



TO: North County Library Authority (NCLA) Commission

FROM: Kim Juran-Karageorgiou, Staff Liaison

SUBJECT: Investment options for NCLA funds

RECOMMENDATION:

Receive update on investment options for NCLA funds and direct staff accordingly

BACKGROUND

The North County Library Authority (NCLA) has been accumulating a fund balance of excess revenues over expenditures since the approval of Measure L by voters in June 2010. At the end of the most recent fiscal year ending June 30, 2015 the NCLA unassigned fund balance totaled \$2,647,630. These funds are currently invested in the State Local Agency Investment Fund (LAIF), which had an average annual yield of .269 in the 2014/15 fiscal year.

DISCUSSION

At the May 2015 meeting, the commission directed staff to investigate other options for the investment of NCLA funds. Staff looked at several options including:

- Creating an endowment for investment of funds
- Establishing an investment portfolio to be managed by a financial advisor
- Other potential investment options

Staff discussed the option of creating an endowment with legal counsel from Jones Hall, who was involved in the 2010 ballot measure. They advised that the NCLA does not have the legal authority to create an endowment, as creating an endowment would have to be one of its general purposes per the JPA agreement, which is not the case. In addition, sections 53601 or 53635 of the government code restrict the investment of public tax dollars, further complicating the creation of an endowment.

PFM Asset Management, the financial advisor for both the City of Los Altos and Town of Los Altos Hills, was engaged to determine whether a separate investment portfolio could be established for investment of funds. PFM advised that the costs associated with maintaining a portfolio of securities or utilizing an investment advisor (custodian fees and investment advisor costs) are cost prohibitive on a portfolio in the \$5 million to \$10 million range. They estimated that annual fees would be approximately \$20,000 equating to 40 basis points on a \$5 million portfolio. NCLA funds could be invested together with the City's investment

portfolio, but could not be accounted for separate from the invested City funds, which would present challenges for the segregation of funds.

Other investment options include investing NCLA funds in Certificates of Deposit through the CDARS network. CDARS allows agencies to access multi-million-dollar FDIC insurance on CD investments, with the convenience of working directly with just one financial institution. This would enable NCLA funds to be deposited in FDIC insured CD's issued by other members of the CDAR's networks in increments below the FDIC insurance maximum of \$250,000. All interest payments and statements are consolidated and funds can be continually reinvested. However, current rates offered are less favorable than those currently being earned in LAIF.

SUMMARY

Based on the preliminary information obtained, staff has not identified a viable option that is more advantageous than the current investment strategy. The commission is asked to offer feedback on the information provided and give direction to staff on the investment of NCLA funds.