

Minutes of a Regular Meeting¹
of
The Natomas Basin Conservancy

February 5, 2020

Offices of the Natomas Basin Conservancy
2150 River Plaza Drive
Sacramento, CA
4:00 p.m.

**BOARD MEMBERS
PRESENT:**

= attended
 = did not attend

Chandra Chilmakuri
 David Christophel
 Steve Cohn
 Michael Johnston
 Kevin McRae
 John Shirey

**STAFF/LEGAL
COUNSEL PRESENT:**

John Roberts, Kim Burns, Jennifer Skupic
Kara Ueda, Best Best & Krieger

GUESTS:

Nick Avdis; Phil Burger, T. Rowe Price; Lily Douglas, U.S.
Fish and Wildlife Service; Cheryle Hodge, City of
Sacramento; John Norman, Brookfield Land Co.; Bob
Shattuck; Dylan Wood, California Department of Fish and
Wildlife

TAC:

None

CALL TO ORDER

Shirey called the Regular Meeting of the Board of Directors to order, noting a quorum was present.




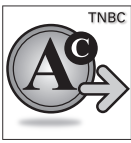
PUBLIC COMMENTS

Shirey called for public comments. None were heard.

APPROVAL OF MINUTES AND CONSENT ITEMS

Shirey requested a motion to approve the December 3, 2019 Board of Directors meeting minutes and the consent agenda items.

¹ Notice of meeting posted on TNBC website.

	<p>Approval of the minutes</p>	<p>The Board Chair will request approval of the minutes of the Board of Directors meeting of December 3, 2019.</p>
	<p>Authorization to amend signature cards and related financial institution authorizations</p>	<p>Documents necessary for the Conservancy to conduct business with its financial institutions need to be updated from time-to-time, especially when officers are elected.</p> <p>As has been done in prior years, this action authorizes the Conservancy’s Chair, Vice Chair, Treasurer, Secretary and Assistant Secretary to sign signature cards and related authorizing documents for the Conservancy’s Wells Fargo Bank, Wells Fargo Investments, Wells Fargo Advisors, City of Sacramento Treasurer’s Office, U.S. Bank and T. Rowe Price accounts.</p>
	<p>“Just and Reasonable” determination for the Chief Financial Officer</p>	<p>The Board is required to determine that changes to an officer’s compensation, including the term of an employment agreement, are “just and reasonable.” See excerpt from California Government Code, Section 12586(g):</p> <p><i>The board of directors of a charitable corporation or unincorporated association, or an authorized committee of the board, and the trustee or trustees of a charitable trust shall review and approve the compensation, including benefits, of the president or chief executive officer and the treasurer or chief financial officer to assure that it is just and reasonable. This review and approval shall occur initially upon the hiring of the officer, whenever the term of employment, if any, of the officer is renewed or extended, and whenever the officer's compensation is modified. Separate review and approval shall not be required if a modification of compensation extends to substantially all employees.</i></p> <p>The Conservancy’s Compensation and Governance Committee reviewed this item. Management requests the Board make a declaration that the “just and reasonable” test has been met for the Chief Financial Officer.</p>
	<p>Silva barn repairs</p>	<p>Due to recent high winds, the Conservancy’s large barn on the Silva tract needed emergency repairs as the roof was beginning to heave. For all the necessary repairs the Conservancy received an estimate of \$45,460.00. Management authorized the contractor to complete \$10,000.00 of emergency repairs to stabilize the barn roof until such time as staff could present this additional expense to the Board.</p> <p>The Conservancy is requesting a 10% contingency (\$4,546.00) for any incidental costs, bringing the total</p>

		project cost to \$50,006.00. The \$10,000.00 previously paid for the emergency repair will reduce the balance to \$40,006.00. Management seeks Board approval to complete this repair.
--	--	--

(Res.20.02.01) On a motion by Cohn and a second by Chilmakuri, the Board unanimously approved the minutes of the December 3, 2019 Regular Board meeting minutes and consent agenda items.

Board members

- Chandra Chilmakuri
- David Christophel
- Steve Cohn

- Michael Johnston
- Kevin McRae
- John Shirey

Vote symbols

- = “aye” vote
- = “no” vote
- = not present
- = abstain or recuse

ACTION

Bylaws update. Item pulled from agenda.

Land dedication 50 acres to 20 acres.

Introduction. This is a follow up to the last Board meeting. The matter at hand is the Conservancy Board’s discussion regarding whether the under 50-acre small mitigation option could be mitigated via the normal HCP process, or, if like the larger mitigation projects, its proponents would need to find their own mitigation land. The Board explored reducing the 50-acre threshold to 20 acres, or possibly eliminating the option altogether. Board members initiated this matter, concerned about the Conservancy’s ability to deliver on it.

Background. The Conservancy has had the luxury of holding a large inventory of approved mitigation acres due to having made land exchanges many years ago and receiving 50 percent more acres than it surrendered. (These exchanges were a response to a couple of U.S. Justice Department requests to reduce preserve fragmentation and consolidate the system of preserves.) This stocked the Conservancy’s inventory of approved mitigation acres to the point where the Conservancy could say “yes” to requests for mitigation, virtually without exception.

Current land availability. Today, nearly all of the inventoried acreage has been exhausted. Additionally, the Conservancy is having a difficult time finding sellers of approvable mitigation land. This has largely been caused by the numerous acres that have been approved in the area outside the 17,500 acres classified as “Permitted Acres” of the HCPs. And as of today, many thousands of acres in the Natomas Basin that lie outside the Permitted Acres-designated area are proposed for still more development. Owners of land in these areas typically believe their properties will be worth developer prices which are very much higher than ag or mitigation land prices. Therefore, these are not viable for acquisition. Moreover, the HCPs prohibit mitigation land to be located in “land designated for urban use by a local land use agency.”

Response and reaction. At the last Conservancy Board meeting, several parties expressed an interest in commenting on the matter. Conservancy staff reached out to those parties and requested comments. Staff will brief the Board on the reaction of these parties.

Action requested. This item furthers the Board’s consideration of this matter. As requested by the Board, it is continued for further discussion and possible action.

Hodge gave a brief presentation to the Board on the matter.

(Res.20.02.03) On a motion by Cohn and a second by Christophel, the Board unanimously withdrew this matter from consideration. The Board would like for the NBHCP Implementation Group to meet and discuss this issue.

Board members

Chandra Chilmakuri
 David Christophel
 Steve Cohn

Michael Johnston
 Kevin McRae
 John Shirey

Vote symbols

= “aye” vote
 = “no” vote
 = not present
◆ = abstain or recuse

DISCUSSION

City of Sacramento report. Report from the City of Sacramento regarding HCP-related activity and other topics.

McRae left meeting at 6:00 pm.

Financial statement review. Burns presented draft, unaudited December 31, 2019 financial statements. Additional financial information was provided.

Conservancy endowment funds investment manager. The Conservancy’s endowment funds are managed by T. Rowe Price. Representative Phil Burger of T. Rowe Price met with the Board for the purposes of providing the Board with the 2019 annual report on the Conservancy’s endowment funds accounts.

Non-native weed challenge. The Conservancy is required to produce rice and to exclude non-native weed species on preserves. While the Conservancy itself never uses insecticides, fungicides or rodenticides, it does occasionally use herbicides on mitigation properties when other solutions have failed or are not practical. Resistance issues have been a concern for years but are now more acute than ever. The Board was briefed on this matter.

Operating cash sufficiency outlook. Many years ago, the Board of Directors requested that the Conservancy staff share with it the internal exercise staff periodically conducts on long-range cash flow analysis, and that one of the runs on the cash flow analysis include a “worst case scenario.” Staff presented the results of the most recent scenario planning exercise to the Board.

NBHCP Finance Model and how it works to guide funding. Item moved to future meeting.

Rate of return assumptions. Conservancy management periodically engages an independent third party to test the rate of return assumption it uses to both budget and drive the NBHCP Finance Model each year. It is also used less formally as a comparison against endowment fund returns. Staff briefed the Board on its most recent re-assessment and testing of the assumed rate

of return, explained its relevance to and implications for the Conservancy's long-term financial standing, and why it will not be proposing any changes to the rate of return assumption.

Consideration regarding the Conservancy's Corporate Funds Investment Policy.

Discussion. Generally speaking, the Conservancy maintains essentially three "buckets" of invested capital:

–Bucket #1 is for working capital and is managed for day-to-day operating needs. (It is subject to the corporate funds investment policy.)

–Bucket #2 is for funds that are not held for working capital purposes, but that are "standing by" for use as working capital or other purposes. (It is subject to the corporate funds investment policy.)

–Bucket #3 is for endowment and is very long-term in nature. (It is subject to the endowment funds investment policy.)

At issue in this agenda item is Bucket #2. Funds in Bucket #2 have most recently been managed in an account held at U.S. Bank. Investment returns are low (generally 1% to 2.5%, net of fees), and the Conservancy Board's investment policy restricts investable assets to fixed income securities, and more specifically, those which are short-term in duration.

Each year, the Conservancy's management meets with the funds advisors to review compliance with the Board's investment policy, asset allocation and to hear recommendations relevant to the investments. These discussions include questions and answers with respect to higher returns, consistent with safety. Conservancy management is comfortable that the investment manager is optimizing for return, safety and compliance with the Board's investment policy for that class of Conservancy assets.

For consideration. For the Board's consideration, presented below are incremental steps that could be used to adjust the Board's investment policy. Each would most likely result in higher returns (ratings listed are for S&P):

1. extend the duration of allowable fixed income investments from up to five years to up to seven years (or longer),
2. reduce credit quality so that the investment manager could acquire positions in securities with as low as a BBB rating, down from A- rating but still classified as "investment grade," and/or
3. allow some exposure, say 20 percent or 25 percent, to equities, perhaps indexed or near-indexed equities.

Recommendation. At this time, the Conservancy's management does not recommend any changes to the Board's investment policy for this class of financial assets. It believes that given the position or place we are in the market cycle is one reason to make no change, but also, the Conservancy's likely need for the use of this cash in the near future dictates that it remains liquid, albeit with certain allowances provided for in the existing policy.

It is further recommended that the policy be re-evaluated approximately one year from now, sooner if needs change.

The Board accepted management's report and took no action to amend its existing policy.

EXECUTIVE DIRECTOR'S REPORT

Various matters for Board members' general information were presented by the Conservancy's Executive Director.

Board moved into Executive Session at 6:30 pm.

EXECUTIVE SESSION

Executive Session for real estate was held.

Nothing was reported out of Executive Session.

ADJOURNMENT

Official adjournment of the meeting.

(Res.20.02.04) On a motion by Johnston and a second by Cohn the Board unanimously voted to adjourn the meeting at 7:40 pm.

Board members

- Chandra Chilmakuri
- David Christophel
- Steve Cohn

- Michael Johnston
- Kevin McRae
- John Shirey

Vote symbols

- = "aye" vote
- = "no" vote
- = not present
- ◆ = abstain or recuse

ATTEST:

Chandra Chilmakuri, Secretary

Date