

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF AUGUST 26, 2015

REGULAR MEETING

TO: Ken Humphreys, Chair, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer

AGENDA ITEM #7: CONTINUED DISCUSSION OF JOINING AN INVESTMENT FUND FOR THE LAFCO RESERVE AND ADOPTION OF A RESOLUTION OF APPLICATION TO JOIN EITHER THE INVESTMENT TRUST OF CALIFORNIA, A PUBLIC JOINT POWERS AUTHORITY OTHERWISE KNOWN AS CalTRUST, OR THE LOCAL AGENCY INVESTMENT FUND

RECOMMENDATION

Staff recommends that the Commission review the following materials and determine which entity LAFCO should join in order to open an account that will hold LAFCO's "Emergency Expense" fund. As was the case in May, staff recommends the approval the Resolution L-2015-09 authorizing LAFCO to join the Investment Trust of California, a Public Joint Powers Authority otherwise known as CalTRUST, to invest the monies in excess of the budgeted carryover amount in order to start building up this agency's reserves.

REASON FOR RECOMMENDED ACTION

Last year, the Commission adopted Policy 2.10 to establish an "Emergency Expense" fund. This fund acts as a reserve to assist LAFCO with funding catastrophic and unexpected non-budgeted items that may imperil operations. The funding mechanism for this reserve is the difference between the actual carryover amount from the previous fiscal year and the budgeted carryover amount when the former is larger than the latter. The size of this fund is set at 5% of the LAFCO budget by policy.

BACKGROUND

Government Code Section 53600.5 and LAFCO Policies and Guidelines Section 2.6.2 both require that the investment of public funds must have the safeguarding of the principal as the primary objective (with liquidity and return on investments as the second and third objectives, respectively).

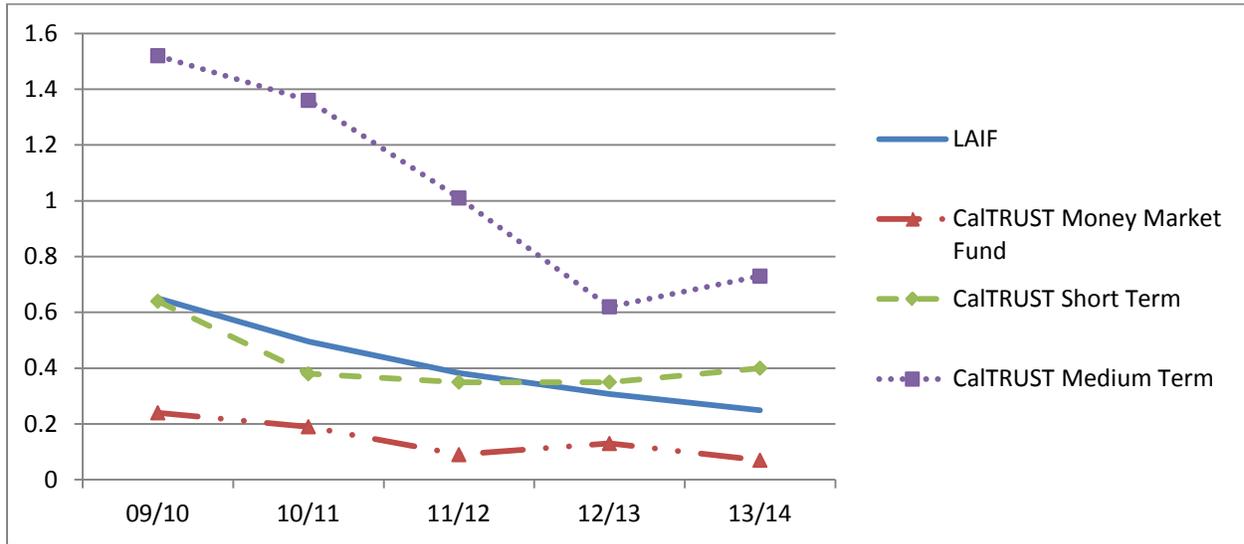
There are two investment entities that meet these objectives and are available for LAFCO to join, the Local Agency Investment Fund (LAIF) run by the State Treasurer and CalTRUST, a joint powers authority (JPA) started by the League of California Cities and the California State Association of Counties' Finance Corporation. Formally known as the Investment Trust of California, CalTRUST was created for the purpose of pooling local agency assets for investing. Membership in the CalTRUST program is open to any Public Agency in California.

At the May meeting staff recommended joining CalTRUST, for various reasons that will be discussed later. The Commission continued this item, requesting that staff return with additional information before it made a decision. The reality is that outside of size (in terms of money invested and number of participants) and age (LAIF started in 1977 and CalTRUST in 2005), there is little to differentiate between the two funds as their investment strategies, costs and yield are very similar. The following summary table contains most of the information the Commission was seeking:

	LAIF	CalTRUST
Total Size of Fund	\$21.6 billion	\$2.3 billion
Number of Participants	2,494 participants	20 participants
Costs to Join	\$0	\$0
Method of Cost Recovery	Administrative costs are deducted as a percentage cost from quarterly earnings, not to exceed 5% to 8% depending on performance	Administrative costs are deducted from the net assets of each fund on a monthly basis.
Average Percentage of Administrative Costs	1.598% in 2007-2015 3.22% in 1Q2015	For the Money Market Fund, it is 0.13% of the average daily net assets; for the Short-Term account it is 0.14% of the average daily net assets and for the Medium- and Long-Term accounts it is 0.24% of the average daily net assets.
Average Yield Since 2006-Present	1.959%	Money Market: 2.86% Short-Term: 1.9% Medium-Term: 2.38%

Average Annual Yield	09/10	10/11	11/12	12/13	13/14
LAIF	0.651	0.495	0.382	0.307	0.249
CalTRUST Money Market Fund	0.24	0.19	0.09	0.13	0.07
CalTRUST Short-Term	0.64	0.38	0.35	0.35	0.4
CalTRUST Medium-Term	1.52	1.36	1.01	0.62	0.73

Average Annual Yield FY2009-10 to 2013-14



Yield

The chart and the graph above on this one tell the same story. Since the recession started in 2008, the yield attained by all of the funds has been down. The Cal-Trust Medium-Term account has fared better than most, with an average historical yield of 2.36% for the past nine years. The highest average historical yield for the past nine years belongs to the CalTRUST Money Market Fund, but as you can see from the chart it has not been doing as well in the last five years. LAIF and the CalTRUST Short-Term account have similar average historical yields.

About CalTRUST

CalTRUST invests in fixed income securities eligible for local agency investment pursuant to California Government Code Sections 53601 and 53635. A Board of Trustees supervises and administers the investment programs of the JPA. CalTRUST maintains and administers four pooled accounts within the program:

- **Money Market Account** invests in an existing SEC-registered money market fund, which is rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Investor Services, and which maintains a dollar-weighted average maturity of less than 90 days;
- **Short-Term Account** with a target duration of 0-2 years;
- **Medium-Term Account** with a target duration of 1.5-3.5 years; and
- **Long-Term Account** with a target duration of 5-7 years (although authorized by the CalTRUST Joint Powers Agreement, the CalTRUST Board of Trustees has elected

to defer the opening of the Long-Term Account until the interest rate environment is more favorable for longer term securities).

The JPA is governed by a Board of Trustees, consisting of up to 15 members, all of whom are experienced investment officers or employees of the public agency members. The Trustees are responsible for setting the overall policies and procedures for the JPA, and for hiring and supervising the activities of the program administrator, the investment advisor, the custodian, the auditor, legal counsel, etc.

About LAIF

The Local Agency Investment Fund (LAIF) is a voluntary program created by statute in 1977. It serves as an investment alternative for California's local governments and special districts. The enabling legislation for the LAIF is Section 16429.1 et seq. of the California Government Code. All securities are purchased under the authority of Government Code Section 16430 and 16480.4.

This program offers local agencies the opportunity to participate in a pooled fund that invests billions of dollars. While the investment strategy is set by statute, the investment decisions and the administration of the fund is performed by the staff of the State Treasurer's Office. LAIF is part of the Pooled Money Investment Account (PMIA), which the State of California uses to invest money to manage the State's cash flow. PMIA began in 1955 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members as designated by statute: The State Treasurer, who also serves as Chair, two of his or her appointees, and two members who are treasurers, finance or fiscal officers or business managers employed by any county, city or local district or municipal corporation of this state. The term of each appointment is two years or at the pleasure of the appointing authority.

Costs

There are no out-of-pocket administrative costs associated with joining either fund. With either LAIF or CalTRUST, all expenses associated with LAFCO's participation are deducted from the net yield.

There are no transaction costs associated with contributions to, or withdrawals from, the CalTRUST accounts, or for transfers between CalTRUST accounts. Staff at the State Treasurer's Office indicated that there are no costs for withdrawals from LAIF, but there were restrictions on the timing of the withdrawals.

The initial deposit will need to be wired to either fund. Umpqua Bank has indicated that it will charge LAFCO a \$25 fee for the transfer.

Why Staff Still Recommends Joining CalTRUST

One of the principal advantages of CalTRUST is its flexibility. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that

may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice.

In contrast, LAIF, has restrictions on the amount of funds that can be on deposit at any one time. In addition, the CalTRUST program will offer medium- and long-term investment options, which LAIF does not offer unless LAFCO wishes to open up a bond account.

In terms of yield, CalTRUST holds a slight edge over LAIF. The latter's return on investments has been on a straight downward trajectory in the past six years. Staff at SDRMA has also endorsed CalTRUST as having slightly better returns.

The Information Statement indicates that the JPA requires a minimum investment of \$250,000; however, this requirement was waived for El Dorado LAFCO. CalTRUST provides printed statements on a monthly basis, as well as 24-hour, password protected information on member accounts via online access. This statement is included as part of your Commission packet.

CalTRUST has entered into a Program Administration agreement with the CSAC Finance Corporation to provide administrative services. The CSAC Finance Corporation provides a broad range of financial services programs through the California Statewide Communities Development Authority, a joint powers authority, which currently has 57 counties, more than 225 cities, and more than 50 special districts throughout the State as members.

CalTRUST also has entered into an Investment Advisory agreement with Wells Capital Management (WellsCap) to serve as investment advisor for the JPA. Subject to overall policy direction of the Board of Trustees, the investment advisor is responsible for the daily management of the investment affairs and research relating to the JPA's accounts. Wells Capital Management is an asset management and broker/dealer firm and is a wholly-owned subsidiary of Wells Fargo Bank, N.A.

Based on the liquidity features of the CalTRUST program, the number of investment options and the overall flexibility of the program, approval of the resolution to participate in the Investment Trust of California is recommended, as well as a grant of authority to the Executive Officer to execute the Joint Powers Agreement and all other documents required for participation in the CalTRUST Joint Powers Authority.

Forms and Designation of Trustees

The entry form that must be submitted to the CalTRUST Administrator requires LAFCO to identify the people authorized to make transactions to CalTRUST and to state the number of signatures that are required for the transactions to occur. Staff recommends establishing a financial structure consistent with Policies and Guidelines Section 2.7:

- Designating three Commissioners, including the Chair, Vice Chair and an additional Commissioner as having signature authority along with the Executive Officer. The current Commissioners with signature authority are Chair Humphreys, Vice Chair Frentzen and Commissioner Veerkamp. These four individuals would be the Trustees of LAFCO's CalTRUST account.
- Indicating that at least two signatures among these four Trustees is required to invest funds in and withdraw funds from LAFCO's CalTRUST account.

The CalTRUST Administrator indicates that Resolution L-2015-09 (**Attachment O**) and the Registration Participation Form be completed to start the process. The CalTRUST Registration Participation Form is not included in the packet because it will contain information about LAFCO's banking account; however, the Commission should authorize the Chair to sign it.

Alternative Participation

Because LAIF has been around longer and because most public agencies have used LAIF, some Commissioners may be more comfortable with LAFCO participating in LAIF. As indicated earlier, there is little differentiating LAIF from CalTRUST in terms of performance. If the Commission prefers to join LAIF, the application materials are also included in this packet. The Commission would have to adopt alternative Resolution L-2015-09, included here as **Attachment P**. The LAIF New Account Form is not included in the packet because it will contain information about LAFCO's banking account; however, the Commission should authorize the Chair to sign it.

Attachments

- Attachment A: Local Agency Investment Fund (LAIF) Program Description
- Attachment B: LAIF Investment Philosophy
- Attachment C: LAIF Average Annual Yields
- Attachment D: LAIF Entry Requirements
- Attachment E: LAIF Administrative Costs
- Attachment F: LAIF Account Frequently Asked Questions (FAQs)
- Attachment G: CalTRUST Program Description
- Attachment H: CalTRUST Investment Philosophy
- Attachment I: CalTRUST Average Annual Yields
- Attachment J: CalTRUST Entry Requirements
- Attachment K: CalTRUST FAQs
- Attachment L: JPA Agreement (Joint Exercise of Powers Agreement) dated as of February 24, 2005 as amended September 12, 2012
- Attachment M: CalTRUST Information Statement
- Attachment N: CalTRUST Waiver of \$250,000 Deposit
- Attachment O: Resolution L-2015-09 (**to join CalTRUST**)
- Attachment P: Resolution L-2015-09 (**to join LAIF**)