



Board Agenda Item #	Agenda # III A
Date:	May 26, 2017
To:	Magnolia Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Financial Officer
RE:	Investment Policy

Proposed Board Recommendation

It is recommended that the MPS finance committee review and recommend approval of the proposed Investment Policy (Policy) for Magnolia Public School and recommend approval of the creation of the Oversight Committee upon approval of policy.

Background

This policy establishes investment objectives, guidelines and processes related to all assets held by MPS, primarily for investment purposes. In doing so, the Policy:

- Clarifies the delegation of duties and responsibilities concerning the management of the investments.
- Communicates the objectives to the governing board, staff, investment managers, brokers, donors and funding sources that may have involvement.
- Confirms policies and procedures relative to the expenditure of investment funds
- Serves as a review document to guide the ongoing oversight of the management of MPS investments.
- MPS' investment process and policy is subject to annual review and evaluation at a public forum. The overall investment program shall be designed and managed with a degree of professionalism worthy of the public's trust.

Budget Implications

No implications are included in the proposed budget; however, as the policy is implemented, we expect that Magnolia's cash in the bank will begin earning interest consistent with a conservative investment strategy that prioritizes safety, liquidity and yield, in addition to compliance with all rules and regulations for non-profit investments.

How Does This Action Relate/Affect/Benefit All MSAs?

Currently, Magnolia maintains large cash reserves on an ongoing basis. This policy will allow Magnolia to earn interest on those reserves, increasing the resources available for all of Magnolia.

Name of Staff Originator: Caprice Young, CEO and Nanie Montijo, CFO

Attachments:
Draft Policy

SOP # IVT101 Investments
Effective Date: XXX

Prepared by: Central
Office Approved by: XXX

Title: IVT101 INVESTMENTS

Policy: This policy establishes procedures to govern the investment of funds held by Magnolia Public Schools (MPS). This policy is based upon federal, state and local laws and regulations, and prudent money practices. To the extent that this policy conflicts with state or federal law, the applicable law shall prevail.

Purpose: MPS' primary investment objective shall be to maintain the safety and liquidity of its funds. Safety of principal is the foremost objective of MPS. The primary objectives of MPS investment activities shall be, in order of priority:

1. **Safety.** The safety of principal is the foremost objective of the Charter's investment program. The Charter's investments shall be undertaken in a manner that shall preserve the Charter's capital.
2. **Liquidity.** The Charter's secondary objective shall be to meet its liquidity needs. The investment portfolio shall maintain sufficient liquidity to enable the Charter to meet necessary cash flow and operating requirements which might be reasonably anticipated.
3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return over the course of budgetary and economic cycles, taking into account the investment risk, constraints and the cash flow characteristics of the portfolio.
4. **Maintaining the Public's Trust.** The investment officers shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence.

Scope: It is recommended that MPS complies with California Education Code Section 41015, "any school Charter or county office of education may invest all or part of funds deposited in a Special Reserve Fund, or any surplus monies not required for the immediate necessities of the Charter in any of the investments specified in California Government Code Sections 16430 or 53601. Special Reserve Funds are defined as those funds, which the Board of Education has designated for capital outlay, or other purposes, where an accumulation over a period of fiscal years is desired".

The Charter shall make investments in the context of the "Prudent Investor Rule" (Civil Code Section 2261, et seq.), which in substance states that:

"Investment shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence, exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

This Policy covers all funds and investment activities under the direct authority of MPS. The proceeds obtained from the issuance of bonds shall be invested in accordance with the applicable bond documents. If the bond documents are silent as to the investment of the proceeds, the bond proceeds will be invested in the securities permitted by this Policy.

COMPLIANCE WITH STATE AND FEDERAL SECURITIES LAWS

MPS will take reasonable steps to ensure that any debt offering issued by the charter complies fully with all applicable state and federal securities laws. In connection with all debt offerings issued by MPS, the Charter will retain bond counsel and disclosure counsel to review the offering materials prepared in connection with the debt offering to ensure that disclosures contained in offering materials comply with federal and state securities laws. The Charter has implemented procedures to ensure the Charter maintains compliance with continuing disclosure requirements. The Chief Executive Officer shall be responsible for reviewing the offering materials regarding the accuracy of information disclosed in such materials.

CHANGES TO INVESTMENT POLICY

This Policy will be reviewed at least annually to ensure its consistency with the objectives of income, growth and safety, and changes in applicable laws and financial trends. Any proposed amendments to the Investment Policy will require approval by the MPS Board of Directors. This Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors at a public meeting.

COMPLIANCE WITH INVESTMENT POLICY

All outside investment advisors/managers, attorneys and other financial professionals employed or retained by the Charter and/or its representatives, including without limitation financial advisors, underwriters, bond counsel, and disclosure counsel, must review this policy and confirm that they have reviewed this Investment Policy and will fully comply with these policies.

Responsibilities:

DELEGATION OF AUTHORITY

Authority of MPS's Board of Directors to delegate the management of the Charter's investment program is derived from California Government Code Sections 53600, et seq which states: "The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year."

Management responsibility for the investment program is hereby delegated by the Board of Directors to the CEO and the oversight committee, for a period of one-year, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked. Subject to review, the Board of Directors may renew the delegation of authority each year. The CEO may delegate the day-to-day operations of investing to his/her designee(s) but not the responsibility for the overall investment program. The CEO and/or his/her designee(s) shall make all investment decisions and transactions in strict accordance with state law and with this Policy.

If authorized by the Board of Directors, the CEO and oversight committee may utilize an external investment advisor to assist with investment decision-making and trade execution authority. The investment advisor shall be under the supervision of the CEO and/or his/her designee(s) and shall follow this Policy and such other written instructions as are provided.

The CEO, his/her designee(s) and/or oversight committee, acting in accordance with written procedures and policies and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The Board of Directors shall ensure that its fiduciary responsibilities concerning the proper management of MPS' funds are fulfilled through appropriate investment structure, internal and external management, consistent with all policies and procedures. Based on the advice and recommendations of the CEO and oversight committee.

The CEO and oversight committee are not held liable for less than desirable outcomes, rather for adherence to procedure and processes. The CEO and Oversight Committee is responsible for the development, recommendations, implementation and maintenance of all policies.

Procedure:

INTERNAL CONTROLS

The CEO and oversight committee shall establish a system of written internal controls to regulate the Charter's investment activities, including the activities of any subordinate officials acting on behalf of the Charter. Procedures should include references to individuals authorized to execute transactions or transfers, safeguard agreements, (including repurchase agreements, wire transfer agreements, collateral/depository agreements), and banking services contracts, as appropriate. As part of the annual audit, the Charter's external auditor will perform a review of investment transactions to verify compliance with policies and procedures. Management will sign off on internal control procedures as appropriate.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

It shall be MPS' policy to purchase securities only from authorized institutions and firms. The CEO and Oversight Committee shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. The Charter shall use at least one authorized broker/dealer to advise the Charter on investments.

No deposit of public funds shall be made except in a qualified public depository as established by state laws. If an external investment advisor is authorized to conduct investment transactions on behalf of MPS, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes consistent with MPS' policies and existing laws.

For broker/dealers of government securities and other investments, the Charter shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority and/or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the CEO and Oversight Committee shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Charter's account has reviewed the Charter's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Charter that are appropriate under the terms and conditions of this Investment Policy.

AUTHORIZED AND SUITABLE INVESTMENTS

In making any decision relative to the investment of funds, each of the following factors must be considered, and properly documented:

1. General economic conditions,
2. Expected tax consequences, if any, of investment decisions or strategies,
3. Expected total return from the income and appreciation of investments,
4. Other resources of the organization,
5. The needs of the organization and the fund to make distributions and preserve capital.

INVESTMENT TYPE DESCRIPTIONS

State and Local Agencies. Registered treasury notes or bonds of this or any of the other forty- nine United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, Board of Directors, agency, or authority of this state or any of the other forty-nine United States.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state (including the Charter), including bonds payable solely out of the revenues from a revenue- producing property owned, controlled, or operated by the local agency, or by a department, Board of Directors, agency, or authority of the local agency.

United States Treasury Issues. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

U.S. Agencies (Federal Agency Obligations). Federal Agency or United States government- sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government- sponsored enterprises.

Supranationals. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. The Government Code allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

Bankers' Acceptances. Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days maturity. Eligible bankers' acceptances are restricted to issuing financial institutions with short-term debt rating of at least "A-1," or its equivalent, by a nationally recognized statistical rating organization (NRSRO).

Commercial Paper. Commercial paper rated the highest ranking or of the highest letter and number rating as provided for by a NRSRO.

Placement Service Deposit. Deposits placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance.

Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases are limited to institutions which have long-term debt rated at least in the "A" category, or its equivalent, by a NRSRO, and/or have short-term debt rated at least "A-1," or its equivalent, by a NRSRO. NCDs may not exceed 5 years in maturity. In combination with placement service CDs, a maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed ten percent of the portfolio.

Repurchase Agreements. Repurchase agreements are to be used as short-term investments not to exceed one year. The following collateral restrictions will be observed: Only United States Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the Charter's custodian bank or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102% of the total dollar value of the money invested by the Charter for the term of the investment.

Medium-Term Notes. Medium-term notes defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated at least in the “A” category, or its equivalent, by a NRSRO.

Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission that invests solely in U.S. Treasuries and Federal Agency obligations and repurchase agreements relating to such obligations

Mutual Funds. Shares of beneficial interest issued by diversified management companies that invest solely in securities and obligations authorized by this policy. The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Local Government Investment Pools Joint Powers Authority (LGIP JPA.) Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7. To be eligible for purchase, the pool must meet the requirements of California Government Code Section 53601(p), the pool must seek to maintain a stable Net Asset Value (“NAV”), and the pool must be rated at least “AAA,” or its equivalent, by a NRSRO.

Mortgage- and Asset-Backed Securities. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years’ maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having at least an “A” rating, or its equivalent, for the issuer’s debt as provided by a NRSRO and rated at least “AA”, or its equivalent, by a NRSRO.

State of California Local Agency Investment Fund (LAIF). LAIF is a voluntary program created by California statute in 1977 as an investment alternative for California local governments and special Charters. This program offers opportunity to participate in a major portfolio which invests using the investment expertise of the State Treasurer’s Office. The fund is highly liquid and safe. “Moneys placed with the Treasurer for deposit in the LAIF... shall not be subject to either of the following: (a) transfer of loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency (CGC 16429.3).” Also, “The right of a city, county ...special Charter ...to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, denied in any way, by state official or state agency based upon the state’s failure to adopt a State Budget by July 1 of each new fiscal year” (CGC 16429.4).

