



Legislation Text

File #: 19-347, Version: 1

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CPA

DATE: September 26, 2019

DEPARTMENT: Finance

AGENDA TITLE:

Adopt Resolution 2019-18 Amending the Local Government Investment Pool ceiling in the Town's Investment Policy.

RECOMMENDATION:

Adopt Resolution 2019-18 Amending the Local Government Investment Pool ceiling in the Town's Investment Policy

SUMMARY STATEMENT:

Requested Action

For Council to consider increasing the maximum invested in LGIP from \$7,500,000 to the greater of \$10,500,000 or 21% of the total cash and investments to enhance diversification and balance in asset allocation.

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.

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-lgip/>](https://aztreasury.gov/what-is-lgip/)

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/lgip-performance/>](https://aztreasury.gov/local-govt/lgip-performance/)

[<https://aztreasury.gov/MonthlyInvestmentReports/LGIPPoolYields.pdf>](https://aztreasury.gov/MonthlyInvestmentReports/LGIPPoolYields.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 increases, this % has decreased to 16.2% in fiscal year 2018. This results in higher allocations being held by other institutions.

The recommendation is to increase the maximum LGIP participation to the greater of \$10,500,000 or 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.

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 LGIP participation ceiling in the investment policy document.

ATTACHMENT(S):

A - Resolution 2019-18 Investment Policy LGIP: Resolution increasing the LGIP ceiling

B - 092619 Investment Policy LGIP: This is the PowerPoint for Action Items

C - 2019-0926 Investment Policy Redline pages 1 and 3: This is the Town's Current Investment Policy Adopted May 2016 redlined to increase the LGIP ceiling

D - 2019-0926 Investment Policy Clean: The policy if LGIP changes incorporated