



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 21, 2014

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

DOCKET TITLE:

Public Hearing, Second Reading, and Final Passage of an Ordinance to Authorize Participation in the Virginia Investment Pool. [ROLL-CALL VOTE]

ISSUE: Consideration of an Ordinance to Authorize Participation in the Virginia Investment Pool.

RECOMMENDATION: That City Council pass this proposed ordinance (Attachment II) set for public hearing, second reading, and final passage on January 25, 2014.

BACKGROUND: The Virginia Association of Counties ("VACo") and the Virginia Municipal League ("VML") have joined together to establish a new investment program for local governments and authorities named the Virginia Investment Pool ("VIP"). While new to Virginia, similar locally-controlled joint investment pools have operated successfully in other states for years. VIP is a Section 115 governmental trust fund created under the Joint Exercise of Powers statute of the Commonwealth of Virginia. The program will allow political subdivisions to invest jointly in relatively short-term, conservative fixed income investments that are authorized under state law. The Trust was established by the City of Chesapeake and the City of Roanoke and operates under the Trust Agreement dated September 13, 2013. By letter to the Honorable Laura M. Rudy, Treasurer of Stafford County, dated February 8, 2013, the Virginia Attorney General has opined that two or more political subdivisions may exercise their investment powers by investing in a jointly administered investment pool, which may be organized in the form of a trust fund (Attachment V).

This is the same approach used to create the VACo/VML Virginia Pooled OPEB Trust, which was established by founding members Fairfax County and Henrico County in 2008. This is the only pooled OPEB trust fund offered in Virginia, and with invested assets of approximately \$500 million, the VACo/VML Pooled OPEB Trust is now the largest pooled trust fund in the nation dedicated for the purpose of funding health insurance and other post-employment benefits (OPEB).

Participation in the Trust Fund is limited to political subdivisions of the Commonwealth of Virginia. The Trust Fund is governed by a Board of Trustees, comprised of elected Treasurers or Chief Investment Officers from the counties of Arlington, Prince William, Chesterfield, Stafford and Washington, the cities of Chesapeake, Roanoke, Richmond and Suffolk, the towns of Christiansburg and Smithfield, and Executive Directors from the Virginia Municipal League and the Virginia Association of Counties.

VML/VACo Finance, the administrator for the VACo/VML Pooled OPEB Trust, will also administer VIP. Public Trust Advisors, LLC will serve as Investment Manager. Public Trust Advisors, LLC is an SEC registered, independent investment advisor, with significant local government investment pool experience and a senior team with experience managing more than \$25 billion in public funds nationwide. Regions Bank, which is the City's custodian bank, will provide independent custodian bank services to VIP.

DISCUSSION: VIP is a pooled investment program that local governments and other political subdivisions can use to invest assets in high-quality corporate and government securities with average duration between 1 to 2 years. VIP has a higher expected rate of return compared to traditional money market funds by investing in slightly longer-term securities. VIP allows local governments to take advantage of the broad range of investments authorized by the Virginia Investment of Public Funds Act (Code of Virginia, §2.2-4500 through 2.2-4519), through a professionally managed diversified portfolio. Under the Act, investments are limited to:

- Commercial paper rated at least A or equivalent (A-1, P-1, F-1);
- Bankers acceptances (A-1, P-1, F-1);
- U.S. Treasury and agency securities;
- Repurchase agreements (collateralized);
- Registered mutual funds of otherwise permitted investments;
- Negotiable certificates of deposit rated at least AA or equivalent (A-1, P-1, F-1);
- Corporate notes and bonds (AA-rated or above); and
- Municipal bonds and notes of Virginia state or local public bodies and other U.S. states and municipalities, subject to certain limitations.

The portfolio's benchmark will be the Bank of America Merrill Lynch 1 - 3 Year Corporate/Government Index. Over the last 10 years, the 1 - 3 Year Corporate/Government Index has returned an additional 1.19% over a money market equivalent index and has been less volatile than similar 1 - 3 Year Treasury and Treasury/Agency Indices. In addition, the 1 - 3 year area of the yield curve has lower interest rate risk than longer indices and volatility is historically less pronounced in the short end of the yield curve.

The pooled investment approach will provide the following key benefits that the City could not achieve on its own, namely:

1. Diversification of investments - The portfolio will consist of a broader mix of investment types with the goal of reducing overall investment risk.
2. Large number of holdings - The portfolio will include a large number of individual securities to limit the City's exposure to any single investment.
3. Semi-monthly liquidity - The fund will be structured with sufficient liquidity so the City can withdraw funds on a semi-monthly basis.
4. Active oversight - VIP offers six layers of active oversight: 1) a professional fund manager; 2) a Board of Trustees comprised of Treasurers and Chief Investment Officers from participating jurisdictions; 3) a

full-time program administrator; 4) regular reporting to participants; 5) an annual independent audit; and 6) a globally-recognized rating agency.

5. Cost sharing - Participants can share costs and take advantage of fee breakpoints only available to larger scale investment portfolios.

A fourteen member voting Board of Trustees selected from participating jurisdictions plus two non-voting, *ex officio* members shall govern the program. The Executive Directors of the Virginia Municipal League and the Virginia Association of Counties will serve in an *ex officio* capacity. The 3-year terms of the voting trustees shall be staggered, with a class consisting of four trustees standing for election each year. Additionally, the Treasurers/Chief Investment Officers from the founding jurisdictions (Chesapeake and Roanoke) shall continue to serve for two 3-year terms until successor trustees are elected in Fiscal Year 2021. Membership on the Board shall be diverse in representing localities both small and large. Voting for the selection of trustees shall be reflective of the size of the investment by each locality.

To participate in VIP, City Council must adopt an ordinance authorizing the City to participate in the Trust Fund and provide the Chief Financial Officer with the authority to execute a Joinder Agreement. Once adopted, the Chief Financial Officer must submit a completed Participant Application Form, Joinder Agreement and certified copy of the adopted ordinance.

FISCAL IMPACT: Based upon the estimated Virginia Investment Pool's Net Weighted Portfolio Yield, the City may earn an additional \$43,000 annually for every \$10 million of City funds invested. Staff proposes an initial investment of \$10 million, with subsequent deposits when deemed appropriate.

ATTACHMENTS:

Attachment I - Ordinance Cover

Attachment II - Ordinance

Attachment III - Virginia Investment Pool Trust Fund Agreement, as approved by the Board of Trustees, September 13, 2013

Attachment IV - Trust Joinder Agreement for Participating Political Subdivisions in the VACo/VML Virginia Investment Pool

Attachment V - Attorney General's February 8, 2013 Opinion regarding jointly administered investment pool

STAFF:

Laura B. Triggs, Chief Financial Officer/Director of Finance

David Clark, Assistant Director of Finance/Treasury

Steven Bland, Retirement Administrator