

TUMWATER BUDGET & FINANCE COMMITTEE
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CONVENE: 4:00 p.m.

PRESENT: Mayor Pete Kmet and Councilmembers Joan Cathey, Neil McClanahan, and Tom Oliva.

Assistant City Administrator Heidi Behrends Cerniwey, Finance Director Ursula Euler, City Attorney Karen Kirkpatrick, and Recording Secretary Valerie Gow.

Others: Peter Becker, Time Value Investments, Inc. (TVI)

**INVESTING
ACCUMULATED
CASH:**

Director Euler reviewed the request to consider investing the City's accumulated cash. The City's Financial Policies includes a section describing potential investments for consideration. Staff recommends investing accumulated cash (e.g., idle cash). When the City has a sufficient level of funds, each fund has money that could be pooled. The City has a large cache of pooled funds for possible short-term investment. Staff recommends proceeding cautiously because of the rising interest environment and long-term cash needs of the City to fund projects.

Director Euler referred to investment information provided in the staff report. The information outlines the benefits and different types of investment options. Since 2010, the City has not invested idle cash because interest rates were so low during the recession. Between 2003 through 2010, the City invested cash into similar investment vehicles. With the recovery of the economy, the time is right to consider investing again.

Director Euler asked for feedback on pursuing a gradual investment between \$4 million and \$12 million equating to approximately 26 percent of the City's available cash. The investment would be on a short-term basis between 18 months and 24 months with the City's required reserves remaining intact.

Councilmember Cathey asked whether this type of investment is less controlled compared with the City's other investments. Director Euler replied that any investment would be funneled through US Bank into several accounts. The funds would be processed by US Bank. However, the investment accounts are federal programs that provide funds for community projects, such as low-income housing.

Councilmember Cathey added that she is somewhat skeptical of decisions today by the federal government for housing through Fannie Mae and Freddie Mac. Many of the requirements have been increased making it difficult for the low-income to take advantage of the programs. She asked whether the farm credit program would benefit

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small or rural farms versus typical benefits received through farm subsidies. Director Euler described the program as benefitting farms or ranches requiring capital. The entities contact their local bank, which is typically a member of the program that provides funds at low interest rates. Farmers and ranchers work through the local bank to take advantage of the loans provided by the Federal Farm Credit Banks Funding Corporation.

Mr. Becker added that the mechanism for the Federal Farm Credit Bank Banks Funding Corporation is similar to a Fannie Mae or Freddie Mac for single-family housing loans. The farm credit bank provides agricultural loans.

Mayor Kmet asked whether the loans are for crops or for equipment. Mr. Becker said he is unsure as to the purpose; however, the debt Tumwater would be purchasing would not be pooled mortgage-type investments. The debt would consist of general obligation of senior unsecured debt from the Federal Farm Credit Banks Funding Corporation. The City would not be purchasing any loans.

Councilmember Cathey asked whether the City's investment would be targeted for loans for the rural communities. Director Euler described the program as focused on rural communities and US agricultural. She added that the program provides resources to smaller farms and family-owned farms to secure a loan that it otherwise might not be able to obtain.

Mr. Becker noted that the City is currently investing in the Federal Farm Credit Banks Funding Corporation through the City's investment participation in the Local Government Investment Pool (LGIP). The LGIP invests 50% of the state pool in the big four - Fannie Mae, Freddie Mac, Federal Farm Credit Banks Funding Corporation, and Federal Home Loan Bank.

Mayor Kmet questioned how the investment would generate a larger earning for the City outside of the LGIP. Director Euler replied that LGIP currently invests in many of the same instruments because they are safe and because Washington State regulates investments. By investing for a shorter term, the City earns more interest.

Councilmember Oliva asked about the procedure for investing the funds. Director Euler reported she would select the investments as approved within the guidelines established by the committee from a list of investments with different parameters, such as the investment term and dollar amount. After selecting the investments, she places an order with a company similar to TVI to execute the purchases for the City, which is electronically deposited into an account with US Bank.

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Some of the investments are federally insured while others are uninsured. Many of the investments do not carry the explicit backing of the US Treasury; however, the investments are treated as if they were backed by the US Treasury by the financial market.

Mr. Becker said none of the investments has ever defaulted. During the recession, many of the investments were placed in conservatorship by the US Treasury and are currently backed by the US Treasury. The organization is congressionally chartered by the federal government and does not technically have a US Treasury guarantee.

Councilmember McClanahan asked about the return of a 24-month investment versus an 18-month investment, and the risks of securing a 24-month investment. Director Euler replied that a longer-term investment (24 months) would generate ½% to 1% more in interest equating to approximately \$40,000 to \$120,000 for a \$12 million investment. The time investment for staff would be lower, which would be an additional gain. Councilmember McClanahan asked about the comfort level of a 24-month investment. Director Euler said she is very comfortable with the longer-term investment as it only represents 26% of the City's cash balance. The City has the benefit of pooling investments and the risk is not too high for the return.

Mayor Kmet added that the funds also include both utility and general fund reserves. Director Euler affirmed that it would include all funds.

Councilmember Oliva questioned the availability of the funds should unanticipated circumstances require the funds. Mr. Becker replied that liquidity is a two-sided issue in terms of how quickly the City could assess the money and how much would be returned. Should the City require the funds, the securities would be liquidated in one day with the funds deposited to the City's account the next day. In terms of the amount, the investments include no early termination penalties. However, the investments are bought and sold based on market interest rates on the date the investments are sold. One possible scenario is the investor retaining all interest and selling at a profit. However, it is also possible to sell the investment for the same rate as purchased.

Councilmember McClanahan asked whether the interest is adjustable or whether the rate is locked at the time of purchase. Director Euler said the rates are locked at the effective rate on the day of purchase. The proposed approach is to stagger the investments as interest rates are increasing. The process will be over many years in environments where interest rates are increasing or decreasing. Over the long-term approach, the City should be able to earn more than the current practice, which is why many other cities are pursuing similar

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investments of idle cash.

Director Euler replied to questions about the type of investments. The information in the staff report is an example of different types of investments. The request is to invest accumulated cash in safe alternative funds to earn more interest.

Mayor Kmet recalled that the City previously invested in similar funds. Director Euler said she was able to document investments as far back as 2003 because financial reports required disclosures. Prior to the recession, the investments decreased and after the recession interest rates decreased drastically. Now that the economy is recovering, many cities are beginning to invest again.

CONSENSUS:

The Budget and Finance Committee supported the recommendation to initiate an investment program as outlined by staff.

**TUMWATER HELPS
TUMWATER (THeT):**

Director Euler reported the Council adopted a resolution in 2013 amending the Utility Assistance Program to add a low-income, donation-assisted support fund. The City current operates a Utility Assistance Program, which provides a 50% discount on City utilities for low-income seniors and disabled customers through the Utility Life-Line Program. Customers must apply annually for the program and meet all qualifications. The City receives numerous applications each year. The customer receives a discount on their monthly billing for the entire year.

The 2013 amendment expanded the program to others facing unfortunate circumstances by offering utility payment assistance of \$75 twice a year. Staff members continue to receive calls from people who are unable to pay their utility bill. Staff members assist and offer information on other resources available in the community.

Finance staff recently met with officials from the Community Action Council (CAC), which manages similar programs. The CAC is willing to manage the program and qualify the applicants. Staff is recommending the following changes in the program:

- Provide an initial contribution of \$3,000 (seed money) for the combined utilities, instead of the current amount of \$2,400 divided equally among all utilities. Future funds could be raised from the City utility customers who might be willing to make a donation to support the program. Donations would be forwarded to the CAC to allocate to qualified applicants.
- Provide two assistance payments up to \$100 per occurrence instead of \$75 once or twice a year.

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- Change qualifying criteria of 150% of the federal poverty level, instead of the current 125%.
- Include an option to match contributions annually up to \$3,000 after the first year.

The proposal is to amend the resolution and enter into an interlocal agreement with CAC.

Councilmember Cathey asked for clarification on the qualifying criteria. Director Euler explained that the Utility Life-Line Program serves senior citizens or disabled citizens in conjunction with an income level. They receive a 50% discount on their utility bill. That program would not be administered by CAC. The proposal of up to \$100 twice a year would be available to anyone who experienced an unfortunate circumstance and needs some assistance. Staff is proposing management of that program by CAC. Individuals would apply to the CAC for assistance. The interlocal agreement between the CAC and the City would include eligibility criteria for utility payment assistance.

Staff and the committee discussed the location of the Community Action Council office, which is located in northeast Lacey and not served by transit. The location is difficult for people experiencing stress or who have a physical disability. Director Euler shared that the CAC also offers transportation to and from the office for people seeking assistance.

Councilmember Cathey expressed support of the proposal as long as there is clarity in both programs to avoid confusing citizens.

Councilmember Oliva supported the proposal but was also concerned about the inaccessibility of the CAC office. He asked about the possibility of a person applying online or by mail. Director Euler replied that the CAC has asked that applicants visit the office because individuals seeking help for paying a utility bill often need other types of assistance. The CAC receives grant funds based on the success rate of matching people with needs to available resources. The CAC has a van and provides transportation at no cost to people seeking assistance.

Mayor Kmet requested clarification as to the City's match. Director Euler explained that the request is for the City to provide \$3,000 for the first year with the City matching each dollar donated up to \$3,000 beginning in the second year. The fundraising campaign will require several months to implement.

Councilmember Cathey said she prefers a commitment by the City to

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ensure the fund never dips below \$3,000 should fundraising fail to raise the match.

Mayor Kmet pointed out that the intent of the program is to fund it through contributions. The program should be geared to the level of contributions rather than allocating funds from the utility accounts.

Councilmember Cathey advocated for maintaining the funding level especially if the City is establishing and promoting the program. Additionally, the City is participating with a non-profit that assists citizens beyond utility payment assistance.

CONSENSUS:

The Budget & Finance Committee supported extending the utility assistance program and entering into an interlocal agreement with Community Action Council to manage the program.

Mayor Kmet recommended scheduling a review of the program one year after the implementation date to review the level of contributions and payments, and any other issues. It appears the proposal as presented stipulates a one-time match. Director Euler said the intent was to match the contributions up to \$3,000 annually. Mayor Kmet recommended reviewing the level during the next review to ascertain if that aspect of the program should be continued.

ADJOURNMENT:

With there being no further business, Mayor Kmet adjourned the meeting at 5:07 p.m.