

TOWN OF PARADISE VALLEY COUNCIL ACTION REPORT

TO: MAYOR AND TOWN COUNCIL
FROM: Lenore Lancaster Management Services Director
SUBJECT: Approval of Investment Policy
DATE: September 28, 2000

2000

RECOMMENDATION:

It is recommended that the Town Council approve the attached Investment Policy.

DISCUSSION:

Background

In 1995, the Town developed an investment policy to provide guidance to Town staff for investing the Town's monies. The policy provided that the Town could invest in the following:

- U.S. Treasury Bills, Notes, and Bonds;
- The Local Government Investment Pool (LGIP) up to \$500,000;
- Re-purchase Agreement with the Town's provider of banking services.

The policy also provided that an investment ladder should be developed so that investments would mature on a regularly scheduled basis; preference would be given to the use of the U.S. Treasury auction for purchases; and investments would have a maximum maturity of three years.

Current Situation

Staff established an investment ladder based on three-year maturities, and purchased Treasury Notes and Bills on auction. Last year, however, the Treasury stopped offering three-year Treasury notes. The Town can now purchase only up to a two-year note on the auction. This has created a problem for the investment ladder. Staff has tried to purchase Treasury bills and notes in the after market with three bids. However, with improved technology on the part of the banks and brokers, we have experienced problems with bids. The banks and brokers want an instantaneous response, and will not hold an offer open.

During the selection of the provider for the Town's banking services in March 2000, there was discussion of expanding the Town's investments to government agencies, such as the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank. Because agencies are backed by the issuing agency and not by the full faith and credit of the U.S. government, they have a higher yield than direct U.S. Treasury securities. In addition, Staff believes there is an opportunity for enhanced investments earnings through the use of certificates of deposit.

Staff has also experienced problems with timing of investments, in that there may be a lag of several weeks between the maturity of an investment or the availability of excess funds and the next auction date. Currently, the money is temporarily invested utilizing the repurchase agreement on an overnight basis. However, the LGIP provides a better return than the repurchase agreement. Staff recommends increasing the limit for the LGIP to \$2.5 million to accommodate temporary excess funds.

FISCAL IMPACT

Increased investment earnings will provide additional funds that are not subject to the expenditure limitation.

Lenore P. Lancaster
Management Services Director

Thomas M. Martinsen
Town Manager