

AGENDA

**City of Arlington, Texas
Investment Committee
Finance Conference Room
Monday, November 16, 2015
2:00 p.m.**

- 1. Approval of August 24, 2015 Minutes**
- 2. Economic Indicators**
- 3. Portfolio Review**
- 4. Consideration of Investment Strategy**
- 5. Annual Review of Investment Policy**
- 6. Other Business**
- 7. Review of Quarterly Report for Mayor and City Council**

Investment Committee Item No. 1

Minutes for August 24, 2015

REGULAR MEETING INVESTMENT COMMITTEE

Members Present: Gilbert Perales, Deputy City Manager
Mike Finley, Director of Finance
Erin Roseman, Assistant Director Fiscal Policy
Darryl Westbrook, Assistant Director Water Utilities
Keith Brooks, Engineering Ops Manager Public Works

Absent: Mark Wisness, Director Arlington Convention Center

Also present: Ethan Klos, Treasurer
Mark Davies, Cash and Debt Administrator

The meeting was called to order at 2:00 p.m.

1. Consideration of the April 27, 2015 minutes.
A motion was made, seconded and carried by unanimous vote to approve the April 27, 2015 minutes.
2. Economic Indicators
Mark Davies presented a variety of economic indicators including CPI, Unemployment, Historical Treasury Rates, and the Yield Curve. Expectations are that Fed Funds will remain unchanged for the next year.
3. Portfolio Review
Mark Davies gave an overview of the investment reports for the quarter ending June 30, 2015. The operating portfolio as of June 30, 2015 had a weighted average maturity of 302 days; down from 316 days on March 31, 2015.
4. Consideration of Investment Strategy.
Due to the large amount of Capital projects, the recommended investment strategy for the next three months was to maintain the range for Operating Funds in the portfolio WAM between 250 and 450 days. Treasury will seek to hold \$25M to \$50M in cash/investment pools in anticipation of increased capital expenditures. When investing, the focus for the next quarter will be placed on targeting maturities in Q4 of FY17 and filling out the ladder in FY18 for Q1-Q3. Sectors that will be utilized are anticipated to be Agencies, Municipals, and Treasuries. Additionally, Treasury will continue to maintain a cash balance of approximately \$30M to earn enough interest to offset bank fees. A motion was made, seconded and carried by unanimous vote to approve the recommended investment strategy.
5. Other Business
None

6. Review of Quarterly Report for Mayor and City Council

The Committee reviewed the quarterly report that is to be presented to the Mayor and City Council.

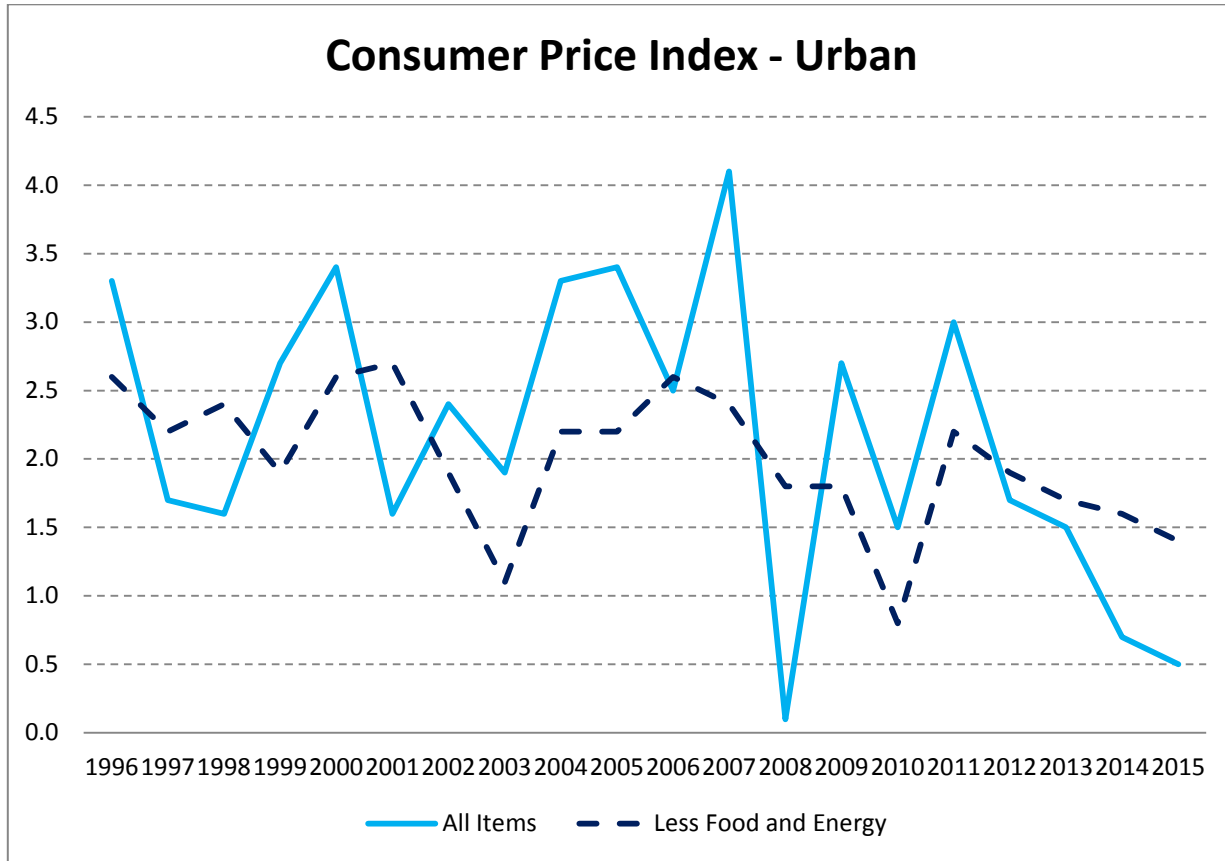
There being no further business, the meeting was adjourned at 2:14 p.m.

APPROVED:

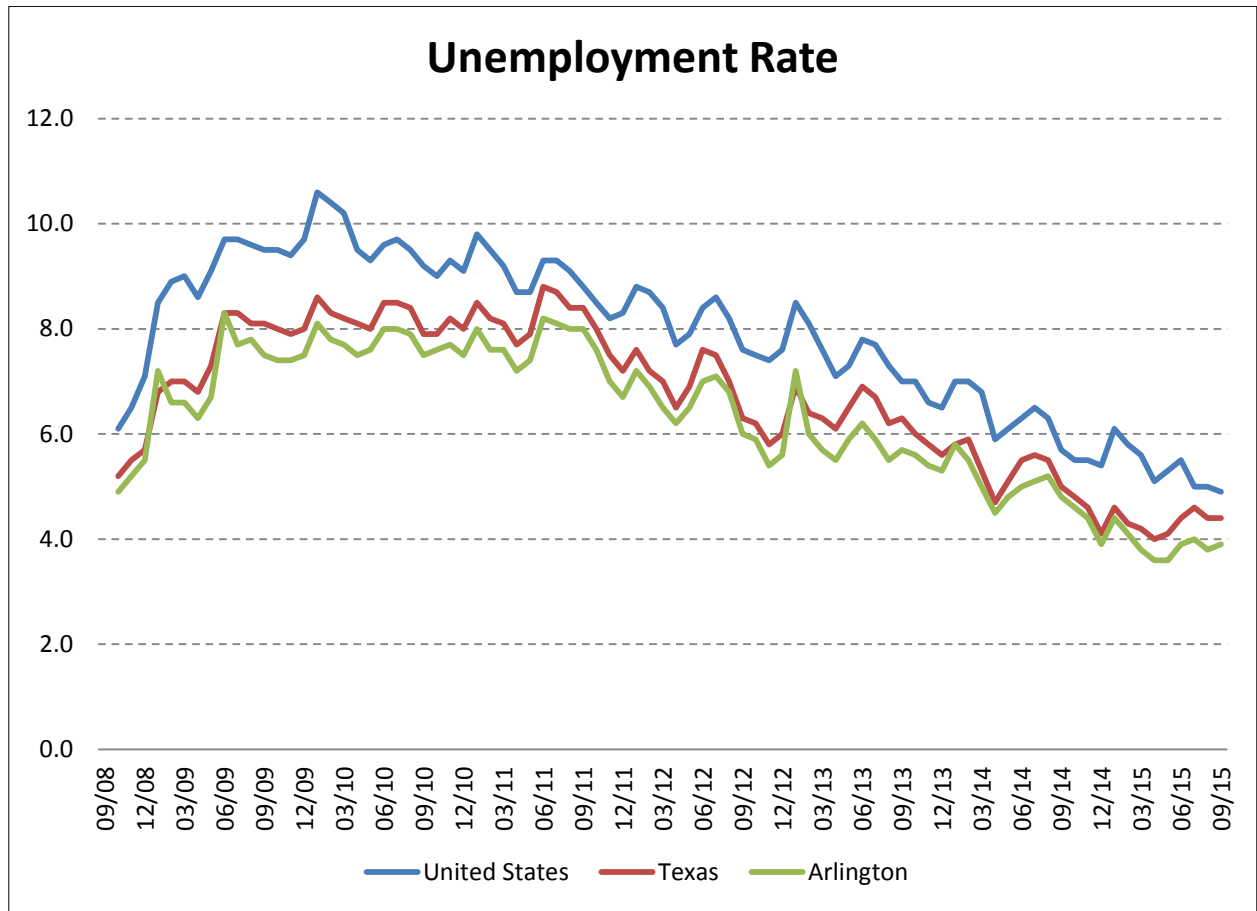
Gilbert Perales, Deputy City Manager

Investment Committee Item No. 2

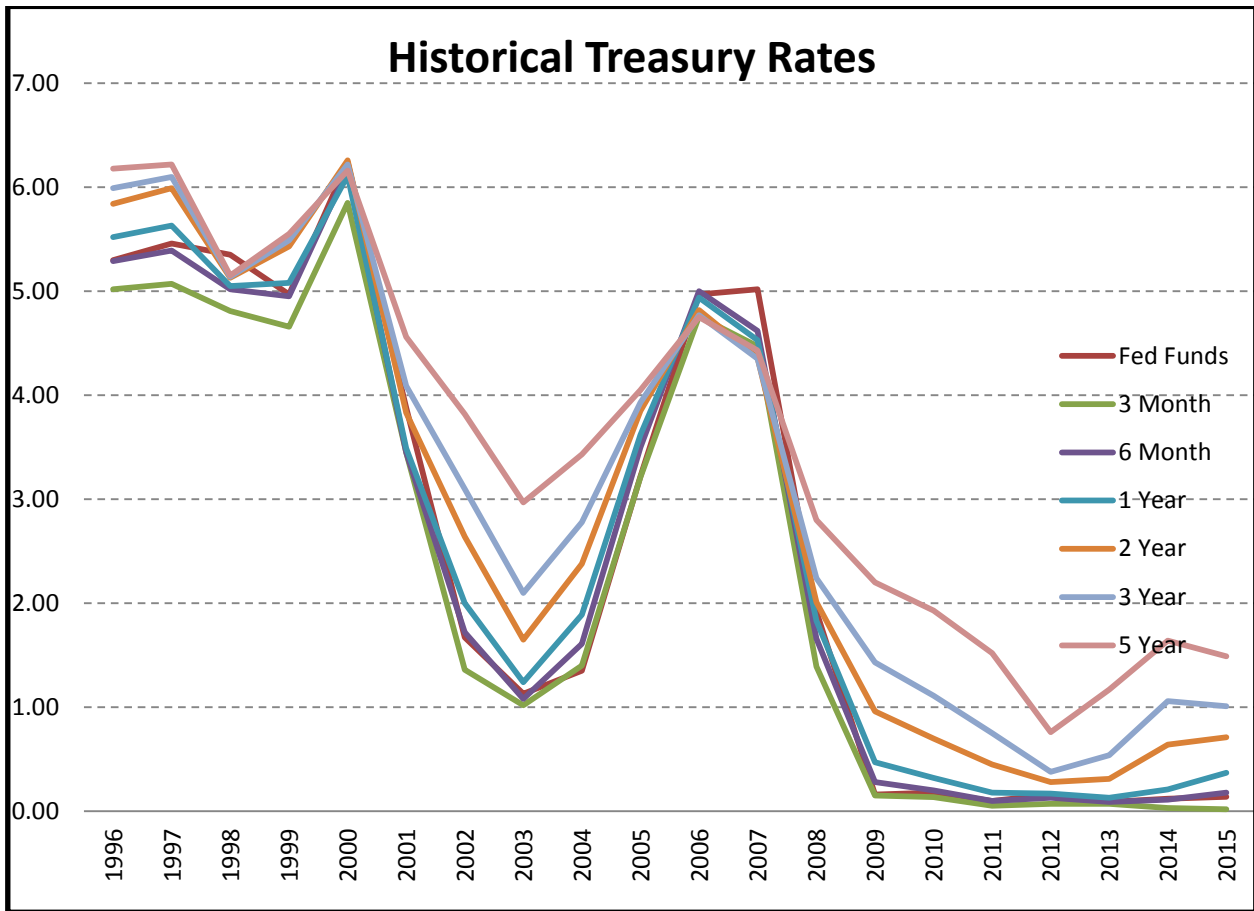
Economic Indicators



The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The U.S. Bureau of Labor Statistics (BLS) publishes CPIs for two population groups: (1) The CPI for Urban Wage Earners and Clerical Workers (CPI-W), which covers households of wage earners and clerical workers that comprise approximately 28 percent of the total population and (2) the CPI for All Urban Consumers (CPI-U) and the Chained CPI for All Urban Consumers (CCPI-U), which cover approximately 88 percent of the total population and include, in addition to wage earner and clerical worker households, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force. The CPIs are based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 87 urban areas across the country from about 4,000 housing units and approximately 26,000 retail establishments—department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of fuels and a few other items are obtained every month in all 87 locations. Prices of most other commodities and services are collected every month in the three largest geographic areas and every other month in other areas. Prices of most goods and services are obtained through personal visits or telephone calls by BLS trained representatives.



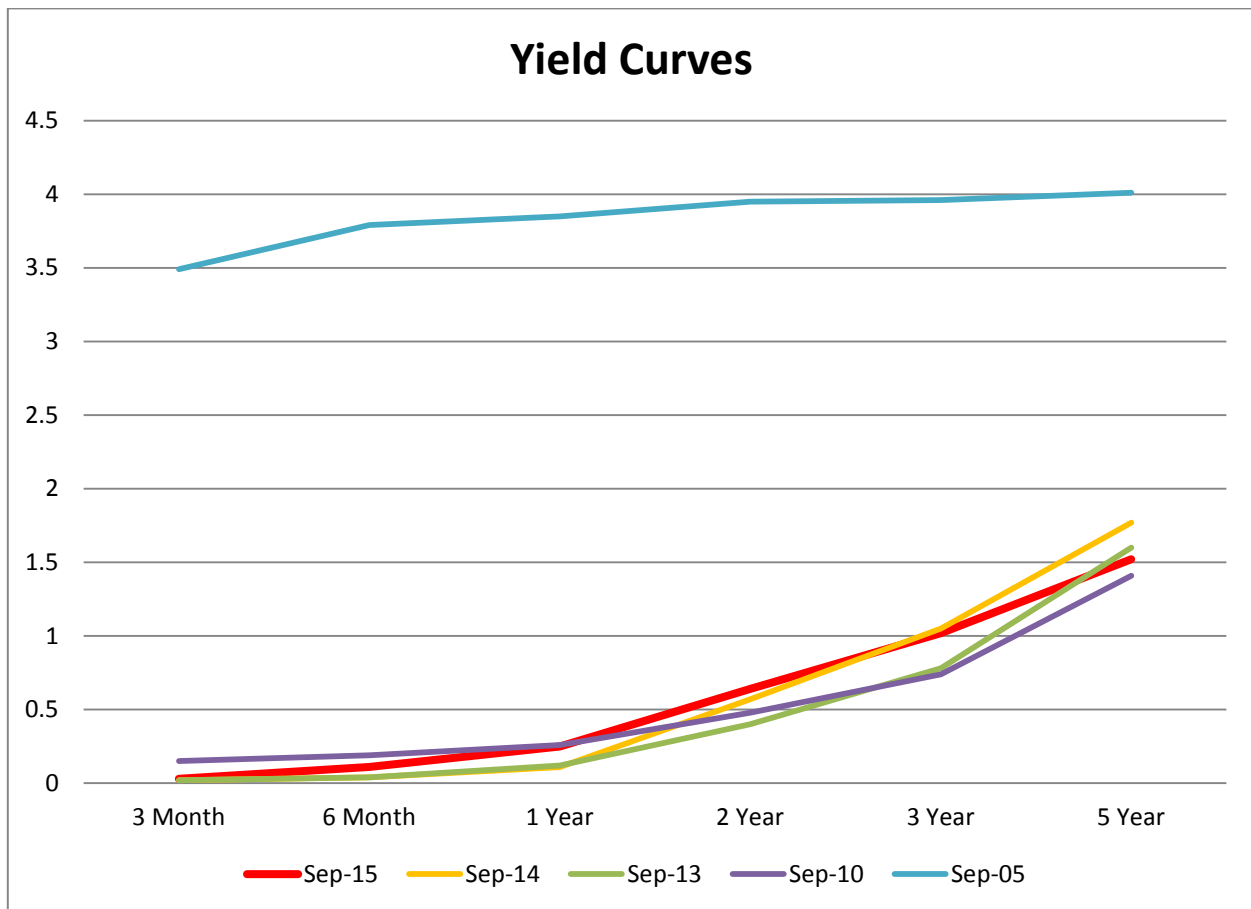
The unemployment rate represents the number of unemployed as a percentage of the labor force. Labor force data are restricted to people 16 years of age and older, who currently reside in 1 of the 50 states or the District of Columbia, who do not reside in institutions (e.g., penal and mental facilities, homes for the aged), and who are not on active duty in the Armed Forces.



The Federal Funds rate (Fed Funds) is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

A Treasury Bill is a short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills are sold in denominations of \$1,000 up to a maximum purchase of \$5 million and commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).

A Treasury Note is a debt obligation backed by the U.S. government with a maturity between two and ten years. T-bills are sold in denominations of \$1,000. The 10-year Treasury note has become the security most frequently quoted when discussing the performance of the U.S. government bond market and is used to convey the market's take on longer-term macroeconomic expectations.



The Yield Curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth. The shape of the yield curve is closely scrutinized because it helps to give an idea of future interest rate change and economic activity. There are three main types of yield curve shapes: normal, inverted and flat (or humped). A normal yield curve is one in which longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields, which can be a sign of upcoming recession. A flat (or humped) yield curve is one in which the shorter- and longer-term yields are very close to each other, which is also a predictor of an economic transition. The slope of the yield curve is also seen as important: the greater the slope, the greater the gap between short- and long-term rates.

**Investment Committee Item No. 3
Portfolio Review**

**Investment Report
Quarter Ended 9/30/15**

Investment Earnings

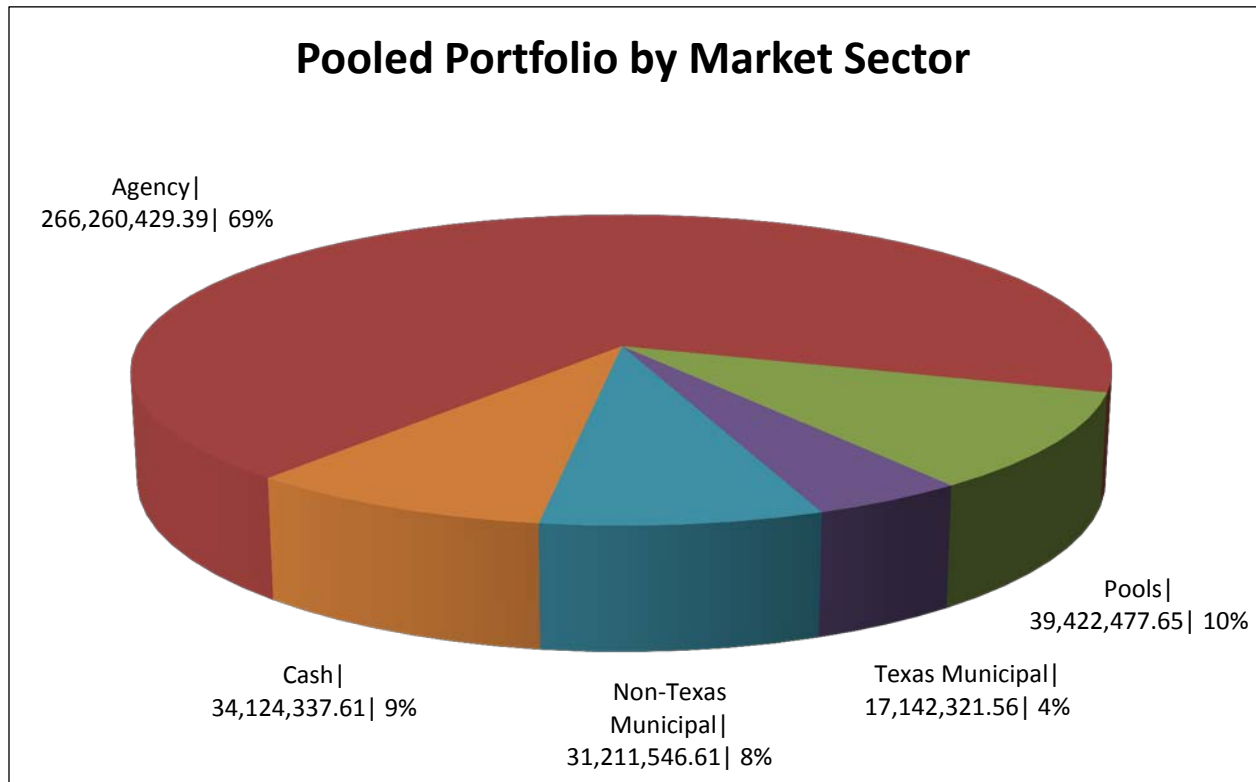
	<u>Curr. Quarter</u>	<u>Year to Date</u>	<u>YTD Prior FY</u>	<u>% Change</u>
Pooled Funds	\$ 543,332	\$ 1,612,918	\$ 1,401,939	15.0%
General Fund Reserve	107	300	195	53.7%
Water Debt Reserve	15,689	38,532	13,230	191.2%
Stadium Complex	185,793	744,370	567,478	31.2%
	<u>\$ 744,921</u>	<u>\$ 2,396,119</u>	<u>\$ 1,982,841</u>	

Investment Performance

	<u>YTD Yield FY 15</u>	<u>YTD Yield FY 14</u>
City Portfolio	0.44%	0.36%
Stadium Complex	2.22%	2.57%
Rolling 12 month Treasury	0.37%	0.11%

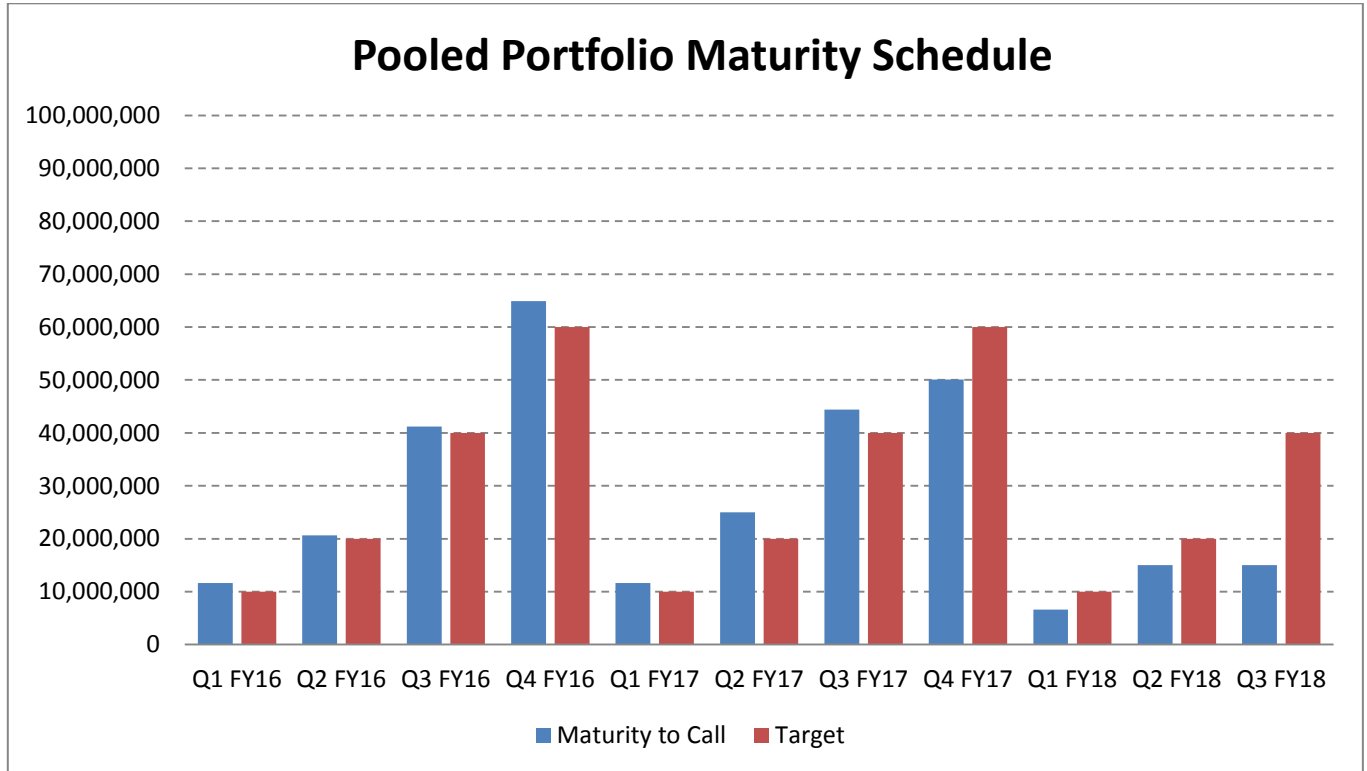
PORTFOLIO BY SECTOR

Portfolio Investment Limitations	Policy % Limit	% of Portfolio
Cash	none	8.79%
Treasury Securities	100%	0.00%
TxPool	25% of City Port / 2% of Pool Port	4.34% - 0.14%
Texas Daily	25% of City Port / 2% of Pool Port	2.08% - .41%
TxStar	25% of City Port / 2% of Pool Port	3.74% - .28%
Texas Investment Pools	100%	10.16%
Certificates of Deposit	50%	0.00%
Texas and its agencies, cities, counties (AA)	10%-2%/Issuer	4.42% - 1.30%
Municipal Bonds (AA)	10%-2%/Issuer	8.04% - 1.03%
Farmer Mac	35%	6.27%
Federal Farm Credit Bank	35%	22.56%
Federal Home Loan Bank	35%	32.21%
Federal Home Loan Mortgage Corp.	35%	6.25%
Federal National Mortgage Assoc.	35%	1.30%
World Bank	35%	0.00%
FDIC Insured	30%	0.00%
Government National Mortgage Assoc.	35%	0.00%
Repurchase Agreements	15%	0.00%
Commercial Paper (A-1+,P-1)	20% - 5%/Issuer	0.00%
Money Market Funds (AAA)	15%/Issuer	0.00%

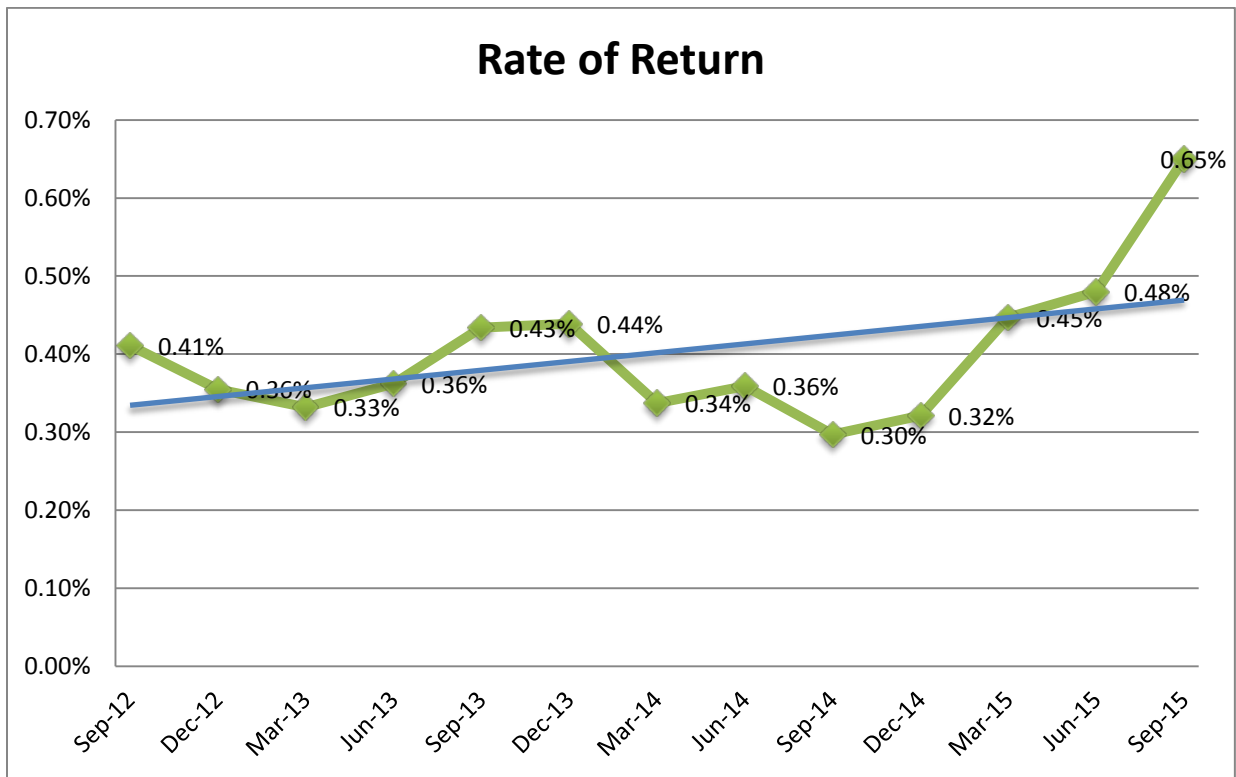
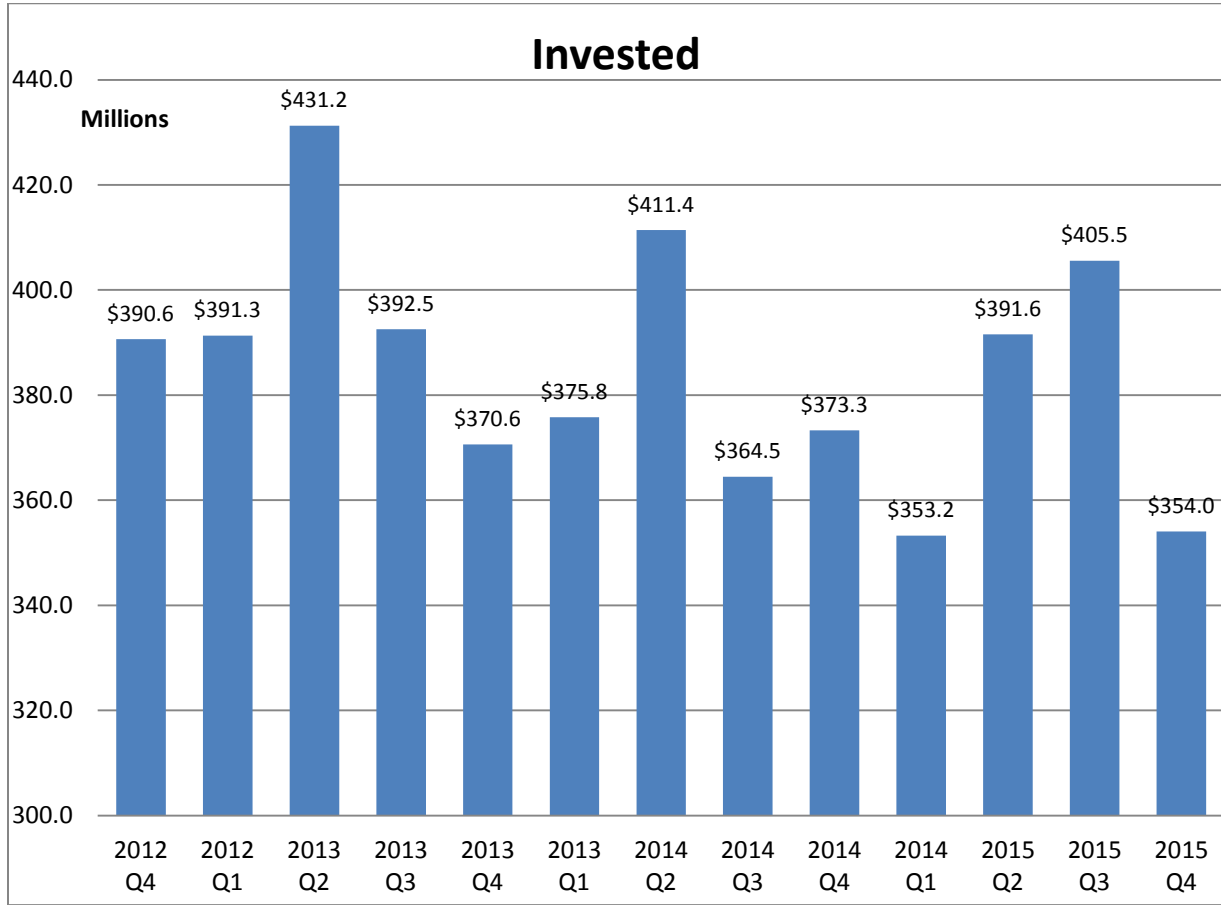


PORTFOLIO BY MATURITY

Portfolio Maturity Limitations	Policy Limits		Actual	
	Maturity	WAM	Maturity	WAM (days)
Operating Funds	3 (1,096)	1.5 (547)	1,051	429
Water Debt Reserve	5 (1,825)	4 (1,460)	1,362	526
Cowboys Debt Service Reserve	7 (2,555)	7 (2,555)	331	167



PORTFOLIO HISTORY



Investment Committee Item No. 4

Consideration of Investment Strategy

As of the end of September, \$66.4M of Capital projects had been encumbered. An additional \$120.9M of Capital projects have cash available, but have not yet been spent or encumbered. The Cash/Pool balance is approximately \$73.5M as of September 30, 2015.

Due to the large amount of Capital projects, the recommended investment strategy for the next three months is to maintain the range for Operating Funds in the portfolio WAM between 300 and 500 days. Additionally maintain \$25M to \$100M in cash/investment pools in anticipation of increased capital expenditures.

When investing, the focus for the next quarter will be placed on targeting maturities in Q4 of FY17 and filling out the ladder for FY18. Sectors that will be utilized are anticipated to be Agencies, Municipals, and Treasuries.

Investment Committee Item No. 5

Annual Review of the Investment Policy

Every year the Investment Policy is to be updated with any necessary changes and sent for approval by the Mayor and City Council.

Expected calendar of events:

- Dec 15 – take updated Investment Policy to Fiscal Policy Committee for approval and City Council that evening

Updates to the Policy:

- Under House Bill 870 the Texas Public Funds Investment Act 2256 reduced the amount of training hours for investment officers from ten hours every two years to eight hours every two years. Investment officers must still initially receive the ten hours of training within 12 months after taking office or assuming investment duties. Effective September 1, 2015.

Before:

Training shall consist of 10 hours within 12 months of assuming office and 10 hours not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date thereafter as required by the Act.

After:

Training shall consist of 10 hours within 12 months of assuming office and 8 hours not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date thereafter as required by the Act.

- Update language concerning designated investment officers in the responsibility and control section.

Before:

Management responsibility for the investment program is hereby delegated to the Director of Finance. The Director of Finance, the Assistant Director, Fiscal Policy, the Treasurer, the Cash and Debt Administrator, the Budget Analyst, and the Treasury Analyst are designated as Investment Officers.

After:

The Investment Committee shall designate Investment Officers who are hereby delegated the management responsibility for the investment program. The Director of Finance has the authority to temporarily designate Investment Officers between Investment Committee meetings, at which point the Investment Committee will determine the status of the temporary Officers.

- Update language concerning the selection of the Primary Depository.

Before:

The Primary Depository shall be selected through the City's banking service procurement process, which shall include a formal request for proposals. In selecting a primary depository, the overall service value to the City and credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a review of a prospective depository's credit characteristics and financial history.

After:

The Primary Depository shall be selected through the City's banking service procurement process, which is governed by Texas Local Government Code, Chapter 105 – Depositories for Municipal Funds. In selecting a primary depository, the overall service value to the City and credit worthiness of institutions shall be considered, and the Finance Department shall conduct a review of a prospective depository's credit characteristics and financial history.

- Change dates throughout the policy from December 16, 2014 to December 15, 2015.

Investment Committee Item No. 6

Other Business

Investment Committee Item No. 7

Quarterly Council Reports

The latest quarterly report to the Mayor and City Council is presented in draft form for the committee's review and comment.

City of Arlington
Quarterly Investment Report
Ending September 30, 2015



December 8, 2015

To The Honorable Mayor Jeff Williams,
Members of the City Council,
and City Manager,
City of Arlington

The attached information comprises the quarterly investment report for the City of Arlington, Texas for the quarter ended September 30, 2015. The undersigned acknowledge that the City's investment portfolio has been, and is in compliance with the policies and strategies as contained in the City's Investment Policy as adopted by Resolution 14-294, for the City of Arlington, and also in compliance with the Public Funds Investment Act of the State of Texas.

Mike Finley, Director of Finance

Ethan Klos, Treasurer

Mark Davies, Cash and Debt Administrator

Trina Taylor, Budget Analyst

Lisa Williams, Treasury Analyst



MEMORANDUM

TO: Mayor and City Council

FROM: Mike Finley, Director of Finance

SUBJECT: Quarterly Investment Report

DATE: December 8, 2015

The quarterly investment report has been prepared for the Mayor and City Council as required by Section 2256.023 Internal Management Reports of the Public Funds Investment Act.

The quarterly report includes an investment portfolio summary, and several pages presenting individual investment securities as required by the Act. The report covers all investments of the City and the Stadium. Below is the 09/30/2015 ending values.

	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>QTY Interest Earnings</u>
City Total	\$352,977,478	\$354,036,775	\$354,650,795	\$1,651,750
Stadium Total	<u>\$24,795,880</u>	<u>\$24,909,972</u>	<u>\$25,323,673</u>	<u>\$744,370</u>
Grand Total	\$377,773,358	\$378,946,747	\$379,974,468	\$2,396,120

The ending book value for the City Total does not include \$34.1mil in collateralized cash balances at the depository bank (JPMorgan). The cash balance provides an earnings credit in lieu of interest and is used to offset bank fees while giving the City a better return than other liquid assets. At this rate, the City yields more value in offsetting bank fees than in interest earnings.

The yield for the quarter and fiscal year to date on the main portfolio is as follows:

	<u>Qtr. Yield</u>	<u>FY to Date Yield</u>
City Portfolio	0.59%	0.44%

Investment Performance

	<u>YTD Yield FY 15</u>	<u>YTD Yield FY 14</u>
City Portfolio	0.44%	0.36%
Stadium Complex	2.22%	2.57%
Rolling 12 month Treasury	0.37%	0.11%

The one-year treasury is considered to be the safest and most liquid investment and provides a good measure of market yields.



All supplementary/detail reports are available at the City Secretary’s office. Please contact me with any questions you have at 817-459-6345 (Mike.Finley@arlingtontx.gov).

cc: Trey Yelverton, City Manager
 Gilbert Perales, Deputy City Manager

City of Arlington Investment Portfolio Summary as of 06/30/2015

<u>Fund Type</u>		<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Interest Earnings</u>
<u>(City Portfolio)</u>					
General Operating	Value at 06/30/2015	395,523,351	396,455,003	396,727,460	1,069,779
	Net Change	(51,545,873)	(51,489,192)	(51,170,960)	543,439
	Value at 09/30/2015	343,977,478	344,965,811	345,556,500	1,613,218
Water Debt Service Reserve	Value at 06/30/2015	9,000,000	9,094,775	9,102,374	22,843
	Net Change	-	(23,811)	(8,079)	15,689
	Value at 09/30/2015	9,000,000	9,070,964	9,094,295	38,532
City Total	Value at 06/30/2015	404,523,351	405,549,778	405,829,834	1,092,622
	Net Change	(51,545,873)	(51,513,003)	(51,179,038)	559,128
	Value at 09/30/2015	352,977,478	354,036,775	354,650,795	1,651,750

<u>(Stadium Portfolio)</u>					
Debt Service	Value at 06/30/2015	41,887,518	42,047,823	42,627,609	558,569
	Net Change	(17,091,638)	(17,137,850)	(17,303,936)	185,801
	Value at 09/30/2015	24,795,880	24,909,972	25,323,673	744,370
Proceeds	Value at 06/30/2015	-	-	-	
	Net Change	-	-	-	
	Value at 09/30/2015	-	-	-	
Stadium Total	Value at 06/30/2015	41,887,518	42,047,823	42,627,609	558,569
	Net Change	(17,091,638)	(17,137,850)	(17,303,936)	185,801
	Value at 09/30/2015	24,795,880	24,909,972	25,323,673	744,370

Financial Terms

Par Value – Face Value of the Bonds, Principal which will pay at maturity

Book Value – The Value at which a debt security is shown on the holder's balance sheet. Book Value is often acquisition cost +/- amortization/accretion, which may differ markedly from market value. (Book Value is updated monthly by accounting)

Market Value - The price at which a security is trading and could presumably be purchased or sold. (Market value is updated at the end of each month through Interactive Data Corporation)

The General Operating Portfolio includes all City funds except the following:

- Arlington Tomorrow Foundation (ATF) Corpus
- Stadium

Supplementary Detail Reports