



## Legislation Text

File #: 19-329, Version: 1

**TO: Mayor Bien-Willner and Town Council Members**

**FROM: Jill Keimach, Town Manager  
Douglas Allen, CPA**

**DATE: September 12, 2019**

**DEPARTMENT: Finance**

**AGENDA TITLE:  
Discussion of Amendment to the Town's Investment Policy**

**SUMMARY STATEMENT:**

**Requested Action**

For Council to consider increasing the maximum invested in LGIP from \$7,500,000 to \$10,500,000 (or higher) to enhance diversification and asset allocation in the Town's investments.

**Future Investment Policy Update(s)**

A comprehensive Investment policy update is being drafted with investment experts and is planned to be brought for Council's considerations later this year and will include further recommended changes with LGIP.

**The Town's Long-Standing Investment Policy Objectives (paraphrased):**

- Compliance - by only invest as allowed under law;
- Security - that preserves and protects public funds;
- Liquidity - to meet cash flow needs; while maintaining
- Diversification - that mitigates risks; and then
- Yield - obtaining a market value rate of return.

The Town's current cash and investments managed by agent / institution is listed below for the year ended June 30, 2019 (unaudited).

Amount	Agent / Institution	%
\$ 23,576,964	PFM	47%
18,656,526	WF & WFMM	38%
7,450,248	LGIP	15%
<u>\$ 49,683,738</u>		

## FREQUENTLY ASKED QUESTIONS:

### What is LGIP & Who can participate in LGIP?

LGIP stands for Local Government Investment Pools. The Pools were established in the Arizona Constitution under [A.R.S. §35-326 <https://www.azleg.gov/ars/35/00326.htm>](https://www.azleg.gov/ars/35/00326.htm) and the activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with [A.R.S. §35-311 <https://www.azleg.gov/ars/35/00311.htm>](https://www.azleg.gov/ars/35/00311.htm).

Local Governments may also deposit money with the Treasurer for investment. These funds are invested in the Local Government Investment [Pools <https://aztreasury.gov/local-govt/>](https://aztreasury.gov/local-govt/). These deposits are voluntary but provide many benefits to local governments. The Treasurer's office pools LGIP investments with other funds to provide greater liquidity and greater yield than possible on their own, and the Treasurer's Office provides this service at a much lower cost than other options. [<https://aztreasury.gov/what-is-lqip/>](https://aztreasury.gov/what-is-lqip/)

### Where is LGIP invested?

LGIP has four (4) pools that local governments to participate in. The Town has, and is, only participating in Pool 5. LGIP says it is "structured to provide participants safety of principal, daily liquidity followed by investment income - in that order".

The Town is only a participant in Pool 5 that "is a short-term fund similar to a prime money market fund".

[<https://aztreasury.gov/local-govt/>](https://aztreasury.gov/local-govt/)

[<https://aztreasury.gov/local-govt/lqip-performance/>](https://aztreasury.gov/local-govt/lqip-performance/)

[<https://aztreasury.gov/MonthlyInvestmentReports/LGIPPoolYields.pdf>](https://aztreasury.gov/MonthlyInvestmentReports/LGIPPoolYields.pdf)

### How does GFOA view LGIPs?

GFOA (Government Finance Officers Association) has "Best Practice" recommendations for governments considering investing in LGIPs. Town Management has reviewed and is comfortable with the recommendations.

[<https://www.gfoa.org/local-government-investment-pools>](https://www.gfoa.org/local-government-investment-pools)

GFOA also has a document from 2009 titled "Local Government Investment Pools and the Financial Crisis - Lessons Learned, by Jeff Pantages

[<https://www.gfoa.org/sites/default/files/GFR\\_OCT\\_09\\_18.pdf>](https://www.gfoa.org/sites/default/files/GFR_OCT_09_18.pdf)

### TOWN MANAGEMENT'S RECOMMENDATION:

In 2007, the maximum LGIP participation was \$7,500,000. This was 20.7% of total cash and equivalents at fiscal year-end. As the Town's cash balance increase, this % has decreased to 16.2% in fiscal year 2018. This results in higher allocations be held by other institutions.

The recommendation is to increase the maximum LGIP participation to \$10,500,000 (or higher) which is approximately 21% of total cash and cash equivalents. Twenty-one percent is the average investment rate from 2007 to 2018. This interim recommendation is part of an initiative to enhance current practices and aligning to the Town's Policies, "GFOA Best Practices" and Internal Controls. If the policy is set at 21%, then as cash fluctuates then the LGIP would need to be adjusted to maintain

compliance. LGI Pools returns follow the fed rate.

Since, 2007 the Town's actual participating in LGIP has ranged from \$2,857,421 to \$20,454,326 at fiscal year-end. Management recommends to bold print the full amount (not rounded) of the limit on LGIP in the investment policy document.

Below is a chart showing the Town's total cash at fiscal year end, the Town's LGIP participation limit and the resulting maximum % of total investments in LGIP.

	1995	2000	2007
Town's policy limits on LGIP participation	\$ 500,000	\$ 2,500,000	<b>\$ 7,500,000</b>
Cash and equivalents at fiscal year end	\$24,607,307	\$32,755,685	\$ 36,314,709
<b>% of LGIP participation at maximum amount</b>	<b>2.0%</b>	<b>7.6%</b>	<b>20.7%</b>

	2015	2018	Recommended
Town's policy limits on LGIP participation	\$ 7,500,000	\$ 7,500,000	<b>\$ 10,500,000</b>
Cash and equivalents at fiscal year end	\$30,941,495	\$46,427,307	\$ 49,683,738
<b>% of LGIP participation at maximum amount</b>	<b>24.2%</b>	<b>16.2%</b>	<b>21.1%</b>

**ATTACHMENT(S):**

- 00 Pp Investment Policy - LGIP (Presentation)
- 01 Town's Current Investment Policy Adopted May 2016 (LGIP Page 3)
- 02 Town's Previous Investment Policy Adopted in 2006
- 03 Town's Previous Investment Policy Changes in 2000
- 04 GFOA best practice in LGIPs
- 05 GFOA Local Government Investment Pools and the Financial Crisis
- 06 LGIP FAQ web links from the State Treasurer's website (low quality)