OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0442020-002

Agenda Item **No. 5(d)**
Meeting of June 16, 2020

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Executive Director

SUBJECT: Authorizing the Executive Director to enter into a Memorandum of Understanding with the City and County of San Francisco Treasurer Tax Collector's Office to perform investment services for OCII funds held by Trustee, in an amount not to exceed $35,000 for Fiscal Year 2020-21, and in amounts for future years subject to appropriation

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EXECUTIVE SUMMARY

OCII funds are held in the City and County of San Francisco Treasurer's Pool ("Pool") and with third-party trustees. The investment division within the Treasure Tax Collector ("TTX") Is responsible for managing and investing the funds on deposit in the Pool. OCII funds held in the Pool generated returns of 1.9 percent in FY 19-20, as of March 31, 2020. OCII funds on deposit with third-party trustee are legally restricted for their intended use. Currently, these funds are not actively managed by TTX. Given TTX's successful performance in managing OCII funds in the City pool, OCII now seeks to enter into a Memorandum of Understanding with TTX to manage OCII's funds held by trustee.

Under the terms of the proposed MOU, TTX will provide four services: modeling cash-flow, completing and settling security transactions, analyzing the credit of potential investments, and performing the accounting transactions to record investment activity. TTX will charge OCII on a quarterly basis for its investment services. These charges will be based on the actual costs of the TTX investment function, prorated relative to the amount of time spent managing OCII's portfolio. The total estimated cost of TTX investment services in FY 20-21 is $35,000. After FY 20-21, the cost of TTX investment services will be determined in the OCII's annual budget. The term of the MOU will begin when the MOU is fully executed and will continue until the MOU is terminated by either party or OCII is dissolved as per Dissolution Law.

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Recommendation

Staff recommend the Commission approve the proposed Memorandum of Understanding with the Treasurer Tax Collectors Office to provide investment services for OCII funds held in trustee.

Discussion

OCII funds are held in the Pool and with third-party trustees. The Pool refers to funds administered by the Treasurer and Tax Collector ("TTX") banking division, OCII funds in the Pool include, but are not limited to, less restricted funds such as property tax, developer payments, developer fees, lease payments, and grant funds. OCII funds on deposit with third-party trustees are administered by trustee banks and include legally restricted funds such as bond proceeds, pledged property tax, and special taxes collected by the Community Facilities Districts. The trustee is responsible for ensuring the funds are managed according to the relevant legal restrictions. OCII's investment approach is guided by its Investment Policy, which was approved by the Commission on August 19, 2014 via Resolution 73-2014. The investment policy identifies investment objectives, authorized and suitable investments, and guidelines for depositing and withdrawing funds.

OCII funds in the Pool are actively managed by TTX under a 2014 Memorandum of Understanding between OCII and TTX, which was approved by the Commission on August 19, 2014, via Resolution 73-2014. Under this MOU, TTX would invest OCII's funds according to the guidelines established by OCII's Investment Policy. In FY 19-20, TTX achieved positive returns, earning approximately 1.9 percent during FY 19-20 as of March 31, 2020. OCII funds held by the trustee are not actively managed by TTX. Given TTX's success in managing OCII funds in the city pool, OCII now seeks to enter into an MOU with TTX to manage OCII's funds held in trustee.

Scope of Service

Under the terms of the proposed MOU, TTX will provide four primary services: modeling cash-flow, completing security and settling security transactions, analyzing the credit of potential investments, and performing the accounting transactions to record investment activity. Each of these functions is described in greater detail below.

- Cash-Flow Modeling - develop cash-flow models that determine how funds will invested to meet the needs of the OCII;
- Security Transactions and Settlement – execute security transactions e.g. purchase and sell authorized securities in accordance with cash-flow model and ensure all security transactions are accurately settled in the correct account;
- Credit Analysis – review corporate credits and obtain approval from Credit Committee to utilize these credits; and
- Investment Accounting – perform day-to-day recording of all investment activity.

TTX acknowledges that all security transactions must be consistent with OCII's Investment Policy and the permitted investments listed in the bond documents for the relevant bond series.

Financial Terms

TTX will charge on a quarterly basis for its investment services. These charges will be based on the actual costs of the TTX investment function, prorated relative to the amount of time spent managing OCII's portfolio. Estimated costs include, labor charges for four staff: the Deputy Director III who manages the investment team, the Chief Investment Officer who develops the cash flow models, the Manager II (Investment Officer/Assistant Portfolio Manager) who executes the investment strategy, and the Security Analyst who monitors the credit quality of all securities approved for purchase. Estimated costs also include systems and subscription costs such as Citibank, Sungard, Bloomberg, Pantheon Economics, Public Financial Management (PFM), CreditSights, as well as any other standard rates and fees charged by a non-City provider. The total estimated cost for these proposed services is $35,000 in Fiscal Year 20-21. This cost has been included in ROPS 20-21 in line 1 and in the proposed OCII FY20-21 budget. After Fiscal Year 20-21, the cost of TTX investment services will be determined through the annual budget review process and subject to appropriation.

Term

The term of the MOU will begin when the MOU is fully executed and will continue until the MOU is terminated by either party or OCII is dissolved as per Dissolution Law.

Enabling Law

The services are allowable under Redevelopment Dissolution Law pursuant to Health and Safety §34177.3(b), which authorizes successor agencies to create enforceable obligations for operations, including hiring staff, acquiring necessary professional administrative services and procuring insurance. Enforceable obligations are defined to include "[c]ontracts or agreements necessary for the administration or operation of the successor agency, in accordance with this part…" Cal. Health & Safety Code § 34171 (d)(1)(F).

California Environmental Quality Act

Approval of this Memorandum of Understanding is not a "Project" subject to environmental review pursuant to the California Environmental Quality Act ("CEQA") because it is an administrative activity of government that will not result in direct or indirect physical changes in the environment, per CEQA Guidelines § 15378 (b)(5).

Requested Action

Staff seeks the Commission's authorization and approval of a Memorandum of Understanding with the City and County of San Francisco Treasurer Tax Collector's Office to perform investment services for OCII funds held by Trustee, in an amount not to exceed $35,000 for Fiscal Year 2020-21, and in amounts for future years subject to appropriation

(Originated by Bree Mawhorter, Deputy Director of Finance and Administration)

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Nadia Sesay
Executive Director