

# 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.

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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**                      **BOD Approved Option A, 4/28/2018**

**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:** \_\_\_\_\_