



Midpeninsula Regional
Open Space District

R-14-02
Meeting 14-03
January 22, 2014

AGENDA ITEM 3

AGENDA ITEM

Renewal of Investment Authority and Adoption of Annual Statement of Investment Policy

GENERAL MANAGER'S RECOMMENDATION

A handwritten signature in black ink, appearing to be "G.M.", is written over the end of the "GENERAL MANAGER'S RECOMMENDATION" header.

Adopt the attached Resolution to renew the District Controller's investment authority until January 7, 2015 and approve the District's Revised Statement of Investment Policy.

SUMMARY

Approval of the attached resolution will renew the District Controller's authority to invest District funds in accordance with the District's Investment Policy.

DISCUSSION

The District Controller's authority to invest temporarily idle funds expires on January 8, 2014, according to the provisions of Resolution 13-09 (see Report R-13-46). The attached Resolution renews the Controller's authority to invest District funds in accordance with the District's Investment Policy.

When short-term interest rates rise, as they did in 2006 and 2007, the District is able to earn an enhanced return on temporarily idle funds by investing directly as permitted by the California Government Code. The attached policy permits the Controller to invest surplus District funds directly in such specific investments.

The only recommended change to the Statement of Investment Policy is to update the reserve policy, which was last revised in January 2005. The current policy requires the preservation of a contingency cash reserve of at least \$5 million, at all times, principally to respond quickly to land acquisition opportunities. This is prudent and should be continued. However, with the broadening of the District's capital and operating programs under the new District Strategic Plan, a more comprehensive reserve policy is needed. The proposed policy requires that the District maintain, at the end of each fiscal year, unpledged cash and liquid investments equal to at least (1) debt service payable in the next six months plus (2) the total capital expenditures budget, including land purchases, for the next fiscal year minus (3) the year-end balance of Taxes Receivable minus (4) grant receipts budgeted for the next fiscal year. If this calculation is less than \$5 million, then the contingency reserve amount would govern. Using this formula, the required reserve balance would have been \$6.8 million at the end of March 2013, \$10.9 million at the end of March 2012, and \$15.5 million at the end of March 2011. The fiscal 2014 budget

contained an unusually low level of District capital expenditures, and thus, the required cash reserves were low; the opposite was the case in March 2011.

BOARD COMMITTEE REVIEW

This item was not reviewed by any Committee.

FISCAL IMPACT

Approval of this policy will not result in an increase to the budget. However, implementation of this policy is crucial for the fiscal health of the District.

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
2. Statement of Investment Policy

Prepared by:
Mike Foster, Controller

Contact person:
Michael Foster, Controller

RESOLUTION NO. 14-__

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 ALLOWED BY THE CALIFORNIA GOVERNMENT CODE

WHEREAS, the District needs to maximize the yield on surplus temporarily idle funds in order to help meet Capital Program objectives, including land acquisition; 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. This authorization is retroactive to January 8, 2014.

SECTION THREE. Before any particular investments, 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 FOUR. This Resolution supersedes the prior Resolution No. 13-09 adopted April 24, 2013. This Resolution shall no longer be in effect as of January 7, 2015, 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.

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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.

GUIDELINES1. 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 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 180 days.

2. Cash Reserve Policy and Contingency Reserve

A contingency reserve of at least \$5,000,000 shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund. ~~The General Manager is responsible for approving the Controller's designation of the size of this contingency reserve.~~ In addition, at the end of each fiscal year, the District shall hold total reserves of unpledged cash and liquid investments exceeding the sum of (1) debt service payable in the next six months and (2) the capital expenditures budget for the next fiscal year, reduced by (3) year-end taxes receivable and (4) grant receipts budgeted for the next fiscal year. At all times this ~~contingency reserve, together with~~ total cash reserve, including funds held in trust by bond trustees and pledged to the payment of bonds issued by the District, shall be sufficient to satisfy the reserve requirements for all District debt.

3. 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. 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. 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. 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.

6. 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. Marketability

For investments other than 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. 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. Acceptable Collateral

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

10. Investments in Name of District

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

11. 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 investments and security transactions to the Board of Directors by the fourth Wednesday of each month in accordance with Government Code Section 53607. 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. Purchase of Securities

The Controller is authorized to purchase securities through the investment department of the District's commercial bank and as otherwise permitted by the Government Code. 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 transactions to the General Manager.