



INFORMATIONAL MEMORANDUM

TO: Finance Committee
FROM: Peggy McCarthy, Finance Director
CC: Mayor Ekberg
DATE: February 6, 2019
SUBJECT: 2018 Cash & Investment Report

ISSUE

The cash and investment report provides portfolio information as of December 31, 2018 and for the year then ended.

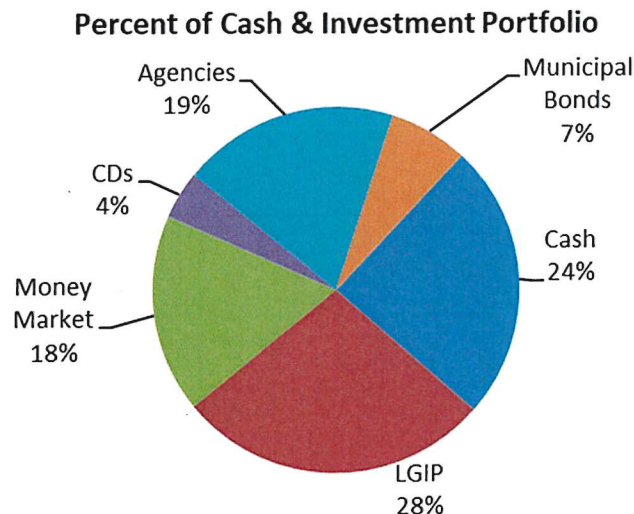
BACKGROUND

City funds are invested to earn a reasonable return while preserving principal and allowing sufficient liquidity to meet the City's operating needs. To achieve these objectives investments are diversified by type, by financial institution, and by maturities in compliance with the City Investment Policy.

DISCUSSION

Portfolio Components, Activity, and Year-Over-Year Comparison

As of December 31, 2018, the portfolio totaled \$83 million comprised of \$58 million in cash and cash equivalents and \$25 million in longer term investments. The U.S. Bank depository account held \$20 million in anticipation of a \$13 million payment due early in January 2019 for the acquisition of Public Works shops property under the Public Safety Plan. The intent is to keep the balance of this account to a minimum and transfer any excess funds to the Local Government Investment Pool (LGIP) account. The bank account doesn't earn interest but does earn a 1% credit (the rate prior to October 2018 was .45%) as an offset to banking costs. Since the LGIP daily yield has exceeded 2% since August 2018 and has progressively moved higher (it was 2.49% on February 4, 2019), the bank account is managed to maintain only the minimum amount needed. The following chart illustrates the portfolio components at 12/31/18.



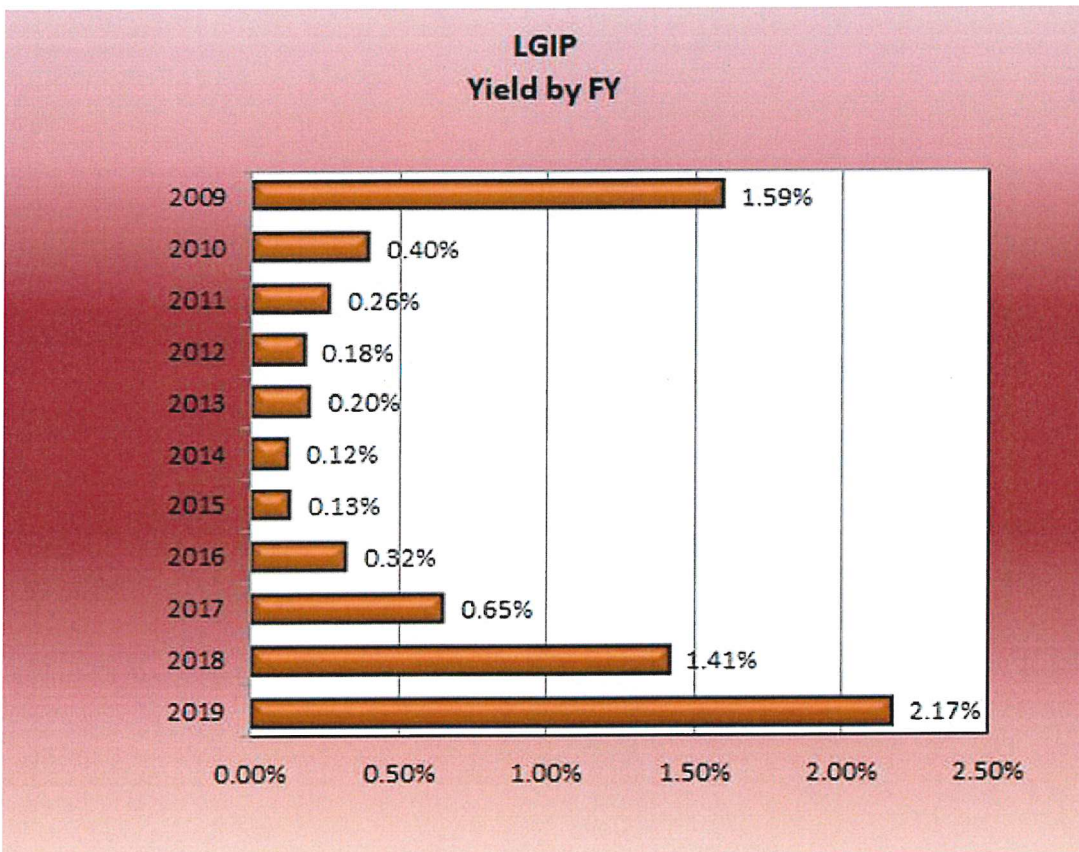
During 2018, two \$1 million agencies matured and a portion of the Douglass County ESD bond, \$355 thousand, was redeemed; no investments were purchased. Most of the longer-term investments in the portfolio - all but \$2.6 million - were purchased in 2017 following the December 2016 issuance of \$37 million of voted debt bonds. Of the \$25 million longer-term investments at year-end, \$16.6 million mature in 2019, \$6 million mature in 2020, and \$2.5 million mature in 2021 or 2022 producing a weighted average maturity of one year.

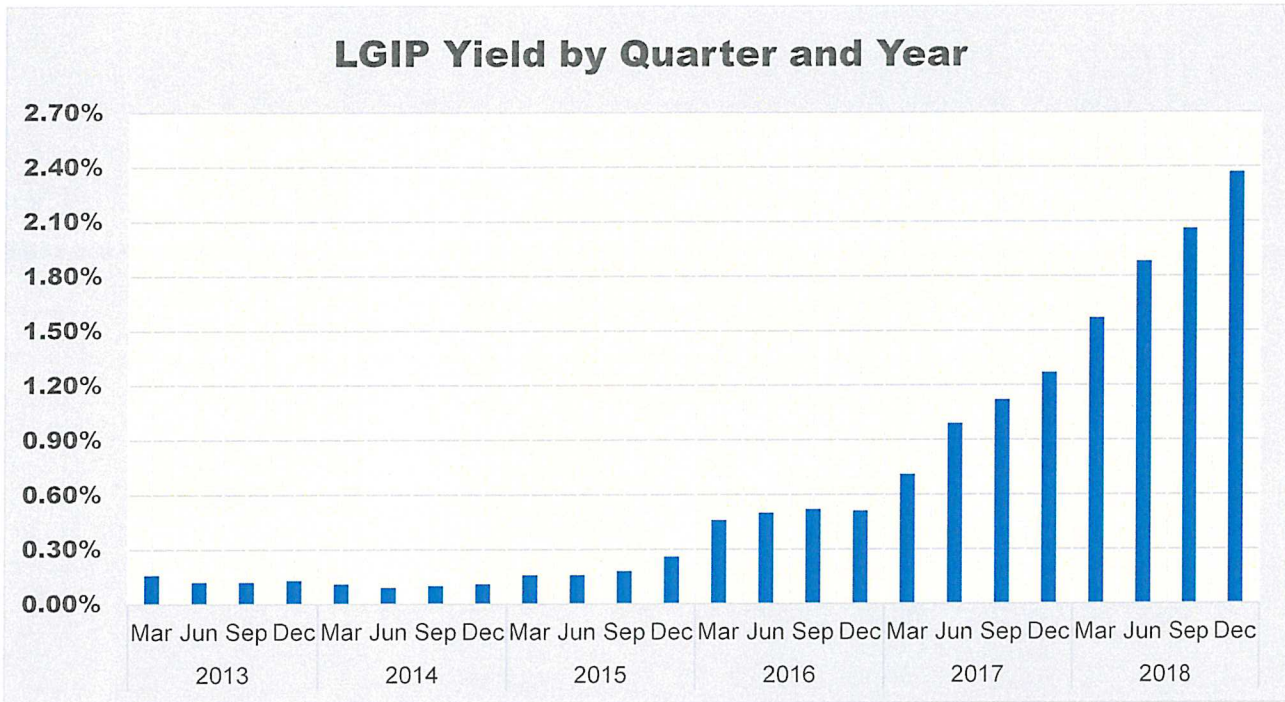
At December 31, 2017, the cash and investment balance was \$101 million, \$18 million more than at December 31, 2018. This \$18 million reduction is attributable mainly to investment in the Public Safety Plan. The Public Safety Plan Voted Debt fund 305 declined \$21 million; the Public Safety Plan Public Works Shops fund 306 increased by \$11 million reflecting expenditures and a \$20 million limited tax general obligation bond issuance in July 2018; and the Residential Street fund declined \$7 million from investment in the 42nd Ave S and 53rd Ave S improvements.

Portfolio Performance

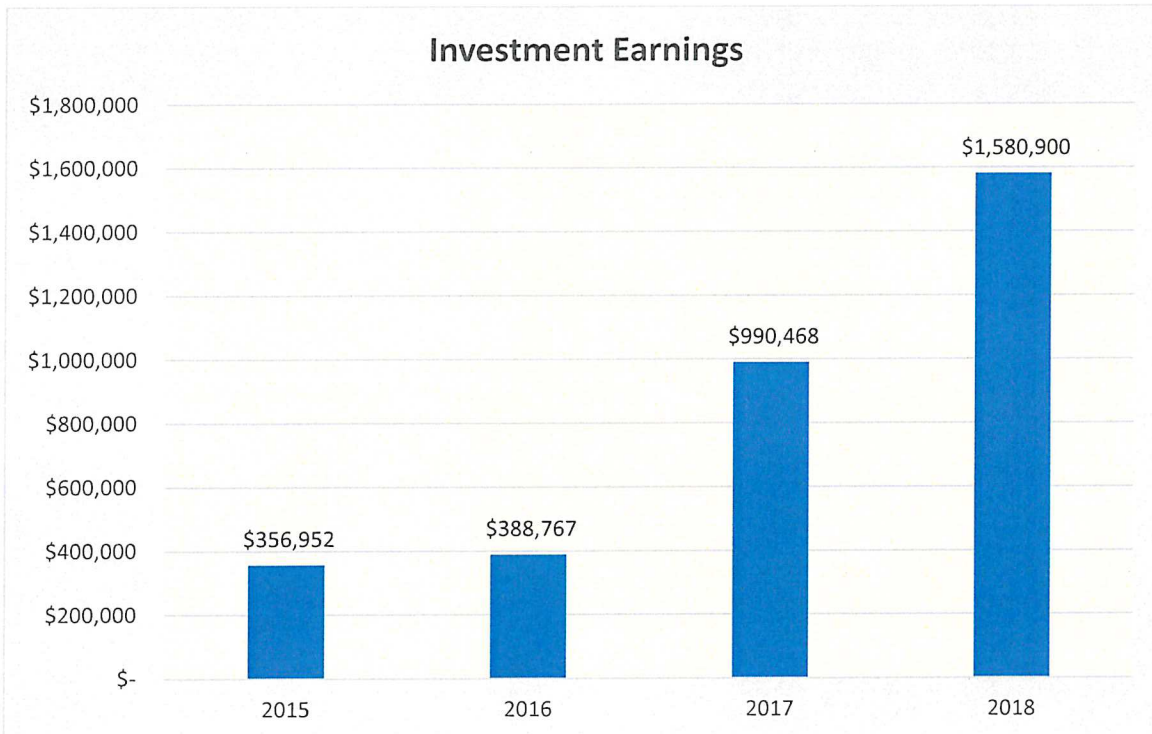
Short term investment yields have increased markedly since mid-2017 and this increase has been reflected in the LGIP rates, as illustrated in the two charts below.

LGIP Yields Based on the State's Fiscal Year of July 1 to June 30.





For 2018, the average yield was 1.90% for long term investments, 1.91% for the LGIP and 1.95% for the money market account. The 2018 investment earnings of \$1.58 million represents a 60% increase over the 2017 total of \$990 thousand and a \$1.3 million positive variance over the \$271 thousand budgeted. Earnings for the past four years are charted below.

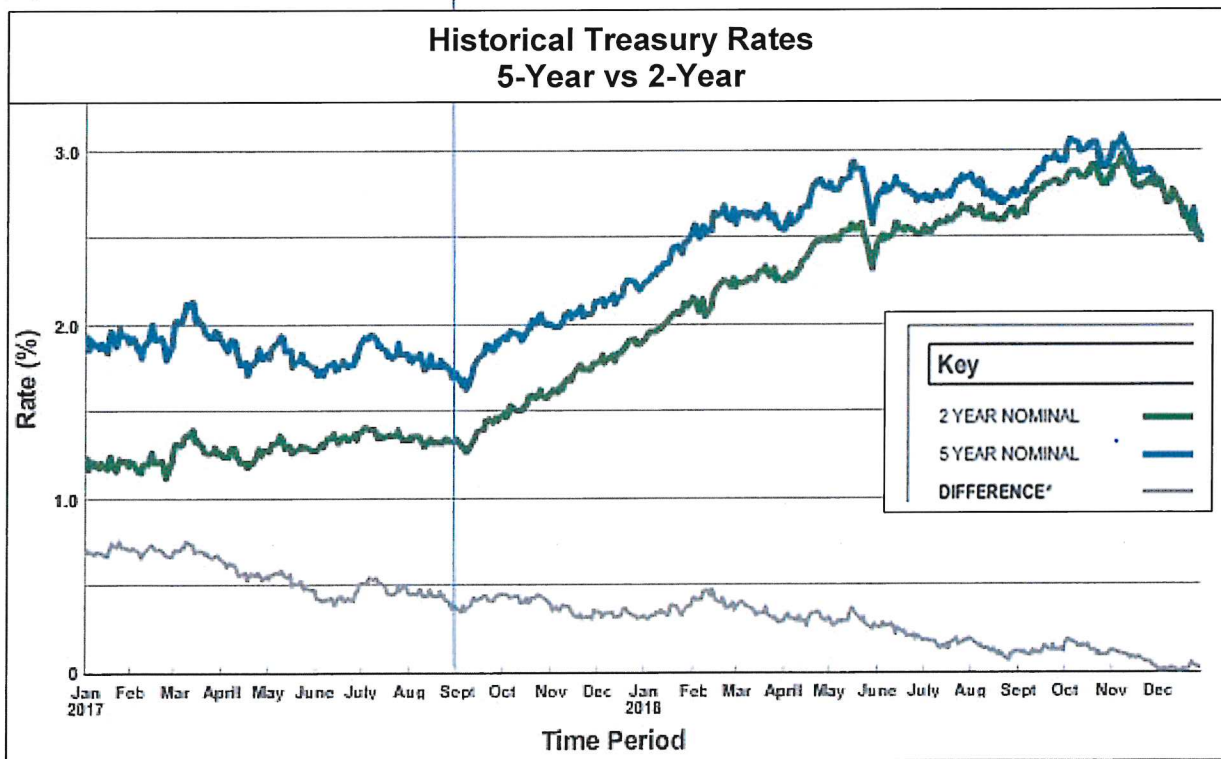


Policy Compliance and Liquidity Analysis

The portfolio profile is well within the range of all the investment policy parameters. There is currently a good mix of investments with a range of maturity dates. Current investments allow for adequate cash flow requirements. The yield benchmark of the 2-year treasury however was not met due to the rise in the two-year rate over the past year and a half, and timing of the longer-term investment purchases. With a slowing of interest rate hikes (see the Investment Environment discussion below) and the maturing of \$16 million of longer-term investments in 2019, opportunities to increase the portfolio yield may be presented in 2019.

Investment Environment

The Federal Reserve raised interest rates in December 2018 for the fourth time in 2018 putting it at its highest level since the spring of 2008. This contributed to an inverted yield curve in December whereby the 5-year treasury rate was higher than the 2-year treasury rate. The chart below illustrates this convergence of rates in November and December and the steep rise in rates beginning in September 2017.



The Federal Reserve recently indicated that it may raise interest rates twice in 2019 rather than three times slowing the interest rate climb. The Fed reported that economic growth remained solid and is expected to continue. However, the case for raising rates has weakened somewhat because of sluggish inflation, slowing growth in Europe and China and the possibility of another federal government shutdown. It has been reported that the Fed would be “patient” in evaluating the health of the economy and that the Fed stood ready either to raise or to cut rates, depending on economic conditions. The portfolio will continue to be managed to take advantage of investment opportunities as they arise.

RECOMMENDATION

Presentation is for information only.

ATTACHMENTS

2018 Cash and Investment Report

Policy Compliance & Liquidity Analysis

Treasury Rates and Yield Curves at 12/31/17 and 12/31/18

**CITY OF TUKWILA
CASH & INVESTMENT REPORT
December 31, 2018**

Agency / Issuer	Purchase Date	Maturity Date	-- Term --		Book/Par Balance	Yield	Investment Income	Investment as a % of Category
			Original Mos	Current Mos				
CASH & CASH EQUIVALENTS								
US Bank depository account	na	No fixed maturity or term; funds are available within one day.			\$ 19,861,884	1.00% (b)	\$ 58,300	35%
Washington State Treasurer	na				23,030,920	1.91%	762,000	40%
Local Government Investment Pool, LGIP								
Columbia Bank money market account	na				14,642,045	1.95%	280,300	25%
Cash & Cash Equivalents - Totals, Average					57,534,849	1.91%	1,100,600	100%
INVESTMENTS								
Certificates of Deposit								
Bank of Washington	6/2/2017	6/2/2019	24	5	250,000	1.40%	3,500	1%
Sound Community Bank with reinvested earnings	3/4/2017	3/4/2019	24	2	3,288,311	1.40%	46,000	13%
CERTIFICATES OF DEPOSIT - Totals, Average			24	4	3,538,311	1.40%	49,500	14%
Agencies								
Federal Farm Credit Bank	1/19/2016	12/21/2018	35	matured	1,000,000	1.20%	12,000	0%
Federal Home Loan Mtg Corp	5/25/2016	5/25/2018	24	matured	1,000,000	0.91%	3,800	0%
Federal Farm Credit Bank, FFCB	12/27/2016	12/27/2019	36	12	1,000,000	1.70%	17,000	4%
Federal Agricultural Mortgage Corp, Farmer Mac	1/23/2017	7/23/2019	30	7	1,000,000	1.40%	14,000	4%
Federal Home Loan Bank	1/30/2017	1/30/2019	24	1	1,000,000	1.29%	13,000	4%
Federal Farm Credit Bank, FFCB	3/20/2017	3/20/2019	24	3	2,000,000	1.45%	29,000	8%
Federal Agricultural Mortgage Corp, Farmer Mac	8/2/2017	8/2/2019	24	7	2,500,000	1.45%	37,000	10%
Federal Home Loan Bank, FHLB	8/28/2017	8/20/2020	35	20	2,300,000	1.65%	38,000	9%
Federal National Mortgage Association, FNMA zero coupon	8/28/2017	10/9/2019	25	9	2,400,000	1.60%	38,000	10%
Federal Home Loan Bank, FHLB	9/11/2017	6/29/2020	33	18	1,700,000	1.62%	26,000	7%
Federal Farm Credit Bank, FFCB	9/12/2017	5/9/2022	55	40	2,000,000	2.03%	39,000	8%
AGENCIES - Totals, Average			31	13	15,900,000	1.68%	266,800	63%
Taxable Municipal Bonds								
UW Biomedical Center	12/14/2010	7/1/2019	103	6	500,000	4.05%	24,000	2%
Douglas County, ESD \$355,000 redeemed on 12/3/18	12/23/2010	12/1/2020	119	23 (a)	780,000	4.55%	48,000	3%
Port of Anacortes	12/17/2010	9/1/2020	116	20	340,000	5.00%	17,000	1%
City of Auburn BABs	6/14/2017	12/1/2019	30	11	300,000	1.65%	6,000	1%
Seattle UTGO	6/14/2017	11/1/2019	29	10	380,000	1.45%	6,000	2%
Port of Tacoma	9/6/2017	12/1/2020	39	23	510,000	1.63%	9,000	2%
Port of Seattle, pre-funded	8/29/2017	5/1/2019	20	4	2,000,000	1.50%	32,000	8%
Multnomah County zero coupon	8/30/2017	6/1/2021	45	29	500,000	2.05%	10,000	2%
City of Burien, callable 6/1/20	12/21/2017	6/1/2020	29	17 (a)	500,000	2.25%	12,000	2%
MUNICIPAL BONDS - Totals, Average			59	16	5,810,000	2.82%	164,000	23%
Total Investments			38	11	25,248,311	1.90%	480,300	100%
TOTAL CASH, CASH EQUIVALENTS & INVESTMENTS					\$ 82,783,160	1.91%	\$ 1,580,900	

Data as of February 4, 2019.

(a) On callable bonds, term is calculated to final maturity even though call date may occur first; on sinking fund bonds, average maturity is used to calculate term.

(b) Represents earning credit from US Bank towards payment of bank fees; rate was .45% prior to October 2018.

↑
Current Portfolio Yield

CITY OF TUKWILA
Policy Compliance & Liquidity Analysis
CASH & INVESTMENT REPORT
December 31, 2018

	Portfolio Amount	As of Report Date		
		Available Within 1 Year	Available Within 5 Years	Available in 5 - 10 Years
Liquidity Analysis & Maturity Diversification				
Funds immediately available - US Bank, State LGIP, Money market	\$ 57,534,849	\$ 57,534,849	\$ 57,534,849	
Fixed Maturity Investments, maturing in:				
0-90 days after Report Date	6,288,311			
91-180 days after Report Date	2,250,000			
181-270 days after Report Date	4,000,000			
271-360 days after Report Date	4,080,000			
Investments maturing in 1 year or less	2019 16,618,311	16,618,311	16,618,311	
Investments maturing in 1-2 years	2020 6,130,000		6,130,000	
Investments maturing in 2-3 years	2021 500,000		500,000	
Investments maturing in 3-4 years	2022 2,000,000			2,000,000
Investments maturing in 7-10 years	2023 -			-
Investments maturing in more than 1 year and less than 10 years.	8,630,000			
TOTALS	\$ 82,783,160	\$ 74,153,160	\$ 80,783,160	\$ 2,000,000
		90%	98%	3%

	Portfolio Amount	% of Total	POLICY MAXIMUM	Policy Met?
Financial Institution Diversification				
US Bank	\$ 19,861,884	24.0%	50.0%	Yes
Columbia Bank	14,642,045	17.7%	50.0%	Yes
Bank of Washington	250,000	0.3%	50.0%	Yes
Sound Community Bank	3,288,311	4.0%	50.0%	Yes
Investments in Financial Institutions	38,042,240	46.0%		
Investments in US Government and other non-financial institutions	44,740,920	54.0%		
Total	\$ 82,783,160	100.0%		

	Portfolio Amount	% of Total	POLICY MAXIMUM	Policy Met?
Investment Mix				
Depository	19,861,884	24.0%	insured by PDPC	Yes
State Investment Pool	23,030,920	27.8%	75.0%	Yes
Money market	14,642,045	17.7%	insured by PDPC	Yes
Certificate of Deposit	3,538,311	4.3%	insured by PDPC	Yes
US Agency	15,900,000	19.2%	75.0%	Yes
Municipal Bonds	5,810,000	7.0%	no limit specified in policy	Yes
Total	82,783,160	100.0%		

Weighted Average Maturities:		Performance Analysis	
	Years		
Certificates of deposit	0.2	Current portfolio yield	1.91%
Agencies	1.2	<i>Benchmarks:</i>	
Municipal bonds	1.1	6 month treasury	2.47%
Total Investments	1.0	2 year treasury	2.49%
POLICY MAXIMUM	3.5	Local Govt Invst Pool	2.38%
Policy Met?	Yes		

Note: Cash and cash equivalents are available within one day and are *not* factored into the Total Investments weighted average maturity.

CITY OF TUKWILA
Treasury Rates and Yield Curves
CASH & INVESTMENT REPORT
December 31, 2018

Term	Closing Yield	Rate Change	% Change	Term	Closing Yield
	12/31/2017				12/31/2018
3mo	1.39%	1.06%	43%	3mo	2.45%
6mo	1.53%	1.03%	40%	6mo	2.56%
1Yr	1.76%	0.87%	33%	1Yr	2.63%
2Yr	1.89%	0.59%	24%	2Yr	2.48%
3Yr	1.98%	0.48%	20%	3Yr	2.46%
5Yr	2.20%	0.31%	12%	5Yr	2.51%
10Yr	2.40%	0.29%	11%	10Yr	2.69%
30Yr	2.74%	0.28%	9%	30Yr	3.02%

Source: US Department of the Treasury

