing need for each fund and the amount reserved will be reviewed annually.

**Unassigned** fund balance includes amounts within the general fund, which have not been classified within the above categories. The minimum amount of unassigned fund balance is calculated as 30% of the Budgeted General Fund ~~Tax~~ **Total** Revenue. This minimum unassigned fund balance is to be held in reserve in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. Any spending from this minimum general fund reserve requires the approval of the Board. Any such spending will be reimbursed within two years. If such reimbursement exceeds 5% of the Budgeted General Fund Tax Revenue, the Board may decide to limit the reimbursement at 5% and extend the reimbursement period beyond two years, as needed. The minimum reserve amount calculation will be reviewed annually as part of the annual budget process.

The specific reserve funds are as follows:

### **Restricted Funds**

[1] **Retiree Healthcare Plan Fund:** established in 2008 with a \$1.9 million contribution to the California Employers' Retiree Benefit Trust; all withdrawals per Board-approved plan; amount of annual contribution authorized by the Board as part of the annual budget.

[2] **Hawthorns Fund:** established in 2011 with a \$2.0 million endowment from the Woods Family Trust, to provide stewardship funding for the Hawthorns property in Portola Valley; amount to be withdrawn each year authorized by the Board as part of the annual budget.

### **Committed Funds**

[1] **Capital Maintenance Fund:** Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require District assets to be in good working order; annual maintenance costs for existing District assets are anticipated. Funding for such capital maintenance expenditures is not available from general obligation bonds under Measure AA. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with maintenance of a particular improvement. The amount to be withdrawn each year for the Capital Maintenance Fund will be authorized by the Board as part of the annual budget.

[2] **Equipment Replacement Fund:** Implementation of District projects requires corresponding purchase and replacement of field and office equipment and vehicles. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with equipment

replacement needs. The amount to be withdrawn each year for the Equipment Replacement Fund will be authorized by the Board as part of the annual budget.

[3] **Infrastructure Fund:** Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require expansion of field and office facilities beginning in fiscal 2016. The amount to be withdrawn each year for the Infrastructure Fund will be authorized by the Board as part of the annual budget.

[4] **Natural Disaster Fund:** The District must be prepared to undertake emergency expenditures required to respond quickly to a major fire, earthquake or flood. The General Manager will recommend, and the Board may authorize an initial reserve amount to prepare for natural disasters. All withdrawals from the Natural Disaster Fund require the approval of the General Manager.

[5] **Debt Sinking Fund:** The General Manager may recommend, and the Board may authorize annual contributions to fund the repayment of principal for promissory notes, bonds, or any other form of debt incurred by the District. The amount to be withdrawn from the Debt Sinking Fund will be authorized by the Board as part of the annual budget.

[6] **Future Acquisitions and Capital Projects Fund:** With the passage of Measure AA, the District has a greater focus on capital projects, as well as its ongoing land acquisition program. This fund will provide the District with sufficient reserves to quickly react to opportunistic land acquisitions and to future capital projects that may arise during the course of a given fiscal year. Withdrawals from this fund require approval of the Board.

### **Assigned Funds**

[1] **Capital Construction in Progress (CCIP) Fund:** Under the direction and authority of the General Manager, staff will review encumbered funds for ongoing capital projects at the end of the fiscal year. These balances may be assigned to CCIP fund as a closing entry to the fiscal year for use as a funding source for the overall project cost in the following fiscal year. Unless otherwise authorized by the Board, the balances available under this fund will not increase the overall project budget.

## Midpeninsula Regional Open Space District

## Board Policy Manual

<b><u>Statement of Investment Policy</u></b>	<b>Policy 3.08 Chapter 3 – Fiscal Management</b>
<b>Effective Date:</b> 1/8/97	<b>Revised Date:</b> <del>12/9/2016</del> /14/2023
<b>Prior Versions:</b> 1/8/97; 1/10/01; 1/16/02; 1/8/03; 1/14/04; 1/12/05; 1/11/06; 1/10/07; 1/16/08; 1/13/10; 1/12/11; 1/11/12; 1/24/13; 1/22/14; 1/28/15; 8/12/15; 8/10/16; 5/10/17; 6/27/18; 6/26/2019; <u>12/9/20</u>	

**Goals****Goal 1. Capital Preservation**

The primary goal shall be to safeguard the principal of invested funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. ~~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**

The secondary objective shall be to meet the liquidity needs of the District. Investable funds ~~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**

The third objective shall be to attain a market rate of return (yield). Investable funds ~~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. This cash flow projection shall be reviewed and evaluated by the General Manager or Chief Financial Officer (CFO). The General Manager or CFO is responsible for approving the Controller's designation of the amount of funds available for investment for longer than one year.~~

**2.1. Authorized Financial Institutions and Dealers ~~Restricted Monies~~**

- a) District Retiree Healthcare Plan: All funds are to be held and managed by either the Section 115 Trust California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS (California Public Employees' Retirement System), or the Section 115 Trust offered through Public Agency Retirement Services (PARS).
- b) District Retirement Plans: All funds are to be held and managed by either CalPERS or PARS.
- c) Hawthorns Endowment Fund: All investable funds are to be held in the Cal Trust Medium Term Fund.
- d) Public Bond Reserve Funds: All investable funds are to be held at and invested through the trust departments of the Bond Trustees specified in the documents issuing the bonds.
- e) General Funds: All investable funds are to be invested either in the Santa Clara County Pooled Investment Fund (SCPIF), State of California's Local Agency Investment Fund (LAIF), or through the District's investment advisor and brokerage firm, Stifel Financial. The District requires that all securities it owns be held in highly reputable third-party depositories. Any additions or changes to the list of acceptable investment advisors and brokers will be approved by the Board of Directors.

~~[a] — MROSD Retiree Healthcare Plan: All funds are to be held by either: the Section 115 Trust California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS, or 2) the Section 115 Trust offered through PARS as approved by Board Resolution 18-07.~~

~~[b] — Hawthorn Endowment Fund: All funds will be held in a separate 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.~~

### 3.2. Risk Mitigation ~~General Fund Committed Reserves~~

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories:

- a) Credit risk, which is the possibility that an issuer will default.
- b) Liquidity risk, which occurs when investments must be sold at a loss, prior to maturity, in order to meet unexpected cash requirements.
- c) Interest Rate Risk, which is strongly associated with liquidity risk and is the risk that the value of a fixed income security will fall as a result of an increase in interest rates.
- d) Operational risk, which refers to potential losses resulting from inadequate systems and oversight, fraud and human error.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District will minimize the risk categories as follows:

#### 1. Credit Risk mitigation by:



- 1.1. Diversifying the investment portfolio so that potential losses on individual securities are minimized (no single issuer, other than the U.S. government, shall represent more than 5% of the overall investment portfolio),
- 1.2. Only purchasing securities which meet the rating standards specified in this policy and limitations set by Government Code,
- 1.3. Requiring that investments not be leveraged, [4]forbidding the purchase of any investment which offers opportunities for significant capital gains or losses, and
- 1.4. Reviewing the possible sale of any security which incurs a rating downgrade.

2. Liquidity Risk mitigation by:

- 2.1. Maintaining a reliable short and long-term cash flow projection and matching investment maturities with anticipated cash demands;
- 2.2. Restricting investment purchases to those securities which have an active secondary, or resale, market; and
- 2.3. Maintaining at least 15% of total investable general funds in either the SCCPIF or LAIF.

3. Interest Rate Risk mitigation by:

- 3.1. Restricting the maturities of all new investments to a maximum of three years from the settlement date;
- 3.2. Limiting the weighted average maturity of the portfolio to 18 months or less; and
- 3.3. Forbidding the purchase of any financial futures, option contracts or any other type of derivative investment.

4. Operational Risk mitigation by:

- 4.1. Delegating internal investment authority only to the Controller, Chief Financial Officer and employees with extensive experience in financial investing;
- 4.2. Investing through highly reputable and specified brokerage and trust departments;
- 4.3. Requiring that all investment securities be owned in the name of the District and held at reputable depository organizations;
- 4.4. Ensuring that all investment accounts, other than bond trustee accounts, be fully covered by insurance;
- 4.5. Specifying that District employees involved in the investment process shall refrain from any personal business activity that could conflict with the proper execution and management of the investment program;
- 4.6. Maintaining employee fraud insurance in the amount of at least \$1 million; and
- 4.7. Directing the Controller to provide the Board of Directors with a monthly report listing the current investment portfolio and the new investment purchases that month.

~~At least 20% of the total general fund committed reserve requirement shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund (SCCPIF) and/or the State of California's Local Agency Investment Fund (LAIF).~~

4.3. ~~Authorized Investments~~General Fund Unassigned Reserves

Investments 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 any term of this Policy and the Government Code, the provisions of the Government Code shall prevail.

1. U.S. Treasury and Government Agencies: There shall be no dollar limit in the amount that may be invested in debt obligations that are backed by the full faith and credit of the United States government, including federal agencies of the U.S. government.
2. SCCPIF and LAIF: No dollar limit.
3. Federally-Insured Bank Deposits: Limited to the FDIC insured limit of \$250,000 per bank.
4. Bank Non-Insured Certificates of Deposit: For maturities of one year or less: two current ratings of at least P1 by Moody's, A1 by S&P, or F1 by Fitch. For maturities over one year: two current ratings of at least Aa3 by Moody's, AA- by S&P, or AA- by Fitch.
5. Banker's Acceptances and Commercial Paper: Maturities cannot exceed one year and issuers must be U.S. corporations with assets exceeding \$500 million, and have two current ratings of at least P1 by Moody's, A1 by S&P, or F1 by Fitch.
6. Corporate Notes and Municipal Bonds: The purchase of corporate notes and municipal bonds, including taxable bonds, shall be limited to securities that hold at least two of the following ratings: A3 by Moody's, A- by S&P, and A- by Fitch. As stated above, maturities are limited to no more than three years and no issuer shall represent more than 5% of the overall portfolio.
7. Money Market Funds: Money market funds must hold at least two of the highest ratings from the following: Aaa by Moody's, AAA by S&P, and AAA by Fitch.
8. Asset-Backed Securities (ABS): Acceptable ABS must hold at least two of the following ratings: Aa3 by Moody's, AA- by S&P, and AA- by Fitch.

~~In addition to any committed fund reserve requirement, at least 20% of the general fund reserve per the Fund Balance Policy 3.07 shall be maintained, at all times, with the SCCPIF and/or LAIF.~~

#### 5.4. 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.

#### 6.5. Non-Invested Funds

Idle District funds not otherwise invested as permitted by this Policy shall be deposited with the Santa Clara County Pooled Investment Fund, ~~the San Mateo County Treasurer's Pooled Investment Fund~~, the State of California's Local Agency Investment Fund or CalTRUST.

#### 7.6. Selection of Investments

The Controller is responsible for selecting investments and directing such security transactions that fit within the amounts and maturities as recommended by the Controller. The Controller will communicate such actions to the General Manager and CFO.

#### 8.7. Prohibited Investments

Investment in securities of companies in the non-renewable energy sector (e.g. coal, oil, natural gas, etc.) shall not be permitted.

9.8. 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.

10.9. 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.

11. ~~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.~~

12.10. Marketability

For investments other than bank certificates of deposits 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.

13.11. 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 billion 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.

14.12. Acceptable Collateral

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

15.13. Investments in Name of District

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

16.14. Reporting and Benchmarks

The Controller shall prepare and submit to the Board of Directors a monthly report (the Monthly Investment and Security Transaction Report) listing the entire discretionary investment portfolio (excluding retirement funds). For each investment, the report shall include the purchase date, the issuer, price paid, current market value, yield and broker. The report shall also list all new investments made that month.

On a quarterly basis, the monthly report shall include a summary of the portfolio's average maturity and yield, and a comparison of the current yield to three benchmarks—the SCCPIF, LAIF, and the Fidelity Short-Term Bond Fund.

The Controller shall submit a report of the District's investment portfolio and security transactions to the Board of Directors ~~by the second Friday of each calendar month~~ in accordance with Government Code Sections 53607 and 53646. Such reports shall also be submitted to the General Manager, CFO, Budget & Finance Manager, and to the District's auditor.

17.15. Purchase of Securities

The Controller is authorized to purchase securities through the investment department of the District's 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 CFO and the District accounting department.

17 Policy Review and Approval

This policy shall be reviewed at least annually and be presented to the Board of Directors for approval of any recommended changes or re-approval.