



CITY COUNCIL MEMORANDUM

FROM: The Office of the City Manager **DATE:** December 13, 2021
SUBJECT: Consider Resolution No. 2021-042, adopting the City's Investment Policy, adopting the City's Investment Strategy and providing an effective date.
PRESENTER: Mark C. Mills, Director of Finance

SUMMARY:

The Public Funds Investment Act ("PFIA") requires the City Council to review and adopt by official action the City's Investment Policy and Investment Strategy each year. Both the Investment Policy and Investment Strategy were last approved by City Council on November 9, 2020.

GENERAL DESCRIPTION:

The City is required by the PFIA to review and renew the City's investment policy and strategy at least annually. The City invests only in high quality, short term instruments with maturities no longer than five years. The City makes extensive use of investment pools (TexPool and TexasTerm) for overnight liquidity. Aside from these pools, the City's investment portfolio is managed by Patterson & Associates ("Patterson").

After consulting with Patterson, staff is proposing changes for consideration as part of the 2021 review and approval. A summary of the proposed modifications has been included below. Redline copies of the Investment Policy (Attachment 1) and Investment Strategy (Attachment 2) have also been included as part of this agenda item. Only changes that modified the policy have been included. Formatting changes have been made but not included in the summary of changes. The page numbers below reference the pages in the redline version of the documents.

Investment Policy Modifications

Cover Page

Description: Updated to reflect the new effective date of the Investment Policy.

Rationale: Council action on the proposed changes will result in an updated policy with a new effective date.

Page 1: Table of Contents

Description: Updated to reflect the page numbers in the redline version. These will be modified to correspond to the correct page numbers once the changes in the redline version have been approved and the policy modified.

Rationale: Updated to match redline version of policy for reference.

Page 4: I. Purposes & Objectives, B. Objectives, 1. Safety

Description: Replaced “the safest type of” with “high credit quality”

Rationale: Wording change recommended by Patterson.

Page 6: II. Scope

Description: Added Tax Increment Financing District 3 (TIF #3) to the list of funds covered by this policy.

Rationale: With the creation of TIF #3, it was necessary to add it to the policy, similar to TIF #1 and TIF #2.

Page 9: V. Suitable and Authorized Investments

Description: Removal of item 5, “Approve the purchase of any securities with maturities over three (3) years.” Removal results in a renumbering of items.

Rationale: Change suggested by Patterson. Under the current policy, the City’s Investment Committee is required to authorize the purchase of securities over three (3) years. In the past, the City has not typically purchased securities with a maturity beyond three years. Staff is exploring opportunities to extend a portion of the portfolio beyond three years and has been discussing this with Patterson. Removal of this requirement will provide Patterson with flexibility to take advantage of longer-term (not to exceed 5 years) investment opportunities when they present themselves.

Page 9: V. Suitable and Authorized Investments

Description: Removed the phrase “with declining credit”.

Rationale: Allows an investment to be liquidated early regardless of credit quality to improve the potential earnings on that position and/or minimize risk of loss of Principal.

Page 10: V. Suitable and Authorized Investments, A. Authorized Investments

Description: Wording changes related to certificates of deposit and their collateralization.

Rationale: Wording change recommended by Patterson to clarify the types of certificates of deposits that could be utilized.



Page 12: V. Suitable and Authorized Investments, A. Authorized Investments

Description: Addition of item 11. Interest Bearing Accounts.

Rationale: Interest Bearing Accounts added to the policy at the recommendation of Patterson.

Page 13: Investment Parameters, B. Investment Type

Description: The word "limits" is changed to "guidelines".

Rationale: Recommended wording change from Patterson.

Page 13: Investment Parameters, B. Investment Type

Description: Increased the percentage of the portfolio that can be comprised of Certificates of Deposit from 30% to 50%.

Rationale: In recent past, NRH has not typically invested in Certificates of Deposit ("CD's"). In discussions with Patterson regarding the current market conditions, they see value in CD's that the City may wish to considered. Though not likely that the mix of investments will include 50% CD's, it does provide increased flexibility if appropriate opportunities are available.

Page 13: Investment Parameters, B. Investment Type

Description: Increased the percentage of the portfolio that can be comprised of Commercial Paper from 10% to 40%.

Rationale: Based on current market conditions, both staff and Patterson believe there is opportunity for increased short-term yields through Commercial Paper that can be achieved without sacrificing safety or liquidity. Commercial Paper presents an opportunity to invest funds for a period of up to 365 days to take advantage of rising rates, while not locking in to a longer-term investment (beyond one-year) that may inhibit the city's ability to take advantage of future increases in rates.

Page 13: Investment Parameters, B. Investment Type

Description: Modifications related to the evaluation of the portfolio mix, calling for the portfolio investment mix to be evaluated for compliance at the time of purchase.

Rationale: When securities mature or calls occur, it alters the portfolio's mix of investments. This could cause investments that were within the approved mix at the time of purchase to become out of compliance, depending upon the size of the maturity or callable security. This change establishes / verifies compliance with the policy's investment mix at the time the instrument was purchased.

Page 14: VII. Investment Procedures, A. Approval of Broker/Dealers

Description: Removal of "and banks", removal of "National Association of Security Dealers ("NASD")", and addition of Financial Industry Regulatory Authority ("FINRA").

Rationale: Changes recommended by Patterson.

Page 14: VII. Investment Procedures, A. Approval of Broker/Dealers

Description: Removal of requirement that broker/dealers will certify that they have received, read, understood, and agreed to comply with the City's investment policy.

Rationale: Changes recommended by Patterson. Patterson acts as a fiduciary and screens all broker/dealers that would transact for the City. Since Patterson is directing the trades they will be required to sign off on the Investment Policy and will ensure full compliance at all times.

Page 14: VII. Investment Procedures, A. Approval of Broker/Dealers

Description: Removed "All banks authorized to sell securities to the City will be Federal Reserve member banks and must be approved by the Investment Committee. No investments will be placed with Savings and Loan Institutions or Credit Unions."

Rationale: Changes recommended by Patterson.

Page 14: VII. Investment Procedures, A. Approval of Broker/Dealers

Description: Modified "those institutions" to "the broker/dealers"

Rationale: Change recommended by Patterson.

Page 16: Custodial Credit Risk Management, A. Safekeeping and Custodial Agreements

Description: Changes "safekeeping" to "safekeeping/custody", removed "either the City, a City account in", removed "that have FDIC insurance provided" and added "and collateral"

Rationale: Change recommended by Patterson.

Page 17: Custodial Credit Risk Management, B. Collateral Policy

Description: Modification of collateralization requirement, consistent with the Public Funds Investment Act, consistently setting the collateral requirement at 102% of value.

Rationale: Change recommended by Patterson. Provides consistency across collateral requirements.

Investment Strategy Modifications

Cover Page

Description: Updated to reflect the new effective date of the Investment Strategy.

Rationale: Council action on the proposed changes will result in an updated strategy with a new effective date.

Page 3: Component Units

Description: Added Tax Increment Financing District 3 (TIF #3) to the list of funds covered by this policy.

Rationale: With the creation of TIF #3, it needed to be added to the policy, similar to TIF #1 and TIF #2.

Pages 3, 4, 5, 6, 7 Safety & Principal

Description: Removed references to “the maximum allowable investment in commercial paper shall be limited to 10% . . .”.

Rationale: This change to the strategy was made to be consistent with the proposed change in to the policy that increase commercial paper limits from 10% to 40%.

Page 7 Safety & Principal

Description: Replaced “throughout three years” to “within 5 years”

Rationale: Change recommended by Patterson.

The specific modifications referenced above have been provided as Attachment 1 and Attachment 2 to this item. The City’s updated Investment Policy has been included as Exhibit A of Resolution 2021-042 and the updated Investment Strategy has been included as Exhibit B. If approved, the Investment Policy will become effective on December 14, 2021.

RECOMMENDATION:

Approve Resolution No. 2021-042, adopting the City Investment Policy, adopting the City’s Investment Strategy and providing an effective date.