

INFORMAL STAFF REPORT

MEMORANDUM

DATE: August 1, 2017

TO: Board of Directors
North Padre Island Development Corporation

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SUBJECT: Investment Plan

PURPOSE:

Since 2008 when the financial market declined, interest earnings for Fund 1111 Reinvestment Zone Number 2 have also declined to practically nothing even though the fund has maintained cash balances throughout the years. As a result, the North Padre Island Development Corporation (NPIDC) has asked why no/very little interest is being earned. This agenda item is to discuss a new investment plan for the North Padre Island Development Corporation's funds held in escrow by Bank of New York Mellon.

BACKGROUND AND FINDINGS:

An Indenture of Trust agreement was initially signed between NPIDC and the Bank of New York (BONY) Trust Company on February 1, 2003 and then again on March 1, 2008 whereby all tax increments collected by NPIDC were to be deposited into a 'Pledged Revenue Fund' held in trust by the Bank of New York Trust Company (now called Bank of New York Mellon). This was a security measure enacted upon the creation of the Tax Increment Reinvestment Zone (TIRZ) #2 to ensure that the tax increment revenue collected would be used to first pay the tax increment contract revenue bonds and then to pay expenses as outlined in the agreement. These funds have been recorded in the City of Corpus Christi's accounting records in Fund 1111 "Reinvestment Zone No. 2".

Initially when the TIRZ was created and contract revenue bonds were sold for the construction of Packery Channel, the City established a capital fund - Fund 3277 "Packery Channel CIP Fund" – to deposit the bond proceeds and pay the expenditures for the

construction of Packery Channel. Interest was earned on the cash balances in this fund until 2010 when all the proceeds were expended. The City then created a second fund - Fund 3278 "Packery Channel Project – TIF2" – to account for capital projects in the TIRZ. Since no bond proceeds remained to fund these projects, the TIRZ #2 Board approved to transfer tax increment proceeds into this capital fund to account for the capital projects. The operating fund (Fund 1111) and the capital project funds (Funds 3277 and 3278) have maintained fund balances as follows:

TIRZ Fund Balance		
Fiscal Year Ended	Fund 1111	Fund 3278
2008	\$ 5,138,470	\$ 168,074
2009	\$ 6,857,092	\$ 28,233
2010	\$ 8,358,697	\$ -
2011	\$ 6,067,506	\$ 900,517
2012	\$ 4,609,185	\$ 1,072,652
2013	\$ 4,912,874	\$ 1,242,938
2014 (14-months)	\$ 5,064,191	\$ 957,280
2015	\$ 4,981,931	\$ 2,363,453
2016	\$ 6,992,624	\$ 2,008,188
2017 (budget)	\$ 8,710,026	\$ 1,955,583

The tax increment revenue held in trust by the BONY is invested in Dreyfus Government Securities Cash Management – Participant Shares Fund as authorized by the president of the NPIDC on March 11, 2008. The money in the City's capital project fund, on the other hand, is invested by the City Treasurer. In recent years, the money market mutual fund fees for funds held in trust by BONY have been just as much as the interest earned – meaning NPIDC has been earning no interest income. It was a goal for City staff to find the best way to invest these funds throughout the term of the TIRZ - December 31, 2022 unless it is renewed - to earn the most interest as possible while protecting the principal balances and complying with the City's investment policy. Historical interest returns based on the cash balances for both funds are as follows:

Interest Earned		
	BONY Interest	City Interest
Fiscal Year Ended	Fund 1111	Fund 3278
2008	\$ 136,481.31	\$ 54,444.69
2009	\$ 24,525.37	\$ 7,523.44
2010	\$ 28.62	\$ -
2011	\$ 3,167.36	\$ 1,587.58
2012	\$ 542.17	\$ 1,713.11
2013	\$ 0.57	\$ 821.11
2014 (14-months)	\$ 99.08	\$ 444.84
2015	\$ 1.74	\$ 2,527.64
2016	\$ 511.36	\$ 10,355.12
2017 (thru June 30, 2017)	\$ 12,326.03	\$ 11,005.56
Total	\$ 177,683.61	\$ 90,423.09

Through a collaboration with J. J. Hart, a member of a subcommittee of the Island Strategic Action Committee (ISAC), City staff recommends that the BONY liquidate the money market mutual fund that NPIDC's cash is currently invested. We are then recommending that the funds be invested as follows:

20% in a local government investment pool (Texpool)
60% in 1-year US Treasuries
20% in 2-year US Treasuries

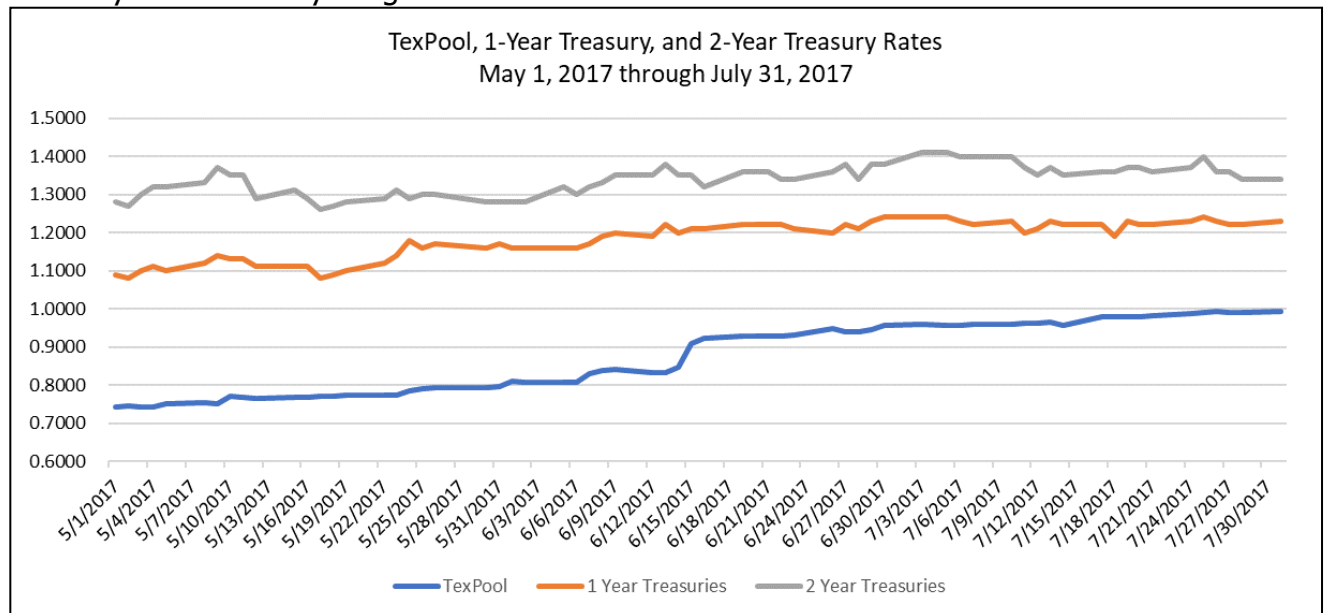
TIRZ #2 has ongoing expenses including annual bond payments and monitoring of the Packery Channel. Currently, these expenses are covered by the annual revenue to the fund. There are two (2) larger projects being considered in future fiscal years: the first is for dredging of the Packery Channel at a budgeted cost of \$3 million (conservative estimate) and the second is for funding towards the Park Road 22 bridge at a cost of \$4 million. Additionally, \$6 million of reserves has been set aside from the fund balance. The \$6 million includes \$4 million for dredging, \$1.5 million for bond reserves, and \$0.5 million for general reserves.

Annually in September, the City Treasurer will review the fund balance and estimated expenditures for the upcoming fiscal year to determine the investable balance and will reallocate the funds to the percentages noted above - as fund and trust indenture restrictions allow. Because of trust indenture restrictions and annual expenditures, the local government investment pool balance will never be less than \$2 million (\$1.5 million for bond reserves and \$0.5 million for general reserves). Additionally, the amount of investment in the 1-year US Treasury will not be less than the next debt service payment.

Investments made in US Treasuries will be evaluated and chosen based on a maturity date prior to the bond payment date and the best yield at the time of purchase. These US Treasury investments will be made with maturities of approximately 1-year to 2-years on an annual basis. We recommend that any new money deposited with BONY be placed in the local government investment pool throughout the fiscal year. This investment plan will allow ample lead time to have cash available as needed while providing the best possible yield for these funds.

BONY currently charges NPIDC approximately \$5,200 per year in bank fees. It has been confirmed that there will be no cost to liquidate the NPIDC's funds. However, to invest in the local government investment pool, a \$75 fee will be charged per account per month to maintain the outside investments, a \$25 fee per transaction will be charged on all deposits, withdrawals, transfers on each account, and a \$50 fee will be charged for each US Treasury purchase. City staff expects the additional fees to be approximately \$4,000 per year.

Currently, the local government investment pools are earning 0.99% and longer-term treasury bills currently range from 1.09% to 1.34%.



By putting the NPIDC's money in these investments, interest earnings for NPIDC should increase to approximately \$100,000 annually.

In order for this change in investment plan to occur, this proposal needs to be discussed with the NPIDC Board of Directors. If the NPIDC Board of Directors concurs, then a resolution authorizing participation in the TexPool Investment Pools and Designating Authorized Representatives will need to be approved by the NPIDC Board of Directors, and the president of the Corporation will need to send BONY a letter requesting the change.

RECOMMENDATION:

City staff recommends moving the NPIDC's investments from money market mutual funds to a local government investment pool and US treasuries in the allocation noted on the previous page and recommends approval of the resolution as presented.

LIST OF SUPPORTING DOCUMENTS:

Resolution Authorizing Participation in the TexPool Investment Pools and Designating Authorized Representatives