

DECISION PAPER



Issue: The Development Fund is now accumulating funds for longer term projects. In accordance with Investment Policy (Board Resolution 2015-5, **Attachment A**), investment in instruments with a term greater than three years require Board review and majority approval.

Background:

Development Fund, year-end balance:

\$ 499,000 12/31/2016 Actual

\$ 3,753,000 12/31/2017 Actual

\$ 4,365,000 12/31/2017 Projected

This fund is accumulating funds for various projects, most notably the identified eventual replacement (or significant remodel) of Downhill Ski Lodge.

Investing a portion in longer term maturities, with the intention of holding to maturity, will improve overall investment yields.

Investing in short-term instruments produces yields in the 2.0% to 2.5% range currently. Current Federal Treasury yields information can be found in **Attachment C**.

Bank certificates of deposits are currently yielding ~2.3% range for 3-year and ~2.6% for 5-year.

The US currently has what is considered a very flat yield curve. The flat yield curve is a yield curve in which there is little difference between short-term and long-term rates for bonds of the same credit quality.

The Development Fund investment brokerage account is with Stifel, Nicolaus & Company. Our account broker, Evan Price, will work with Director of Finance to place \$3.0 of funds in a mix of terms and instruments, with the intent to produce higher yields than Treasuries and bank Certificates of Deposits.

As of latest proposal 4/15/2018, a mix of corporate, municipal and state bonds produced a blended yield of 2.9%. **Attachment B**. Investment yield options change daily.

50 basis points or ½% improvement in yield on \$3.0 million investment produces an incremental \$15,000 in investment income per year.

The investment risks include interest rates rising and Tahoe Donner need to sell some or a portion of the invested funds, wherein the sale of the investment would be at a small loss due to the interest rate difference between when purchased and when sold. This risk is eliminated by holding investment to maturity.

DECISION PAPER



The other primary investment risk, primarily with non-government backed Treasuries and bank insured (FDIC) Certificates of Deposits, is a default on the instrument by the state, municipality, agency and or corporation issuing the bond. This risk is mitigated by the investment grades/ratings and diversification required by the Policy.

The Finance Committee has reviewed the proposal and concurs with investing \$3.0 million in longer term (greater than three years) diversified laddered terms investment, all within the parameters of the Policy. 3/15/2018 FC Minutes:

H. Investments – Longer Term Instrument Options. - With the accumulation of funds for longer-term projects in Development Fund, the committee reviewed a diversified investment recommendation (4-5-year term) of corporate and municipal bonds (all within parameters of Investment Policy) which would improve the fund's investment yields. Committee advised to carve 1/3 of proposal to shorter term to hedge potential rising interest rates. Committee advised proceeding with investment plan as amended.

Options:

- A. Resolve to invest \$3.0 million of Development Funds in greater than three year term instruments, all within the constraints & parameter of the Investment Policy, and in accordance with Finance Committee 3/24/2018 meeting guidance.
- B. Approve something other as directed by the Board.

Recommendation:

Option A

Prepared By: Michael R. Salmon, Director of Finance, 4/20/2018

Board Meeting Date: April 28, 2018

General Manager Approval to Place on the Agenda: _____



**TAHOE DONNER ASSOCIATION
BOARD OF DIRECTORS**

RESOLUTION 2015-5

INVESTMENT POLICY

WHEREAS, the Davis-Stirling Common Interest Development Act specifies that the Board shall exercise prudent fiscal management in maintaining the integrity of the Tahoe Donner Association's ("TDA" or "the Association") reserve funds¹; and,

WHEREAS, subject to corporation law and limitations contained in the governing documents the business and affairs of the Association are vested in the Board of Directors²; and,

WHEREAS, the Board has authority to open bank accounts on behalf of the Association and designate signatories³; and,

WHEREAS, the Board shall maintain other accounts necessary to carry out the business of the Association⁴; and,

WHEREAS, the following constitutes the Investment Policy of TDA and supersedes all previously approved policies and resolutions pertaining to the investment of funds;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of TDA approves and adopts the following Investment Policy:

¹ Davis-Stirling Common Interest Development Act, Chapter 7, Article 2, Section 5515(e)

² Restated Bylaw of Tahoe Donner Association, ARTICLE VII, Section 1

³ Restated Bylaws of Tahoe Donner Association, ARTICLE IX, Section IX, Section 1(p)

⁴ Restated Bylaws of Tahoe Donner Association, ARTICLE XII, Section 4

Attachment A

Resolution 2015-5, Investment Policy

PURPOSE

The purpose of this resolution is to establish guidelines to ensure the effective and judicious management of cash and investments of the Association's funds.

INVESTMENT OBJECTIVE

The funds of the Association shall be invested to achieve the following objectives:

1. To protect all principal funds while attempting to maximize the rate of return on investments.
2. Investments shall be made in the highest yielding instruments possible, consistent with the cash flow requirements of the Association and the restrictions listed below.
3. When making investment decisions, the factors of opportunity cost, risk vs. reward, diversification, scheduling and monitoring shall all be considered.

AUTHORIZED INVESTMENT INSTRUMENTS

Authorized investments are specifically limited to the following categories for funds of TDA:

1. Obligations backed by the full faith and credit of the United States Government, with a maximum maturity term of 10 years.
2. Checking or savings accounts at Banks and Savings and Loan institutions. Accounts must be insured by the FDIC.
3. Certificates of Deposit of Banks and Savings and Loan institutions. Certificates of Deposit must be insured by the FDIC.
4. Corporate Bonds of New York Stock Exchange listed United States corporations, rated "A" or higher by two of the following three rating services: Moody, Fitch, or Standard and Poor's. Should either service's rating fall below "A", the bonds shall be sold as soon as practicable. The maximum maturity term on these bonds will be 5 years.
5. Money market accounts with TDA's Board approved financial institutions.
6. Municipal Bonds rated "A" or higher with a maturity term not to exceed 5 years. As described above, similar rating protections and procedures shall apply.
7. State of California insured debt instruments or California State debt rated "AA" or higher. Maturity term on California debt is not to exceed 7 years. As described above, similar rating protections and procedures shall apply.

INSTRUMENT LIMITATIONS

Limits on the above authorized investment instruments are as follows:

1. Cash and cash equivalent funds held in brokerage and bank accounts should be held at or below SIPC and FDIC insurance limits to the greatest extent possible. Liquidity needs for operating and capital expenditures may at times necessitate cash and cash equivalent balances in a particular account to exceed FDIC insurance limits. This risk shall be minimized by the Director of Finance and Accounting ("DFA").

Attachment A

Resolution 2015-5, Investment Policy

2. Investments in each of the following investment categories are limited to no more than 20% of the individual fund balances (i.e. operations, development, replacement reserve and NMEFF) at the time the investment is made:

- a. Corporate Bonds
- b. U.S. Government Securities, with a maturity term of more than 3 years
- c. State of California debt
- d. Municipal Bonds

3. Approval Levels:

a. Investments in instruments listed in item 2, above, with maturity terms of greater than one (1) year, require the concurrence of the Treasurer (or in the Treasurer's absence, the President) and one of the following: General Manager (GM), DFA, or another member of the Board.

b. Investments in instruments listed in item 2, above, with maturity terms of greater than three (3) years, require the approval of three Board members.

c. The concurrences required by this paragraph must be received BEFORE the investments in item 2, above, are consummated and notification of all Board members must occur within 10 days after the investment is made.

d. The GM or DFA may authorize all other investment transactions.

4. Long-term investments shall be made with the intent of holding them until maturity. Sales prior to the maturity date will require approval from the Treasurer.

GENERAL ADMINISTRATION RESPONSIBILITIES

The DFA shall prepare annual forecasts of cash flow requirements for all the Association's funds. In addition, the DFA shall also prepare a cash flow forecast for the Reserve and Development Funds covering a period of not less than five years.

The Finance Committee and DFA shall meet quarterly to review investments, strategy, cash flow and the results of the TDA financial management. In addition, the Treasurer shall review and initial the monthly investment account reconciliations and report quarterly to the Board.

Services provided by banks, brokerage firms or Savings and Loans that provide required levels of insurance coverage for investor accounts, shall be utilized in administering this Policy.

Any changes to this policy or authorized signatories shall be sent to the appropriate brokerage firms immediately. Any brokerage firm holding funds and/or other investments of TDA, shall send (paper or digital), investment and deposit confirmations and complete monthly statements to BOTH the Treasurer and the DFA.

Attachment A

Resolution 2015-5, Investment Policy

APPROVAL

Approval of the Investment Policy and any changes, amendments, or modifications thereafter, may only be accomplished at a properly noticed meeting of the Board.

ACCEPTED AND DATED: November 20, 2015



STEVE MILLER, President



JIM STANG, Vice President



JEFF BONZON, Treasurer



COURTNEY MURRELL, Secretary



RON WULFF, Director



Fixed Income Bond Ladder

Prepared For

Tahoe Donner Association

April 16, 2018

Prepared By

Evan Price

Phone: (205)226-3240

Email: eprice@stifel.com

Qty (000)	Cusip	Rating / FDIC # IDC Rank	Issue	Type State	Coupon	Maturity	Price	YTW YTM	DTW DTM	Accrued Interest	Principal	Net Amount
200	924397DD1	A2/AA	Vernon Calif Elec Sys Rev Make Whole Call Only - OID - Make Whole Call Exp 08/2022 - TAXABLE - AGMC insured	Muni CA	4.500%	08/01/2022	\$106.069	2.980% 2.980%	3.87 3.87	\$1,925.00	\$212,138.00	\$214,063.00
200	432275AE5	A3/A-	Hillsborough Cnty Fla Aviation Auth Customer Fac Charge Rev - Tampa Intl Arpt TAXABLE - Material Events	Muni FL	3.549%	10/01/2022	\$102.515	2.942% 2.942%	4.10 4.10	\$335.18	\$205,030.00	\$205,365.18
200	64971M5G3	Aa1/AAA	New York N Y City Transitional Fin Auth Rev Make Whole Call Only - Make Whole Call Exp 11/2022 - Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - (Build America Bond) - Material Events	Muni NY	4.525%	11/01/2022	\$106.355	3.015% 3.015%	4.02 4.02	\$4,198.19	\$212,710.00	\$216,908.19
200	20772G4X3	A1/A	Connecticut St Make Whole Call Only - Make Whole Call Exp 12/2022 - Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - (Build America Bond) - Material Events	Muni CT	5.200%	12/01/2022	\$108.219	3.268% 3.268%	4.05 4.05	\$3,957.78	\$216,438.00	\$220,395.78
200	49127KBY5	A2/AA	Kentucky Economic Dev Fin Auth Louisville Arena Proj - Louisville Arena Make Whole Call Only - Make Whole Call Exp 12/2022 - TAXABLE - Material Events - AGMC insured	Muni KY	3.217%	12/01/2022	\$101.291	2.916% 2.916%	4.23 4.23	\$2,108.92	\$202,582.00	\$204,690.92
200	649902P56	Aa1/AAA	New York St Dorm Auth St Persincome Tax Rev Make Whole Call Only - Make Whole Call Exp 02/2023 - Extraordinary Calls - Public Higher Education Use - TAXABLE - (Build America Bond) - Material Events	Muni NY	4.904%	02/15/2023	\$108.522	2.993% 2.993%	4.28 4.28	\$1,716.40	\$217,044.00	\$218,760.40
200	91412GWZ4	Aa2/AA	University Calif Revs For Previous Issues See 91412f Make Whole Call Only - Make Whole Call Exp 05/2023 - TAXABLE - Material Events	Muni CA	2.909%	05/15/2023	\$100.523	2.797% 2.797%	4.63 4.63	\$2,472.65	\$201,046.00	\$203,518.65
200	91412GVA0	Aa2/AA	University Calif Revs For Previous Issues See 91412f Make Whole Call Only - Make Whole Call Exp 05/2023 - TAXABLE - Material Events	Muni CA	3.538%	05/15/2023	\$103.851	2.720% 2.720%	4.57 4.57	\$3,007.30	\$207,702.00	\$210,709.30

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Qty (000)	Cusip	Rating / FDIC # IDC Rank	Issue	Type State	Coupon	Maturity	Price	YTW YTM	DTW DTM	Accrued Interest	Principal	Net Amount
200	13034PYP6	A1/AA-	California Hsg Fin Agy Rev Extraordinary Calls - Single-Fam Hsg Use - TAXABLE - Material Events	Muni CA	2.975%	08/01/2023	\$102.034	2.561% 2.561%	4.84 4.84	\$1,272.64	\$204,068.00	\$205,340.64
200	13067WPF3	Aa1/AAA	California St Dept Wtr Res Cent Vy Proj Rev Make Whole Call Only - Make Whole Call Exp 12/2023 - TAXABLE - Material Events	Muni CA	2.601%	12/01/2023	\$99.185	2.758% 2.758%	5.15 5.15	\$1,719.55	\$198,370.00	\$200,089.55
Weighted Averages and Totals					3.792%	4.84	\$103.856	2.899%	4.37	\$22,713.62	\$2,077,128.00	\$2,099,841.62
					Avg Coupon	Avg Yrs Maturity	Avg Price	Avg Yields	Avg Durations	Total Accrued Interest	Total Principal	Total Investment

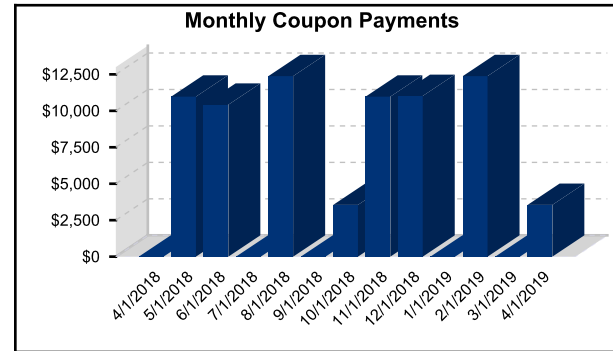
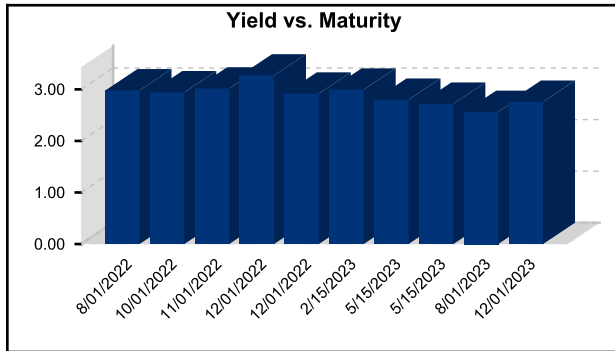
Monthly Coupon Payments	Apr/18	May/18	Jun/18	Jul/18	Aug/18	Sep/18	Oct/18	Nov/18	Dec/18	Jan/19	Feb/19	Mar/19	Apr/19	Total
California Hsg Fin Agy Rev					\$2,975						\$2,975			\$5,950
California St Dept Wtr Res Cent Vy Proj Rev			\$2,341						\$2,601					\$4,942
Connecticut St			\$5,200						\$5,200					\$10,400
Hillsborough Cnty Fla Aviation Auth							\$3,549						\$3,549	\$7,098
Kentucky Economic Dev Fin Auth Louisville			\$2,877						\$3,217					\$6,094
New York N Y City Transitional Fin Auth Rev		\$4,525						\$4,525						\$9,050
New York St Dorm Auth St Persincome Tax					\$4,904						\$4,904			\$9,808
University Calif Revs For Previous Issues		\$2,909						\$2,909						\$5,818
University Calif Revs For Previous Issues		\$3,538						\$3,538						\$7,076
Vernon Calif Elec Sys Rev					\$4,500						\$4,500			\$9,000
Total	\$0	\$10,972	\$10,418	\$0	\$12,379	\$0	\$3,549	\$10,972	\$11,018	\$0	\$12,379	\$0	\$3,549	\$75,236

The coupon payment in Apr/18 represents tomorrow to the end of the month, and the payment in Apr/19 represent the first of the month to this day next year.

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Ladder Summary		Average Coupon	3.792%	Tax Equivalent Yield	2.856%
Total Principal	\$2,077,128.00	Average Maturity	4.84yr(s)	Federal Tax Rate	0.000%
Total Accrued Interest	\$22,713.62	Average Price	\$103.856	State Tax Rate	5.000%
Total Investment	\$2,099,841.62	Average Current Yield	3.630%		
Next 12mo Cpn Cash Flow	\$75,236.33	Average Yield to Maturity	2.899%		
Maturity Value	\$2,000,000.00	Average Yield to Worst	2.899%		
		Average Duration to Worst	4.37		
		Average Duration to Maturity	4.37		
		Average Duration to Earliest Redemption	4.37		



**Additional information available upon request.
Securities identified herein are subject to availability and changes in price/yield.**

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Daily Treasury Yield Curve Rates

attachment C

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Daily Treasury Yield Curve Rates

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XML These data are also available in XML format by clicking on the XML icon.

XSD The schema for the XML is available in XSD format by clicking on the XSD icon.

If you are having trouble viewing the above XML in your browser, [click here](#).

To access interest rate data in the legacy XML format and the corresponding XSD schema, [click here](#).

Select type of Interest Rate Data

Daily Treasury Yield Curve Rates

Select Time Period

Current Month

Date	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
04/02/18	1.68	1.77	1.92	2.08	2.25	2.37	2.55	2.67	2.73	2.85	2.97
04/03/18	1.70	1.75	1.92	2.09	2.28	2.41	2.60	2.73	2.79	2.90	3.02
04/04/18	1.67	1.71	1.90	2.07	2.28	2.42	2.61	2.73	2.79	2.91	3.03
04/05/18	1.67	1.72	1.93	2.07	2.30	2.45	2.64	2.76	2.83	2.95	3.07
04/06/18	1.68	1.73	1.91	2.06	2.27	2.40	2.58	2.70	2.77	2.89	3.01
04/09/18	1.67	1.76	1.93	2.08	2.29	2.43	2.60	2.72	2.78	2.89	3.02
04/10/18	1.63	1.74	1.93	2.09	2.32	2.45	2.62	2.74	2.80	2.89	3.02
04/11/18	1.64	1.73	1.95	2.09	2.32	2.45	2.62	2.72	2.79	2.87	2.99
04/12/18	1.65	1.75	1.95	2.11	2.34	2.49	2.67	2.78	2.83	2.92	3.05
04/13/18	1.64	1.76	1.97	2.12	2.37	2.51	2.67	2.77	2.82	2.91	3.03
04/16/18	1.64	1.79	1.98	2.12	2.39	2.52	2.69	2.78	2.83	2.91	3.03
04/17/18	1.68	1.80	2.02	2.16	2.41	2.52	2.68	2.77	2.82	2.89	3.00
04/18/18	1.67	1.81	2.01	2.17	2.42	2.57	2.73	2.83	2.87	2.95	3.06
04/19/18	1.67	1.82	2.01	2.21	2.44	2.58	2.77	2.87	2.92	3.01	3.11
04/20/18	1.65	1.81	2.01	2.22	2.46	2.62	2.80	2.91	2.96	3.04	3.14

* 30-year Treasury constant maturity series was discontinued on February 18, 2002 and reintroduced on February 9, 2006. From February 18, 2002 to February 8, 2006, Treasury published alternatives to a 30-year rate. See Long-Term Average Rate for more information.

Treasury discontinued the 20-year constant maturity series at the end of calendar year 1986 and reinstated that series on October 1, 1993. As a result, there are no 20-year rates available for the time period January 1, 1987 through September 30, 1993.

Treasury Yield Curve Rates. These rates are commonly referred to as "Constant Maturity Treasury" rates, or CMTs. Yields are interpolated by the Treasury from the daily yield curve. This curve, which relates the yield on a security to its time to maturity is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The yield values are read from the yield curve at fixed maturities, currently 1, 3 and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10 year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity.

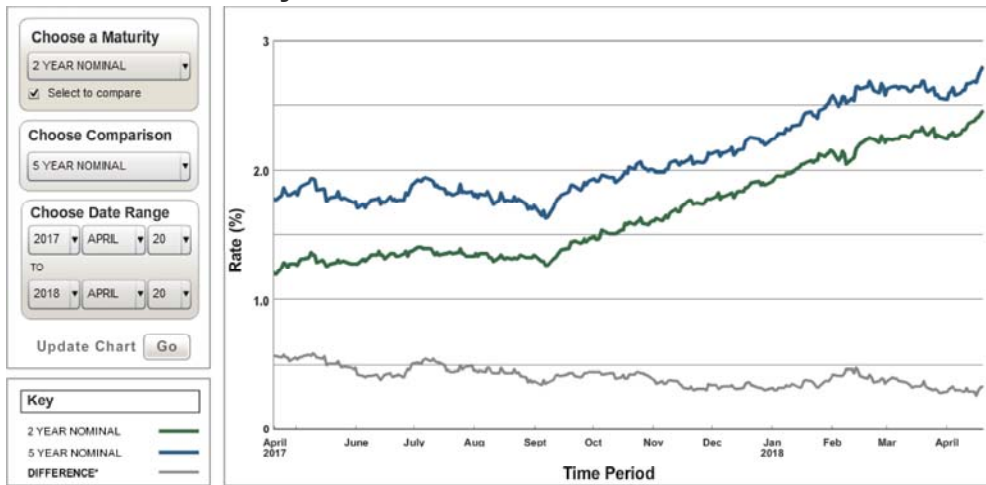
Treasury Yield Curve Methodology. The Treasury yield curve is estimated daily using a cubic spline model. Inputs to the model are primarily bid-side yields for on-the-run Treasury securities. See our [Treasury Yield Curve Methodology page](#) for details.

Negative Yields and Nominal Constant Maturity Treasury Series Rates (CMTs). Current financial market conditions, in conjunction with extraordinary low levels of interest rates, have resulted in negative yields for some Treasury securities trading in the secondary market. Negative yields for Treasury securities most often reflect highly technical factors in Treasury markets related to the cash and repurchase agreement markets, and are at times unrelated to the time value of money.

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Historical Treasury Rates



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*This is the difference between the longer maturity rate and the shorter one included in the comparison. If both a nominal and real maturity are selected, then this is the difference between the nominal maturity and the real.