

Agenda Report

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SUBJECT:

INVEST AND/OR REINVEST ORANGE COUNTY SANITATION DISTRICT'S FUNDS AND ADOPT INVESTMENT POLICY STATEMENT

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Adopt Resolution No. OCSD 20-13, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the Orange County Sanitation District's Treasurer to Invest and/or Reinvest the Orange County Sanitation District's Funds, Adopting the Orange County Sanitation District's Investment Policy Statement and Performance Benchmarks, and Repealing Resolution No. OCSD 19-21".

BACKGROUND

This agenda item presents an update to the Orange County Sanitation District's (Sanitation District) Investment Policy Statement to the Administration Committee for consideration in the Committee's capacity as the oversight committee for the Investment Policy (Section 18.2). With adoption of the Resolution, the Board of Directors would readopt the Sanitation District's Investment Policy Statement, portfolio performance benchmarks, and monitoring and reporting requirements for calendar year 2021.

The following is a summary of the changes to the Investment Policy Statement:

- Added: Public Bank Obligations of a maximum of five (5) years maturity which includes commercial paper, debt securities, or other obligations of a public bank, a public bank as defined in California Government Code Section 57600-57607.
- Changed: Commercial paper shall not exceed 40% of the market value of the portfolio. Previously, commercial paper shall not exceed 25% of the market value of the portfolio. Senate Bill No. 998 (SB 998) increases the allowable limit for investments in commercial paper for Local Agencies with more than \$100,000,000 of investable assets under management from 25% to 40% until January 1, 2026.
- Added: Securities backed by the US Government with zero or negative yields. Current language in California Government Code does not permit investment in negative yielding securities, as such, SB 998 permits local agencies to invest in securities backed by the US Government with zero or negative yields.

- Changed: No more than the statutory maximum may be invested in LAIF. Previously, investment in LAIF is no more than the lesser of 15% of the portfolio or the statutory maximum.

The Sanitation District's Investment Policy Statement was previously approved by the Administration Committee and the Board of Directors for calendar year 2020 in December 2019.

RELEVANT STANDARDS

- Comply with Sanitation District Policy - Orange County Sanitation District Investment Policy
- California Government Code Sections 53607 and 53646
- Senate Bill No. 998

PROBLEM

California Government Code Section 53607 allows for the Board of Directors to delegate authority to invest and/or reinvest the Sanitation District's funds to the Treasurer for a one-year period. California Government Code Section 53646 requires the Sanitation District to review its Investment Policy annually and readopt its Policy at a public meeting, which will establish specific performance benchmarks and objectives, and specific monitoring and reports. On December 18, 2019, the Board of Directors adopted Resolution No. OCSD 19-21, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the Orange County Sanitation District's Treasurer to Invest and/or Reinvest the Orange County Sanitation District's Funds, Adopting the Orange County Sanitation District's Investment Policy Statement and Performance Benchmarks, and Repealing Resolution No. OCSD 18-23". Authority delegated by the Board of Directors to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer to invest and/or reinvest the Sanitation District's funds expires on December 31, 2020. Pursuant to California Government Code Section 53646, the Sanitation District's Investment Policy must be reviewed and readopted prior to December 31, 2020.

PROPOSED SOLUTION

With adoption of the Resolution, the Board of Directors would renew its delegation of investment authority to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer for a one-year period, January 1, 2021 to December 31, 2021, in compliance with the requirements of California Government Code Section 53607. Each year, the Board of Directors will consider similar actions, along with the annual reconsideration of the Sanitation District's Investment Policy.

TIMING CONCERNS

The Board of Directors delegation of authority to the Assistant General Manager & Director of Finance and Administrative Services/Treasurer to invest and/or reinvest the Sanitation District's funds will expire on December 31, 2020. Pursuant to California Government Code Section 53646, the Sanitation District's Investment Policy must be reviewed and readopted prior to December 31, 2020.

RAMIFICATIONS OF NOT TAKING ACTION

The Sanitation District's Assistant General Manager & Director of Finance and Administrative Services/Treasurer will not have the authority to invest and/or reinvest the Sanitation District's funds and the Sanitation District will not be in compliance with California Government Code Section 53646.

PRIOR COMMITTEE/BOARD ACTIONS

December 2019 - Board adopted Resolution No. OCSD 19-21, entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District, Authorizing the Orange County Sanitation District's Treasurer to Invest and/or Reinvest the Orange County Sanitation District's Funds, Adopting the Orange County Sanitation District's Investment Policy Statement and Performance Benchmarks, and Repealing Resolution No. OCSD 18-23".

ADDITIONAL INFORMATION

The Sanitation District Investment Policy Statement is a comprehensive document describing the policy, authorizations, benchmarks, delegations, and investment limitations.

The Investment Policy will govern the investment activities of Chandler Asset Management, the Sanitation District's external money manager, on behalf of the Sanitation District.

Annual Review of Investment Policy

The Investment Policy includes the requirement that the Sanitation District shall review its Investment Policy annually (Sections 1.2 and 18.1). Chandler Asset Management reviewed the existing policy to ensure that the language remains current with the California Government Code. The proposed Investment Policy is attached with redlined changes from the most recent approved policy in December 2019.

Annual Delegation of Investment Authority

Effective January 1, 1997, California Government Code Section 53607 states that governing boards of local agencies may only delegate authority to invest and/or reinvest agency funds to the agency's Treasurer for a one-year period.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

- Orange County Sanitation District Calendar Year 2021 Investment Policy Statement (Clean)
- Orange County Sanitation District Calendar Year 2020 Investment Policy Statement (Redline)
- Proposed Resolution No. OCSD 20-13
- 12/9/2020 Administration Committee PowerPoint Presentation