SANTA YNEZ COMMUNITY SERVICES DISTRICT
MEMORANDUM

TO: Board of Directors

FROM: Loch Dreizler, General Manager

DATE: September 18, 2024

SUBJECT: Reinvest Certificate of Deposit set to mature October 14, 2024

Proposed Motion / Recommendation
Staff recommends reinvesting the Certificate of Deposit after the October 14 term ends.

Proposed Motion: Approve the District's Treasurer (General Manager) to reinvest the soon-to-mature Certificate of Deposit of approximately $200,000 for the term and rate recommended by our advisor at King Capital – after the CD fully matures.

Note: Our advisor at King Capital has invested in our CDs so they mature at staggered times; this approach balances the ups and downs of CD investing over time. This is called a **CD Ladder** and is further explained on the next page.

Proposed Alternative Motions:
1. Sell the CD as early as possible and purchase a new CD for the term and rate recommended by our advisor at King Capital. Minimal Penalty
2. Defer to the Finance Committee to return with a recommendation at the October Board meeting.
3. Transfer funds from a soon-to-mature CD to Five Star Bank or LAIF (Local Agency Investment Fund), which is over 4.5% but fluctuates more quickly than a CD.

Policy Implications
The District's Investment Policy 11-03 outlines our objectives when investing and managing District Funds:
1. Safeguard the principal.
2. Meet our liquidity needs.
3. When possible, achieve returns on our investments.

Fiscal Implications
The new CD will likely have a 12 or 18-month term and the market interest rate, depending on the percentage at the time of investment.

For example, reinvesting a $200,000 CD will earn the District approximately $12,900 after 18 months at a 4.25% annual yield.

District's Certificates of Deposit Ladder

Location	Mature Date	Percentage
• BMO Harris Bank	10/15/2024	4.30% (soon to mature)
• US Bank	12/03/2024	5.50%
• First Foundation Bank	05/29/2025	5.25%
• Bank of America	05/29/2025	5.30%
• BMW Bank	10/27/2025	5.00%
• (New CD)	12 to 18 months	Market Rate

Developing our CD Ladder

A CD ladder is a series of certificates of deposit accounts set up to mature at different times. Our investment advisor has built our **CD ladder** to achieve our policy objectives.

Certificate of Deposit interest rates are difficult to predict over multiple years; however, the District benefits from using a CD Ladder strategy that maximizes yield fluctuations while minimizing active participation.

The CD Ladder has a built-in reduced risk of missing out on future high rates: If interest rates go up before buying a CD, we can take advantage of the higher rate. Conversely, if rates fall before buying a CD, our other CDs will likely be invested at higher rates.

With these considerations, there is a minimal downside, as we spread our investments across multiple banks and hold them until maturity with minimal concern about timing the buying or selling of a CD late or early. Creating a CD ladder with multiple accounts is a way to maximize our investment policy objectives and minimize active management.

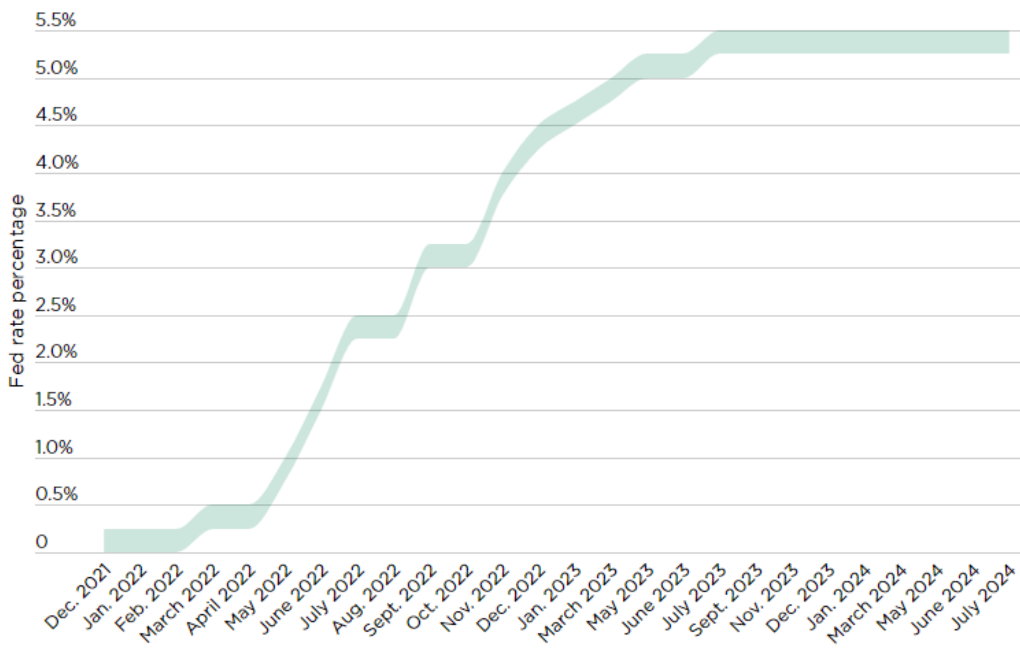
This CD ladder softens the ups and downs of investing in CDs over time.

Certificate of Deposit Rates.

1. Changes to the Fed's benchmark rate Twelve - United States Federal Reserve members meet eight times yearly to assess the country's economic state (including the inflation rate) and make resulting monetary policy decisions. One action they may take is raising or lowering the benchmark rate, called the federal funds rate.
2. Inflation - While inflation doesn't directly impact CD rates, it does impact the federal funds rate, which affects CD rates. The Federal Reserve uses the federal funds rate to maintain economic stability when inflation rises, which usually means better returns on CDs during periods of inflation and the opposite when inflation subsides.
3. Competition among banks—When a bank needs more cash, it may increase its savings accounts and CDs' annual percentage yield (APY) to attract more customers. This strategy is sometimes employed by newer and online banks, which want to build up their customer base and draw depositors from larger banks.
4. Changes in Treasury yields - The Treasury yield is the interest rate the U.S. government pays on its debts. Banks use the funds from deposits, including CDs, for their loans and investments in Treasuries. Rising Treasury yields might trigger banks to increase their CD yields.
5. CD term length - Historically, banks have often paid better yields to customers willing to lock up their money for extended periods. However, in today's economic environment, many banks pay higher Annual Percentage Yields (APY) on one-year CDs than on five-year CDs. This type of inverted yield curve can also happen with Treasury yields, and it generally means economists predict a recession is on the way.

Federal Funds Rates: Dec. 2021 - July 2024

The Federal Reserve has been raising its funds rate at a steady clip to combat inflation.



Source: The Federal Reserve Bank of New York

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2024 data highlight: minor drops for high-yield CDs so far

There's been a slow decrease of 20 basis points (0.20 percentage point) or less in the median APYs for high-yield CDs at nearly two dozen online banks and credit unions from late January to late July this year. Shorter-term rates generally remain higher than longer-term rates.

CD term	Median APY: Late Jan. 2024	Median APY: Late Aug. 2024	Change
6-month CD	5.00%.	4.75%.	-0.25 percentage point (25 basis points).
1-year CD	5.10%.	4.70%.	-0.40 percentage point (40 basis points).
3-year CD	4.25%.	4.00%.	-0.25 percentage point (25 basis points).
5-year CD	4.00%.	3.87%.	-0.13 percentage point (13 basis points).