



WEST BASIN MUNICIPAL WATER DISTRICT
17140 S. Avalon Blvd., Suite 210
Carson, CA 90746

AGENDA NO. 18

JUNE 10, 2009 – Finance

Smith (Chair), Dear

JUNE 22, 2009 – Board Meeting

Prepared by: Margaret Moggia

Submitted by: Margaret Moggia

Approved by: Rich Nagel

ACTION CALENDAR

SMALL BANKING PROGRAM CONSIDERATIONS

SUMMARY:

Over the past few months the Board has been reviewing its current policy for the Small Banking Program to see where policy revisions can be made to reflect the Board's direction. To aid in shaping that direction, staff provided the Board information about federally-defined small banks and the purpose of community banks. Staff has developed three considerations for the Board to discuss.

Option 1: Small Bank Program

Board modifies the current policy to adjust the criteria to include the following:

- a. At least one branch must be within West Basin Municipal Water District's (West Basin) service area, and
- b. Change the policy to match the Community Reinvestment Act (CRA), the FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency, definition of "Small Bank" to mean a bank that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.033 billion (currently West Basin's policy states small banks as having deposits under \$175,000,000).

Option 2: Community Bank Program

Board adopts a new policy to change to a community bank focus and replace existing policy. The new policy should include the following criteria:

- a. At least one branch must be within West Basin's service area; and
- b. The community bank provides certification and supporting information that indicates that at least 25% or \$50,000,000 in loans are invested within West Basin's service area.

Option 3: Small and Community Bank Program

Board modifies the current policy to adjust criteria and combine a Small and Community Banking Program into one policy. The changes include the combination of the above:

- a. At least one branch must be within West Basin's service area;
- b. Change the policy to match the Community Reinvestment Act (CRA), the FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency, definition of "Small Bank" to mean a bank that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.033 billion (currently West Basin's policy states small banks as having deposits under \$175,000,000; and
- c. The community bank provides certification and supporting information that indicates at least 25% or \$50,000,000 in loans is invested within West Basin's service area.

Staff recommendation is to approve Option 3 as a policy revision to the Small Banking Program.

Some additional considerations for the Board are stated below:

Funding Levels: Funding for this program should be limited to the current amount of \$7,000,000 or 10% of West Basin's portfolio, whichever is greater. West Basin has been advised by its Investment Manager that it should maintain a well diversified portfolio, and recommended the above allocation. In addition, certificates of deposits are illiquid. Not only are you penalized for liquidating early, you do not have the ability to actively trade these investments and take advantage of changing market conditions.

Division Equity: Equity among the five divisions was addressed by the Board at the last committee meeting and inclusion of this language can be incorporated at the Board's option.

Competitive Rate: West Basin should seek a competitive rate for investments into this program and should match the nature of the investment. As mentioned above, certificates of deposits are illiquid and are not easily tradeable. In addition, market conditions vary and selecting a comparison for the policy may limit West Basin. Staff recommends that when opportunities do arise that staff presents a benchmark that is most suitable to the current market conditions. At a minimum, the offered rate should be within 10 basis points of the LAIF rate at that time.

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 8, Finance – Manage finances to optimize the public's investment return and minimize risk.

COMMITMENT STATEMENT:

Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning, and asset management.

FISCAL IMPACTS:

Not applicable.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on June 10, 2009 and agendized to the June 22, 2009 Board meeting without a Committee recommendation. The Committee discussed the funding level of the Program and suggested increasing it to \$10,000,000. The Committee suggested Division equity and rates be considered as program guidelines.

RECOMMENDED MOTION:

That the Board considers approving Option 3 as a policy revision to the Small Banking Program.

LIST OF EXHIBITS:

None.

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