



Council Work Session Memorandum

TO: City Council
THROUGH: Tim Murray, City Administrator
FROM: Jeanne Day, Finance Director
MEETING DATE: March 2, 2021
SUBJECT: Review 2020 Investment Report

Discussion:

The City Council has adopted an Investment Policy to provide guidelines for the prudent investment of all financial assets of the City. The policy includes the requirement that the Finance Director prepare an investment report, and to provide that report to the Mayor, City Council, and City Administrator on an annual basis. Looking forward, Staff intends to continue to schedule the annual reporting at the first Council Work Session meeting in March of each year for the prior year-end investments.

Attachments:

- Finance Department Investment Report – 2020



FINANCE DEPARTMENT

INVESTMENT REPORT

DECEMBER 31, 2020

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MARKET COMMENTARY

For many reasons, 2020 will be one for the history books. 2020 gave us one extraordinary event after another: a hundred-year pandemic, lockdowns and quarantines producing massive unemployment and a deep recession; a government in disarray; civil unrest and protests; one hurricane after another; and unrelenting wildfires across the west. These along with the budget woes and revenue volatility have the 2020 markets have also been turbulent, presenting investors with tremendous uncertainty. With the onset of the pandemic, bond yields dropped significantly and have remained low.

The CBOE Volatility Index (VIX), which measures the 30-day expected volatility of the S&P 500 Index, has a historical five-year average right around 20, but has reached greater than 40 three times this year. The first was in March at the onset of the virus in the United States and the corresponding initial lockdowns, the second mid-June amidst heightened civil unrest and a new wave of COVID-19, and the third was in the lead-up to the election on November 3rd. Since then the VIX has dropped down to 25, an indication that markets have calmed post-election, which removed some of the uncertainty from the investment spectrum. The pattern of market volatility increasing and reaching crescendo just before an election and then declining afterward is the same as what was experienced in 2016.

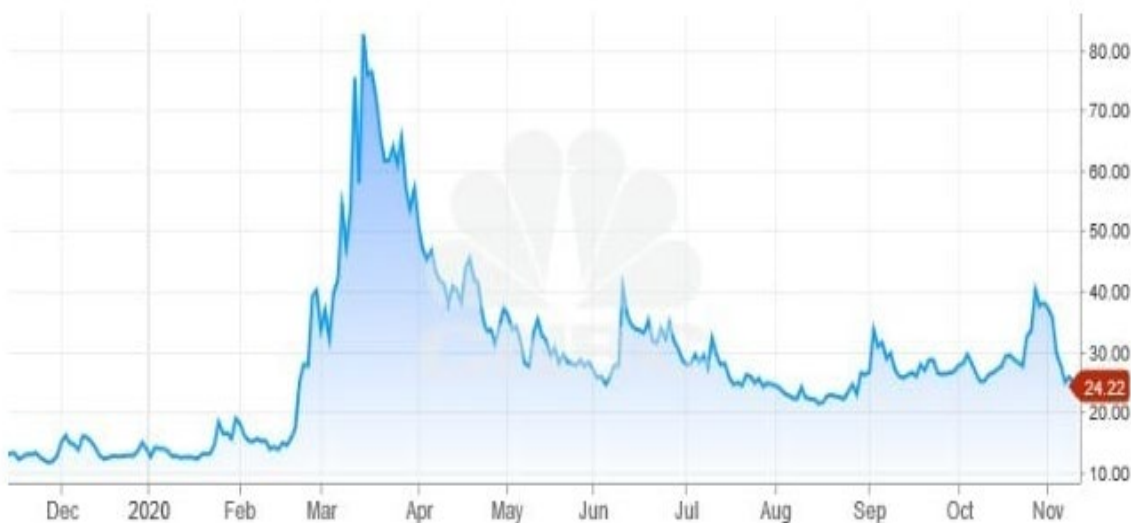
CBOE Volatility Index (.VIX:Exchange)

USD

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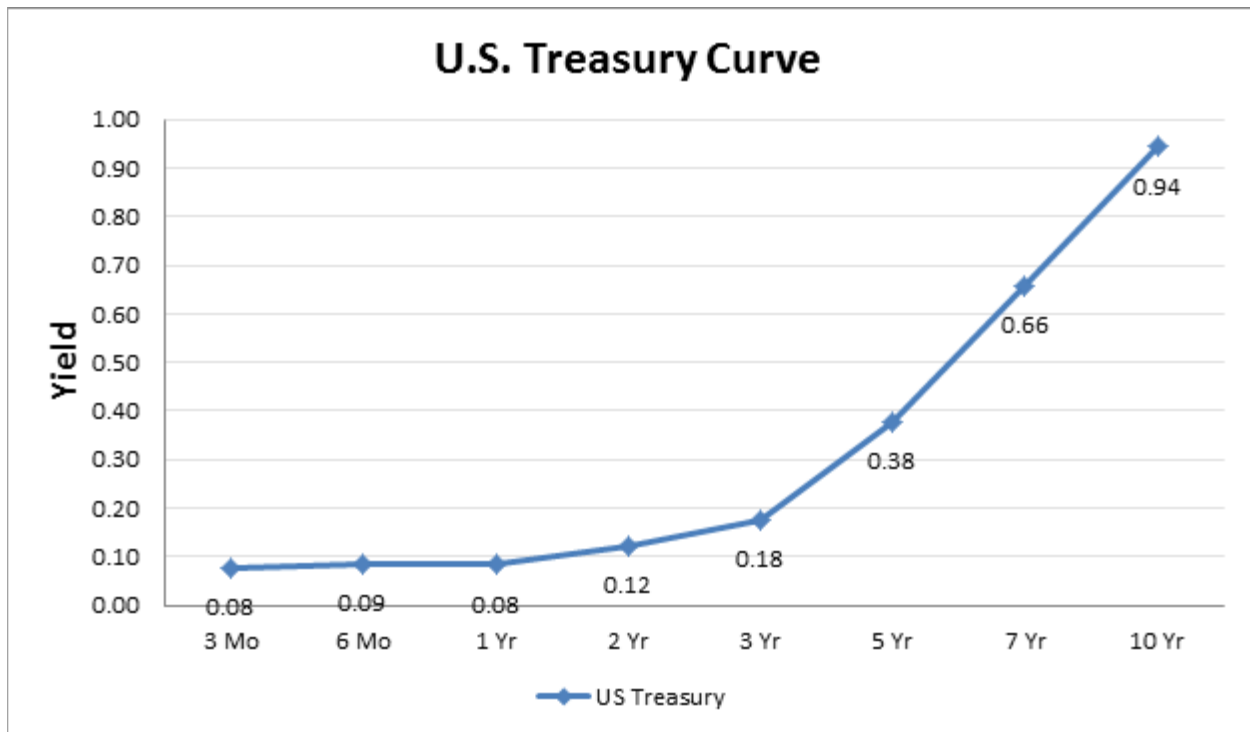
24.22 -0.58 (-2.34%)

1 Year



Investors are suggesting that a level of caution may be warranted given the potential financial burden the actions taken in 2020 may cause. Federal debt is now in excess of 100% of GDP, the first time this has occurred since World War II. The concern is the potential for inflation and interest rates to rise sharply as the economy recovers. Fortunately, the probability of interest rates rising sharply remains remote.

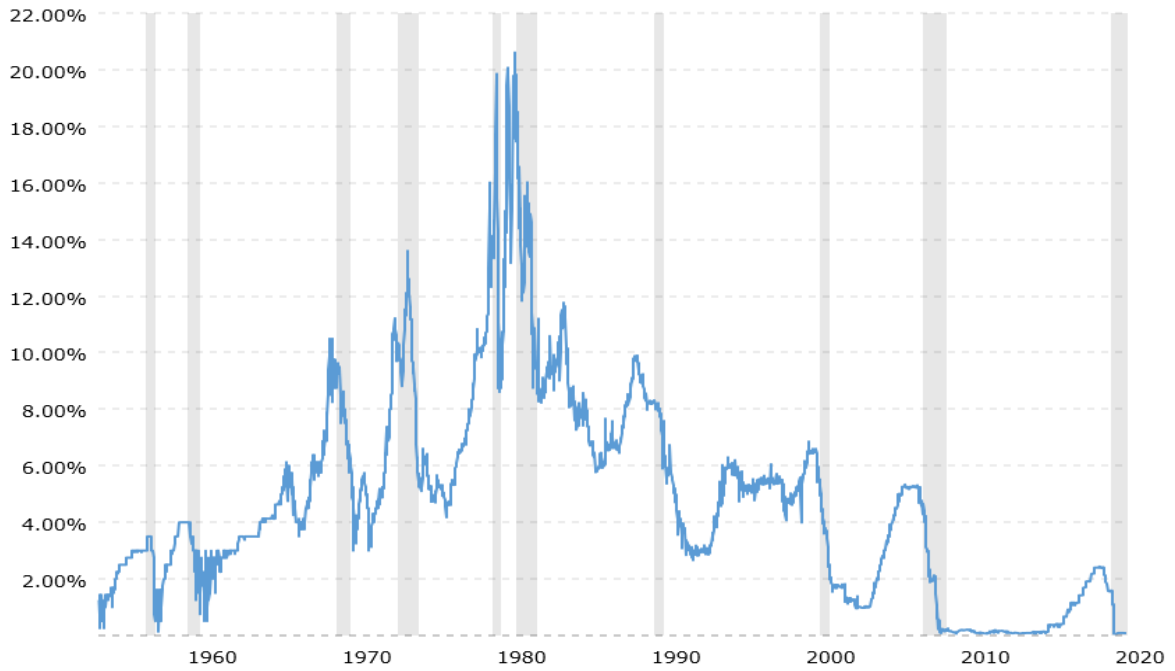
The Federal Open Market Committee continues to maintain the federal funds credit rate at 0.25 percent. In light of the uncertainties associated with the pandemic, maintaining the current stance is to continue to support economic recovery and maximize employment and stable prices. Bond investors are prepared that returns are likely to be subdued.



Although 2020 was a roller coaster ride, a survey of economists published by The Wall Street Journal noted three primary reasons for optimism in 2021:

1. The \$900 billion economic relief package will provide a boost to the economy in the coming months.
2. Higher personal savings rates in 2020 will likely result in increased spending as vaccination rates increase and households spend some of their reserves.
3. Borrowing costs remain low as many expect the Federal Reserve to hold short-term rates near zero for at least three more years.

Federal Funds Rate Historical Chart
(Shaded areas show recessions)



One concern noted about the economic relief package by economists surveyed is it may be arriving too late to prevent the economy from slowing further in the first quarter of 2021. They expect the economy to expand at a 1.9% annual rate from January to March, down from 3.3% growth in November's survey.

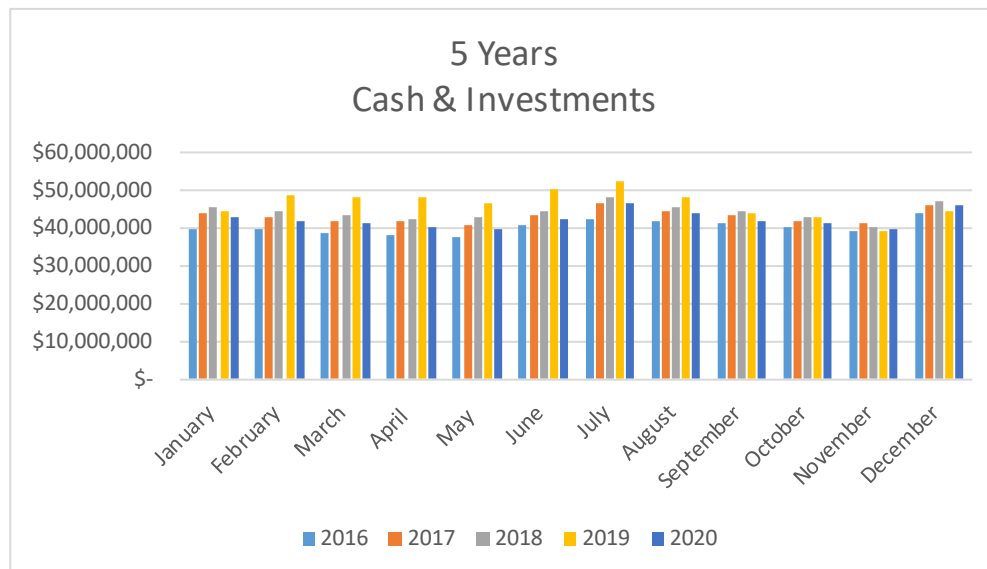
EXECUTIVE SUMMARY

The City’s cash and investments include balances from all funds that are pooled and invested in certificates of deposits and other authorized investments. In accordance with the City’s Investment Policy this executive summary provides an analysis of the status of the current investment portfolio and transactions made during the past year.

The City’s Investment Policy sets some perimeters for investments to provide guidelines for the prudent investment of all financial assets. City funds are to be invested in a manner which provides for the safety, liquidity, and yield that conforms to all federal, state, and local regulations governing the investment of public funds.

Summary Characteristics			
Par Value (\$000):	\$ 45,549	Number of Investments:	95
Market Value (\$000):	\$ 46,229	YTD Number of Acquisitions:	53
Average Coupon (%):	2.053%	YTD Number of Maturities:	18
Unrealized Gain/(Loss) (\$000):	\$ 679	YTD Number of Calls:	78
12 Month Cash Flow (\$000)	\$ 21,327	YTD Interest Earnings (\$000)	\$ 765
% of Portfolio Callable:	4.21%	Average Weighted Yield:	2.053
Average Years:	2.956		

The City’s portfolio at December 31, 2020 was \$45,549,174. As of December 31, 2019, the portfolio is \$42,580,615.



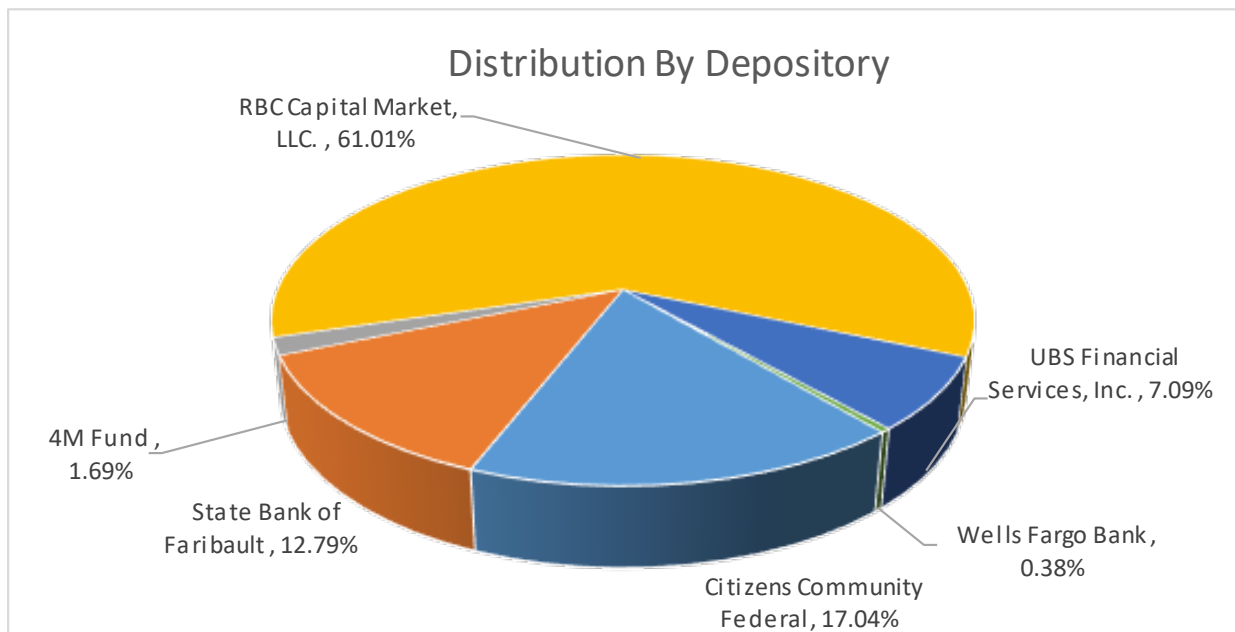
SAFETY

DISTRIBUTION BY DEPOSITORY

Minnesota law requires the governing body of each government entity to designate one or more financial institutions as a depository for public funds (*Minnesota Statutes 118A.02, subd. 1*). The City of Faribault adopted Resolution 2020-002 on January 14, 2020 approving the following depositories and investment brokers:

As of December 31, 2020, the City had the following amounts with official depositories:

Depository	Cost	%
Citizens Community Federal	\$ 7,763,660	17.04%
State Bank of Faribault	5,825,275	12.79%
4M Fund	770,115	1.69%
RBC Capital Market, LLC.	27,788,562	61.01%
UBS Financial Services, Inc.	3,227,412	7.09%
Wells Fargo Bank	<u>174,150</u>	0.38%
	\$ 45,549,174	100.00%

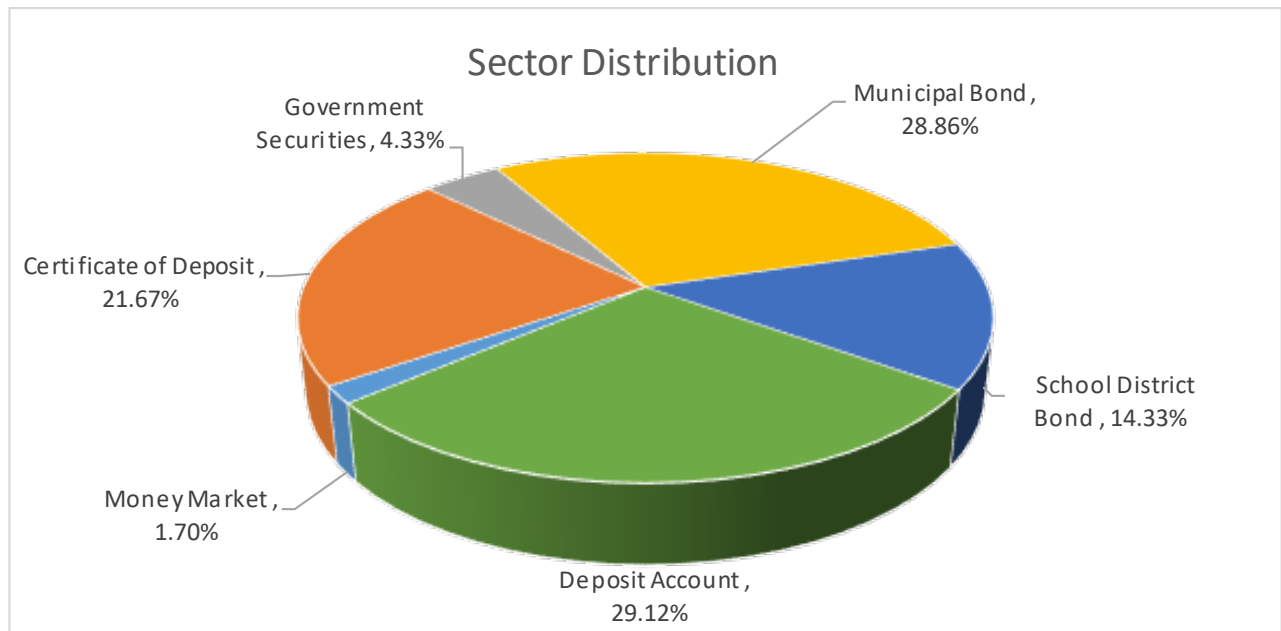


SAFETY

DISTRIBUTION BY SECTOR

As of December 31, 2020, the City had the following amounts in these sectors:

Sector Distribution		
Sector	Cost	%
Money Market	\$ 772,405	1.70%
Certificate of Deposit	9,868,894	21.67%
Government Securities	1,972,865	4.33%
Municipal Bond	13,144,142	28.86%
School District Bond	6,527,107	14.33%
Deposit Account	<u>13,263,759</u>	29.12%
	\$ 45,549,174	100.00%

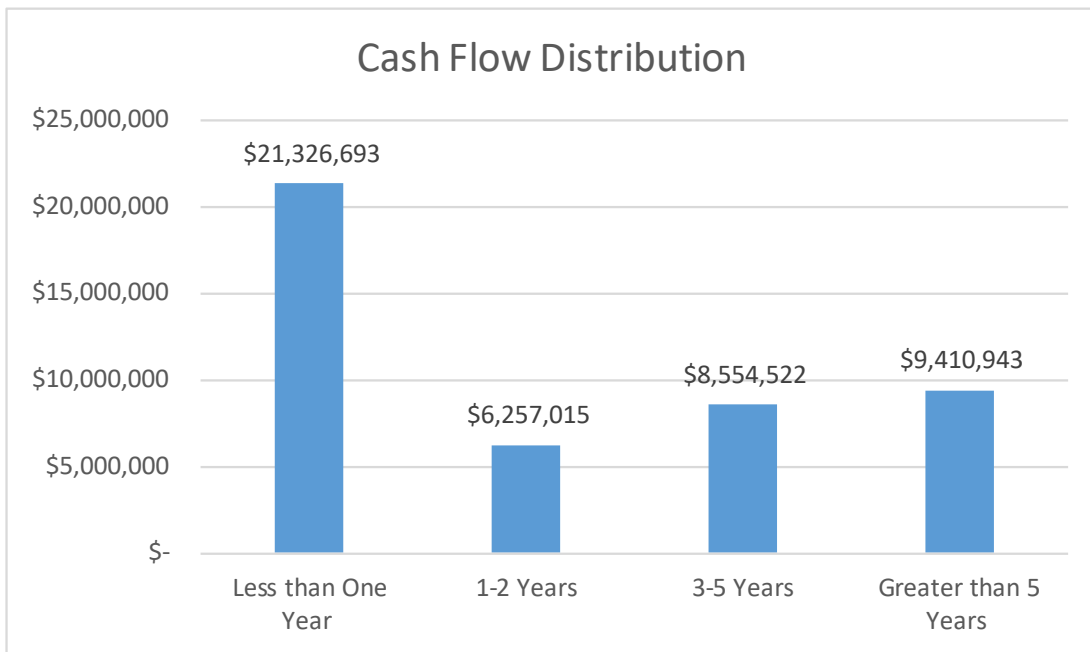


LIQUIDITY

PORTFOLIO BY DURATION

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated demands. A portion of the portfolio may be placed in money-market mutual funds or local government investment pools which offer same-day liquidity.

Cash Flow Distribution	
Type	Cost
Less than One Year	\$ 21,326,693
1-2 Years	\$ 6,257,015
3-5 Years	\$ 8,554,522
Greater than 5 Years	\$ 9,410,943
	\$ 45,549,174



LIQUIDITY

INVESTMENTS BY MATURITY DATE

12/31/2020		Stated	Maturity	Purchases	Fair Value
Investment	Type	Rate	Date	at Cost	Month End
Wells Fargo Bank	DEP	0.010%	12/31/2020	\$ 174,150	\$ 174,150
Citizens Community Federal	DEP	0.300%	12/31/2020	7,264,335	7,264,335
State Bank of Faribault	DEP	0.300%	12/31/2020	5,825,275	5,825,275
4M Liquid Fund	MM	0.020%	12/31/2020	764,394	764,394
4M Liquid Fund	MM	0.050%	12/31/2020	5,722	5,722
UBS	MM	0.070%	12/31/2020	2,290	2,290
Fall River Five Cents Savings Bank	CD	1.750%	1/26/2021	249,000	249,306
Mizuho Bank	CD	1.600%	2/25/2021	245,000	245,000
Citibank National Association	CD	2.700%	3/29/2021	245,000	246,588
Stifel Bank and Trust	CD	2.700%	3/29/2021	249,000	250,633
Bank of China New York City	CD	1.150%	4/22/2021	247,000	247,000
Fifth Third Bank Columbus OH	CD	1.150%	4/22/2021	247,000	247,000
New York NY City Transitional	MUNI	1.500%	5/1/2021	1,000,000	1,003,690
Reeths Puffer Mich Schs	BD	2.574%	5/1/2021	512,354	503,590
Montague Mich Area Pub Schs	BD	2.234%	5/1/2021	562,257	558,502
Comenity Bank	CD	1.600%	5/4/2021	200,000	201,210
Mercantile Bank	CD	1.600%	5/13/2021	245,000	246,499
Citizens Community Federal	CD	2.790%	7/19/2021	499,325	499,325
First Natl Bank Damariscotta ME	CD	1.700%	7/30/2021	249,000	251,413
Pajaro Valley Calif Univ Sch Dist Refdg	GSEC	3.065%	8/1/2021	1,053,093	1,015,200
Morgan Stanley Private Bank	CD	2.100%	8/9/2021	247,000	250,110
Sallie Mae Bank	CD	3.000%	9/7/2021	245,000	249,951
Ally Bank Midvale UT	CD	3.050%	10/12/2021	245,000	250,767
NY City Transitional Fin Authority	CD	2.300%	11/1/2021	502,500	507,895
Merrick Bank South Jordan Utah	CD	1.750%	11/29/2021	248,000	251,846
Champaign Cnty Ill Comnty Unit	MUNI	1.300%	1/1/2022	97,824	99,566
Wells Fargo Natl Bank West Las Veg	CD	1.800%	1/8/2022	249,000	253,549
Firstbank PR Santurce	CD	2.150%	1/13/2022	249,000	254,393
Peoples United Bank	CD	2.050%	1/18/2022	247,000	252,160
Itasca Cnty Minn Indept Sch	BD	2.300%	2/1/2022	252,150	255,690
Rock Island Cnty IL Sch Dist	BD	2.750%	2/1/2022	439,829	441,764
New York City Transitional Fin Auth	GSEC	2.050%	2/1/2022	400,644	406,688
New Jersey Economic Dev Auth.	MUNI	7.625%	2/15/2022	496,205	496,980
Jasper Ala GO	MUNI	5.000%	3/1/2022	302,131	294,865
State Bank of India New York NY	CD	2.250%	3/14/2022	247,000	253,484
Goldman Sachs	CD	2.350%	3/15/2022	247,000	253,797
New York St Dorm Auth	MUNI	2.700%	3/15/2022	1,031,620	1,028,260

BMW Bk North Amer Salt Lake	CD	2.250%	3/17/2022	247,000	253,528
New York NY Taxable Bond	MUNI	2.800%	4/1/2022	515,613	514,635
Bank Baroda New York BRH	CD	2.250%	4/18/2022	245,000	251,938
American Express Fed Svgs Bk	CD	2.350%	5/3/2022	247,000	254,373
Morgan Stanley Bank NA	CD	2.100%	8/8/2022	247,000	255,000
Discover Bank	CD	2.350%	9/7/2022	247,000	256,396
Connectone Bank Englewood Cliffs NJ	CD	1.200%	10/21/2022	249,000	253,980
Oregon School Board Assn	BD	3.050%	6/30/2023	499,351	614,672
Celtic Bank	CD	1.700%	7/26/2023	247,000	247,274
EnerBank USA	CD	1.750%	7/28/2023	249,000	259,246
Western Bank Devils Lake ND	CD	1.700%	7/31/2023	247,000	256,870
Alpine Calif Un Sch Dist GO	BD	1.200%	8/1/2023	240,378	246,110
Industrial & Coml Bk China CD	CD	2.400%	9/20/2023	249,000	264,127
Wells Fargo Bk NA SD	CD	3.350%	1/9/2024	245,000	268,304
United National Bank Cairo GA	CD	1.550%	1/26/2024	249,000	249,334
JPMorgan Chase Bk NA Columbus OH	MUNI	0.600%	1/31/2024	127,491	128,635
Raymond James Bank	CD	1.750%	2/14/2024	247,000	258,915
First National Bank of McGregor TX	CD	2.300%	6/28/2024	249,000	269,184
Glendale AZ GO Bds	CD	2.764%	7/1/2024	261,869	267,203
Medallion Bank	CD	2.100%	7/3/2024	245,000	260,888
First Bank Highland Pk IL	CD	2.400%	8/9/2024	247,114	266,044
Davie Fla Wtr & Swr Rev	MUNI	1.000%	10/1/2024	255,255	256,260
Fla Wtr Pollution Ctl Fing	MUNI	2.150%	1/15/2025	503,545	532,655
Eagan Mn Tax Increment Bonds	MUNI	2.850%	1/20/2025	241,768	256,625
NY City Transitional Fin Auth	MUNI	3.600%	2/1/2025	529,200	540,750
Chaska MINN Indp Sch Dist	BD	2.000%	2/1/2025	424,904	425,088
Allendale Mich Pub Sch Dist	BD	4.000%	5/1/2025	285,695	285,413
New York City Transitional Fin Auth	GSEC	2.850%	5/1/2025	519,129	544,580
Monessen PA Sch Dist GO Bds	MUNI	4.000%	6/1/2025	387,818	388,266
San Marcos Tex Cons Indpt Sch	BD	2.280%	8/1/2025	220,095	237,250
Texas Exchange Bk Crowley	CD	0.900%	10/3/2025	249,086	249,189
Lake Ohio Loc Sch Dist Stark	BD	1.700%	12/1/2025	332,267	338,216
Johnstown-Monroe Ohio Loc Sch	BD	1.200%	12/1/2025	243,747	244,468
Fort Bend Cnty Tex Mun Util	MUNI	2.000%	12/1/2025	391,310	390,283
Buffalo Cnty Neb Sch Dist	BD	1.850%	12/15/2025	367,501	378,004
New York NY Taxable GO Bds	MUNI	1.450%	3/1/2026	255,878	255,223
Fort Bend Waller Cntys Tex Mun	MUNI	1.100%	4/1/2026	208,446	208,144
Louisiana St Taxable Go Ref	MUNI	1.081%	6/1/2026	455,702	458,159
San Marcos Tex Cons Indpt Sch	BD	2.203%	8/1/2026	432,500	465,105
San Diego Calif Comnt College	MUNI	2.299%	8/1/2026	332,895	344,774
San Bernardino CA Cmnty	MUNI	2.398%	8/1/2026	969,160	1,084,500
Carpinteria Calif Uni Sch Dis	BD	1.300%	8/1/2026	386,300	382,402
Federal Farm Credit Bank	MUNI	0.670%	8/13/2026	500,140	498,555

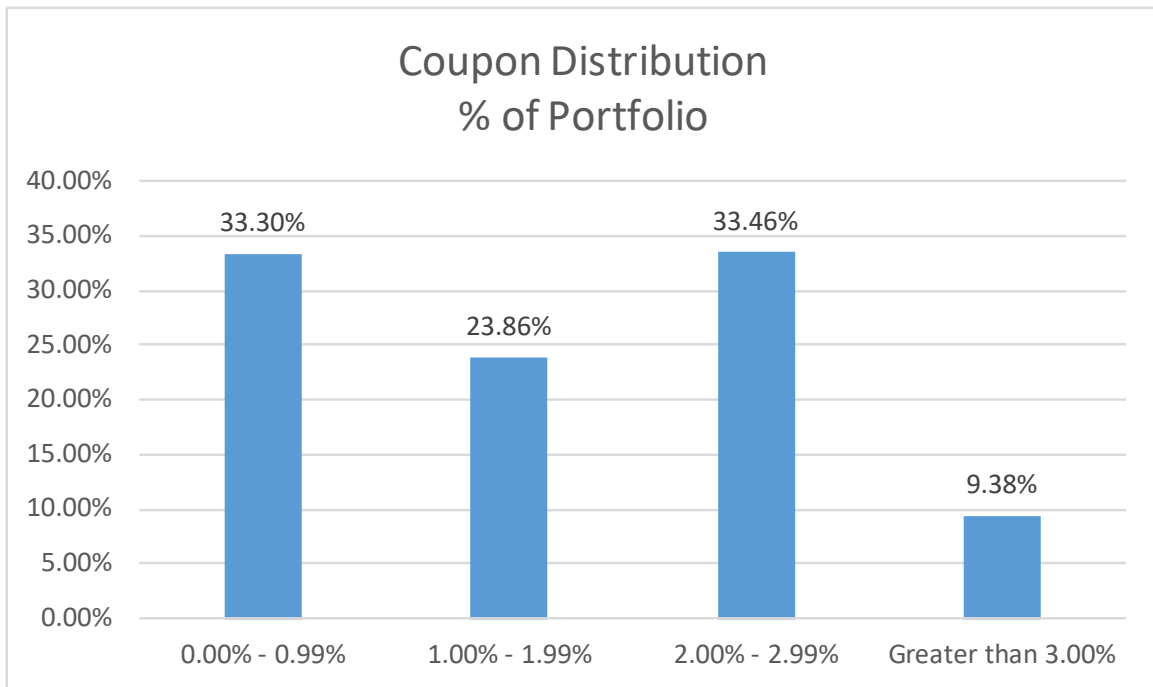
California State Taxable Var	MUNI	2.375%	10/1/2026	512,975	545,345
Palm Beach Cnty Fla Pub Imp	MUNI	3.000%	11/1/2026	528,452	555,830
Moon Township	MUNI	1.317%	11/15/2026	514,305	513,701
Johnstown-Monroe Ohio Loc Sch	BD	1.300%	12/1/2026	326,770	325,741
Sunray Tex Indpt Sch Dist	BD	2.500%	2/15/2027	219,583	230,874
Fort Bend Waller Cntys Tex Mun	MUNI	1.200%	4/1/2027	207,516	206,700
Wisconsin St Gen Fd	MUNI	2.196%	5/1/2027	509,930	536,775
Wisconsin St Gen Fd	MUNI	2.483%	5/1/2027	552,361	545,550
Pajaro Valley Calif Uni Sch Di	BD	2.073%	8/1/2027	519,139	528,255
Wellman-Union Tex Cons Indept	MUNI	1.300%	8/15/2027	315,206	311,221
Cumberland Cnty NJ Impt Auth	MUNI	1.500%	9/1/2027	512,625	511,805
Sunfield Mun Util Dist No 3	MUNI	2.000%	9/1/2027	134,941	134,196
Defiance Ohio City Sch Dist	BD	1.600%	12/1/2027	262,287	271,149
Fort Bend Cnty Tex Mun Util	MUNI	2.000%	12/1/2027	523,687	524,455
Big Stone Cnty Mn GO	MUNI	4.000%	2/1/2033	230,145	223,541

YIELD

COUPON DISTRIBUTION

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Coupon Distribution % of Portfolio	
Type	Cost
0.00% - 0.99%	\$ 15,168,136
1.00% - 1.99%	10,868,595
2.00% - 2.99%	15,238,806
Greater than 3.00%	4,273,637
	\$ 45,549,174

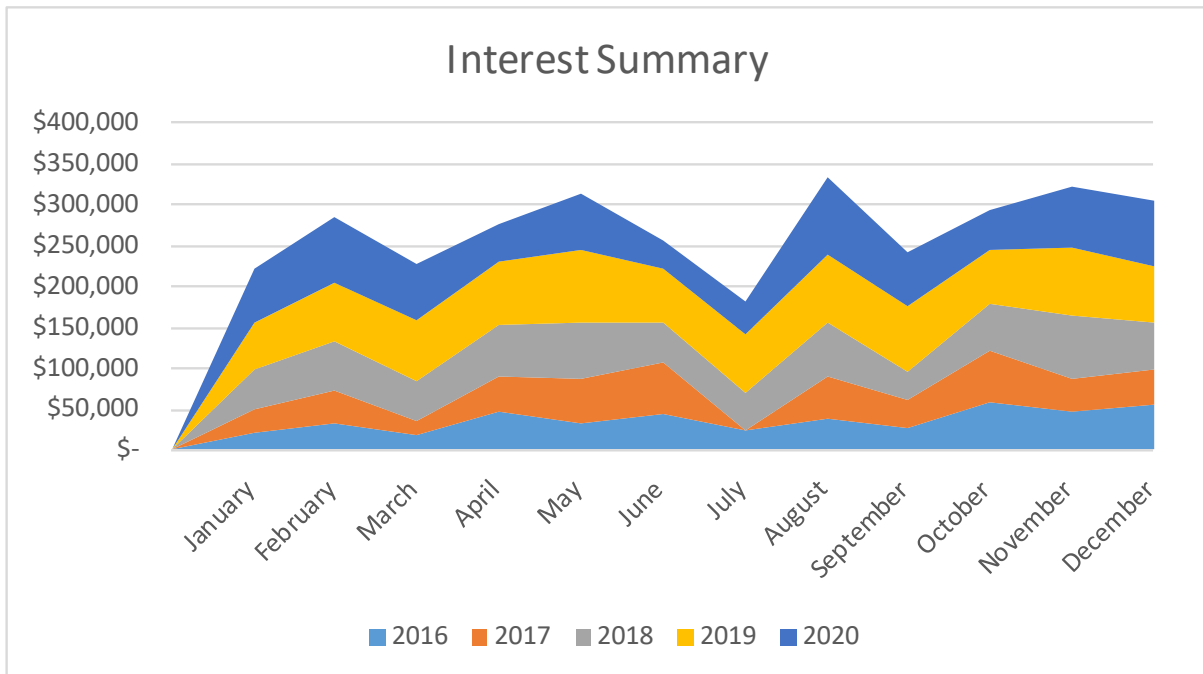


YIELD

INTEREST SUMMARY

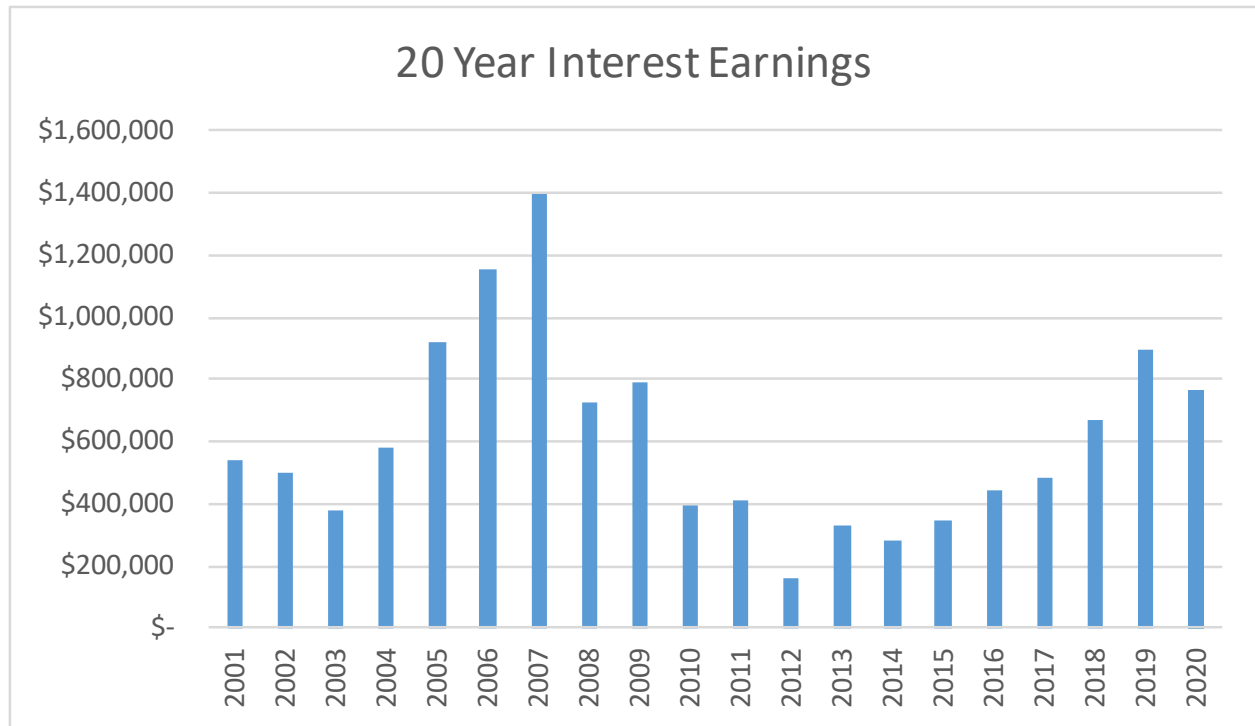
Interest earnings from pooled investments are allocated to the individual funds based on the applicable participation by each of the funds.

Interest Summary	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
January	\$ 21,971	\$ 29,282	\$ 47,032	\$ 58,806	\$ 65,218
February	32,100	41,906	60,012	71,636	80,527
March	17,478	19,435	47,086	74,950	70,112
April	47,967	41,382	63,723	78,472	45,069
May	32,236	53,849	71,263	88,658	68,929
June	43,613	64,550	49,046	64,669	35,220
July	23,257	-	46,183	73,227	37,955
August	38,693	52,411	64,546	84,727	93,224
September	27,537	33,908	33,543	81,936	64,584
October	58,423	64,550	55,109	67,454	49,324
November	46,679	40,403	76,958	82,959	74,037
December	55,896	43,441	56,546	68,346	80,534
Total	\$ 445,850	\$ 485,116	\$ 671,047	\$ 895,840	\$ 764,734



YIELD

INTEREST SUMMARY (continued)



INVESTMENT TERMS

Liquid assets are deposit accounts and money market accounts.

1-5 Years are made up of certificate of deposit and US Government Instrumentality Securities.

6-10 Years are US Government Instrumentality Securities.

11-15 Years are US Government Instrumentality Securities.

15+ Years are US Government Instrumentality Securities and bonds.

US Government Instrumentality Securities are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, such as homeowners, farmers and students. Most active issuers are Federal Home Loan Bank, and Federal National Mortgage Association (Fannie Mae). Maturities range from three months to 30 years with fixed interest rates.

COLLATERAL TERMS

Collateral represents protection for public funds in the event of a bank failure. All public funds on deposit in a bank or credit union must be protected by deposit insurance (FDIC), corporate surety bond or pledged collateral. Most institutions choose to pledge collateral for amounts not covered by the deposit insurance. The process involves the depository placing securities it owns within an account in the trust department of a commercial bank or a restricted account at the Federal Reserve, and pledging these securities to the government entity. If the depository fails, the government entity can take the securities pledge to make up for any loss to its deposited funds.

PERMISSABLE COLLATERAL

State law defines the types of securities that a financial institution may pledge as collateral for public deposits. These securities include:

- United State Treasury Issues
- Issues of U.S. Government Agencies and Instrumentalities
- Obligations of State and Local Governments
- Time Deposits (Certificates of Deposits fully insured by the Federal Deposit Insurance Company (FDIC) or any federal agency)

In addition to these securities, banks may pledge irrevocable letters of credit issued by federal home loan banks. All of these allowable forms of collateral must meet certain additional requirements.

As part of the audit process, the auditors review all collateral as it pertains to the requirements of *Minnesota Statutes 118A.03, subd2*.

AMOUNT OF COLLATERAL

As of December 31, 2020, the Federal Deposit Insurance Company provides \$250,000 of deposit insurance for all accounts held by a single depositor to protect the amount of deposit. If a depository is located in the state, public entities have an additional \$250,000 available.

State law requires that the amount of collateral pledged be 10% more than the amount not covered by deposit insurance. For example, if the government entity has on deposit \$1,000 over and above the deposit insurance amount, the financial institution needs to pledge collateral with a market value of \$1,100 to protect the deposit.

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times. It is important that City staff develop procedures to monitor the amount of pledged collateral throughout the year; usually the treasurer or City's chief financial officer monitors the deposit amounts against pledged collateral.

The City of Faribault invests excess funds for direct investment in securities authorized within *Minnesota Statutes 118A*, including joint powers government investment pools through the 4M Fund (League of Minnesota Cities).

It is recommended that each government entity have an adopted Investment Policy; the City of Faribault policy was last amended and adopted on January 28, 2020.

COLLATERAL COMPLIANCE

State law requires that the pledge of collateral be done through a written assignment from the bank to the government entity. To perfect the security interest in the pledged collateral, the federal Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) requires that either the bank's loan committee or the bank's board of directors approve the assignment. To document compliance, the Office of the State Auditor recommends that the public entities insist that the depository provide to the public entity a copy of the minutes or the resolution adopted by either the loan committee or the board of directors approving the pledge of collateral.