



Legislation Text

File #: 24-0597, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Waive the first reading and pass the ordinance approving revisions to the City's Investment and Cash Management Policy (requires six positive votes)

DEPARTMENT: Finance Department

SUBMITTED BY: Raymond Munch, Finance Director

BOARD/COMMISSION REVIEW:

The Financial Advisory Board (FAB) reviewed the Investment and Cash Management Policy and approved the recommended changes on April 29, 2024.

BACKGROUND:

The City's Investment and Cash Management Policy ("the policy") was established to comply with State requirements regarding the investment of public funds and defines permissible investment activities under the City's home rule authority. The primary objectives of investment activities are safety, liquidity, and total return. The policy also describes cash management and operational processes.

All City funds are managed according to the provisions of this policy, except for the police and fire pension funds and other financial assets bound by separate governance documents held by various fiscal agents and trustees which are administered according to the contractual and statutory requirements of the respective funds. Except for cash in certain restricted and special funds, the City consolidates cash balances from all funds to maximize investment returns. Investment income is allocated to the various funds based on their respective participation and according to generally accepted accounting principles.

The policy calls for periodic review by FAB, and any revisions recommended shall be approved by the City Council. The policy was last revised on February 21, 2023.

DISCUSSION:

On November 21, 2023, the City Council awarded RFP 23-159, Fixed Income Money Management Services, to Mesirow Financial Investment Management, Inc., and PFM Asset Management LLC.

During the evaluation process, the selection team, which included members of FAB, noted that Mesirow and PFM offered investment strategies that complement one another. Mesirow has deep expertise in corporate credit investments, while PFM's strength is in government-agency fixed-income investments. Given their different investment strategies, the FAB initiated a discussion on the appropriate benchmark that each money manager should be held to and the permissible level of

investment in investment-grade corporate bonds.

In 2018, the policy was amended to allow up to 30% of the total portfolio to be invested in investment-grade corporate bonds (rated BBB or higher). Traditionally, both money managers were measured against an intermediate government index. An alternative benchmark that more accurately captures the investment in corporate bonds is the intermediate government/credit index.

The FAB evaluated the strengths of each money manager and discussed the appropriate benchmark for each. The board recommended a change to the policy that would allow a manager to be measured against the intermediate government/credit index and allow for a greater allocation in corporate bonds of up to 50% of the manager's total portfolio. In contrast, a manager measured against the government-only index would have a smaller allowable allocation to corporate bonds of up to 25% of the manager's total portfolio. At no time would the total weighted average of corporate bond investments exceed 35% across the total City portfolio.

This change marginally increases the City's allowable investment in corporate bonds from 30% to 35%. Staff, as well as the City's investment advisor and the FAB, are confident that this policy change allows the money managers to achieve the best total return on their investment strategies while maintaining a high level of safety and liquidity.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this recommendation.