

CITY OF PARKVILLE

Policy Report

Date: February 24, 2014

Prepared By:
Steve Berg
City Treasurer

Reviewed By:
Lauren Palmer
City Administrator

ISSUE:

Receive and file the 2013 Fewson Fund Annual Financial Statement and Report

BACKGROUND:

The Fewson Fund Policy, as adopted by Resolution # 12-01-13, requires the Fund Manager in February to prepare an annual financial statement and report of the preceding year. The report must include the fund balance at the beginning of the year; the increase/decrease in the fund assets during the year; the fund balance at the end of the year; the simple rate of return for that year based on the beginning fund balance; and an investment strategy for the coming year. The annual statement and report are attached for review and comment.

In February of each year, the Fund Manager will determine the earnings of the fund for the preceding year to be divided 50% to the City and 50% to the fund balance. The earnings distribution is calculated as interest earnings plus gain on investment minus any administrative fees. The 50% distribution to the City for 2013 of \$3,072.41 is reserved in the fund. The fund also holds the distributions for 2011 and 2012. The total amount for all three years (2011 – 2013) is \$14,289. This represents a liability of the fund that is payable to the City upon identification of an eligible project.

BUDGET IMPACT:

There is no direct budget impact associated with receipt of the annual report.

ALTERNATIVES:

1. Receive and file the 2013 Fewson Fund Annual Financial Statement and Report.
2. Postpone the item.

FUND MANAGER RECOMMENDATION:

The Fewson Fund Manager (comprised of the Mayor, Finance Committee Chair, and City Treasurer) recommends that the Board of Aldermen receive and file the report for the official record.

FINANCE COMMITTEE RECOMMENDATION:

At its meeting on February 24, 2014, the Finance Committee, on a vote of 5-0, recommended that the Board of Aldermen receive and file the Fewson Fund annual financial statement and report for the year ended December 31, 2013.

SUGGESTED MOTION:

I move to receive and file the Fewson Fund annual financial statement and report for the year ended December 31, 2013.

POLICY:

The Fewson Fund Policy, as adopted by Resolution # 12-01-13, requires the Fund Manager in February to prepare an annual financial statement and report of the preceding year.

ATTACHMENTS:

1. Fewson Fund Policy
 2. Fewson Fund investments annual financial statement (year ended 12-31-13)
 3. Fewson Fund balance sheet (December 31, 2013)
 4. 2013 Fewson Fund annual report (narrative)
 5. Fewson Fund forecast sheet
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FEWSON FUND POLICY

CITY OF PARKVILLE, MISSOURI

December 2013

INTRODUCTION

In 1998, Parkville resident George W. Fewson left a portion of his estate in trust to the City of Parkville for the purpose of establishing a project fund. The will stipulated that earnings from the fund were to be distributed so that one-half of the earnings would be given to the City for "general projects of the City," which the City has interpreted to mean projects of a capital improvements nature. The remaining one-half was to be returned to the project fund principal. In 2010, in order to reduce administrative fees and eliminate income taxes on the fund's earnings, the trust was dissolved and the City assumed responsibility for the Fewson Fund as a governmental special revenue fund (Ord. No. 2534). The Fewson Fund funds or finances capital projects of the City of Parkville. The estimated value of the fund as of December 1, 2013, is \$572,935.

POLICES:

1. General Polices
 - a. The Board of Aldermen desires to respect the wishes of George W. Fewson by operating the Fund as outlined in this policy.
 - b. The fund's accounting period shall correspond with the City's accounting period, which is currently January 1 to December 31.
 - c. The assets of the fund shall never be intentionally reduced to less than \$525,000 plus accumulated earnings.
2. Fund Manager
 - a. A committee comprised of the Mayor, Chair of the Finance Committee, and the City Treasurer are designated as the Fund Manager.
 - b. The Fund Manager shall oversee the day-to-day operations through concurrence of a majority of the members of the Fund Manager.
 - c. The Fund Manager shall act in an advisory capacity to the Board of Aldermen.
 - d. Any single transaction that reduces the principal value of the Fund by more than 20 percent, and any loans made to the City or other disbursements for qualified Fewson Projects as described in Section 7, shall be approved by the Board of Aldermen upon recommendation of the Fund Manager.
 - e. An annual financial statement and report shall be prepared in February by the Fund Manager for the preceding year and shall include the fund balance at the beginning of the year; the increase or decrease in the fund assets during the year; the fund balance at the end of the year; the simple rate of return for that year based on the beginning fund balance; and an investment strategy for the coming year.

3. Earnings Distribution
 - a. In February of each year the Fund Manager will determine the earnings of the fund for the preceding year, and divide them as follows: (1) 50% of the earnings will be transferred to the City for capital projects and (2) 50% of the earnings will be retained by the fund for additional investment.
 - b. The City may only use its portion of earnings for acceptable projects as described in section 7, subject to approval by the Board of Aldermen.
4. Approved Investments
 - a. The booklet titled Investment Guidelines for Missouri Political Subdivisions, written by the State Treasurer's Office in 1998, and including any later editions of this booklet shall be the sole source of guidelines for determining what investments are appropriate for the Fund.
 - b. In addition to the investments found in those guidelines, the fund may loan money to the City in accordance with guidelines set forth in section 5.
5. Loans to the City of Parkville
 - a. The fund may make loans to the City in an aggregate amount not to exceed 67% of the fair market value of the fund. The proceeds of such loans shall be used exclusively for acceptable projects as described in Section 7.
 - b. The maximum term of any original loan shall be 48 months. Loans may be extended for one additional 24 month period. A fee of one-half of one percent of the loan balance at the time of extension shall be paid by the City to the Fewson Fund to purchase the 24 month extension.
 - c. The principal of the loan shall be repaid to the Fewson Fund in an amount equal to at least 5% of the original loan amount each quarter along with accrued interest. All remaining principal and accrued interest shall be payable to the Fewson Fund after 48 months, or 72 months if an extension has been purchased.
 - d. The interest rate that the City shall pay on such loans shall be equal to the Prime Lending Rate as published in the Wall Street Journal. Interest shall be accrued at this annual rate on the unpaid balance of the loan, and paid to the Fund each quarter along with principal as described above.
 - e. Rate adjustments shall be made annually on each loan on the anniversary date of the origination of the loan or extension. The adjustment will re-compute the annual interest rate as described above, which will then be the interest rate for the next four quarters of the loan.
 - f. Depending on the complexity of the project or financing, the Fund Manager may seek guidance from the City's bond counsel before recommending a loan to the Board of Aldermen.
6. Rate of Return Computation

- a. Both realized and unrealized gains and losses shall be included when computing the rate of return of the fund for any calendar year.
7. Fewson Projects
- a. A Fewson Project is an improvement in Parkville on public land, easements, rights-of-way, or private land that is leased for public use. A Fewson Project has an expected life of at least 10 years before substantial repairs or overhaul is anticipated. It is at least 50% funded through the earnings of the Fewson Fund that have been distributed to the City, or at least 50% funded through a loan to the City.
 - b. Proceeds from the Fewson Fund may only be used for construction, design, acquisition of land, or other purchases that are permanent to the Fewson Project. Equipment or materials that may be related to the Fewson Project but are not for the exclusive use of the Project are not appropriate for Fewson Fund proceeds.
 - c. If allowed by the Federal Emergency Management Agency (FEMA) or the U. S. Army Corps of Engineers (USACE), Fewson Projects can be built in floodways and floodplains.
 - d. A Fewson Project and its funding mechanism must be recommended for approval to the Board of Aldermen by the Fund Manager then approved by a majority vote of the Board of Aldermen. The Fund Manager should have the recommendation of Community Land and Recreation Board (CLARB) when appropriate.
 - e. A Fewson Project is limited to the following types of projects: acquisition of parkland, improvements to parks, urban trees in City rights-of-way, memorials, statues, and projects that improve the efficiency of city operations or quality of life for citizens.

Fewson Fund Balance Sheet

December 31, 2013

Assets		
	Cash	427,306.08
	Short-Term Investments (<12 mos.)	87,982.11
	Long-Term Investments (>12 mos.)	<u>56,014.70</u>
	Total Assets	<u><u>571,302.89</u></u>
Liabilities		
	Undistributed Earnings	<u>14,289.00</u>
Fund Balance		<u>557,013.89</u>
	Total Liabilities and Fund Balance	<u><u>571,302.89</u></u>

Fewson Project Fund Annual Report
December 31, 2013

Highlights for 2013

1. In late 2012 it was discovered that US Bank was holding a previously unknown IRA CD for Mr. Fewson. Country Club Bank, the trustee for the Fewson Trust before its liquidation, was able to reactivate the Fewson Trust in 2013 and acquire these funds. Upon inquiry, Country Club Bank was also able to ascertain that at least one additional IRA CD had been turned over to the State of Missouri as unclaimed property. The Trust was able to obtain these funds as well, and after paying the Trustee's fees, the Trust remitted the balance to the City in two distributions totaling \$28,285.18. These were added to the Fewson Fund.
2. Due to the continuing low interest rate environment and the movement of the majority of the Fewson Fund moneys out of agency bonds as these bonds were called, interest earnings for the Fund have been disappointingly low. Requirements that City funds be collateralized further limit investment options since this requirement makes the funds unattractive to banks. The average rate of return for 2013 for all funds was 1.15%.
3. The Fewson Fund did not remit payments in 2011 – 2013 for the City's 50% portion of the annual earnings distribution. The total amount of \$14,289 represents a liability of the Fund that is available for distribution to the City at any time upon identification of an eligible project.

Strategy for 2014

1. The low interest rate environment of the past several years is expected to continue through 2014 and beyond, meaning that interest earnings on the fund are likely to remain at low levels for several more years. Additionally, \$50,000 of the currently held agency bonds will mature in late 2014, further reducing the average yield of the Fund.
2. In 2013, uncertainty concerning the possibility of using a portion of the Fund to directly finance one or more City projects required the fund manager to keep funds available in highly liquid money market investments until a clearer picture emerged regarding possible uses of the funds. Although the Board of Aldermen did not budget Fewson funds for any projects in 2014, due to budgetary constraints, it is likely that the City may require a loan from the Fewson Fund during the next few years. Based on this assumption, the fund manager will retain reasonable liquidity within the Fund but commit the majority of the funds back into longer term investments with the intent of receiving the best rate of return available in the current market.
3. For 2014, the fund manager plans to follow a strategy of moving a large portion of the funds back into a mix of CDs and agency bonds to achieve better interest earnings than are available using primarily money market accounts. A laddered approach to maturities will be used to ensure that: 1. Some funds remain, or become available each year, and 2. The Fund will have funds available to reinvest at higher interest rates whenever rates move up from their current historic lows.

Steve Berg
City Treasurer
on behalf of the Fewson Fund Manager

Fewson Fund (45)

Last Updated 02/21/14

	2011 Actual	2012 Actual	2013 Budget	2013 Unaudited	2014 Budget	2014 YTD	2014 Projected	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
<i>Beginning Fund Balance</i>	\$529,213	\$ 538,487	\$ 545,000	\$ 545,515	\$ 572,935	\$ 571,303	\$ 571,303	\$ 556,489	\$ 558,500	\$ 560,561	\$ 562,634	\$ 564,719
Revenues												
Interest Income	17,091	11,589	7,000	6,283	6,500	383	6,500	6,121	6,143	6,166	6,189	6,212
Miscellaneous	-	-	-	28,285	-	-	-	-	-	-	-	-
Return on Investments	-	2,261	-	-	-	-	-	-	-	-	-	-
Earned on Investments	14,288	-	-	-	-	-	-	-	-	-	-	-
Total Fewson Fund Revenues	31,379	13,850	7,000	34,568	6,500	383	6,500	6,121	6,143	6,166	6,189	6,212
Total Sources	560,592	552,337	552,000	580,083	579,435	571,686	577,803	562,610	564,643	566,728	568,823	570,931
Expenditures												
Purchase of Interest on Bonds	968	-	-	-	-	-	-	-	-	-	-	-
Loss on Investment	15,029	6,682	-	8,642	5,000	-	3,700	900	860	860	860	860
Trust/Bank Fees	5,453	139	150	139	150	7	150	150	150	150	150	150
Federal Tax	656	-	-	-	-	-	-	-	-	-	-	-
Distribution to City (50% of Proceeds)	-	-	-	-	3,250	-	3,175	3,061	3,072	3,083	3,094	3,106
Distribution to City (Reserved from Prior Years)	-	-	-	-	14,216	-	14,289	-	-	-	-	-
Project Loans	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Fewson Fund Expenses	22,105	6,821	150	8,781	22,616	7	21,314	4,111	4,082	4,093	4,104	4,116
Estimated Ending Balance (deficit) :	538,487	545,516	551,850	571,303	556,819	571,679	556,489	558,500	560,561	562,634	564,719	566,815

Note: The distribution to the City is calculated as 50% of interest earnings and gain on investment minus any administrative fees.