



Agenda Item Report

Legislative Board: City Council
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ITEM TITLE: Acceptance of the City's Investment Report for the quarter ending September 30, 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 September.

2. BACKGROUND/HISTORY

The quarterly investment report through the period ending September 30, 2025, is attached for review. The last quarterly investment report through the period ending June 30, 2025, was provided to the City Council at the September 2, 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	Q4 (09/30/25)	Q3 (06/30/25)	Change
Book Value	\$108,518,855	\$118,153,693	-\$9,634,838 (-8.2%)
Weighted Avg. Yield to Maturity	4.19%	4.34%	-0.15%
Weighted Avg. Maturity (Years)	0.33	0.44	-0.11
Total Investment Income	\$1,183,475	\$1,229,442	-\$45,967 (-3.7%)
12-month Treasury Bill (T-Bill)	3.62%	3.97%	-0.29%
Two-Year T-Note	3.60%	3.72%	-0.12%

The City's investment portfolio for the quarter ending September 30, 2025, totaled \$108.5 million, a decrease of approximately 8.2% or \$9.6 million from June 30, 2025, primarily due to debt service payments made in August 2025, amounting to about \$8.5 million.

Total net income for the quarter was \$1,183,475, a decrease of 3.7% from the previous quarter's

\$1,229,442. 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 0.25% rate cut at its September meeting. Interest income received by fund grouping is attached.

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 (4.19%) remains higher than both the 12-month T-Bill (3.68%) and the Two-Year T-Note (3.60%), indicating that the City's investment portfolio continues to outperform these standard U.S. government securities.

The weighted average maturity decreased from 0.44 years to 0.33 years, reflecting a strategic shift toward shorter-term, more liquid investments to accommodate upcoming cash flow requirements to fund capital projects.

Portfolio Allocation Changes

Investment Type	Q4 Allocation (%)	Q3 Allocation (%)	Change (%)
LGIP (Local Government Investment Pools)	73.07%	68.78%	+4.29%
U.S. Agencies	9.18%	14.69%	-5.51%
Money Market Funds	12.33%	9.10%	+3.23%
U.S. Treasuries	3.57%	5.74%	-2.17%
Commercial Paper	1.84%	1.67%	+1.67%
Bank Deposits	0.01%	0.02%	-0.01%

Between June 30 and September 30, the composition of the portfolio shifted toward more liquid instruments, while maintaining a high credit quality.

The City's allocation of Local Government Investment Pools (LGIPs) increased by 4.29%, reflecting reallocations from maturing securities and a focus on liquidity amid bond project expenditures. Reductions in U.S. Agencies by 5.51% and U.S. Treasuries align with maturities and reallocations to meet liquidity requirements, with increases in Money Market Funds by 3.23% and a slight addition to Commercial Paper at 0.17% to enhance yield.

Fund Level Changes

The Portfolio Market Value by Fund schedule for September shows:

- Operating Funds decreased from approximately \$42.6 million to \$34.0 million (–\$8.6 million), consistent with operational spending for debt service payments.
- Several capital project funds (e.g., CO Series 2021, CO Series 2022, GO Series 2022 Prop B) show planned drawdowns as bond-funded projects advance.
- Certain newer bond series (e.g., GO Series 2024A/B, CO Series 2024) show increases or

relative stability, reflecting investment income allocations.

Economic & Market Impact

The June and September quarterly reports provide the following key economic context:

- Inflation (Core PCE) remained above the Federal Reserve's 2% target, moving from 2.7% earlier in the year to 2.9% by September.
- The labor market remains relatively strong but is showing signs of slowing, with higher unemployment and lower monthly job gains compared to prior years.
- The Federal Reserve held rates steady through June but reduced the Fed Funds rate by 0.25% in September, with futures markets and Fed communications pointing to additional cuts in late 2025 and into 2026.
- U.S. Treasury yields declined across much of the yield curve during both the June and September periods, contributing to lower reinvestment yields.

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 03/31/2026) are estimated at \$375,405. Total maturities during the quarter amounted to \$240,000, 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:

[Quarterly Investment Report ending September 30, 2025.pdf](#)
[Sept 2025 Quarter Interest Income.pdf](#)