Northwest Independent School District

P.O. Box 77070 Fort Worth, TX 76177-0070

To:	Board of Trustees
From:	Karen G. Rue, Ed.D, Superintendent of Schools
Subject:	February Financial and Investment Report
Date:	April 11, 2016

Background Information and Rationale:
All investments made by the District shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules or regulations. *Gov't Code 2256.026*

Support of Strategic Goals:
The review of the February Financial and Investment Report supports Strategic Goal V: Northwest ISD will invest resources to ensure that students, parents, and the community receive optimal educational services.

Budget and/or Fund Impact:
The Combined Statement of Revenues, Expenditures and Changes in Fund Equity for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Outlay Funds, and Totals (Memorandum Only) report activity for all funds through February, 2016.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending February, 2016, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in February:

- $ 5,043,862.64 Certificate of Deposit One (General Fund)
- $20,048,487.21 Certificate of Deposit Two (Debt Services Funds)
- $ 2,521,931.32 Certificate of Deposit One (Capital Projects Fund)

The following investments were purchased in February:

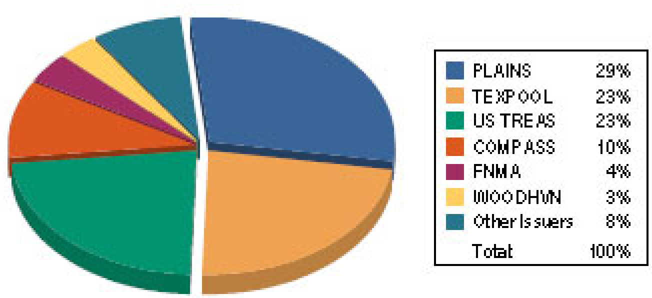
- $ 5,050,219.29 Certificate of Deposit One (General Fund)
- $ 1,004,987.50 Agency Bullet FHLB One (Special Revenue Funds)
- $10,059,025.02 Agency Bullet FHLB/FNMA Two (Debt Services Funds)
- $ 2,525,109.64 Certificate of Deposit One (Capital Projects Fund)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $307,448,606.10 as of February 29, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.473%	140,968,482.61
Special Revenue Funds	0.575%	1,165,519.89
Debt Service Funds	0.392%	36,511,501.38
Capital Projects Funds	0.401%	90,686,871.30
Capital Projects Funds - AFB	0.482%	38,116,230.92
Total	0.444%	$307,448,606.10

Board Policy states that, "The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer."

The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



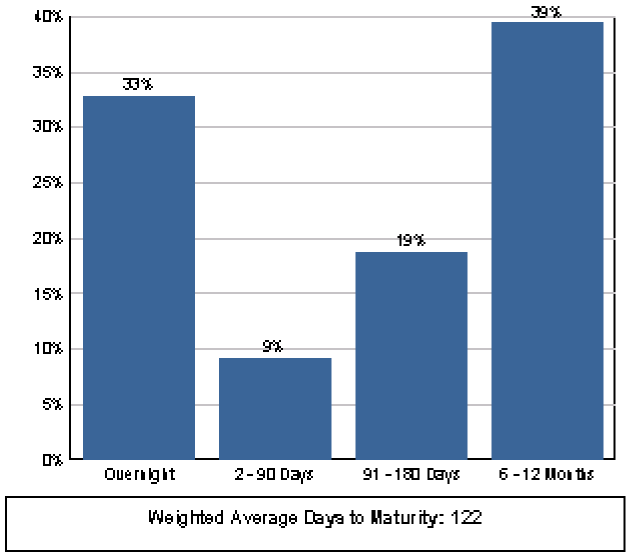
Portfolio Composition by Security Type

Local Government Investment Pool	23%
Certificates of Deposit	39%
Bank Deposit	10%
Agency Bullet	5%
Treasury	23%

Portfolio Composition by Issuer

Texpool	23%
Plains	29%
Compass	10%
FNMA	4%
US Treasury	23%
Woodhaven	3%
Other Issuers	8%

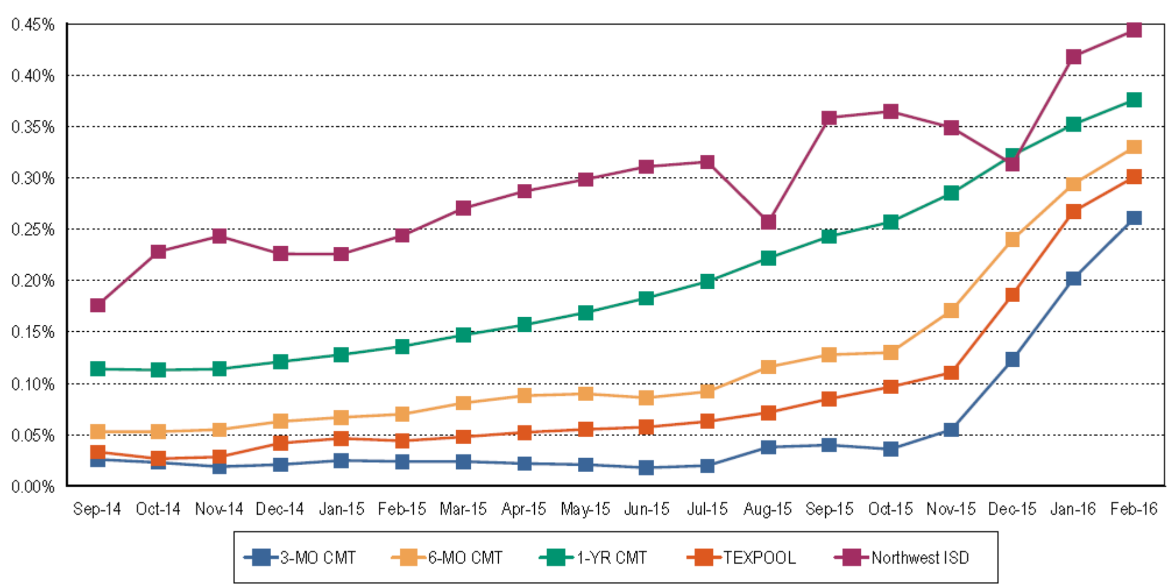
The District portfolio is diversified in terms of **maturity scheduling:**

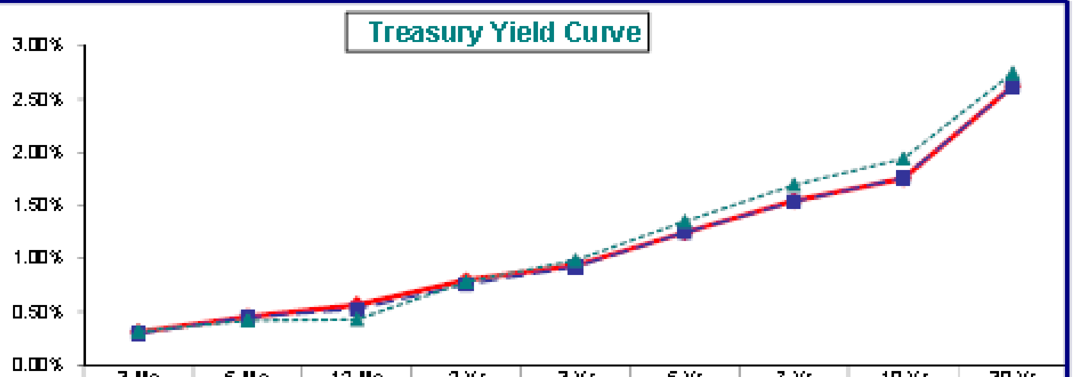


<u>Maturity Schedule</u>

Overnight	33%	$100,900,953.18
0 – 3 Months	9%	28,011,397.97
3 –6 Months	19%	57,511,335.00
6 – 12 Months	39%	121,024,919.95

The District portfolio currently outperforms all the **benchmark comparisons**.





	3 Mo	6 Mo	12 Mo	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
Current	0.310%	0.453%	0.566%	0.797%	0.938%	1.246%	1.543%	1.754%	2.621%
One Week Ago	0.295%	0.448%	0.526%	0.758%	0.921%	1.247%	1.535%	1.760%	2.616%
One Month Ago	0.315%	0.418%	0.428%	0.782%	0.985%	1.352%	1.693%	1.940%	2.745%

The **TexPool Economic & Market Commentary for March, 2016**, notes that,

Market predicting instead of listening to Fed

Divining the future monetary policy maneuvers of the Federal Reserve can be frustration personified, but that doesn't stop the market from trying. I suppose few of us would work in this field if we didn't like thinking about expectations. But as futures go, the market's predictions for the fed funds rate are not particularly reliable. We think they are off now and that the market is underestimating the Fed's willingness to hike.

The prevailing view is that there's only around a 50% chance of one rate hike this year. One! That is almost disregarding what the Fed is telling us. More than a few Fed officials have said not to assume the hike in December was a one-and-done move (the minutes of the January policy-setting meeting were balanced—not dovish or hawkish). The Fed has gone to considerable length for several years now to let the market know it is data dependent and if anything, the U.S. economy has been steady to slightly positive. Housing, employment, retail sales and even CPI have been ticking up. We are not saying the U.S. is running on all cylinders, but we are certainly not in any way, shape or form close to a situation that would indicate negative rates.

Let's not forget that the Fed is the global leader. While the world's central banks don't have to follow it, the Fed certainly doesn't have to follow them. This divergence applies to that issue of negative rates, which also have been getting much too much attention. With the Bank of Japan's recent move to negative rates, the question was bound to be raised when Fed Chair Janet Yellen had her semiannual Humphrey-Hawkins testimony last month. While the Chair acknowledged that as a matter of prudent planning a negative rate policy could not be ruled out entirely, she did not give any indication that the Fed was contemplating such a drastic move. Yellen does not shy away from addressing issues that are concerning to the markets, so it is telling that she didn't have any mention of negative rates in her prepared remarks. The media has given this much more attention than it ever deserved.

Another reason for our confidence is more technical. As firms have been preparing for the upcoming SEC money fund rules by converting some products to government funds, there's been concern that the additional demand will drive rates negative. But a substantial portion of the shift has already occurred and we have not seen any impact on rates. Even though the government money fund assets have passed prime money fund assets for the first time, there is plenty of supply. And just as significant, the Reverse Repo Program's floor of 25 basis points has hardly been used and market repo rates haven't been below 30 basis points more than a handful of times this whole year. While it is good that investors and media are more engaged on monetary policy, it is unfortunate that negative rates have unnecessarily colored the discourse.

Earnings from Temporary Deposits and Investments are $177,563.94 for February and $372,622.58 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 129,336.05	$ 186,371.45
Special Revenue Funds	99.06	2,208.64
Debt Service Funds	23,375.28	76,286.42
Capital Projects Funds	7,839.82	48,882.79
Capital Projects Funds – AFB	16,913.73	58,873.28
Total	$ 177,563.94	$ 372,622.58

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Karen G. Rue, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations