

## Item 5 Attachment 1

### San Francisco Estuary Institute

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#### MEMORANDUM

**To:** Steering Committee

**From:** Frank Leung, SFEI Accountant  
Mike Connor, Executive Director

**Subject:** RMP Investments

**Date:** March 28, 2006

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#### **Recommendation:**

That the RMP transfer up to \$1,000,000 to short-term Certificates of Deposit depending on the interest rate spread between its existing account in the Local Agency Investment Fund.

#### **Background:**

Because of Steering Committee decisions to freeze RMP rate increases at 2% or less, the capacity of RMP resources is shrinking in real dollars. SFEI is pursuing cost efficiencies to allow RMP to continue at the same programmatic level with reduced resources. It is our opinion that part of this strategy should include slightly more aggressive financial management at a minimal financial risk. Because of the delay between contracting for work and actually conducting the work, RMP generally carries a cash balance of about 1 year's revenues—approximately \$3 million. These funds are kept in California's Local Agency Investment Fund (LAIF). An investment strategy that improves the interest we accumulate by 0.5-1% improves our revenue stream by about \$15,000-\$30,000.

We propose that the RMP use a slightly more aggressive financial strategy to gradually shift the balance from the LAIF to various bank Certificates of Deposits (CDs) managed by Wells Fargo Brokerage Services (WFBS)—the bank used by SFEI. As of today, the interest rate is 4.04%. I would like to gradually shift the balance from the LAIF to various bank Certificates of Deposits (CDs) managed by Wells Fargo Brokerage Services (WFBS). 3 month CDs have an interest rate of 4.25-2.250%, 6 month CDs 4.53-4.70%, and 1 year CDs 4.85-5.00%. These CDs are FDIC insured up to \$100,000. The CDs do have risk like any other investments, though almost negligible since CDs are one of the safer securities. Because WFBS handles the CDs, the Board will not have to go through paperwork when other banks issue the CDs.

The following are benefits of the transfer:

1. The higher interest rate will generate extra income of approximately \$15,000-\$30,000 per year, assuming the RMP maintains a balance over \$3 million.
2. Since the RMP uses Wells Fargo for its checking account, using the same bank for investment as well can save handling fees. Wells Fargo charges the RMP \$20.00 for each balance transfer to and from the

- LAIF. Transferring funds from WFBS CDs to the RMP checking account will be free and there are no fees or commissions when buy or sell WFBS CDs.
3. Staff work to accomplish this proposal is minimal. SFEI's Board has approved a similar strategy for SFEI's accounts. We would only make the CD transfer if rates differed by 0.5%.

In summary, transferring the RMP balance from the LAIF to WFBS CDs will generate higher income for the RMP from the higher interest rate, and decrease RMP/LAIF transfer fees.

We propose to test this policy for one year with a small portion of the RMP savings, not to exceed \$1 million. We would report on the experiment quarterly to the Steering Committee. Historically, LAIF has trailed the rising and falling markets, so this strategy may only be valuable for the rest of the year.