

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STAFF REPORT

To: Board of Directors

From: Emilie Costan, Administrative Services Manager

Cc: Herb Niederberger, General Manager
Carie Huff, District Engineer
Eric Nielsen, Superintendent

Subject: Annual Investment Report for the Fiscal Year Ended June 30, 2024

Meeting Date: November 7, 2024

Overview

The South Placer Municipal Utility District (District) is governed by the Municipal Utilities District (MUD) Act of California, codified in Public Utilities Code §11501, et seq. Public Utilities Code §12871 allows the District to invest surplus money in its treasury. California Government Code, primarily §53601 and related subsections, authorizes the type of investment vehicles that are allowed in a local agency's portfolio. The investment vehicles that are allowed emphasize the preservation of capital and conservative investment. The District is not permitted to purchase an investment that is not specifically authorized by law and designated by the District's Board of Directors.

On December 3, 2015, the Board of Directors adopted Board Policy 3120 – Investment of District Funds. In February 2016, the District adopted a strategy for the investment of District funds which was later revised by Resolution 18-15. One of the ways the District managed its exposure to interest rate risk was by purchasing a combination of short and long-term investments and timing cash flows from maturities so that a portion of the portfolio was maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations. Per Resolution 18-15, as fixed-income securities being held in the long-term portfolio matured, rather than reinvesting them into other fixed-income securities, the proceeds were distributed evenly among the Cal Trust Medium Term Holdings and the Placer County Treasury. On January 7, 2021, the Board adopted Resolution 21-01, Updating the Strategy for the Investment of District Funds, to allow the District to move the remaining fixed-income securities to any of the District's investment pools as they matured depending on market conditions and quarterly performance. By October 2021, all fixed-income securities had matured with all funds transferred to other investment vehicles.

Due to market fluctuations and the unprecedented low-interest rates seen in 2020 and 2021, as the remaining fixed-income securities matured it did not make sense to move the funds into new medium-term or long-term investment vehicles. With interest rates rising in 2022 and 2023, as the Federal Reserve increased rates to combat persistently high inflation, short-term fixed-income funds began to provide consistent quarterly interest earnings resulting in an inverted curve whereby shorter-term investments were performing better than longer-term investments. The Federal

Reserve had been indicating that it may begin lowering rates in 2024 with the first rate cut occurring in September of 2024. In preparation, the Board approved the investment of \$15 million in longer-term fixed-income securities through Wells Fargo Securities in April 2024. These non-callable fixed-income securities consist of a two-year bond with a coupon rate of 4.625% and a three-, four-, and five-year bond each with a coupon rate of 4.500%. The intent of these bonds is to reduce the risk to the District of interest rates returning to the previous low-rate environment and interest income correspondingly declining. The remaining investment funds continue to be held in short-term investment pools.

Overall, during the last fiscal year, interest remained high to combat persistently high inflation with short-term fixed-income funds continuing to provide consistent quarterly interest earnings and equity also performing well. The value of the District's CalPERS Section 115 Pension Trust's CERB and CEPP Trusts increased by 8.1% and 8.5%, respectively. The overall balance of the District's investment portfolio excluding unrestricted deposits in financial institutions and the CEPPT increased by \$4.2 million (6.1%) with total investment income of approximately \$2.7 million.

Recommendation

Staff recommends that the Board of Directors receive and file the Annual Investment Report.

Strategic Plan Priorities

This action is consistent with SPMUD Strategic Plan Priorities:

Prepare for the future and foreseeable emergencies.

Provide exceptional value for the cost of sewer service.

Related District Ordinances and Policies

This action is in conjunction with the following District Policies:

Policy 3120 – Investment of District Funds

Policy 3130 – District Reserve Policy

Fiscal Impact

There is no direct fiscal impact associated with the preparation of this report. Interest income is used to fund both operating and capital expenditures.

Attachments:

Table 1 – Balance of Investments

Table 2 – Fund Balances

Table 3 – Asset Allocation as of June 30, 2024

Table 4 – Short-Term and Long-Term Portfolio Breakdown

Table 1 – Balance of Investments

Investment	June 30, 2024	June 30, 2023
Local Agency Investment Fund (LAIF)	\$ 26,617,785	\$ 25,563,827
Wells Fargo Fixed-Income Securities	15,026,580	-
California Class Prime Fund	12,507,791	5,062,129
CalTRUST Short-Term Investment Fund	6,761,843	6,419,937
Five Star Money Market	6,317,821	6,097,695
Placer County Treasury's Investment Pool	5,569,472	25,460,827
	<u>\$ 72,801,291</u>	<u>\$ 68,604,415</u>
Unrestricted Deposits in Financial Institutions	\$ 2,342,114	\$ 1,534,245
	<u>\$ 75,143,405</u>	<u>\$ 70,138,660</u>
CalPERS CEPP Trust- Restricted	\$ 3,425,665	\$ 3,156,947
TOTAL	<u>\$ 78,569,070</u>	<u>\$ 73,295,607</u>

Table 2 – Fund Balances

Fund	June 30, 2024	June 30, 2023
Fund 100 - Operating Fund	\$ 14,486,360	\$ 14,808,953
Fund 300 - Capital Improvement Fund	34,650,100	31,500,531
Fund 400 - Capital Replacement Fund	26,006,945	23,829,176
	<u>\$ 75,143,405</u>	<u>\$ 70,138,660</u>
CalPERS CEPP Trust - Restricted	\$ 3,425,665	\$ 3,156,947
TOTAL	<u>\$ 78,569,070</u>	<u>\$ 73,295,607</u>

The construction costs for currently identified necessary capital expansion projects to be funded from Fund 300 are approximately \$80,413,600.

The construction costs for currently identified capital replacement projects necessary over the next ten years to be funded from Fund 400 are approximately \$42,593,000.

Table 3 – Asset Allocation as of June 30, 2024

Investment Type	% of Portfolio on June 30, 2024
Local Agency Investment Fund (LAIF)	35%
Wells Fargo Fixed-Income Securities	20%
California Class Prime Fund	17%
CalTRUST Short-Term Investment Fund	9%
Five Star Money Market	8%
Placer County Treasury's Investment Pool	7%
Unrestricted Deposits in Financial Institutions	3%

Table 4 – Short-Term and Long-Term Portfolio Breakdown

Short-Term Portfolio	
Local Agency Investment Fund (LAIF)	\$ 26,617,785
California Class Prime Fund	12,507,791
CalTRUST Short-Term Investment Fund	6,761,843
Five Star Money Market	6,317,821
Unrestricted Deposits in Financial Institutions	2,342,113
	\$ 54,547,353
Long-Term Portfolio	
Wells Fargo Fixed-Income Securities	\$ 15,026,580
Placer County Treasury's Investment Pool	5,569,472
	\$ 20,596,052
Restricted	
CalPERS CEPP Trust	\$ 3,425,665
	\$ 78,569,070