



April 2, 2020

TO: LOCSO Board of Directors

FROM: Ron Munds, General Manager

SUBJECT: Agenda Item 7G – 4/2/2020 Board Meeting

Recommendation to Amend the Pacific Premier Bank Interest Agreement for the Fire and Water Reserve Accounts

DESCRIPTION

Based on the current financial situation and the recent Federal rate interest rates cuts, Pacific Premier Bank is requesting the District approve a modification to the interest rate variance in the District's original agreement in lieu of terminating the entire agreement.

STAFF RECOMMENDATION

This item will be approved along with the Consent Calendar unless it is pulled by a Director for separate consideration. If so, staff recommends that the Board adopt the following motion:

Motion: I move to approve the interest rate modification as presented in the amended Exhibit A of the Contract for Deposit of Public Funds agreement (attached) with Pacific Premier Bank.

DISCUSSION

In 2018, the District opened two separate accounts for the Fire and Water reserves with Pacific Premier Bank (Pacific Premier). The agreement specified that the interest rate would be based on the current LAIF index plus ten (10) basis points. On March 17th, the General Manager was notified by Pacific Premier that with the recent Federal rate cuts over the span of the past month, Pacific Premier has evaluated all relationships and adjusted add-ons as a result of the Federal rate reduction. In lieu of terminating the agreement, a decision was made by Pacific Premier to request a modification the agreement specific to the rate variance in Appendix A from ten (10) basis points to five(5) which is competitive with interest the District is earning on our LAIF investments. The District's bank account manager has indicated that if the Federal rate changes, Pacific Premier will consider returning to the ten (10) basis points in the future.

The General Manager supports the proposed modification since it continues to provide a relative high interest when compared to other options currently available in the banking industry. Termination of the agreement by Pacific Premier would result in a significant decrease in interest income in both funds. Additionally, the District has developed a mutually beneficial working relationship with the local branch of Pacific Premier which will assist in guiding the District in future investment opportunities as the banking industry changes.

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Financial Impact

The obvious impact is a slight decrease in interest earnings for the Fire and Water reserve accounts. Though as previously stated, the interest rate being offered is very competitive when compared to other options. For Fund 500, the interest income is estimated to exceed the fiscal year 2019-20 budgeted amount even with this change. For Fund 301, the revenue projection for interest income was revised upwards at mid-year. This may result in a slight revenue shortfall; staff will monitor the situation and report back to the Board if there is a significant difference between projected and actual interest revenue. As mentioned, termination of the agreement would result in significant loss of interest income to both funds due to the much lower rates available currently in the banking industry.

Attachment



CONTRACT FOR DEPOSIT OF PUBLIC FUNDS

Depository: Pacific Premier Bank

Local Agency: _____

Agent of Depository: Wells Fargo Bank

Depository's Most Recent CRA Rating: Satisfactory

Depository's Net Worth as of 12 / 31 / 19 : \$2.01 Billion

Maximum Deposit Amount: \$5,000,000.00

This agreement is made by and between Pacific Premier Bank (“*Depository*”) and the Treasurer of the local agency named above (“*Agency*”) on behalf of the Agency with respect to the Agency’s deposit of funds with Depository.

Depository and Agency agree, as follows:

1. **Governing law.** This agreement is entered into pursuant to California Government Code Title 5, Division 2 (the “Code”) (Note: all sections referenced in this agreement shall be to the Government Code).
2. **Agency Representations.** Agency has determined that the deposit accounts and services contemplated by this agreement are to the public advantage. The person(s) executing this agreement on behalf of Agency represent and warrant that: (a) they are authorized by the Agency and under applicable law to bind the Agency to this agreement; (b) no further approval by any other person, board or governing body is required to make this agreement effective and binding as to the Agency; and (c) Agency’s funds may be deposited with Depository in accordance with this agreement.
3. **Depository Representations.** Depository represents and warrants that its net worth is as set forth at the top of this agreement.
4. **Interest.** Interest shall accrue on interest-bearing accounts maintained by Agency at the rate set forth in Exhibit A, attached hereto.
5. **Expenses; Fees and Charges.** Unless otherwise agreed by the parties: (a) Depository shall bear the expense of transportation of eligible securities maintained as collateral to and from the designated Agent of the Depository; (b) Agency shall bear the expense of transportation of funds to and from Depository; and (c) Depository shall handle, collect, and pay checks, drafts, and other exchange for the fees set forth in the account agreement between Depository and Agency.

6. **Other Deposit Terms.** Each deposit shall be subject to the terms of the account agreement between Depository and Agency. This agreement supplements and supersedes, where inconsistent, the terms of the account agreement between Depository and Agency.
7. **Deposits.** At the time of each deposit, Depository will issue a receipt to Agency. Each deposit shall be subject to the terms of this agreement and the account agreement, which shall state if and when interest is to be paid, the rate of interest, the duration of the deposit, and the terms of withdrawal.
8. **Security for Deposits.** Depository shall at all times maintain the required amount of eligible securities with the Agent of Depository named above to secure the deposits of the Agency, in accordance with the Code. The Agent of Depository is authorized to place such securities for safekeeping with the bank named above as "*Security Holder*" or with any Federal Reserve Bank or branch thereof, in accordance with Section 53659 of the Code. Pursuant to Section 53653 of the Code, Treasurer waives security for the portion of any deposits that is insured pursuant to federal law. Treasurer also waives security for interest accrued on deposits to the extent permitted by Section 53653 of the Code.

Eligible securities may include, at Depository's discretion, eligible letters of credit which are authorized by Treasurer and issued by the Federal Home Loan Bank of San Francisco in accordance with Section 53651(p) of the Code. A copy of the letter of credit is available upon request from the Depository.

Depository may add, substitute or withdraw securities being used as security for deposits in accordance with Section 53654 of the Code. Depository shall not interchange classes of security, as defined in Section 53632.5 of the Code, without the prior written approval of the Treasurer.

Depository shall have and hereby reserves the right to collect interest on the securities maintained as collateral, except in cases where the securities are liable to sale or are sold or converted in accordance with the provisions of Section 53665 of the Code.

9. **Default by Depository.** If Depository fails as an institution or fails to pay all or part of the deposits of the Agency secured by pooled securities in accordance with this agreement and upon the demand of the Treasurer or any other authorized official, Treasurer will send written notice to the Administrator of Local Agency Security of the State of California (the "*Administrator*"), who shall draw on any applicable letter of credit and/or convert into money any securities necessary to cover (a) the deposits of the Agency, (b) any accrued interest, and (c) the reasonable expenses of the Administrator, which shall be distributed and used by the Administrator, as provided in Section 53665 of the Code. If the Administrator determines that a security is not qualified to secure public deposits, Depository will substitute other securities to comply with the requirements of this agreement.

Upon notice to the Treasurer from the Administrator, Treasurer may withdraw deposits in the event the Depository fails to pay the assessments, fines, or penalties assessed by the Administrator or may withdraw authorization for the placement of pooled securities in an

agent of depository in the event the Agent of Depository fails to pay the fines or penalties assessed by the Administrator.

- 10. **Compliance.** Subject to Section 53648 of the Code and applicable federal law, the parties shall comply in all respects with the provisions of the Code and other applicable provisions of law.
- 11. **Termination.** Either party may terminate this agreement as to future deposits by providing thirty (30) days prior written notice to the other party.

This agreement will become effective as of March 16, 2020.

IN WITNESS WHEREOF, Treasurer in their official capacity has signed this agreement in triplicate and Depository has caused this agreement to be executed in like number by its duly authorized officers.

"AGENCY"

Date: _____

By: _____

Its: _____

By: _____

Its: _____

PACIFIC PREMIER BANK
"DEPOSITORY"

Date: _____

By: _____

Its: John Mangold, SVP/Corporate Treasurer

EXHIBIT A
(Rate of Interest)

The pricing on the account will be tied to the California Local Agency Investment Fund (LAIF) Pooled Money Investment Account (PMIA) fund rate, plus five basis points, which will be reset on a monthly basis, using the prior month's rate, for the current month. The account rate will be updated as soon as is possible given the release of the PMIA fund rate, and is expected to be updated within fifteen days of the month-end. Interest will be calculated on a 365-day basis.