



Council Committee Memorandum

TO: Joint Committee
THROUGH: Tim Murray, City Administrator
FROM: Jeanne Day, Finance Director
MEETING DATE: March 4, 2020
SUBJECT: 2019 Investment Reporting

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 an annual reporting component to the City Council and the City Administrator. The Finance Committee requested this be done in a written report along with a presentation in a committee meeting setting.

The report will be presented at the first committee meeting in March of each year for the prior year end investments.

Attachments:

- 2019 Finance Department Investment Report



FINANCE DEPARTMENT

INVESTMENT REPORT

DECEMBER 31, 2019

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MARKET COMMENTARY

The Federal Reserve decided to leave its interest rate target range unchanged at 1.5% - 1.7%. The Federal Open Market Committee (FOMC) statement, Summary of Economic Projections (SEP), and Fed Chair Jay Powell's news conference all indicated that the Fed expects to remain on hold for a considerable length of time.

- The Fed expects inflation to be near its 2% target, growth to be close to trend, and unemployment to remain low, giving members little incentive to move rates in either direction.
- The dot plot shows not even a single participant looking for a rate cut over the forecast horizon. As Powell noted in his news conference, eventually rates should rise toward their long-run level of 2.5%.
- Relative to the September SEP, the median dots have come down by 25 basis points, suggesting no rate hikes until 2021.

The Fed will likely stay on hold. Inflation will need to rise above its target to trigger rate hikes, while the Fed also stands ready to lower rates if economic conditions turn out to be weaker than it expects. The Fed seems satisfied with the steps taken so far with the repo market. Powell stated that it is not trying to eliminate all volatility in it. The focus rather is on keeping the federal funds rate within the target range. He said that the Fed plans to continue buying T-bills, but would be prepared to buy short-term coupon-bearing bonds if needed.

The European Central Bank has already announced a return to quantitative easing, in the event of a risk scenario in growth or trade. In addition, consensus expectations for earning growth look more realistic in the US than in the Eurozone.

The strength of the US consumer is key. Unemployment is at a 50-year low, wages are rising nicely, and workers have flexibility to change jobs. Higher consumer spending is expected in 2020.

Although the media inflates the importance of the US presidential election, the Fed has a bigger influence of recessions and recoveries than the president. Phase one of the US-China deal and NAFTA are almost completed however there are other trade and sanctions issues that could jostle the market at times in 2020.

As the economic cycle wears on and the equity bull market persists, complacency tends to set in. The late stage of the business cycle often brings with it challenges for the economy and financial markets when they are least expected.

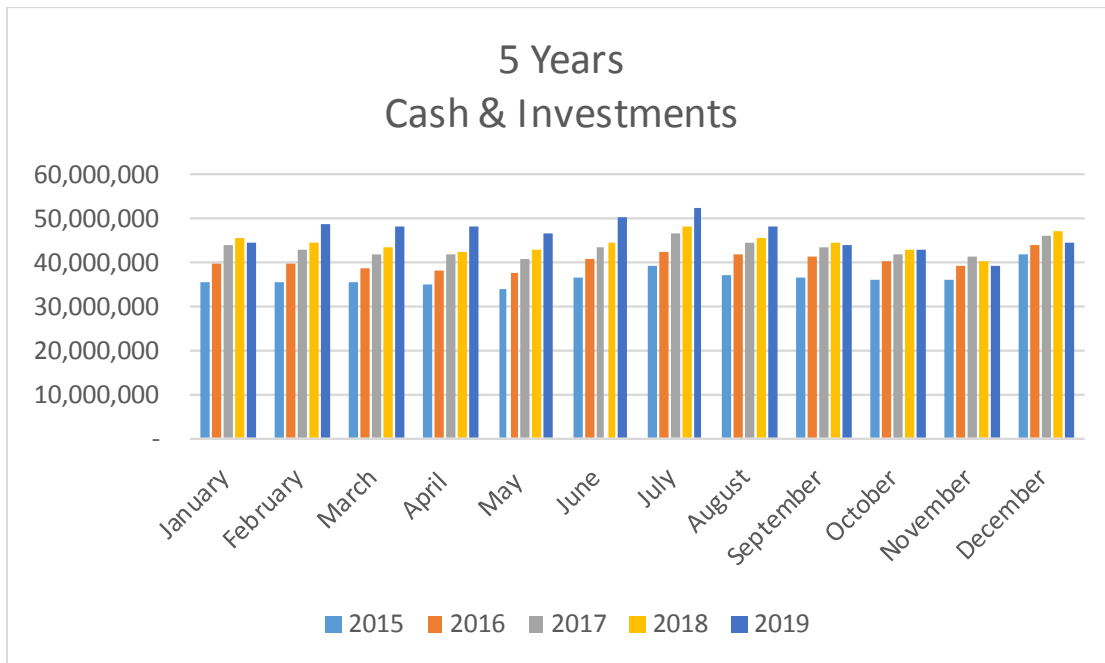
EXECUTIVE SUMMARY

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 this quarter.

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):	\$ 42,581	Number of Investments:	105
Market Value (\$000):	\$ 42,669	YTD Number of Acquisitions:	40
Average Coupon (%):	2.118%	YTD Number of Maturities:	37
Unrealized Gain/(Loss) (\$000):	\$ 88	YTD Number of Calls:	26
12 Month Cash Flow (\$000)	\$ 18,281	YTD Interest Earnings	\$ 896
% of Portfolio Callable:	3.81%	Average Weighted Yield:	2.118
Average Years:	2.851		

The City’s portfolio at December 31, 2019 was \$42,580,615. As of December 31, 2018, the portfolio is \$47,163,965.



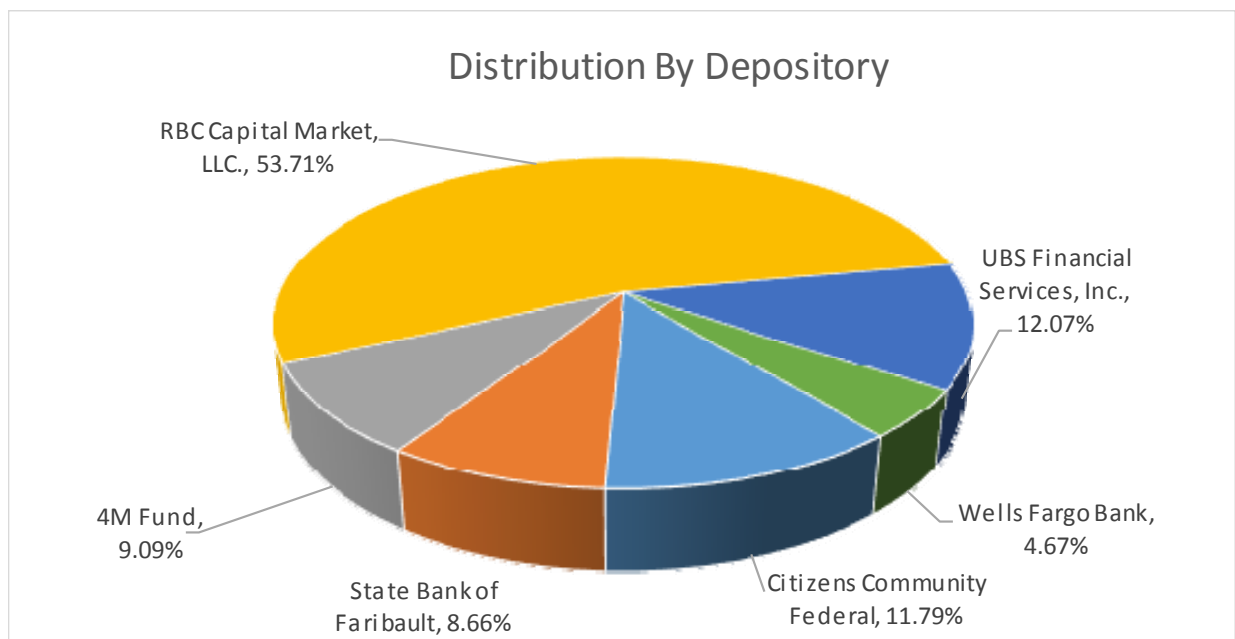
SAFETY

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 2019-003 on January 8, 2019 approving the following depositories and investment brokers:

As of December 31, 2019, the City had the following amounts with official depositories:

Depository	Cost
Citizens Community Federal	\$ 5,022,122
State Bank of Faribault	3,687,676
4M Fund	3,871,758
RBC Capital Market, LLC.	22,868,954
UBS Financial Services, Inc.	5,140,385
Wells Fargo Bank	<u>1,989,719</u>
	\$ 42,580,615

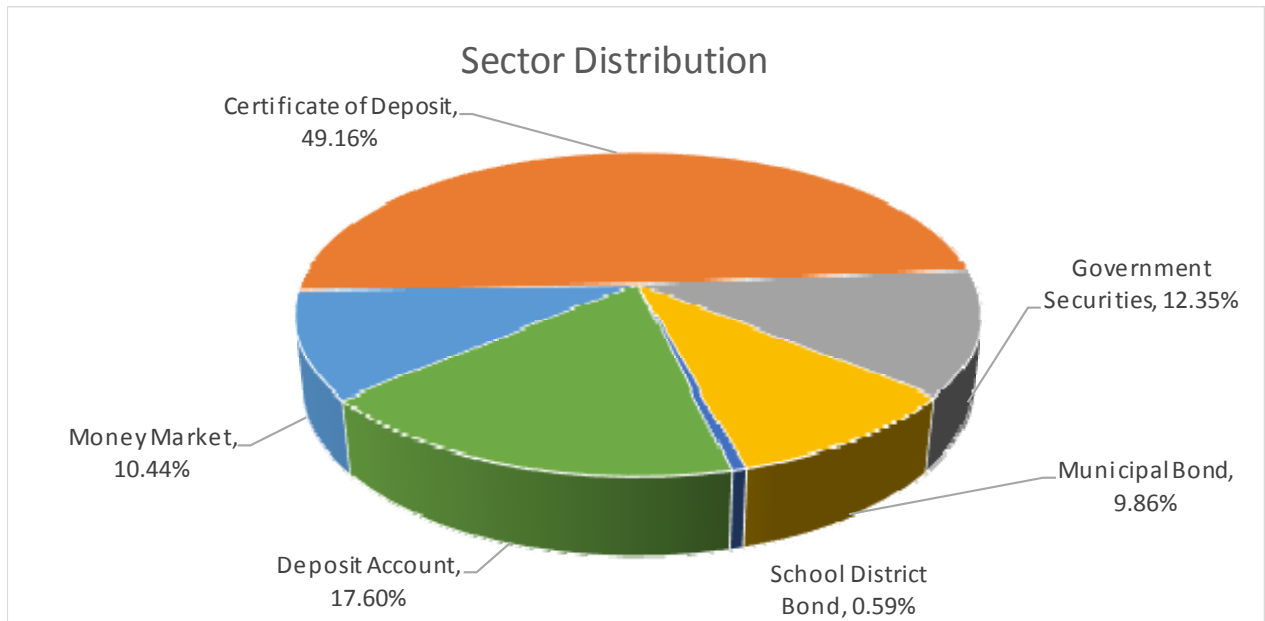


SAFETY

DISTRIBUTION BY SECTOR

As of December 31, 2019, the City had the following amounts in these sectors:

Sector	Cost
Money Market	\$ 4,445,082
Certificate of Deposit	20,932,772
Government Securities	5,257,806
Municipal Bond	4,199,348
School District Bond	252,150
Deposit Account	<u>7,493,457</u>
	\$42,580,615

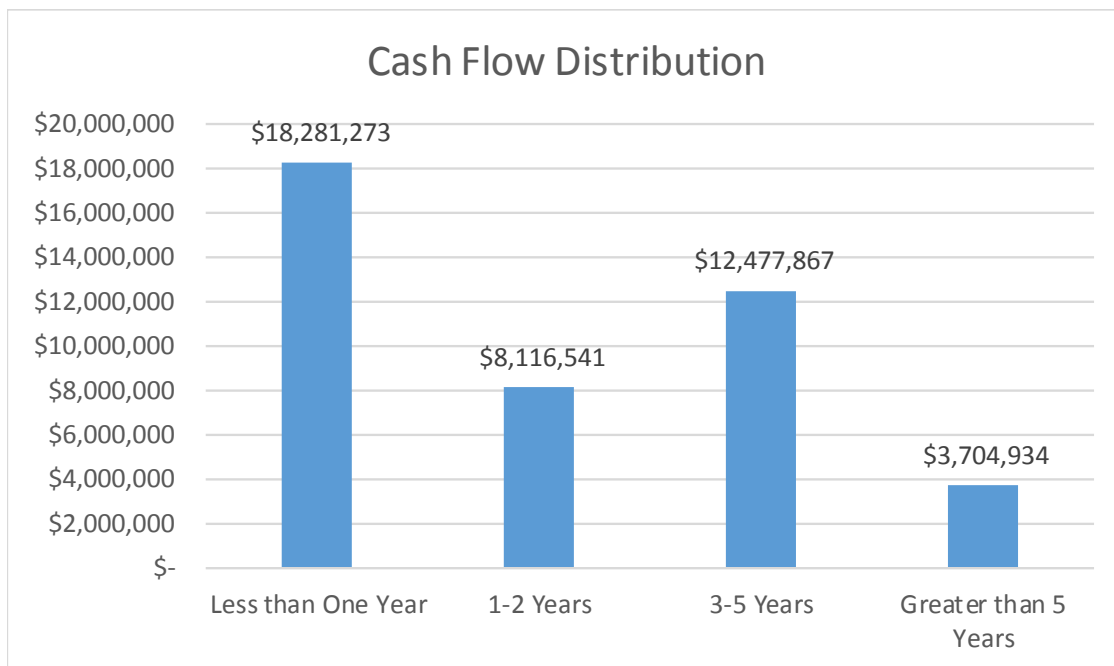


LIQUIDITY

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.

Type	Cost
Less than One Year	\$ 18,281,273
1-2 Years	\$ 8,116,541
3-5 Years	\$ 12,477,867
Greater than 5 Years	\$ 3,704,934
	\$ 42,580,615



LIQUIDITY

INVESTMENTS BY MATURITY DATE

12/31/2019 Investment	- Type	Stated Rate	Maturity Date	Purchases at Cost	Fair Value Month End
Wells Fargo Bank	DEP	0.030%	12/31/2019	\$ 1,989,719	\$ 1,989,719
Citizens Community Federal	DEP	2.120%	12/31/2019	2,016,062	2,016,062
State Bank of Faribault	DEP	2.020%	12/31/2019	3,487,676	3,487,676
4M Liquid Fund	MM	1.380%	12/31/2019	538,133	538,133
4M Plus Liquid Fund	MM	1.460%	12/31/2019	3,333,625	3,333,625
UBS	MM	1.670%	12/31/2019	573,323	573,212
State Bank of Faribault	CD	3.000%	10/9/2020	200,000	200,000
Citizens Community Federal	CD	3.000%	12/19/2020	492,634	492,634
Citizens Community Federal	CD	1.740%	6/26/2020	2,014,102	2,014,102
Citizens Community Federal	CD	2.790%	6/19/2021	499,325	499,325
First International Bank Watford ND	CD	1.600%	1/16/2020	247,000	246,998
Whitney Bank Gulfport MS	CD	1.700%	1/27/2020	247,000	247,015
Bank Midwest Spirit Lake Iowa	CD	1.650%	3/16/2020	247,000	247,002
Comenity Cap Bank Utah	CD	1.850%	5/22/2020	249,000	249,187
Cit Bank Salt Lake City Utah	CD	1.900%	6/10/2020	247,000	247,264
Bankers Bank Madison WI	CD	1.750%	7/14/2020	249,000	249,125
Everbank Jacksonville FL	CD	2.050%	8/28/2020	247,000	247,645
Capital One National Association	CD	2.350%	8/26/2020	247,000	248,057
International Bk Chicago IL	CD	1.350%	9/28/2020	249,000	248,325
Bank of Hapoalim	CD	2.000%	10/9/2020	247,000	247,664
Wex Bank Midvale UT	CD	3.000%	10/13/2020	246,000	248,590
East Boston Savings	CD	1.850%	10/16/2020	247,000	247,403
First Merchants Bank Muncie	CD	1.800%	10/30/2020	180,000	180,031
Capital One Bank USA	CD	2.050%	11/23/2020	247,000	247,865
Fall River Five Cents Savings Bank	CD	1.750%	1/26/2021	249,000	249,227
Citizens Bk & Tr Co	CD	1.300%	1/27/2021	249,000	249,007
Citibank National Association	CD	2.700%	3/29/2021	245,000	248,089
Stifel Bank and Trust	CD	2.700%	3/29/2021	249,000	252,155
New York NY City Transitional	MUNI	1.500%	5/1/2021	1,000,000	995,960
Reeths Puffer Mich Schs	MUNI	2.574%	5/1/2021	512,354	503,480
National Bank Superior WI	CD	1.500%	5/24/2021	249,000	248,758
Morgan Stanley Private Bank	CD	2.100%	8/9/2021	247,000	248,596
Pleasant Priarie WI GO	MUNI	2.000%	9/1/2021	325,000	325,644
Sallie Mae Bank	CD	3.000%	9/7/2021	245,000	250,287
HSBC Bank USA	CD	2.000%	10/7/2021	247,000	247,190
Ally Bank Midvale UT	CD	3.050%	10/12/2021	245,000	250,789
Great Western Bank Sioux Falls	CD	1.750%	10/22/2021	249,012	249,017

Guaranty Bk Springfield MO	CD	1.750%	10/25/2021	249,000	249,020
NY City Transitional Fin Authority	CD	2.300%	11/1/2021	502,500	503,320
Merrick Bank South Jordan Utah	CD	1.750%	11/29/2021	248,000	248,203
Suntrust Bk Atlanta GA	CD	1.300%	12/27/2021	246,000	246,143
Firstbank PR Santurce	CD	2.150%	1/13/2022	249,000	251,166
Peoples United Bank	CD	2.050%	1/18/2022	247,000	248,650
Itasca Cnty Minn Indept Sch	BD	2.300%	2/1/2022	252,150	251,808
Rock Island Cnty IL Sch Dist	MUNI	2.750%	2/1/2022	439,829	439,093
State Bank of India New York NY	CD	2.250%	3/14/2022	247,000	249,742
Goldman Sachs	CD	2.350%	3/15/2022	247,000	250,278
BMW Bk North Amer Salt Lake	CD	2.250%	3/17/2022	247,000	249,747
Bank Baroda New York BRH	CD	2.250%	4/18/2022	245,000	247,776
American Express Fed Svgs Bk	CD	2.350%	5/3/2022	247,000	249,534
Texas Exchange Bk Crowley	CD	1.850%	5/21/2022	248,939	249,070
BMO Harris	CD	1.750%	7/26/2022	246,000	246,049
Morgan Stanley Bank NA	CD	2.100%	8/8/2022	247,000	248,998
Discover Bank	CD	2.350%	9/7/2022	247,000	250,606
Cedar Rapids Bk & Tr	CD	1.800%	10/17/2022	249,061	248,983
Prime Alliance Bank Utah	CD	1.850%	12/20/2022	249,000	249,134
First Natl Bank Syracuse KS	CD	2.000%	2/24/2023	249,000	249,062
Stockman Bank Mont Miles City	CD	2.000%	3/30/2023	249,000	249,137
Oregon School Board Assn	MUNI	3.050%	6/30/2023	499,351	585,251
Federal Farm Bank CR Bks	GSEC	1.980%	6/13/2023	505,115	498,725
Celtic Bank	CD	1.700%	7/26/2023	247,000	247,007
EnerBank USA	CD	1.750%	7/28/2023	249,000	248,278
Western Bank Devils Lake ND	CD	1.700%	7/31/2023	247,000	245,856
Chesapeake Bank Kilmarnock VA	CD	1.750%	8/4/2023	249,000	248,280
FHLMC	GSEC	1.750%	8/23/2023	214,579	214,463
Industrial & Coml Bk China CD	CD	2.400%	9/20/2023	249,000	254,052
First Keystone Community Bank	CD	1.900%	10/23/2023	249,000	249,042
Silvergate Bk La Jolla CA	CD	2.050%	11/15/2023	249,000	249,139
Live Oak Bkg Wilmington NC	CD	1.900%	11/15/2023	249,000	249,242
Toyota Financial Savings Bank	CD	2.000%	11/22/2023	247,000	247,156
Crescom Bank Myrtle Beach SC	CD	1.900%	11/27/2023	249,000	249,117
Texas Sec Bk Dallas TX	CD	1.850%	12/20/2023	249,000	249,117
United National Bank Cairo GA	CD	1.550%	1/26/2024	249,000	249,050
First National Bank of McGregor TX	CD	2.300%	6/28/2024	249,000	256,186
Medallion Bank	CD	2.100%	7/3/2024	245,000	247,158
First Bank Highland Pk IL	CD	2.400%	8/9/2024	247,114	252,355
Calprivate Bank	CD	1.950%	8/28/2024	249,000	249,134
Interaudi Bank New York	CD	2.000%	9/9/2024	249,000	249,107
Commonwealth Bank & Trust	CD	2.000%	9/18/2024	249,000	249,209
First Cap Bk Bennettsville SC	CD	1.950%	10/18/2024	249,000	249,037

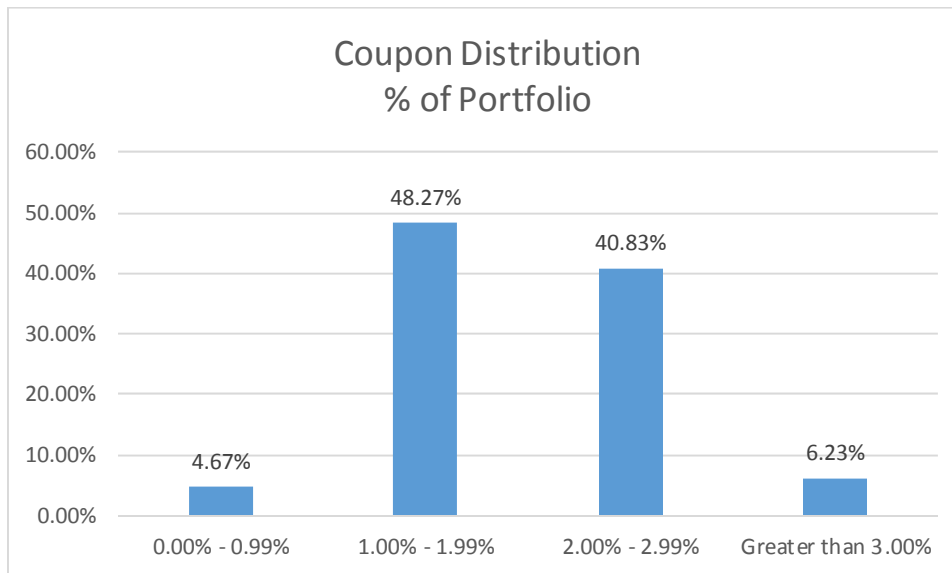
First Federal Bk Fla Lake City	CD	1.950%	10/30/2024	249,000	249,065
Bradford National Bk Greenville	CD	2.000%	11/7/2024	249,000	249,105
Paducah Bk & Tr	CD	1.850%	11/7/2024	249,000	248,041
JP Morgan Chase	CD	2.100%	11/15/2024	247,085	247,395
Bank Tioga ND	CD	1.900%	12/13/2024	249,000	248,495
Eagan Mn Tax Increment Bonds	MUNI	2.850%	1/20/2025	241,768	251,331
San Marcos Tex Cons Indpt Sch	MUNI	2.280%	8/1/2025	220,095	219,888
FHLMC	GSEC	2.000%	4/28/2026	371,002	370,874
FNMA	GSEC	1.750%	5/18/2026	384,449	384,284
San Marcos Tex Cons Indpt Sch	MUNI	2.203%	8/1/2026	432,500	425,000
Palm Beach Cnty Fla Pub Imp	MUNI	3.000%	11/1/2026	528,452	519,340
FHLB	GSEC	2.500%	4/27/2027	150,600	149,999
Privatebank & Trust	GSEC	1.750%	2/27/2020	240,000	240,175
Montague Mich Area Pub Schs	GSEC	2.234%	5/1/2021	562,257	557,276
Comenity Bank	CD	1.600%	5/4/2021	200,000	198,804
Mercantile Bank	CD	1.600%	5/13/2021	245,000	245,069
Pajaro Valley Calif Univ Sch Dist Refdg	GSEC	3.065%	8/1/2021	1,053,093	1,016,820
Banco Popular	CD	2.100%	1/3/2022	245,000	246,874
New York City Transitional Fin Auth	GSEC	2.050%	2/1/2022	400,644	401,108
Wells Fargo Bk NA SD	CD	3.350%	1/9/2024	245,000	256,949
New York City Transitional Fin Auth	GSEC	2.850%	5/1/2025	519,129	514,560
FHLB	GSEC	3.600%	1/2/2026	505,090	500,000
FHLMC Med Term NTS Step	GSEC	2.000%	4/28/2026	247,618	249,915
Tennessee Valley Authority	GSEC	6.235%	7/15/2045	104,232	102,068

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.

Type	Cost
0.00% - 0.99%	\$ 1,989,719
1.00% - 1.99%	20,553,958
2.00% - 2.99%	17,385,172
Greater than 3.00%	<u>2,651,765</u>
	\$ 42,580,615

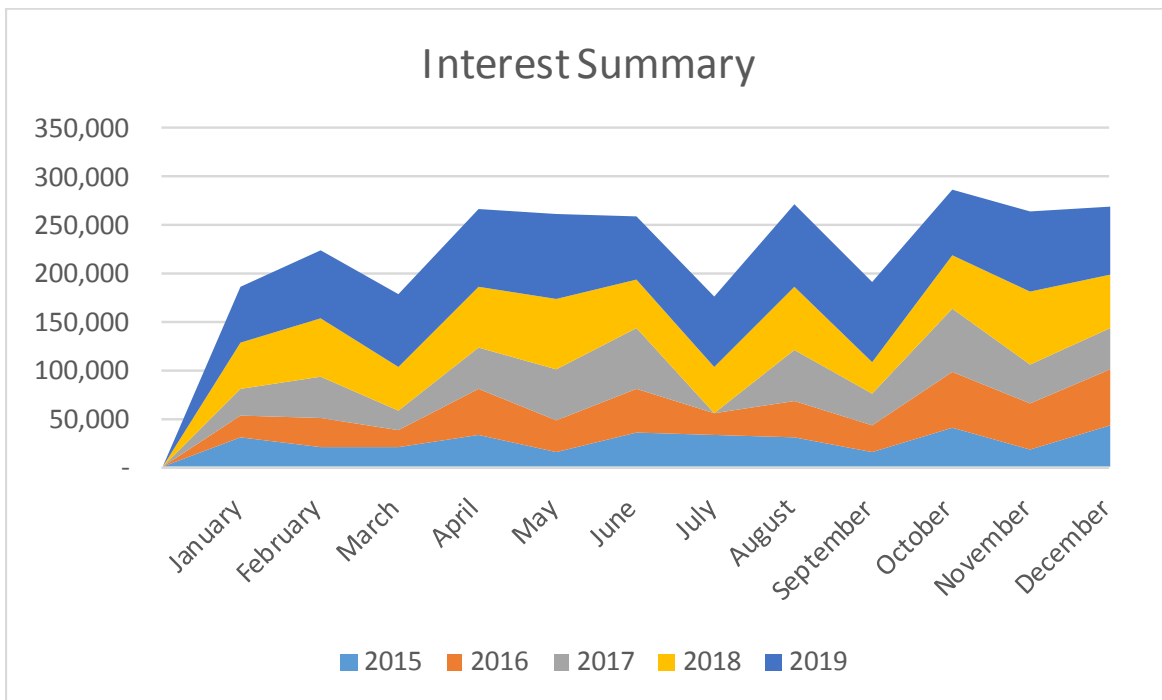


YIELD

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
January	\$ 30,875	\$ 21,971	\$ 29,282	\$ 47,032	\$ 58,806
February	19,952	32,100	41,906	60,012	71,636
March	21,250	17,478	19,435	47,086	74,950
April	34,428	47,967	41,382	63,723	78,472
May	16,454	32,236	53,849	71,263	88,658
June	36,771	43,613	64,550	49,046	64,669
July	34,186	23,257	-	46,183	73,227
August	31,262	38,693	52,411	64,546	84,727
September	15,000	27,537	33,908	33,543	81,936
October	41,030	58,423	64,550	55,109	67,454
November	18,789	46,679	40,403	76,958	82,959
December	<u>44,357</u>	<u>55,896</u>	<u>43,441</u>	<u>56,546</u>	<u>68,346</u>
Total	\$ 344,354	\$ 445,850	\$ 485,116	\$ 671,047	\$ 895,840



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, Federal National Mortgage Association (Fannie Mae) and Tennessee Valley Authority. 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, 2019, 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 100% 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 until *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 July 10, 2018.

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.