Agenda Item Report

Legislative Board:	City Council
Date:	July 21, 2026
Contact:	Natassa Robbins
Agenda Item ID / Number:	2026-267- / H.3

ITEM TITLE: Acceptance of the City's Investment Report for the quarter ending March 31, 2026 (Finance Director Bianca Redmon)

1. EXECUTIVE SUMMARY

The public funds investment act (PFIA) in the Texas Government Code 2256 and the City's investment policy requires an investment report to be prepared and submitted to City Council not less than quarterly. The City's investment report, as presented, incorporates requirements of the PFIA, including details of security holdings, changes in value, and earned income. It also includes a market recap for the month of March.

2. BACKGROUND/HISTORY

The quarterly investment report through the period ending March 31, 2026, is attached for review. The last quarterly investment report through the period ending December 31, 2025, was provided to the City Council at the March 24, 2026, City Council meeting. The primary objectives of the investment portfolio in order of priority are safety, liquidity, and yield. The City's investment portfolio complied with the PFIA and the City's Investment Policy throughout the period. All investment transactions made during the period were made in compliance with the PFIA and the City's Investment Policy.

3. ANALYSIS

Investment Portfolio Summary

Metric	Q2 (03/31/26)	Q1 (12/31/25)	Change
Book Value	$131,216,355	$101,400,017	+$29,816,338 (+29.4%)
Weighted Avg. Yield to Maturity	3.36%	3.46%	-0.73%
Weighted Avg. Maturity (Years)	0.22	0.32	-0.10
Total Investment Income	$762,115	$941,627	-$179,512 (-19.1%)
12-month Treasury Bill (T-Bill)	3.71%	3.48%	+0.23%
Two-Year T-Note	3.82%	3.47%	+0.35%

The City's investment portfolio for the quarter ending March 31, 2026, totaled $131.2 million, an increase of approximately 29.4% or $29.8 million from December 31, 2025. This substantial growth is primarily attributable to the issuance of new Certificates of Obligation (CO Series 2026) totaling approximately $28 million, along with increases in operating funds.

Total investment income for the quarter was $762,115, a decrease of 19.1% from the previous quarter's $941,627. Although the overall portfolio size increased significantly, the decrease in earnings is attributed to a strategic shift in allocation toward lower-yielding Treasury State and Local Government Series (SLGS) securities (at approximately 2.84% yield) to comply with arbitrage yield restriction requirements associated with the new bond proceeds. This reallocation is a prudent fiscal practice that helps mitigate potential arbitrage rebate liabilities under federal tax regulations. The overall interest rate environment saw modest volatility, with rates higher in March due in part to energy price increases, while the Federal Reserve futures market projected no rate changes for 2026 by quarter-end.

The portfolio's weighted average yield to maturity (3.36%) is below the 12-month T-Bill (3.71%) and Two-Year T-Note (3.71%) benchmarks primarily due to the large allocation to SLGS for restricted bond proceeds. The unrestricted portions of the portfolio, such as LGIP holdings yielding approximately 3.77%, remain competitive with prevailing short-term market rates. The City continues to evaluate performance against these U.S. Treasury benchmarks while maintaining a conservative investment strategy focused on safety and liquidity.

The weighted average maturity decreased to 0.22 years (approximately 80 days), reflecting the investment of new bond proceeds into highly liquid, short-term instruments including LGIPs, SLGS, and Money Market Funds, all with daily liquidity. This positions the City to meet upcoming cash flow requirements for capital projects while preserving flexibility.

Portfolio Allocation Changes

Investment Type	Q2 Allocation (%)	Q1 Allocation (%)	Change (%)
LGIP (Local Government Investment Pools)	35.45%	37.16%	-3.71%
Treasury SLGS	44.96%	40.40%	+4.56%
U.S. Agencies	7.93%	9.75%	-2.36%
Money Market Funds	9.21%	8.84%	+0.37%
U.S. Treasuries	2.95%	3.83%	-0.88%
Bank Deposits	0.04%	0.03%	+0.01%

The City's allocation of Local Government Investment Pools (LGIPs) decreased slightly by 1.71% as funds were strategically reallocated, and new bond proceeds from the CO Series 2026 issuance were invested in Treasury SLGS securities to better align with arbitrage yield restriction requirements. SLGS securities are specifically designed by the U.S. Treasury to provide a compliant investment option for bond proceeds, allowing the City to match or remain below the permitted arbitrage yield. This reallocation helps mitigate arbitrage rebate liability, ensures compliance with federal tax regulations, and optimizes earnings on restricted funds within allowable limits.

Economic & Market Impact

The December 2025 and March 2026 quarterly reports provide the following key economic context:

- Interest rates were higher for March, generally due to increases in energy prices.

- The Fed Funds futures market at the end of March projected no Federal Reserve rate moves in 2026.
- Economic growth for the fourth quarter of 2026 was revised lower to 0.7% from 1.4%.
- Labor market data continue to show limited hiring or firing activity, consistent with a 'no hire, no fire' job market.
- The rate of change of inflation has slowed, but cumulative inflation remains above average (Core PCE around 3.0%).
- U.S. Treasury yields increased during the quarter per the yield curve data, with the 2-year Treasury Note at 3.82% as of March 31, 2026.

City staff will continue to meet with the City's investment advisor to monitor conditions and adjust strategies to balance safety, liquidity, and yield.

4. FINANCIAL IMPACT

Investment income for the current quarter totaled $762,115, bringing fiscal year-to-date earnings to approximately $1,704,000. Total maturities and liquidity within the portfolio remain strong given the short weighted average maturity of 0.22 years, ensuring the City can meet cash requirements for ongoing operations and capital projects funded by bond proceeds and other sources.

Changes in Federal Reserve policy, inflation trends, energy prices, and broader economic conditions could impact future earnings and investment valuations. The Finance Department will continue to monitor these factors closely and make necessary adjustments to optimize returns while prioritizing safety and liquidity in full compliance with the Public Funds Investment Act and the City's Investment Policy.

5. STRATEGIC PLAN/GOALS

EXCEPTIONAL CITY SERVICES

6. STRATEGIC PLAN OBJECTIVES

Leverage City resources through partnerships, grants and other outside funding sources.

7. PROS AND CONS

Pros:

- Demonstrates compliance with the Texas Public Funds Investment Act and the City's Investment Policy.
- Provides the City Council and public with a clear and detailed overview of the City's financial position and investment strategy.
- Allows the Council to assess the effectiveness of the City's investment strategy by comparing returns against benchmarks such as U.S. Treasury yields.
- Supports informed financial decisions regarding fund allocations, liquidity needs, and investment adjustments.
- Provides insight into economic trends, such as interest rate changes, inflation, and market conditions, which impact future investment strategies.
- Strengthens oversight and governance of public funds.
- Provides context on Federal Reserve policies, inflation trends, and interest rate movements, helping the City align investment strategies with market conditions.

Cons:

- Economic factors such as Federal Reserve rate changes, inflation, and recession risks can impact portfolio performance beyond the City's control.
- The report may highlight challenges that cannot be immediately addressed through local policy changes.

8. ALTERNATIVES

Not applicable.

9. REQUESTED ACTION / SUGGESTED MOTION / RECOMMENDATION

It is recommended that the City Council accept the investment report as required under the Public Funds Investment Act.

Attachments:

h3 COB Mar26 Qtr.pdf