Item 5.4

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STAFF REPORT

To: **Board of Directors**

From: Emilie Costan, Administrative Services Manager

Cc: Eric Nielsen, General Manager

Subject: Annual Investment Report for the Fiscal Year Ended June 30, 2026

Meeting Date: November 5, 2026

Overview

The South Placer Municipal Utility District (District) is governed by the Municipal Utilities District (MUD) Act of California, codified in Public Utilities Code §11501, et seq. Public Utilities Code §12871, which allows the District to invest surplus money in its treasury. California Government Code, primarily §53601 and related subsections, authorizes the type of investment vehicles that are allowed in a local agency's portfolio. The investment vehicles that are allowed emphasize the preservation of capital and conservative investment. The District is not permitted to purchase an investment that is not specifically authorized by law and designated by the District's Board of Directors.

Board Policy #3120 Investment of District Funds provides additional direction to ensure the prudent and beneficial investment of District funds. The policy allows the District the option of utilizing a "dual portfolio" approach to its investments, consisting of a "Liquidity Portfolio" and a "Long-Term Portfolio." The Liquidity Portfolio shall consist of funds necessary for the District's operation and capital needs for a period of not less than one year, plus prudent reserves that comply with the District Reserve Policy. Funds determined by the District in excess of the amount necessary to fund the Liquidity Portfolio may be allocated to the Long-Term Portfolio. The District has moved funds in and out of a Long-Term Portfolio in accordance with market conditions.

After a period of time in which the Federal Reserve increased interest rates to combat persistently high inflation, the Federal Reserve began lowering rates in September of 2024. In preparation, the Board approved the investment of $15 million in longer-term fixed-income securities through Wells Fargo Securities in April 2024. These non-callable fixed-income securities consisted of a two-year bond with a coupon rate of 4.625% and a three-, four-, and five-year bond each with a coupon rate of 4.500%. The intent of these bonds was to reduce the risk to the District of interest rates returning to the previous low-rate environment and interest income correspondingly declining. The Federal Reserve again lowered rates in September of 2025 and December 2025 and then held rates steady until increasing them in September 2026. The District has continued to reinvest the interest earnings and matured securities into new Wells Fargo fixed-income securities.

Overall, during the last fiscal year, interest declined slightly for the first half of the year and then remained steady for the remainder of the year. The District's short-term investment funds continued to provide consistent quarterly interest earnings, and equity also performed well. The net return on the District's CalPERS Section 115 Pension Trust's CERB and CEPP Trusts were 14.14% and 12.51%, respectively. The overall balance of the District's investment portfolio, excluding unrestricted deposits in financial institutions and the CEPPT, increased by $6.5 million (7.3%), with total investment income of $3.6 million, an approximately 3.9 percent rate of return.

Recommendation
Staff recommends that the Board of Directors receive and file the Annual Investment Report.

Strategic Plan Goals
This action is consistent with SPMUD Strategic Plan Priorities:

Prepare for the future and foreseeable emergencies.
Provide exceptional value for the cost of sewer service.

Related District Ordinances and Policies
This action is in conjunction with the following District Policies:

Policy 3120 – Investment of District Funds
Policy 3130 – District Reserve Policy

Fiscal Impact
There is no direct fiscal impact associated with the preparation of this report. Interest income is used to fund both operating and capital expenditures.

Attachments:

1. Table 1 – Balance of Investments
2. Table 2 – Fund Balances
3. Table 3 – Asset Allocation as of June 30, 2026
4. Table 4 – Short-Term and Long-Term Portfolio Breakdown
5. Board Policy #3120 Investment of District Funds

Table 1: Balance of Investments

Investment	June 30, 2026	June 30, 2025
Local Agency Investment Fund (LAIF)	$ 28,729,467	$ 27,546,962
Wells Fargo Fixed-Income Securities	16,674,380	15,924,300
California Class Prime Fund	14,668,364	14,101,439
CalTRUST Short-Term Investment Fund	7,365,068	7,106,030
Five Star Money Market	14,659,518	11,165,456
Placer County Treasury's Investment Pool	5,994,941	5,768,555
	$ 88,091,738	$ 81,612,742
Unrestricted Deposits in Financial Institutions	$ 3,709,056	$ 1,998,969
	$ 91,800,794	$ 83,611,711
CalPERS CEPP Trust- Restricted	$ 3,203,321	$ 2,847,062
TOTAL	**$ 95,004,115**	**$ 86,458,773**

Table 2: Fund Balances

Fund	June 30, 2026	June 30, 2025
Fund 100 - Operating Fund	$ 16,666,591	$ 15,739,886
Fund 300 - Capital Expansion Fund	39,472,497	36,658,480
Fund 400 - Capital Renewal Fund	31,952,650	29,214,376
	$ 88,091,738	**$ 81,612,742**
CalPERS CEPP Trust - Restricted	$ 3,203,321	$ 2,847,062
TOTAL	**$ 91,295,059**	**$ 84,459,804**

Table 3: Asset Allocation as of June 30, 2026

Investment Type	% of Portfolio on June 30, 2026
Local Agency Investment Fund (LAIF)	31%
Wells Fargo Fixed-Income Securities	18%
California Class Prime Fund	16%
Five Star Money Market	16%
CalTRUST Short-Term Investment Fund	8%
Placer County Treasury's Investment Pool	7%
Unrestricted Deposits in Financial Institutions	4%

Table 4: Short-Term & Long-Term Portfolio Breakdown as of June 30, 2026

Short-Term Portfolio	
Local Agency Investment Fund (LAIF)	$ 28,729,467
California Class Prime Fund	14,668,364
CalTRUST Short-Term Investment Fund	7,365,068
Five Star Money Market	14,659,518
Unrestricted Deposits in Financial Institutions	3,709,056
	$ 69,131,473
Long-Term Portfolio	
Wells Fargo Fixed-Income Securities	$ 16,674,380
Placer County Treasury's Investment Pool	5,994,941
	$ 22,669,321
Restricted	
CalPERS CEPP Trust	$ 3,203,321
	$ 95,004,115

SOUTH PLACER MUNICIPAL UTILITY DISTRICT POLICIES

Policy Name:	3120 – INVESTMENT OF DISTRICT FUNDS		
Approval Authority:	SPMUD BOARD OF DIRECTORS	Adopted:	12/03/2015
Resolution No.	15-27, 18-15, 20-33, 22-45	Revised:	12/01/2022

PURPOSE

This policy provides direction to the Board of Directors, General Manager, and Secretary of the District for the prudent and beneficial investment of all funds and monies of the District without regard to source or restrictions.

POLICY STATEMENT

Section 1. Basic Policy and Objectives

The investment policy of the District is a conservative policy guided by three principles of public fund management.

In specific order of importance, the three principles are:

a) Safety of Principal: Investments shall be undertaken in a manner which first seeks to preserve portfolio principal.
b) Liquidity: Investments shall be made with maturity dates that are compatible with cash flow requirements and which will permit easy and rapid conversion into cash, at all times, without a substantial loss of value.
c) Return on Investment (ROI): Investments shall be undertaken to produce an acceptable rate of return after first consideration for principal and liquidity.

Consistent with the three primary principals of public fund investment enumerated above, Safety, Liquidity, and ROI, in that order of priority, the District may utilize a "dual portfolio" approach to its investments consisting of a "Liquidity Portfolio" and a "Long-Term Portfolio." The Liquidity Portfolio shall consist of funds necessary for the District's operation and capital needs for a period of not less than one-year, plus prudent reserves in accordance with Policy 3130. Funds determined by the District in excess of the amount necessary to fund the Liquidity Portfolio may be allocated to the Long-Term Portfolio. Any reference to a portfolio or portfolios shall mean the total of District cash and securities under management by the District.

Section 2. Authority

The State of California Public Utilities Code (PUC) §12871 and Government Code (GC) §53601 and related subsections, authorize the types of investments in which the District may invest any surplus funds in its treasury. The investment vehicles emphasize preservation of capital and are a conservative set of investments. The authority to invest as defined in GC §53601 is delegated to the local agency's legislative body. Under no circumstances is the local agency permitted to purchase an investment that

is not specifically authorized by law and within the scope of investments designated by the local agency's governing board.

Section 3. Diversification

The District shall maintain a portfolio of authorized investments with diversified maturities, issuers, and security types to avoid the risk inherent in overinvesting in any one sector. The District shall evaluate or cause to be evaluated each potential investment, seeking quality of issuer, underlying security or collateral, potential negative effects of market volatility on the investment and shall diversify the portfolio to reduce exposure and assure adherence to the Basic Policy and Objectives of Section 1 of this policy.

Section 4. Prohibited Purchases

The District shall not invest any funds pursuant to Government Code §53601.6 such as inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. The District shall not invest any funds pursuant to the law in any security that could result in a zero interest accrual if held to maturity. However, the District may hold prohibited instruments until their maturity dates.

Investments in repurchase agreements may be made, on any investment authorized by code, when the term of that agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at one hundred two per cent (102%) or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly.

The District, when purchasing any securities as described in Government Code §53601, shall require delivery of the securities to the District, including those purchased for the District by financial advisors, consultants, or managers using the District's funds by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery. For purposes of this policy, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the District. Purchases of commercial paper may not exceed fifteen percent (15%) of the District's surplus money that may be invested pursuant to the law.

Section 5. Delegation of Authority

The Board of Directors delegates the authority to manage the District's investments to the General Manager or their assigns. Transfers or investments in excess of $5 million require a Resolution of the Board of Directors authorizing such a transaction.

Section 6. Prudent Person Clause

Investments will be made with the same standard of care that persons of prudence, discretion, and intelligence exercise when managing their own affairs; not for speculation, but for investment with particular consideration for safety of capital, as well as probable income derived.

Section 7. Reporting Requirements

Each month the Secretary shall include a list of investment transactions per Government Code §53607 in the Administrative Services Department Monthly Board Report. This list shall include all transfers and withdrawals that occurred in the reportable month. In addition to the monthly transaction report, the Secretary shall prepare a quarterly investment report that contains sufficient detail to provide information for the evaluation of investment performance. This report shall also contain a statement of compliance of the portfolio with the District investment policy and a statement of the local agency's ability to meet its expenditure requirements for the next six (6) months.

Section 8. Grandfather Clause

Any investment held by the District at the time this policy is adopted shall not be sold to conform to any part of this policy unless its sale is judged to be prudent by the General Manager and with the consent of the Board of Directors.

Section 9. Conflicts

In the event any provision of this Investment Policy is in conflict with any of the statutes referred to herein or any other state or federal statute, the provisions of each statute shall govern.

Section 10. Annual Review

An annual review and appraisal of the investment portfolio shall be made for the purpose of evaluating the District's investment program and such annual review and appraisal shall be considered by the staff and the Board of Directors for the purpose of recommending or making any changes or amendments to the District's Investment Policy.

Section 11. Permitted Investments

Permissible investments shall be limited to those investments included in the Liquidity Portfolio or the Long-Term Portfolio pursuant to the limitations in GC §53601.