# Memorandum

**To:** The Honorable Mayor and Members of City Council

**From:** Cindy Epperson, Director of Finance and Budget

Tara Lewis, Financial Services Manager

**Date:** November 17, 2015

**Re:** 2015 – 3rd Quarter Treasury Report: Summary and Narrative

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**<u>The City's Investment Portfolio</u>**

The City's investment activities are governed by State regulations and the City of Yakima's Investment Policy, as revised September 6, 2011.

The City's Investment Portfolio can be divided into two general categories:

1) A Liquidity Portfolio of overnight investments. This category generally consists of funds invested in the Local Government Investment Pool (LGIP or "Pool") managed by the State Treasurer, and currently, a savings account held by a local financial institution.
2) An Investment Portfolio of time deposits and various securities with maturities normally not to exceed five years except when conditions warrant, and then up to eight years.

The City's Investment Portfolio is beginning to see some activity as short term interest rates are projected to move higher in the foreseeable future. Rates did not move much during the third quarter of 2015, but we had a couple of investments that were within two and three years of maturity that the issuer called ahead of the stated maturity dates. Also, the Grays County bonds held by the City matured on July 1.

Continued low interest rates along with the prediction of higher future rates enticed the Federal Home Loan Bank to call two securities held by the City that were paying above market rates to their investors. One incentive for an issuer to call a bond is when they can refinance their debt at lower rates. These two bond investments were paying the City 0.85% and 1.00% with maturity dates of April, 2017 and June, 2018 respectively. Since market rates for those respective (remaining) debt terms are lower, the bonds were called early. The City can now reinvest those funds for longer terms to continue getting higher rates or use them for current projects. As of the date of this report the funds were not yet reinvested, but used to pay the City's own debt payments which tend to be large in November and December. Excess cash will be reinvested in the fourth quarter, and hopefully can take advantage of rising interest rates.

Short term rates increased slightly in the LGIP. The rate rose another hundredth of a point during the third quarter. The 3 month Treasury bill fell back to .05% from a low in 2015 of .01% and a high last quarter of .08%. So although short term rates are trending ever so slightly upward, until the fed increases the overnight cost of funds above a virtual zero, rates won't get much traction.

Longer term rates have been quite volatile and are still far below pre-recession levels. While this is good news for agencies issuing new debt, the volatility adds extra risk to the debt marketplace. An issuer can get lucky on a downturn or find themselves with a higher rate than anticipated due to an upswing.

## The City’s Bonded Debt Schedule

The City’s debt activity is typically pretty quiet during third quarter. The bulk of principal payments occur in November and December. Bond principal payments totaled just over $200,000 during the quarter.

The newest debt on the schedule pertains to the relocation of the Communications Center which was financed by County-issued bonds in 2014. The City’s portion, agreed to by Resolution 2014-086 is listed as bonded debt on the schedule. $51,500 was paid toward principal in May.

The Fiscal Agent for the State of Washington changed in February 2015 from the Bank of New York Mellon to US Bank. The transition occurred smoothly and the City has received excellent service from the new agent.

## Interfund Borrowings and Investments

REET continues to pay monthly payments to the Equipment Rental reserve fund for the Kiwanis Park interfund loan.

Refuse, Fund 471 has continued to be in a negative cash position off and on during much of 2014 and most of 2015. Despite the deteriorating cash position, the fund has managed to repay its short term loans in time to avoid triggering interest as per the City’s policy. (The Interfund Loan policy states that a fund in a negative position for more than one calendar quarter will be subject to interest to be repaid to the fund making the loan.) The recently approved rate increase is anticipated to improve this situation during the next year. It will take some time for the fund to become stable again, but this first step combined with continued prudent management will alleviate the past pressure of keeping the fund operating within legal limits.