SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-E**

FROM: Steve Mack, General Manager

Meeting Date: October 4, 2012

SUBJECT: DISCUSSION/ACTION RE RENEWAL OF REDWOOD CREDIT UNION CERTIFICATE OF DEPOSIT

RECOMMENDED ACTION: Discuss and give staff direction on renewal of the Redwood Credit Union Certificate of Deposit (CD).

FISCAL IMPACT: small, as discussed below.

DISCUSSION:

We have been informed by the Redwood Credit Union that the CD we have with them is up for renewal on October 5, 2012. As of June 30, 2012 the value of the District's CD was $664,620.62 (we get quarterly reports). The interest rate of this CD has been 5% annually. The renewal rate is 1.25%.

The District purchased the CD five years ago because of the superior interest compared to the interest that was being received from the County pooled investment program. Currently the County rate of return is approximately 0.87% annually.

Security of District reserves is the overriding concern of our investment strategy. My understanding is that the security of the Redwood Credit Union CD was discussed when it was first purchased. Credit union funds are explicitly insured up to $250,000 for special districts. At the time of purchase, the District was assured by the then auditor (Michael Celentano) that the entire amount was insured, but we have not been able to find documentation of the insurance above $250,000. So it appears that approximately $414,000 of the CD has uncertain insurance supporting it.

If the County pooled investments continue to achieve a 0.8% annual return, the income difference between $414,000 at 0.8% and 1.25% is approximately $1,800 per year. County pooled investments are backed by the County which is considerable assurance but not a guarantee either. For example, Orange County has defaulted twice on its investments in my professional experience and agencies that put their investments in the Orange County investment fund lost a portion of their invested funds (however, the Orange County investment strategy was much riskier than that of Sonoma County).

Staff believe that the Sonoma County pooled investment program is a more secure place for District Reserves than uninsured amounts with a credit union.

There are other considerations: The County pooled investment program has a variable rate of return based on how the investments are doing. It could go up or down. The Redwood Credit Union rate is fixed for the term of the purchase which has been five years in the past. Also, a CD is much less flexible than investments with the County. The funds are locked into the CD for the term of the investment. The principal can be retrieved at any time but the interest earned is lost. County funds can be retrieved at any time with no interest penalty.

If the District is to remain with having a CD with Redwood Credit Union, staff recommends renewing at $235,000 for five years which will allow the funds to grow during the five-year period to the fully insured amount of $250,000. Done this way, the CD will earn approximately an average of $3,000 per year. The same funds left with Sonoma County pooled investment program with an average rate of return of 0.8% (currently it is 0.87%) would earn approximately an average of $1,900 per year.