Northwest Independent School District

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

To: Board of Trustees

From: Ryder Warren, Ed.D., Superintendent of Schools

Subject: December Financial and Investment Report

Date: January 22, 2018

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 December 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 December, 2017.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending December 2017, and is submitted in accordance with the provisions of the Public Funds Investment Act.

Also included with the investment information this month is the First Southwest Asset Management, Inc. Public Investor Update which recaps the Quarter Ending December 31, 2017.

The following investments matured/sold in December:

- $ 7,500,000.00 Securities Two (Capital Project AFB)
- $ 15,000,000.00 Security Two (General Operating)
- $ 10,000,000.00 Security One (Capital Project)

The following investments were purchased in December:

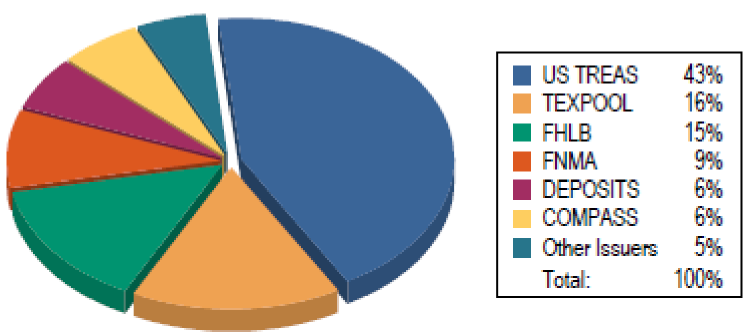
- $59,736,266.02 Security Four (General Operating)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $241,779,791.76 as of December 31, 2017.

Fund	Yield to Maturity	Market Value
General Fund	1.398%	$ 110,149,749.79
Special Revenue Funds	1.051%	1,662,008.44
Debt Service Funds	1.075%	50,628,964.33
Capital Projects Funds	.992%	62,202,292.05
Capital Projects Funds - AFB	1.459%	17,136,777.15
Total	1.228%	$241,779,791.76

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."

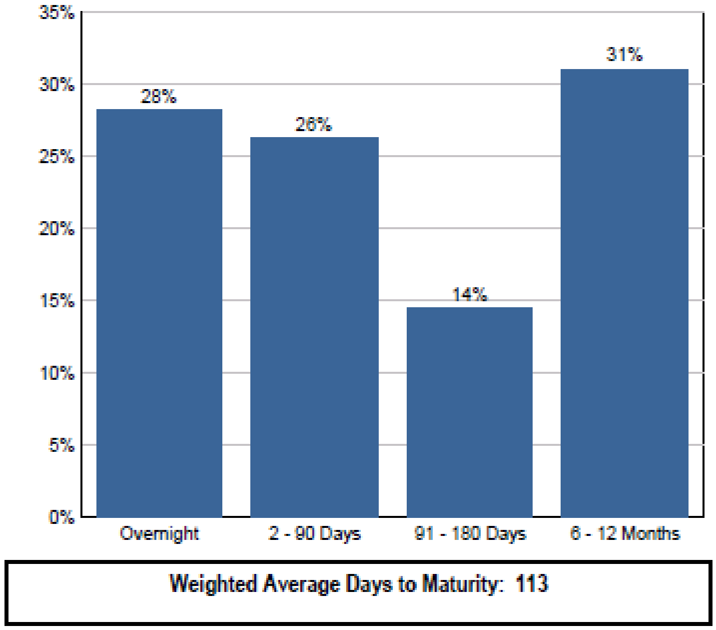
The District portfolio is diversified in terms of **investment instruments**.



Portfolio Composition by Security Type	
Local Government Investment Pool	16%
Certificates of Deposit	5%
Bank Deposit	12%
Treasury	43%
Agency Bullet	13%
Agency Disco	10%

Portfolio Composition by Issuer	
Treasury	43%
TexPool	16%
FHLB	15%
FNMA	9%
Compass	6%
Deposits	6%
Other Issuers	5%

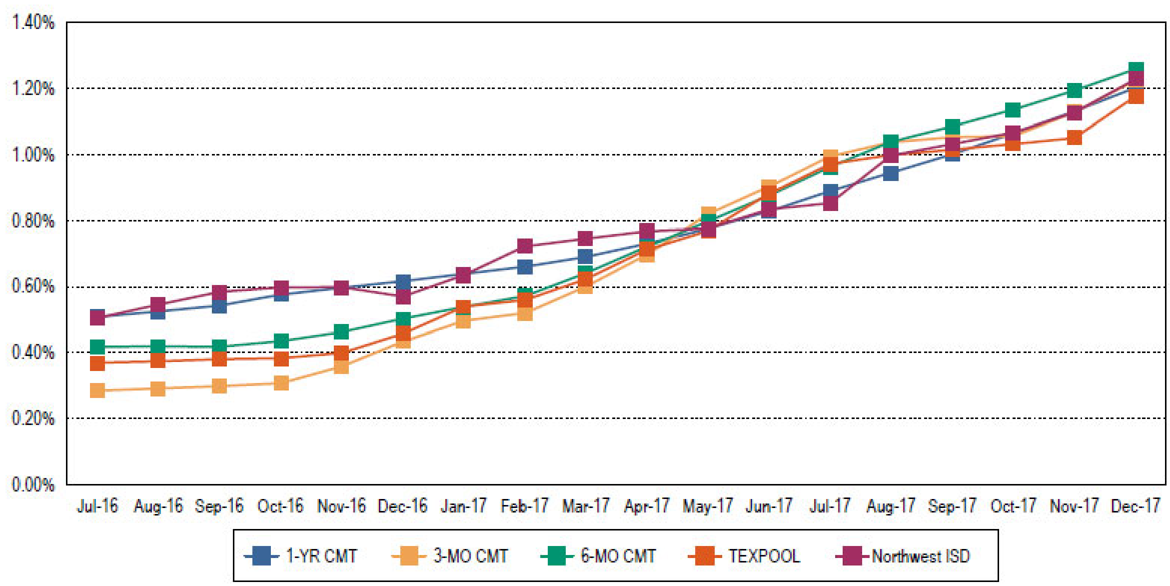
The District portfolio is diversified in terms of **maturity scheduling:**

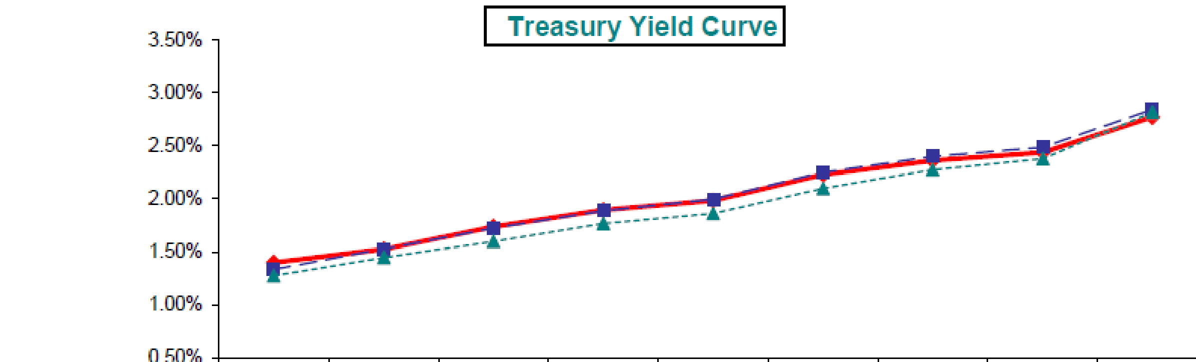


<u>Maturity Schedule</u>

Overnight	28%	$ 68,171,998.61
0 – 3 Months	26%	$ 63,598,677.65
3 –6 Months	14%	$ 34,865,185.00
6 – 12 Months	31%	$ 75,143,930.50

The District portfolio currently outperforms all except the 6-MO CMT **benchmark comparison**.





	3 Mo	6 Mo	12 Mo	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
Current	1.399%	1.524%	1.737%	1.895%	1.984%	2.228%	2.360%	2.436%	2.772%
One Week Ago	1.335%	1.527%	1.722%	1.886%	1.997%	2.251%	2.398%	2.486%	2.843%
One Month Ago	1.276%	1.445%	1.597%	1.766%	1.862%	2.098%	2.273%	2.376%	2.817%

Looking toward 2018

January 1, 2018

Two major developments in December—the overhaul of the U.S. federal tax code and a hike by the Federal Reserve—will likely keep both short-term government rates and inflation on a steady march into 2% land in 2018. That's a sunny path to be sure, but there's potential for distractions.

The Federal Reserve is, of course, at the center of it all. Its December Federal Open Market Committee (FOMC) meeting went as expected, resulting in a rate increase (to a range of 1.25-1.50%) and projections for three more in 2018. We think the moves will be frontloaded—happening in March, June and September—leaving open the potential for yet another one of those Fed year-end hikes. But whenever they come, three rate increases would put the short end of the London interbank offered rate (Libor) in a range of 2-2.25%. Indeed, the cash markets could very well have a two handle in 2018.

But as we all know, the Fed can create bumps in the road, and there will be opportunities. One is what the effect will be on the yield curve from the ever-increasing roll-off of its mammoth balance sheet. If the Fed sticks to its announced schedule, it will be reducing reinvestments by $50 billion a month in the final quarter of 2018 and will have pared $450 billion from the start of the program in October 2017. That's a significant amount in total, and the slow rise means supply will be in constant change and no one knows exactly how the markets will react.

Another continuing Fed issue is the number of empty seats on its board of governors. When the board is at full strength, the governors make up the majority of the policy-setting FOMC compared to the presidents of the regional Fed branches. There is potential for risk in 2018 if we have four open posts out of a 12-member capacity, especially if New York Fed President William Dudley makes good on his plan to retire soon. Monetary policy—particularly as policymakers head into the uncharted territory of paring the large balance sheet—should be navigated with a full crew.

The effect of tax reform on money markets also is an unknown, but ultimately, we don't expect much change from the environment of the latter half of 2017. The U.S. economy is gaining momentum and Libor remains supportive (1-month rising from 1.35% to 1.57% and 3-month from 1.48% to 1.69%). Because of year-end activity, we shortened the weighted average maturity (WAM) of TexPool Prime to 38 days. The short end of the Treasury curve rose slightly in December, with 1-month and 3-month Treasury yields rising from 1.17% to 1.25% and 1.29% to 1.45%, respectively.

Earnings from Temporary Deposits and Investments are $254,099.55 for December and $1,144,381.43 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 118,418.75	$ 352,735.30
Special Revenue Funds	469.24	8,740.19
Debt Service Funds	17,452.82	173,636.03
Capital Projects Funds	66,635.39	429,921.02
Capital Projects Funds – AFB	51,123.35	179,348.89
Total	$ 254,099.55	$ 1,144,381.43

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Deputy Superintendent