



Agenda Item Report

Legislative Board: City Council
Date: March 24, 2026
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Agenda Item ID / Number: 2026-267- / H.6

ITEM TITLE: Acceptance of the City's Investment Report for the quarter ending December 31, 2025 (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 December.

2. BACKGROUND/HISTORY

The quarterly investment report through the period ending December 31, 2025, is attached for review. The last quarterly investment report through the period ending September 30, 2025, was provided to the City Council at the December 16, 2025, 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	Q1 (12/31/25)	Q4 (09/30/25)	Change
Book Value	\$101,400,017	\$110,255,574	-\$8,855,557 (-8.0%)
Weighted Avg. Yield to Maturity	3.46%	4.19%	-0.73%
Weighted Avg. Maturity (Years)	0.32	0.32	0
Total Investment Income	\$936,011	\$1,183,475	-\$247,464 (-20.9%)
12-month Treasury Bill (T-Bill)	3.48%	3.62%	-0.14%
Two-Year T-Note	3.47%	3.60%	-0.13%

The City's investment portfolio for the quarter ending December 30, 2025, totaled \$101.4 million, a decrease of approximately 8% or \$8.9 million from September 30, 2025, primarily due to progress payments related to CIP Projects such as OBC Water Storage Tank and Sportsplex Improvements.

Total net income for the quarter was \$936,011, a decrease of 20.9% from the previous quarter's \$1,183,475. This decrease is attributed to lower yields across the market and a reduced overall portfolio size. This is also consistent with a declining interest rate environment and the Federal Reserve's rate three consecutive quarter-point rate reductions in the latter part of 2025.

The City uses the 12-month Treasury Bill (T-Bill) and the Two-Year Treasury Note (T-Note) rates as benchmarks to evaluate portfolio performance while maintaining a conservative investment strategy. The portfolio's weighted average yield to maturity (3.46%) is close to both the 12-month T-Bill (3.48%) and the Two-Year T-Note (3.47%), indicating that the City's investment portfolio continues to perform in line with these standard U.S. government securities.

The weighted average maturity remained at 0.32 years, reflecting a continued strategic focus on shorter-term, more liquid investments to accommodate upcoming cash flow requirements to fund capital projects.

Portfolio Allocation Changes

Investment Type	Q1 Allocation (%)	Q4 Allocation (%)	Change (%)
LGIP (Local Government Investment Pools)	37.16%	68.78%	-31.60%
Treasury SLGS	40.40%	0.00%	+40.40%
U.S. Agencies	9.75%	9.18%	+0.57%
Money Market Funds	8.84%	12.33%	-3.49%
U.S. Treasuries	3.83%	3.57%	+0.26%
Commercial Paper	0.00%	1.84%	-1.84%
Bank Deposits	0.03%	0.01%	+0.02%

The City's allocation of Local Government Investment Pools (LGIPs) decreased by 31.60% as funds were strategically reallocated to State and Local Government Series (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 September and December quarterly reports provide the following key economic context:

- Inflation (Core PCE) remained above the Federal Reserve's 2% target, moving to 2.9% by December.
- The labor market has softened by many economic metrics in the second half of 2025, with unemployment at 4.4% and lower monthly job gains.
- The futures market priced in a December 2025 0.25% rate cut with 90% probability, with Fed Funds expected to end 2026 at about 2.95% and 2027 at 3.05%.

- U.S. Treasury yields were generally lower during November, contributing to lower reinvestment yields. Q3 GDP projected at 3.9%, while Q4 GDP expected lower due to the longest government shutdown on record.

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

Projected interest earnings from security investments over the next six months (through 06/30/2026) are estimated at \$428k. Total maturities during the quarter amounted to \$2,090,000 and were kept liquid to meet cash requirements for ongoing bond projects.

Changes in Federal Reserve policy, inflation trends, and economic conditions could impact future earnings and investment valuations. The Finance Department will continue to monitor these factors and make necessary adjustments to optimize returns while prioritizing safety and liquidity.

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:

[City of Buda Investment Report Q1](#)