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**APPLYING BEST PRACTICES
WHEN MAKING
INVESTMENT DECISIONS**

PRESENTED BY GABE PHILLIPS




Today's Presenter



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Fundamentals of Public Fund Investment Programs 

<p>Objectives</p> <ul style="list-style-type: none"> • Legal • Safety • Liquidity • Return 	<p>Cash Flow</p> <ul style="list-style-type: none"> • Know your seasonal trends • Proper balance between cash and investments • Operating funds versus bond proceeds 	<p>Investments</p> <ul style="list-style-type: none"> • Diversification of securities and maturities • Interest rate outlook • Longer maturity securities generally provide a higher return of the long run
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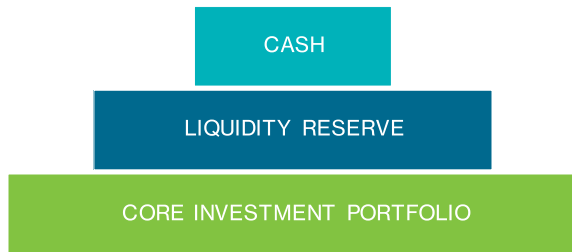
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Best Practice #1

Cash Flow Analysis and Planning

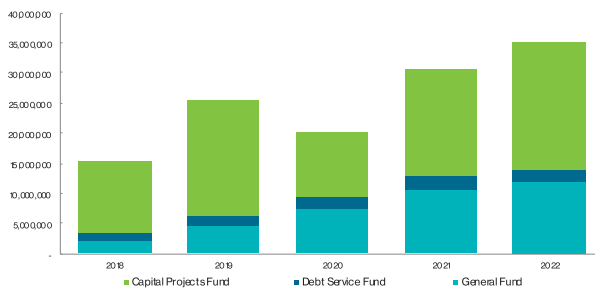
Portfolio Right-Sizing



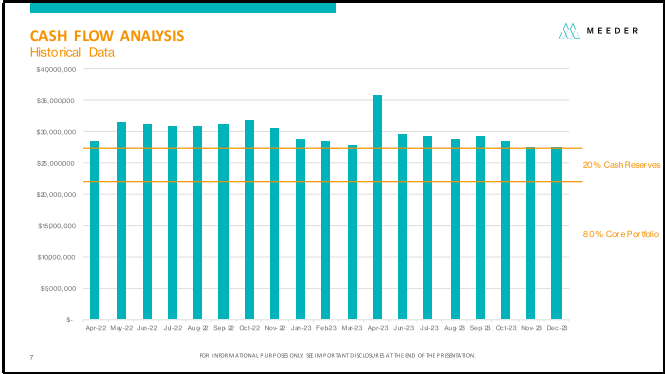
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Cash Flow Analysis

Annual Historical Data



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Best Practice #2

Deposit/Liquidity

- ### Cash/Liquidity Investment Options
- Bank Deposit Accounts
 - Earnings Credit Rate
 - Bank Sweep Products
 - STAR Ohio
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MEEDER

How Should I Pay for Banking Services?

The choice of the methodology is yours

The two methods hinge on current rates – **You pay either way!**

Compensating Balance Basis

- Traditional for public entities and hides the fees
- You leave money in bank which earns \$\$ at ECR and pays the service bill
- You never see the charge – it looks "free"

Fee Basis

- You pay the fees for the service by debit to the account

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MEEDER

Your Decision MUST Hinge on Rates

Always compare your ECR to outside investment options

<p>A 0.46% ECR on a \$5 million balance will generate \$1,917/month</p>	<p>If investment rates give you 4.50% the same balance generates \$18,750/month</p>	<p>Invest the funds, pay \$1,917 directly and keep \$16,833/mo (\$201,996/yr)</p>
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MEEDER

Depository Agreements

- Bank application to public entity for public depository designation
 - Submitted at least 30 days prior to accepting deposits
 - Specifies maximum amount of active, interim and inactive deposits for the depositor
 - Subject to maximum of 30% of bank's assets
 - Method of collateralization – specific or pooled
- Public entity **awards** public depository designation
 - Five year designation period
 - Permitted to add or remove depositories during the five year period if in the best interest of the entity

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Ohio Pooled Collateral System



Ohio Revised Code 135.182

- House Bill 64, House Bill 340 and House Bill 374
- Effective July 1, 2017
- Lien perfection required
- Bank must select one method of collateralization for all public depositors
- Ohio Pooled Collateral System (OPCS)
 - Treasurer of State sole regulator and monitor of program
 - Market value of collateral equal to or greater than
 - 102% of uninsured public deposits, or
 - Amount determined by rules adopted by Treasurer of State
 - Website access for reporting of collateral to public depositor
 - Annual attestation

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Bank Sweep Products



- Savings and money market savings accounts
- Insured Cash Sweep
 - Deposit is placed with banks throughout the country
- Requirements for protection
 - FDIC insurance
 - Collateral
- Depository agreement



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Government Insured Deposit Program



Rebranded STAR Plus program



Convenience of one account and one statement



All deposits are demand deposits and are 100% FDIC-insured



Up to \$25 million in deposits per legal entity



Next day liquidity



Daily transparency with 24/7 online access to account information









POWERED BY FDIC


Meederinvestment.com/gidp

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STAR Ohio 

-  AAAm rated by Standard and Poor's (highest)
-  Managed by the State Treasurer's Office
-  Daily interest income
-  Daily liquidity (within guidelines)
-  Similar to money market fund




STAR OHIO
State Treasury Asset Reserve of Ohio

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Best Practice #3

Operating Funds – Establishing an Investment Plan

Who Can Help You Invest? 

Know the Types of Service Providers and Perform Due Diligence before Investing

<p>Banks</p> <ul style="list-style-type: none"> Make sure they understand nuances of public entities Work with banks you know and trust 	<p>Investment Pools</p> <ul style="list-style-type: none"> Know the investments of the Pool Look over the annual report
<p>Investment Advisors</p> <ul style="list-style-type: none"> Acts as a fiduciary in the client's best interest Who do they work with? What are their credentials? Check them out: www.investor.gov 	<p>Brokers</p> <ul style="list-style-type: none"> Recommends suitable investments Who do they work with? What do they do and how much do they charge? Check them out: www.fia.org

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Safekeeping Options
 COMPARING THIRD-PARTY CUSTODIAN VERSUS BANK OR BROKER SAFEKEEPING




THIRD-PARTY CUSTODIAN	BANK OR BROKER SAFEKEEPING
<ul style="list-style-type: none"> Securities held in public entity's name in bank trust department Transparent cost for service Public entity controls account Investment assets protected from bank's creditors 	<ul style="list-style-type: none"> Securities not held in public entity's name Cost bundled with other services Bank or broker controls account Investment assets may not be protected from bank or broker's creditors

"GFOA recommends that governments use an independent third-party custodial service for safekeeping of investments."
 -Best Practices: Using Safekeeping and Third-Party Custodian Services

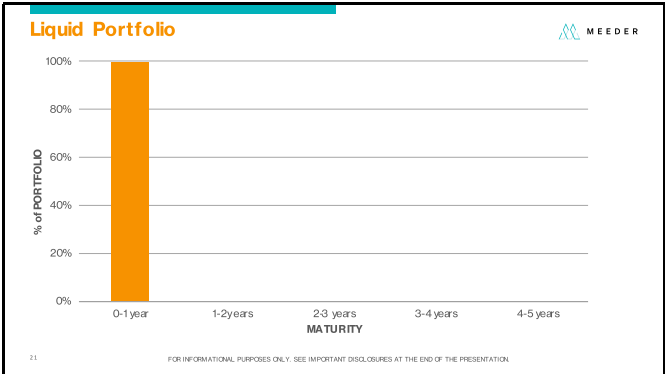
https://www.gfoa.org/materials/using-safekeeping-and-third-party-custodian-services

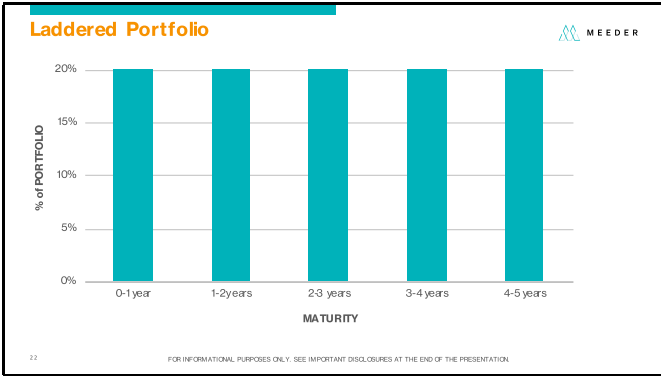
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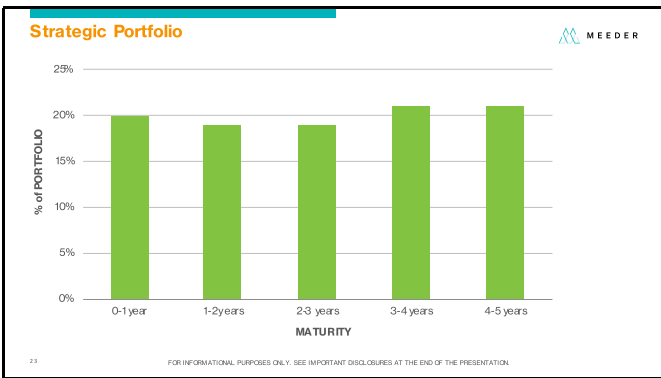
Interest Rate Outlook
 The Markets Change and Your Investment Strategy Should Too

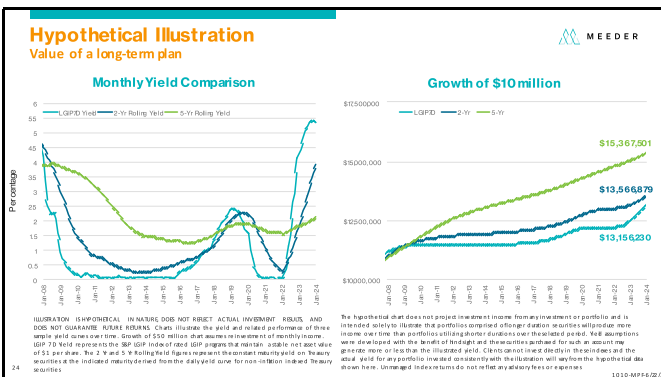
Uncertain	Rising Rates	Falling Rates
<ul style="list-style-type: none"> Maintain average maturity Diversification across security types 	<ul style="list-style-type: none"> Reduce average maturity Frequent short-term maturities 	<ul style="list-style-type: none"> Lengthen average maturity Lock-in current rates with longer maturities 

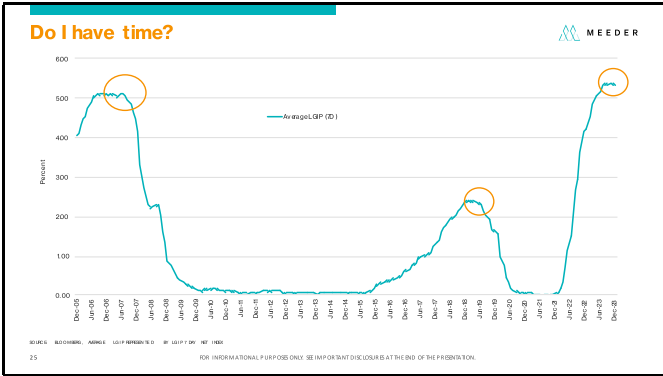
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Breakeven Analysis

5 Year Investment vs 1 Year Investment

5 year US Treasury at 3.95%			1 year US Treasury at 4.80%		
Maturity	Amount	Interest Earned	Maturity	Amount	Interest Earned
Year 1	\$0	\$197,500	Year 1	\$5,000,000	\$240,000
Year 2	\$0	\$197,500	Year 2	\$0	?
Year 3	\$0	\$197,500	Year 3	\$0	?
Year 4	\$0	\$197,500	Year 4	\$0	?
Year 5	\$5,000,000	\$197,500	Year 5	\$0	?
TOTAL	\$5,000,000	\$987,500		\$5,000,000	\$240,000

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Best Practice #4

Management of Bond Proceeds

Spending Schedule



Draw Schedule

A draw schedule, or project timeline, is the estimated schedule of expenditures for the construction project.

This will tell you when you will need to have funds available throughout the course of the project.

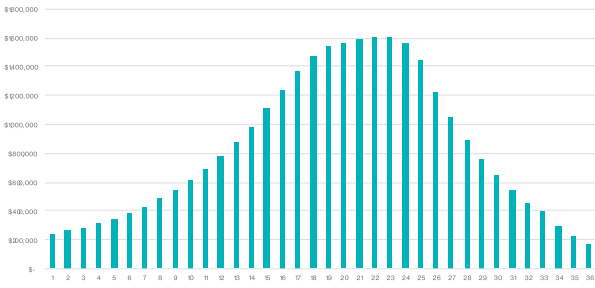
This is typically produced by your architect or construction manager.

Project Scope

There will be times when a draw schedule has yet to be determined for an issuance. However, we do understand the scope of the project.

Knowing the start and completion date of each project still allows you the opportunity to build out a solution and readjust as the draw schedule is created in the future.

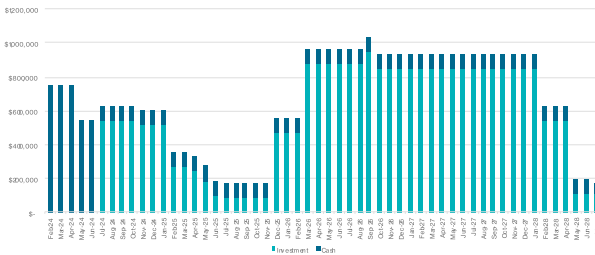
Estimated Spending Schedule



Investment Schedule



Cash: \$7,586,908
 Securities: \$28,413,000



Investments should be held in a separate custody account

Estimated Earnings Schedule



Estimated Total Gross Earnings: \$2,990,390



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What is Arbitrage?



Simply put, arbitrage is the difference between the yield on your issued bonds and the yield on the investment portfolio.

That difference is owed to the IRS in the form of a rebate.

There are many factors that may affect the potential rebate to the IRS (thus affecting funds you can put toward the project).

- Consult with an experienced arbitrage attorney at the beginning of your project to determine your options.

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“A plan is what, a schedule is when. It takes BOTH a plan and a schedule to get things done.”

—PETER TURLA

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Today's Presenter



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