



Midpeninsula Regional
Open Space District

ACTION PLAN AND BUDGET COMMITTEE MEETING

R-24-61
May 21, 2024

AGENDA ITEM 3

AGENDA ITEM

Annual Review of Fiscal Management Policies for Fiscal Year 2024

GENERAL MANAGER'S AND CONTROLLER'S RECOMMENDATIONS

1. Review a proposed amendment to Board Policy 3.01 – *Banking Relationship Management*.
2. Review a proposed amendment to Board Policy 3.02 – *General Accounting, Internal Control and Capital Asset Policy*.
3. Affirm Board Policy 3.08 - *Investment Policy*.
4. Affirm Board Policy 3.09 - *Debt Management Policy*.
5. 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), *General Accounting, Internal Control and Capital Asset Policy* (3.02), *Public Contract Bidding* (3.03), *Budget and Expenditure Authority Policy* (3.04), *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), *District Grantmaking Program* (3.10), and *Closing Measure AA Portfolios and Amending the Expenditure Policy* (3.11). Based on this review, the General Manager and Controller recommend: (1) amendments to Board Policy 3.01 pertaining to the Safe Deposit Box, 2) amendments to Board Policy 3.02 pertaining to the Government Accounting Standard Board (GASB) Statement Number 96 (GASB 96), and 3) affirmation that Board Policies 3.08 and 3.09 remain 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 2024 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

The proposed amendment is to remove the Safe Box Deposit. The District closed the Safe Box Deposit and now uses a safe.

3.02 General Accounting, Internal Control and Capital Assets Policy

The proposed changes establish a capitalization threshold for subscription-based information technology arrangements (SBITAs).

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

No changes proposed.

3.08 Investment Policy (formerly known as Statement of Investment)

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

3.09 Debt Management Policy

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

3.10 District Grantmaking Program

No changes proposed.

3.11 Closing Measure AA Portfolios and Amending the Expenditure Policy

No changes proposed.

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 16, 2023 ([R-23-51](#), [minutes](#)).

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 2024-25.

Attachment:

1. Board Policy 3.01 - Banking Relationship Management
2. Board Policy 3.02 - General Accounting, Internal Control and Capital Asset Policy
3. Board Policy 3.08 - Investment Policy
4. Board Policy 3.09 - Debt Management Policy

Responsible Staff:

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Midpeninsula Regional Open Space District

Board Policy Manual

Banking Relationship Management	Policy 3.01 Chapter 3 – Fiscal Management
Effective Date: 6/27/18	Revised Date: 6/27/18
Prior Versions: 11/13/13, 09/14/16	

Purpose

The Banking Relationship Management policy provides a framework around Banking Relationships, Financial Instrument Signatories, ~~Safe Deposit Box~~, and the Purchasing Card Program. This policy supersedes Board policies 3.01 Financial Instrument Signatories and 3.02 Safe Deposit Box.

Policy**I. Banking Relationships and Bank Account Administration**

- A. The District has a fiduciary duty to protect and safeguard public funds. The majority of District funds are held on deposit in the Santa Clara County Commingled Pool. The District Controller shall review the County's investment reports on a quarterly basis. Funds shall be transferred from the County to the District's operating/payroll accounts to meet near-term liquidity requirements.
- B. Any change in the District's banking relationship requires a resolution of the Board.

II. Financial Instrument Signatories

- A. The authorized signatories to checks, warrants, withdrawal applications, and the Santa Clara County claim forms of the Midpeninsula Regional Open Space District for payroll or for amounts less than \$5,000 shall be any one of the following employees: (i) the General Manager, (ii) either one of the Assistant General Managers, (iii) the Chief Financial Officer/Director of Administrative Services.
- B. The authorized signatories to checks, warrants, withdrawal applications, and Santa Clara County claim forms of the Midpeninsula Regional Open Space District in amounts of \$5,000 or greater, excluding payroll, shall be any two of the employees listed in A. above.
- C. Signatories for Bond Documents, to issue bonds or execute subsequent draw requests or other debt management documents, will include the General Manager, Controller, General Counsel, and the Chief Financial Officer/Director of Administrative Services, or as otherwise noted in the previously issued bond documents or Board resolutions.

~~III. Safe Deposit Box~~

- ~~A. The authorized signature for entrance into the District's safe deposit boxes is any of the following: General Manager, either one of the Assistant General Managers, Chief~~

~~Financial Officer/Director of Administrative Services, District Clerk, and Senior Accounting Technician.~~

IV.III. Purchasing Card Program

- A. The General Manager or designee shall establish a list of District positions authorized to receive a District purchasing card, as well as individual credit limits. District staff may be issued a purchasing card to conduct District business for supplies, materials, equipment, travel, services, and other approved District expenses in accordance with this list.
- B. The purchasing card program is considered a banking service. The District will maintain adequate internal controls in order to prevent misuse or fraud, including, but not limited to, monthly submission of receipts by the cardholders and approval of those receipts by the cardholder's supervisor.

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Board Policy Manual

General Accounting, Internal Control and Capital Assets	Policy 3.02 Chapter 3 – Fiscal Management
Effective Date: 06/26/19	Revised Date:
Prior Versions:	

Purpose

The Midpeninsula Regional Open Space District (District) holds itself to the highest standards in the process of conducting its business. The District is fully committed to safeguarding the public assets entrusted to it, while complying with all applicable laws and regulations. Resources of the District shall be deployed in a fiduciary manner in order to provide adequate funding to accomplish its mission statement. The District will establish and maintain accounting and financial policies that will ensure accurate financial records and provide a proper level of transparency to its stakeholders.

Objectives

In order to achieve its goals, the Accounting and Financial Management Policies should contribute to the following objectives:

- 1) To instill, as a matter of organizational culture, sound financial management by providing accurate and timely information on the District's financial condition.
- 2) To maintain sufficient financial liquidity and capacity for both present and future needs.
- 3) To safeguard financial resources through the establishment of effective internal controls.
- 4) To maintain the District's credit rating and provide the necessary resources to meet the District's obligations on all of its external debt.

Accounting Policy

- 1) The District shall maintain a system of accounting records and financial reporting that provides accurate financial reporting to meet the goals and objectives of the District.
- 2) The District will maintain its accounting records in accordance with state and federal laws and regulations. The District's records will be reported in accordance with generally accepted accounting principles (GAAP) applicable to public agencies. Furthermore, the District shall also maintain its records in compliance with standards promulgated by the Governmental Accounting Standards Board (GASB) which is the body that establishes governmental accounting and reporting principles for government entities.

Fund Structure

The District will minimize the number of funds and funds will be categorized in accordance with generally accepted accounting principles and GASB statements.

Long-Term Financial Plan and Revenues

- 1) The long-term financial position of the District is a critical element in the District's ability to fulfill its mission. The Controller and Chief Financial Officer (CFO) shall maintain a long-term financial model that outlines both revenue and expense projections to be presented to the Board periodically to assist the Board in its decision-making process that may impact the finances of the District. The model should recognize the potential effects of the economic cycle.
- 2) With property taxes making up the vast majority of the District's revenue, forecasts shall be conservatively estimated based on historical experience and take into account the most recent information available. Revenue forecasts will be updated at least quarterly.

Internal Control

- 1) The District will maintain an operational environment conducive to strong internal controls. An integral part of these internal controls will be the prevention of fraud. The District will maintain a zero tolerance policy regarding fraud.
- 2) For the purposes of financial policies, internal controls will be divided into two categories:
 - a. Accounting controls, which are the procedures and processes relating to the safeguarding of the District's assets and accuracy of its financial records.
 - b. Administrative controls, which relate to the procedures and processes concerned with operational efficiencies and compliance with managerial policies.
- 3) Internal controls are dependent on the following core elements:
 - a. Personnel – controls are predicated on the competence and integrity of the District's staff and their understanding of policies and procedures.
 - b. Segregation of Duties – procedures and processes to detect irregularities and fraud.
 - c. Execution of transactions – maintenance of appropriate levels of approval to ensure that transactions are executed through proper authorization.
 - d. Access to assets – access to bank accounts and other assets shall be limited to authorized personnel.
 - e. Data and computer systems – the security, development, maintenance and modification of computer systems and data will be maintained.

Audit

- 1) The District's auditing policy is established in compliance with the specification of the Minimum Audit Requirement and Reporting Guidelines for California Special Districts, issued by the State Controller's Office pursuant to California Government Code Section 26909, requiring an annual audit by independent auditors, who shall be Certified Public

Accountants licensed to do business in the State of California, in accordance with generally accepted auditing standards (GAAS).

- 2) The Board of Directors selects an independent auditor, following the Request for Proposal process under the direction of the Controller and the CFO. Upon completion of each year's audit, the independent auditor will present the results of the audit to the Board of Directors.
- 3) As part of the audit cycle, the District will prepare a Comprehensive Annual Financial Report and seek each year to obtain the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. To better communicate the District's financial results and performance to the general public and stakeholders, the District shall also prepare an annual Popular Annual Financial Reporting (PAFR) with the goal of receiving the GFOA PAFR award.

Capital and Fixed Assets

Capital assets are defined as fixed assets such as land, buildings, and equipment with a useful life of greater than one year and are classified as follows:

1. **Land** - Land and permanent easements, either purchased or donated, with a value greater than \$1 are non-depreciable capital assets.
2. **Structures and Structure Improvements** - Land improvements, infrastructure, buildings, other structures, and leasehold, which are purchased, constructed, or received as a donation, with an estimated total cost or fair market value greater than \$50,000, are depreciable assets.
3. **Infrastructure** - Infrastructure assets are long-lived fixed assets with a value greater than \$50,000 that are normally stationary in nature and can be preserved for a number of years significantly greater than most fixed assets. Infrastructure assets are capitalized and depreciated over the remaining useful life of the asset. Examples of infrastructure assets include roads, bridges, trail systems, tunnels, drainage systems, water and sewer systems, dams, and parking lots.
4. **Equipment** - Machinery, equipment, and fixtures, either purchased or received as a donation with a cost or fair market value greater than \$25,000, are depreciable assets.
5. **Vehicles** - Vehicles, either purchased or received as a donation with a cost or fair market value greater than \$25,000, and include the basic vehicle itself and any added components that are permanently affixed to the vehicle prior to the in-service date.
6. Projects which extend the useful life or materially increase the capacity of an existing capital asset with a value greater than \$25,000 for machinery, equipment, fixtures and vehicles, or \$50,000 for land, improvements, infrastructure and buildings, are capitalized and depreciated over the remaining useful life of the asset.

7. Subscription-based information technology arrangement (SBITA) - is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. A short-term SBITA has a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs are recognized as outflows of resources (e.g., expenditures).

The District established a capitalization threshold of \$100,000 for SBITAs that are subject to the requirements of Government Accounting Standard Board (GASB) Statement Number 96 (GASB 96). SBITAs that result in the District paying less than \$100,000 in aggregate during the subscription term will not be capitalized, as the District has determined that such IT arrangements are not material to its financial statements. If a contract exceeds 12 months in duration and exceeds \$100,000 in aggregate, the contract is subject to the treatment of SBITAs as described in GASB 96 and will be capitalized accordingly. The capitalization of a SBITA requires the subscription to be recognized as an asset and the payments a liability based on the present value. Both the asset and liability will be amortized over the subscription term.

The foregoing represents a general framework and is not intended to be exhaustive. The final determination for capitalization issues shall be made in consultation with the District Controller and external auditor.

The District's auditing policy is established in compliance with the specification of the Minimum Audit Requirement and Reporting Guidelines for California Special Districts, issued by the State Controller's Office pursuant to California Government Code Section

Periodic Review of Financial Policies

Along with this umbrella financial policy, separate financial policies for core functions such as budget development and management, debt management, fund balance, investments and capital assets will be in force at all times. The Controller and Chief Financial Officers will periodically review financial policies for compliance with best practices and other directives. Updates and proposed changes will be brought to the Board for approval.

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Board Policy Manual

Investment Policy	Policy 3.08 Chapter 3 – Fiscal Management
Effective Date: 1/8/97	Revised Date: 6/28/2023
Prior Versions: 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; 12/9/20	

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.

Goal 2. Liquidity

The secondary objective shall be to meet the liquidity needs of the District. Investable funds shall be managed so that normal operating cash needs and scheduled extraordinary cash needs can be met on a same day basis.

Goal 3. Income

The third objective shall be to attain a market rate of return (yield). Investable funds shall earn the highest rate of return that is consistent with capital preservation and liquidity goals and the California Government Code.

Guidelines

1. Authorized Financial Institutions and Dealers
 - 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 (SCCPIF), 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.

2. Risk Mitigation

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, 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.

3. Authorized Investments

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.

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.

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 State of California’s Local Agency Investment Fund or CalTRUST.

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.

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.

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 53630 *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.

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.

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.

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.

12. Acceptable Collateral

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

13. Investments in Name of District

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

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 including all investments and securities transactions (excluding retirement funds) in accordance with Government Code section 53607. For each investment, the report shall include the type of investment, purchase date, the issuer, date of maturity, par value, 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 and other contents required by Government Code section 53646.

These reports shall also be submitted to the General Manager, CFO, Budget & Finance Manager, and to the District's auditor.

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.

16. 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.

Midpeninsula Regional Open Space District

Board Policy Manual

Debt Management Policy	Policy 3.09 Chapter 3 – Fiscal Management
Effective Date: 7/12/2017	Revised Date: N/A
Prior Versions: N/A	

Purpose

The Debt Management Policy and procedures contained herein (the “**Debt Management Policy**”) sets forth certain debt management objectives for the Midpeninsula Regional Open Space District (the “**District**”) and establishes overall parameters for issuing and administering the District's debt in compliance with applicable federal and state securities laws. The Board may issue debt that does not comply with this policy should the Board determine that doing so is necessary or desirable, and the issuance of any such debt shall be conclusive evidence of such determination. This Debt Management Policy is closely related to the policy for Initial and Continuing Disclosures Relating to Bond Issuances – Policy 3.06 of Chapter 3 Fiscal Management (the “**Disclosure Policy**”).

Policy

Article I: Key Participants and Responsibilities

The Key Participants in the Debt Management process are the members of the Financing Group as identified and designated in the Disclosure Policy, Section 1.03. The Responsibilities of the various members of the Financing Group are detailed in Section II of the Disclosure Policy. [Disclosure Policy](#)

Article II: Debt Limits

Section 2.01. Purpose for Debt Issuance. The District may issue new debt to finance and refinance capital improvement projects or land acquisitions for either General Fund purposes or in support of Measure AA portfolios and projects. Any General Fund debt must be repaid via the General Fund tax revenue and budget, whereas any debt issued under Measure AA must be repaid via the special property tax levy as authorized under Measure AA. As part of the calculation to determine the need for new debt, the District will review the useful life of the proposed projects and ensure this useful life is not significantly shorter than the term of the debt, and in any case compliant with Federal tax law restrictions governing the weighted average maturity of a debt issue in relation to the financed projects' useful life. The approach to determine the amount of new debt to be issued will include an assessment of any self-funded pay-go funding sources and will be integrated into the District's multi-year capital plan.

Section 2.02. Legal Debt Limitations. The District is bound by, or utilizes, four different debt limitations: State, General Fund budget, bond Indenture covenants and Measure AA voter authorization.

- i. Under Public Resources Code Section 5568, the District's legal authority to incur indebtedness is limited to five percent of the assessed valuation of the real and personal property situated in the District.

- ii. The General Fund debt limitation is constrained by the property tax received, less ongoing operating expenses. Each year, the annual budget is prepared and modeled into the Controller's thirty-year cash flow, which includes conservative inflation and projects the viability of any increases in operating, capital or debt service in the General Fund. Any proposed General Fund debt issuance, new or refunding, is modeled using the Controller's cash flow model.
- iii. General Fund debt is limited by covenants made by the District to bond holders in the bond indenture. The District covenants it will not issue debt that is senior in priority to the existing general fund revenue bonds. In addition, debt on parity with existing revenue bonds is limited by the District Act (Article 3 of Chapter 3 of Division 5 of the Public Resources Code), which requires that total debt outstanding does not exceed the amount of general fund property tax revenues anticipated by the District for the next five-year period, and that annual tax revenue in the most recent audited fiscal year exceeds maximum annual debt service of outstanding bonds by 125%.
- iv. The Measure AA debt limitation is constrained by the \$300 million voter authorization per the 2014 referendum as well as the limitation that Measure AA annual debt service must be payable with the Measure AA property tax collections not to exceed the self-imposed tax rate of \$3.18 per \$100,000 of Assessed Value. The calculation to ensure that the debt service does not exceed a tax rate in excess of \$3.18 per \$100,000 of Assessed Value shall be calculated at issuance of the debt with the information available at that time and exclude any one-time funds, such as bond premium. Should the tax rate exceed \$3.18 at any time after the debt has been issued, no new debt shall be issued until such time as the debt service payments can again be paid from tax collections not exceeding a \$3.18 tax rate.

Section 2.03. Types of Permitted Debt. The District may issue a variety of debt instruments and obligations.

- i. Long-term borrowing (maturity greater than 1 year) may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs.
- ii. Short-term borrowing (maturity of one year or less), such as lines of credit or commercial paper, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs.
- iii. All long-term debt shall normally be issued as fixed rate debt. Variable rate debt may be issued if determined to be advantageous to the District.
- iv. Relationship of Debt to Capital Improvement Program: The District maintains a five-year Capital Improvement plan, which it expects to fund through a combination of Measure AA proceeds, General Fund Monies, and grants. While the District does not expect debt to be the sole source of funding for the CIP, the District may issue debt in addition to bonds approved under Measure AA (including those types of debt discussed herein) should doing so become necessary to meet the District's capital needs.

- v. Policy Goals Related to District Objectives: The District's objective is to meet its capital needs economically, and intends only to use debt as a funding source when the Board determines doing so would be both fiscally responsible and aligned with the District's policy objectives.

Article III: Debt Structuring

Debt issued by the District, new or refunding, may have various features and structures.

- i. The debt shall be callable no later than eleven years from the date of issuance. If the final maturity is less than fifteen years, a call feature shorter than ten years shall be evaluated by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller. If advantageous to the District, the CFO and Controller may recommend the use of a shorter call feature for maturities fifteen years or longer as well.
- ii. The maturity for new debt issued is usually thirty years, unless the useful life of the projects is significantly shorter than thirty years, in which case the maturity shall be shortened to match the useful life, or, in the case of a large one-time capital expenditure, where the cash flow need may be much shorter than thirty years. The final maturity for refunding debt shall be no later than the final maturity of the refunded debt.
- iii. Given the District's historically very strong credit ratings, utilizing credit enhancement in connection with a debt issuance has not been financially advantageous to the District. However, should credit enhancement prove effective in lowering the District's all-in borrowing cost on a debt issuance in the future, the District retains the option to utilize such credit enhancement. Such evaluation will be made by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller.
- iv. The use of derivative products (a financial instrument which 'derives' its value from another instrument) is not permitted.

Article IV: Debt Issuance

The District shall assess the impact of new debt issuance on the thirty-year long-term affordability model as developed by the Controller. This model includes future debt service, capital improvement projects and operational expenditures, adjusted for inflation and growth over thirty years. Any debt issued, and the associated debt repayment schedule, must be evaluated and affordable according to this thirty-year model.

Section 4.01. Credit Objectives. The District shall make every reasonable effort to maintain its high credit ratings. The District shall seek a credit rating on all new publicly placed bond issues from at least one nationally recognized credit rating agency. The District shall maintain a line of communications with the bond rating agencies reporting annual financial reports, budget and other major information as they occur.

Section 4.02. Method of Sale. The District may issue debt via negotiated sale, a competitive bid process or private placement. The CFO and Controller, together with the Financial Advisor, shall review and evaluate the best method of sale for each issuance.

Section 4.03. Selection of External Financial Professionals. The District shall utilize the services of various independent advisors, consultants and other financial institutions and professionals. Such services, depending on the type of financing, may include financial advisor, underwriter, bond counsel, disclosure counsel, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The financial advisor, underwriter, bond counsel, and disclosure counsel shall be selected via a competitive Request for Proposal (RFP) process initiated and managed by the Chief Financial Officer and evaluated by the Disclosure Working Group. Other services may be contracted via sole source or directly authorized.

Section 4.04. Refunding of Debt. The District shall periodically review its outstanding debt to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding. In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically beneficial. Refunding which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. In evaluating the economic benefit of refundings considered “advance refundings”, the District will also evaluate the escrow efficiency in consultation with the District’s financial advisor and underwriter.

Article V: Debt Management

Section 5.01. Disclosure. The District’s Board of Directors adopted a separate Disclosure Policy, which policy includes 15c2-12 requirements, initial and continuing disclosure requirements, and outlines the responsibilities of District staff, consultants and advisors. [Disclosure Policy](#)

Section 5.02. Investment of Bond Proceeds. The District shall invest bond proceeds consistent with applicable federal and state law and tax requirements, including any arbitrage calculations and reporting, as well as consistent with the District’s Board adopted Policy titled Statement of Investment 3.08. [Statement of Investment](#)

Article VI: Controls, Reporting, and Miscellaneous

Section 6.01. Internal Controls. To ensure the bond proceeds are managed and spent as intended, the District has the following processes in place:

- i. Reporting of bond funds generated by a financing secured by General Fund revenues shall be included in the Annual Financial Report.
- ii. Reporting and review of bond funds spent under Measure AA authorization is outlined in the Measure AA election documentation:

An Independent Citizen Oversight Committee will be formed to verify expenditures of bond proceeds. The Independent Citizen Oversight Committee will consist of seven at-large members, all of whom shall be District residents. The Citizen Oversight Committee will be selected by the Board and interviewed and approved in open session, and will be subject to the conflict of interest constraints of the California Political Reform Act.

The responsibilities of the Committee include:

- *Review Plan expenditures on an annual basis to verify conformity with the Expenditure Plan.*

- *Review District's Annual Audit and Annual Accountability report and present the Committee's findings to the Board at a public meeting.*
 - *Review any proposed amendments to the Expenditure Plan.*
- iii. Reporting of bond funds expended to refund existing bonds shall be included in the final refunding report to the Board of Directors.

Section 6.02. Documents to be Retained. Section 5.01 of the Disclosure Policy provides document retainage requirements applicable to debt issuances. [Disclosure Policy](#)

Section 6.03. Waivers. In addition to the General Manager's authority to adopt an Administrative Procedure to make this Board Policy more specific, any provision of this Board Policy or any related administrative procedure may be waived at any time by the General Manager, with the written confirmation to the members of the Disclosure Working Group. This authority to waive a provision of this policy is triggered only if such waiver is necessary for timely and effective issuance of debt in compliance with any applicable laws. Any waivers made under this provision shall be reported to the Board of Directors, with conforming revisions recommended for the Board's consideration at the next update of this Board Policy and no later than three months from the implementation of such waiver.

Section 6.04. Periodic Review. This policy shall be reviewed and affirmed annually by the Board of Directors.