



Agenda Item Summary

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Submitted By

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Reviewed By

AMZ

Agenda Item Title

A Resolution Designating PNC Capital Markets LLC as a Village of Oak Park Depository and Investment Bank and Authorizing Investments Pursuant to the Illinois Public Funds Investment Act

Overview

The Village currently has approximately \$20 million in an Insured Cash Sweep (ICS) account. This account is designed to spread the total account balance among several different banks across the country so each individual bank account is below \$250,000 and thus, covered by FDIC insurance.

The ICS account is currently earning .001%. CFO Drazner recommends investing half of the ICS balance, or \$10 million, with PNC Capital Markets LLC for the purchase of treasury securities maturing in October 2023. By doing do, the return can be increased to .375% without putting the funds at risk (guaranteed by the Federal government).

Recommendation

Adopt the Resolution.

Fiscal Impact

An estimated increase in investment revenue of approximately \$95,000 over the next two years.

Background

At one time prior to the interest rate collapse a couple of years ago, the ICS account was a risk free way of earning decent returns. Now, due to the continued low interest rate environment, this account is earning an almost zero percent rate of return.

CFO Drazner recommends investing \$10 million in funds not anticipated to be needed by the Village over the next two years, in Federal treasury securities maturing in October 2023 at an annual coupon return of .375%. In addition, the October 2023 treasury security currently sells at a discount (the Village can purchase a \$10,000,000 security for only \$9,980,000) and this adds to the overall yield, increasing it to .47%. While this is still considered a low return investment, it is significantly better than the rate ICS currently pays of .001%. Treasury securities are guaranteed by the full faith and credit of the US Government and considered risk-free.

The one downside to investing in treasuries having a maturity date of October 2023 is that there is an inverse

relationship between interest rates and the market value of these securities. In other words, if interest rates significantly rise over the next two years, the value of the security would correspondingly fall. However, since this is a short term security, the only risk to the Village is opportunity cost. Even if rates were to rise over the next two years, if the Village holds the investments until maturity, it will receive its full principal back (plus the discounted \$20,000) in addition to the .375% coupon interest earnings.

Alternatives

Not approve Resolution and leave funds in ICS account.

Previous Board Action

N/A

Citizen Advisory Commission Action

N/A

Anticipated Future Actions/Commitments

N/A

Intergovernmental Cooperation Opportunities

N/A