

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF MAY 27, 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 #9: DISCUSSION AND ADOPTION OF A RESOLUTION OF
APPLICATION TO JOIN THE INVESTMENT TRUST OF
CALIFORNIA, A PUBLIC JOINT POWERS AUTHORITY
OTHERWISE KNOWN AS CALTRUST

RECOMMENDATION

Staff recommends that the Commission approve 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 the reserve is set at 5% of the LAFCO budget.

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 present time, there are over 100 CalTRUST participants.

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.

Why 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 options which LAIF does not offer.

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 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.

Costs

There are no costs associated with joining CalTRUST. As with LAIF, all expenses associated with participation in CalTRUST are deducted from the yield. The initial deposit will need to be wired to CalTRUST, and Umpqua Bank will charge LAFCO a \$25 fee for the transfer. There are no out-of-pocket expenses for money invested in CalTRUST. In addition, there are no transaction costs associated with contributions to, or withdrawals from, the CalTRUST accounts, or for transfers between CalTRUST accounts.

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 and the Registration Participation Form be completed to start the process. The Registration Participation Form is not included in the packet because it will contain information about LAFCO's banking account.

Attachments

Attachment A: Government Code Section 53600-53600.5

Attachment B: LAFCO Policies and Guidelines Sections 2.6 and 2.7

Attachment C: JPA Agreement (Joint Exercise of Powers Agreement) dated as of February 24, 2005 as amended September 12, 2012

Attachment D: CalTRUST Information Statement

Attachment E: CalTRUST Waiver of \$250,000 Deposit

Attachment F: Resolution L-2015-09