



Midpeninsula Regional  
Open Space District

R-12-03  
Meeting 12-01  
January 11, 2012

## **AGENDA ITEM 4**

### **AGENDA ITEM**

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

### **GENERAL MANAGER'S RECOMMENDATION**

Adopt the attached Resolution to renew the District Controller's investment authority until January 9, 2013, 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 will expire on January 12, 2012, according to the provisions of Resolution 11-11 (see Report R-11-11). 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 occurred most recently 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.

A review of investment policies of local cities and counties indicates that the District investment guidelines have been unnecessarily restrictive by limiting investments to maturities of 180 days. For example, the City of Palo Alto permits investments in securities with maturities up to ten years and the County of Santa Clara, five years. The California Government Code sets a limit of five years unless specifically authorized by the local government agency, as is the case in Palo Alto. The proposed revised District guidelines would permit investments with maturities up to two years in U.S. Treasury and U.S. Government Agency notes and in Corporate notes carrying ratings of AA or higher. Investment in any such securities would be limited to 20% of the total District investment portfolio and such investments would require the approval of the General Manager and Controller. There is currently no advantage for the District to invest directly in securities with maturities greater than 180 days, but if interest rates rise, the revised guidelines could allow the District to earn an enhanced return.

## **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:

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### Contact person:

Michael Foster, Controller

**RESOLUTION NO. 12-XX**

**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**

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WHEREAS, the District needs to maximize the yield on surplus temporarily idle funds in order to help meet land acquisition objectives; 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 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 Three. This Resolution supersedes Resolution No. 11-02 adopted January 12, 2011. This Resolution shall no longer be in effect as of January 12, 2013, unless extended in time, 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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## ATTACHMENT 2

### 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 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. Contingency Reserve

A contingency reserve of at least \$5,000,000 shall be maintained 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. At all times this contingency reserve, together with 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, 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©, 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.