



City of CHARLOTTE

MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Ginger Terpstra, City Clerk/Treasurer

SUBJECT: Investment Income

DATE: October 7, 2019

Council Policy 2018-04 – Investment of Surplus Funds requires that I provide you a report annually describing the return on investments held during the previous fiscal year.

In brief, interest earned on surplus cash held in all funds increased from \$36,958.40 for the year that ended June 30, 2018 to \$107,958.56 for the year ended June 30, 2019, an increase of 192%. This increase was achieved while significantly expanding the percentage of the City's surplus cash held in fully-insured investments and limiting investments, for cash flow purposes, to holdings with terms no longer than six months. A small amount of funds was held in savings and money market accounts. The City used an insured sweep account for its main checking account to generate a greater rate of return on a daily basis on surplus cash. Other investments were limited to certificate of deposit account registry service (CDARS) instruments.

Council might recall that we made a decision in mid-2018 to consolidate all of our banking with Independent Bank. This followed by several years a request for proposals for banking services that had led to Council awarding Independent Bank the right to manage the City's funds. Some accounts and investments remained with three other banks. Managing four accounts required additional time for oversight with no apparent benefit in terms of the safety of City funds. It also complicated the process of investing surplus funds for optimum yield.

At that time we adopted a fairly straightforward approach to managing the investment of surplus cash. This was done for two reasons. First, it required less staff time to manage. Second, we were interested in properly controlling cash flow at a time when we were undertaking significant purchases for street reconstruction and the replacement of a fire truck.

As noted above, we chose, then, to utilize an insured sweep account that invested, on a day-to-day basis, all funds in the City's main checking account in excess of \$1 million. Second, we invested slightly less than \$4 million in laddered CDARS with one of these instruments maturing every month, which was then renewed for no longer than six months.

In the last few months, we have made some modifications to this strategy. On the advice of Independent Bank, we have begun sweeping from the checking account all funds in excess of \$1,000. This results in our incurring fees on that account which were avoided when we had the higher floor of \$1 million. Those fees are more than offset, however, by the additional interest earnings.

The second change we have made is to not renew CDARS as they come due. There has been some softening in rates, due perhaps to general economic uncertainty, that has led to lower interest rates than can be earned through the sweep account. We will revisit that decision in the future if rates on CDARS rise above that of the sweep account.

I expect interest income in the 2019-20 fiscal year to be a lower than in the previous fiscal year. This is due to having lower amounts of surplus cash to invest because of planned spending as well as an expectation that rates of return will remain at or slightly below rates seen in the prior year.