SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: December 6, 2012

SUBJECT: DISCUSSION/ACTION RE DISTRICT INVESTMENT ALTERNATIVES

RECOMMENDED ACTION: Discuss and give staff direction on investment of District funds.

FISCAL IMPACT: small, as discussed below.

DISCUSSION:

At the last two meetings the Board has discussed options regarding the Redwood Credit Union Certificate of Deposit (CD) that expired early in October. The Board directed staff to investigate other investment options available to the District prior to making a decision on reinvesting into any CD. As a reminder, the value of the CD when it expired was approximately $672,925. The interest rate of this CD had been 5% annually. The renewal rate is 1.25%. The funds from this CD were deposited into the County of Sonoma Pooled Investment Program on October 8, 2012.

We have found that current Sonoma County credit union CDs include the following:

- Redwood Credit Union – 1.25%, 5 years
- Community First CU - 0.6%, 3 years
- Patelco FCU - 2.0%, 7 years (may be ending October 31) and I don't know anything about eligibility requirements
- Sonoma FCU - 0.75%, 5 years
- Sonoma County Grange CU - 0.5%, 3 years (don't think we are eligible for membership)

The County of Sonoma Pooled Investment Program (PIP) recently made their quarterly report available. Their interest earnings of present investments is 0.818% after expenses. Their report shows a comparison to the investment returns of the Local Agency Investment Fund (LAIF), which is another very safe investment option available to the District, and currently is below 0.5%.

At the last meeting David Warner mentioned his involvement with the California Special Districts Association (CSDA) and that they have an investment program that may be

appropriate for the District. He passed on information on their investment program – it's called CalTrust, Investment Trust of California. It's open to public agencies in California and has a long list of public agency participants including the County of Sonoma (but no other Sonoma County cities or districts that I noticed).

With respect to risk of investing in CalTRUST, the website has the following statement:

Investments in CalTRUST, like investments in other types of bond funds, are subject primarily to interest rate risk and credit risk.

Interest rate risk is the potential for a decline in bond prices -- and hence the market value of bonds in the portfolio -- due to rising market interest rates. In general, bond prices vary inversely with interest rates. The change in a bond's price depends on several factors, including its maturity date. In general, bonds with longer maturities are more sensitive to changes in interest rates than bonds with shorter maturities. Similarly, bond funds with longer average portfolio maturities, such as the CalTRUST Medium-Term and Long-Term Accounts, will be more sensitive to interest rate changes than those with shorter average portfolio maturities, such as the CalTRUST Short-Term account.

Credit risk is the possibility that a deterioration in the underlying creditworthiness of an issuer will adversely affect the value of its outstanding bonds or that a bond issuer will fail to make timely payments of interest or principal on its outstanding bonds (default). A decline in a bond issuer's credit rating, or creditworthiness, may cause prices for its outstanding bonds to decline.

Similar to shares in a bond mutual fund, the value of CalTRUST shares will change with market conditions, as will the value of an agency's investment account. An agency could lose money on an investment in a CalTRUST account or an investment in a CalTRUST account could underperform other investments.

The recent performance of CalTRUST is similar to that of the Sonoma County Pooled Investment Program. It offers the possibility of added diversification, but we shouldn't expect additional (or less, either) interest income if we move some of our reserves into this program.

One thing to consider is that if we decide not to pursue USDA funding, the District will be drawing down its reserves. Having funds in multiple locations will make that more complex. Of course, the District Reserve Policy dictates that the District keep around $1 million in Policy Reserves – that amount will always need to be placed somewhere.