

City of Copperas Cove Information Item No.

AUGUST 8, 2016

Sweep Accounts

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SUBJECT: REPORT ON DEPOSIT, INVESTMENT AND SWEEP SERVICES.

1. BACKGROUND/HISTORY

On July 7, 2016, a member of the City Council inquired about the use of sweep accounts by the CCEDC. An information item was recommended.

FINDINGS/CURRENT ACTIVITY

The CCEDC has established a commercial checking account with Extraco Bank (the CCEDC's bank depository) and that account is utilized to pay the expenditures of the CCEDC and deposit funds received/earned by the CCEDC. A step by step explanation of how the typical "Sweep Account" works follows:

Step 1 - The CCEDC selects a target balance that is desired to be maintained in the commercial checking account at all times.

Step 2 – If the commercial checking account has excess collected balances above the target balance, the excess funds are transferred to a Money Market mutual fund pre-selected by the CCEDC. Money market shares are purchased the next morning when the market opens. Should the balance fall below the target balance, funds will be credited to the commercial checking account and Money Market mutual fund shares will be redeemed the next morning.

Any investments in the money market mutual funds will be wired out of the account at the CCEDC's bank depository and into an omnibus account held in the mutual fund, which is a separate entity from the bank. The CCEDC's investment in a mutual fund is pooled with other investors' in the CCEDC's bank depository general account with the mutual fund.

Some benefits of utilizing a sweep account are the use of such an account eliminates the need to manage the investments for the CCEDC, since the sweep is automatic and typically such an account yields are higher rate of return with the needed liquidity for manage capital projects. Furthermore, at the end of each statement cycle, the commercial checking account holder has the option to have

the return on the investment placed in the commercial checking account or reinvesting the return in the money market mutual fund.

Some considerations include the bank is not required to fully collateralize the funds moved to the money market mutual fund as the funds are removed from the bank's balance sheet. Currently the City's collateral requirements for investment are 102% and the bank sweep would only be required to collateralize at 100%. The CCEDC's Investment Policy may not require the same level of collateralization as the City's Investment Policy.