



Florida Government Finance Officers Association

Treasury Management

Certified Government Finance Officer (CGFO)

Review Session

Updated 2024



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Exam Topics

Investment Policy and Regulations - 40%

Investment Types – 10%

Ratings and Duration – 10%

Collections/Receipts/Cash Flow – 20%

Managing Banking Services – 20%





Investment Policy and Regulations



Learning Objectives

Recall the Florida statute requirements for local government investment policies

Identify the areas of focus for written investment policies

Recognize the objectives of local government investments

Identify the types of authorized investments





Learning Objectives

Recall the risks associated with investments

Identify key terms and valuation methods

Recall note disclosures, reporting and best practices

Recognize the purpose, roles, responsibilities and composition of the Federal Reserve System





Local Government Investment Policies



Local Government Investment Policies

Florida Statutes 218.415

Local Government Investment Policies



- Written plan is not required
- Highest priority is the safety of the principal and liquidity of the funds
- Yield shall be secondary to the requirements for safety and liquidity





Local Government Investment Policies

Securities Purchased must be properly earmarked and;

- If registered with the issuer or its agents, must be immediately placed in safekeeping
- If in book entry, must be held for the credit of the governing body in an account separate and apart from the other assets of the financial institution
- If physically issued it must be held in a safe





Local Government Investment Policies

Authorized Deposits – Allows for the investment in CDARS

- Certificate of deposit account registry service or other similar services
- CDARS divides deposits into amounts that are equal to the FDIC insurance limit and spreads them amount many FDIC institutions allowing a larger deposit to be FDIC insured





Local Government Investment Policies

Florida Statutes 218.415 – Local Government Investment Policies

Sale Of Securities

- When the invested funds are needed or the purpose originally intended or for more optimal investments, they must be sold at the then-prevailing market price

Pre-existing Contract

- Any public funds subject to a contract or agreement existing on October 1, 2000, may not be invested contrary to such contract or agreement



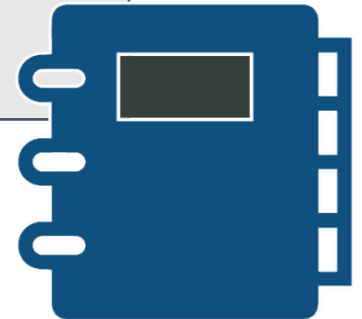


Local Government Investment Policies

Florida Statutes 218.415 – Local Government Investment Policies

Audits

- Certified Public Accountants conducting audits of Local Governments shall report, as part of the audit, whether or not the Local Government has complied with this section





Local Government Investment Policies

Continuing Education

- The investment policy shall provide for the continuing education of officials responsible for making investment decisions
- Officials must complete **8** hours of continuing education related to investment practices and products each year





Local Government Investment Policies



Written investment policies must address the following 15 points adopted by the **Government Body** (e.g. Ordinance, and/or Resolution)

Scope	Risk and Diversification
Investment Objectives	Third Party Custodial Agreements
Performance Measurement	Master Repurchase Agreement Bid
Prudent and Ethical Standards	Requirements
Listing of Authorized Investments	Internal Controls
Maturity and Liquidity Requirements	Continuing Education
Portfolio Composition	Reporting Frequency
Authorized Investment Institutions & Dealers	





Local Government Investment Policies

Scope – Applies to funds in excess of those required to meet current expenses (does not apply to pension funds or funds related to debt where other policies or indentures apply)



- **Governing authority** – Legal
- **Applicability** – What Funds are Covered
- **Exclusions** – What Funds are not Covered
- **Pooling of funds** – Pooled Cash and Distribution in Investment Proceeds
- **Arbitrage** – Investment Earnings on Debt Subject to US Treasury Guidance





Local Government Investment Policies

General Objectives in priority order:

- **Safety** – Credit and Interest Rate Risks
- Liquidity
- Yield
- Local Considerations





Local Government Investment Policies

GFOA Best Practices

☐ Annual Review:

- Identify roles by title and responsibility
- Adopted by Governing Body

☐ Standards of Care:

- Due Diligence
- Prudence
- Knowledge and qualifications

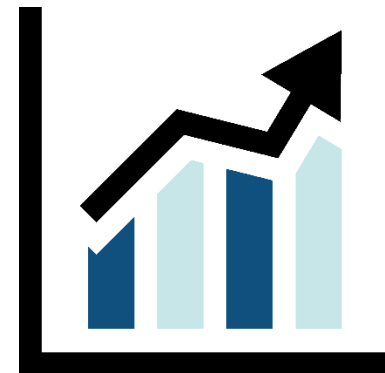




Local Government Investment Policies

Performance Measurement – Shall specify **performance measures** that are appropriate for the nature and size of the portfolio

- Methods
- Performance Standards
- Marketing to Market





Local Government Investment Policies

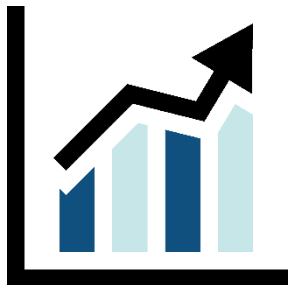
Performance Measurement

Portfolio Returns

Effective Rate of Return	Risk Adjusted Return
Total Return	

Investment Returns

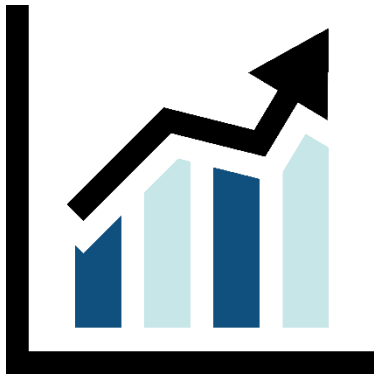
Coupon Yield	Current Yield
Discount Yield	Horizon Yield
Option Adjusted Yield	Yield to Maturity
Yield to Call	





Local Government Investment Policies

Measuring portfolio risks and return results against appropriate market benchmark is a technique to verify all investment objectives are being met



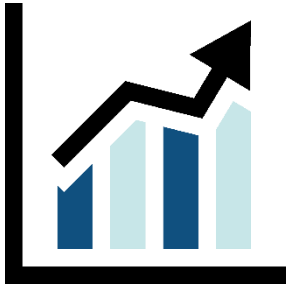
- Compare total return against benchmark





Local Government Investment Policies

Investment Performance Benchmarks



Transparent	Investible
Consistent	Published Risk Characteristics
Supported by Current Data	Specified in Advance
Matches Policy Constraints	Aligns with Management Practices



Local Government Investment Policies

Written Investment Policy	No Written Investment Policy
SBA – Florida Prime	SBA – Florida Prime
SEC Registered Money Market Funds	SEC Registered Money Market Funds
CDs in Qualified Public Depositories	CDs in Qualified Public Depositories
Direct Obligations of the US Treasury	Direct Obligations of the US Treasury
Federal Agencies and Instrumentalities	
Instruments Backed by the Full Faith & Credit of Israel	
Registered Investment Company or Trust in US Govt, Agencies, or Instrumentalities – Take Possession	
Other Authorized Investments	





Local Government Investment Policies

Listing of Authorized Investments



Collateralization

Investment Types

Repurchase Agreements

Purchase of Derivatives



Local Government Investment Policies

Listing of Authorized Investments

☐ Collateralization

- Borrower pledges an asset as a recourse to the lender in the event the borrower defaults on the initial loan

☐ Investment Types:

- Investment policy shall list authorized investments
- Investments not listed are prohibited





Local Government Investment Policies

Listing of Authorized Investments

Derivatives

- Staff must have sufficient understanding and expertise if derivatives are authorized
- A **Derivative** is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more of the underlying assets or index of values
- Mortgage backed securities (Example)





Local Government Investment Policies

Maturity and Liquidity Requirements



- The investment policy shall require that the investment portfolio is structured in such a manner as to provide sufficient liquidity to pay obligations as they come due
- To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements

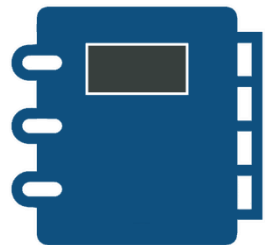




Local Government Investment Policies

Portfolio Composition

- The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities
- Such guidelines shall be commensurate with the nature and size of the portfolio
- Passive management strategy or Active management strategy

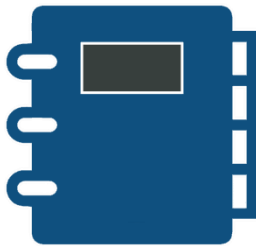




Local Government Investment Policies

Portfolio Composition

Passive Management Strategy – Minimizes the training and labor to attain market-average portfolio performance



Managed Assets – Includes money market mutual funds and investment pools

Laddered Maturities – Investments are placed in every investment maturity within a given range

Barbell Maturities – Investing short-term (1-2 year) and long-term (30 years)

Horizon Investing – Investing money in instruments that mature when money is needed

Rolling T-Bills – Purchasing new T-Bills upon maturing of existing T-Bills





Local Government Investment Policies

Portfolio Composition

Active Management Strategy – increase portfolio performance by exceeding market-average rate of return



Market-timing – timing the market based on conditions

Money market arbitrage – reverse repurchase agreement

Downgrade investment quality – investing in low credit rated securities which results in a higher rate of return

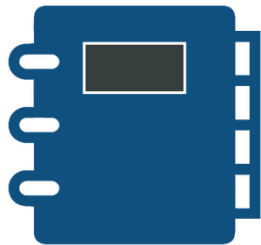
SWAPS – derivative contract where two parties exchange financial instruments



Local Government Investment Policies

Portfolio Composition

Active Management Strategy



Yield curve analysis – analyzing interest rates which are affected by economic and political conditions

Buying long-term securities with the intent of selling the securities in the short-term on the secondary market is known as riding the yield curve

Riding the yield curve is more effective if short-term rates are rising

As the value of a bond increases, the yield decreases





Local Government Investment Policies

Authorized Investment Institutions and Dealers



Level of authority

Request for proposal and selection
criteria

Advisory agreement

On-going review (see reporting)



Local Government Investment Policies

Authorized Investment Institutions And Dealers

- Policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities

- **Broker** – brings buyers and sellers together for a fee (e.g., Real estate agent)
- **Dealer** – bids to buy securities and offers securities for sale to a buyer (e.g., car dealership)
- **Direct issuer** – examples includes commercial paper and banker's acceptance securities
- Qualified public depositories (**QPDs**)
- Minority and community financial institutions





Local Government Investment Policies

❑ Third-Party Custodial Agreements

- Securities should be held with a third party; and all securities purchased, and all collateral obtained, should be properly designated as an asset of the unit of local government
- No withdrawal of securities shall be made from safekeeping, except by an authorized staff member
- Securities transactions between a broker-dealer and the custodian **must** be made on a **delivery vs. payment** basis





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Level of Authority

- **Non-Discretionary Agreement** – Advisor must obtain approval before executing any trade
- **Discretionary Agreement** – Advisor can execute trades for the government without prior approval on each transaction





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Advisory Agreement

- Scope of services
- Appointment of the investment advisory and fiduciary responsibilities
- Establishment of account responsibilities
- Definition of accounts and custody
- Definition of discretionary or non-discretionary services with appropriate limitations
- Definition of standards (prudent expert)
- Establishment of objectives, restrictions, and benchmarks





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Advisory Agreement

- Definition and processing of transaction procedures in accordance with policy including brokerage limitations
- Representations by entity and investment adviser
- Determinations of reasonable liability insurance for errors and omissions
- Establishment of invoicing and payment
- Procedure for termination by either party
- Specifications related to non-discrimination in contracting and ethic rules
- Certification of the government's policy by the investment adviser
- All provisions of the RFP as part of the contract





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Level of Authority

- **Non-Discretionary Agreement** – Advisor must obtain approval before executing any trade
- **Discretionary Agreement** – Advisor can execute trades for the government without prior approval on each transaction





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Advisory Agreement

- Scope of services
- Appointment of the investment advisory and fiduciary responsibilities
- Establishment of account responsibilities
- Definition of accounts and custody
- Definition of discretionary or non-discretionary services with appropriate limitations
- Definition of standards (prudent expert)
- Establishment of objectives, restrictions, and benchmarks





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Advisory Agreement

- Definition and processing of transaction procedures in accordance with policy including brokerage limitations
- Representations by entity and investment adviser
- Determinations of reasonable liability insurance for errors and omissions
- Establishment of invoicing and payment
- Procedure for termination by either party
- Specifications related to non-discrimination in contracting and ethic rules
- Certification of the government's policy by the investment adviser
- All provisions of the RFP as part of the contract





Local Government Investment Policies

Prudent and Ethical Standards

Prudence “Prudent Person”

- Investments should be made with judgement and care, under circumstances then prevailing, which **persons of prudence, discretion, and intelligence** exercise in the management of their own affairs
- **Not for speculation**, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment





Local Government Investment Policies

Prudent and Ethical Standards

Ethics and Conflicts of Interest



- Activities which could conflict with the proper execution and management of the investment program or could impair the ability to make impartial decisions

Delegation of Authority

▪ Governing Body	▪ Investment Officer
▪ Investment Committee	▪ Investment Advisors/Manager





Local Government Investment Policies

Internal Controls

- The investment policy shall provide for a system of internal controls and operational procedures
- Are the responsibility of the investment officer
- The officials responsible for making investment decisions shall establish a system of internal controls which shall be in writing and made a part of the operational procedures
- To be reviewed by independent auditors as part of any financial audit





Local Government Investment Policies

Internal Controls

- Designed to prevent loss of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions
- Internal controls may include, but are not limited to:

- | | |
|---|--|
| ▪ Separation of Transaction Authority from Accounting | ▪ Staff Training and Monitoring Procedures |
| ▪ Custodial Safekeeping | ▪ Avoidance of Physical Delivery |
| ▪ Confirmations of Transactions/Wires | ▪ Documentation |
| ▪ Dual Authorization of Wire Transfers | ▪ Clear Delegation of Authority |





Local Government Investment Policies

Bid Requirements

Staff determines the required maturity date based on cash-flow needs and market conditions



Analyze and select one or more optimal types of investments

Competitively bid the security in question when feasible and appropriate





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Request for Proposal and Selection Criteria



- SEC Licenses
- Quantitative Information
- Organizational Structure of Firm and Business Affiliations
- Experience and Depth of Personnel
- Reporting Standards
- Investment Philosophy & Portfolio Management Strategies
- Trading Process
- Interview with Finalists
- Understanding Regulatory Censure or Litigation





Local Government Investment Policies

Authorized Investment Institutions and Dealers

Request for Proposal and Selection Criteria



- SEC Licenses
- Quantitative Information
- Organizational Structure of Firm and Business Affiliations
- Experience and Depth of Personnel
- Reporting Standards
- Investment Philosophy & Portfolio Management Strategies
- Trading Process
- Interview with Finalists
- Understanding Regulatory Censure or Litigation



Risk Management and Reporting





Risk and Diversification

Diversification

Investments should be diversified to the extent practical to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank



Diversification strategies shall be reviewed and revised periodically

Don't put all of your eggs in one basket





Key Terms

Risk and Diversification



Call Risk – A security will be called before it matures

Counterparty Credit Risk – Associated with derivatives and is the risk that a counterparty will not complete the repurchase transaction

Credit Or Default Risk – An issuer will default in payment of interest and/or principal

Custodial Credit Risk – Custodian will default

Geo Political Risk – War, disease, change in leadership will be affected by economic and political conditions





Key Terms

Risk and Diversification



Interest Rate (Market) Risk – changes in interest rates which cause a fixed income security to change value

Liquidity Risk – Cash will not be available when needed

Reinvestment Risk – Cash generated by a security will be invested at a lower rate than the prevailing rate

Safekeeping Risk – Funds or securities in safekeeping will not be there when needed

Derivative Risk – A combination of counterparty credit risk, custodial risk, and market risk





Managing Risk

Risk and Diversification

Covariance

- Measure of the degree to which returns on two securities move in tandem
- Positive covariance means returns move together
- Negative covariance means returns vary inversely

Asset Allocation

- Involves dividing the portfolio among different asset categories, such as bonds, stocks, and cash





Managing Risk

GFOA Best Practices

- Ensure a reasonable liquidity buffer is maintained to meet unexpected disbursements
- Properly structure maturities in a portfolio according to the expected cash flows
- Limit the maximum maturity for securities purchased
- Develop and update cash flow projections





Valuation Methods

GFOA Best Practices

- Determine market value at least quarterly
- Obtain values from reputable and independent sources (Wall Street Journal, pricing services, custodial bank if not counterparty)
- Disclose values to governing body

Reset Date: time frequency that a bond's variable coupon is repriced to reflect changes in a benchmark index





Investment Reporting

GASB 40 requires disclosure of all portfolio risks

Financial Reporting as Required by GASB 40 Addresses:

- Credit Risk (Custodial & Concentration)
- **Interest Rate Risk**
- Foreign Current Risk



Methods to identify and manage interest rate risk

- | | |
|--------------------------------------|----------------------------------|
| • Segmented Time Distribution | • Specific Identification |
| • Weighted Average Maturity | • Duration |
| • Simulation | |





Investment Reporting

Risk and Diversification

Credit Risk Disclosure

- Dissimilar investments should not be aggregated
- Disclosure involves the credit quality ratings of investments in debt securities held in the portfolio at year-end
- Treasury securities are not considered to have credit risk





Investment Reporting

Risk and Diversification

Custodial Credit Risk – Disclosure when securities are:

- Uninsured and not collateralized
- Collateralized with securities held by the counterparty
- Collateralized with securities held by the counterparty's trust department but not in the government's name





Investment Reporting

Risk and Diversification

Concentration of Credit Risk

Disclose by amount and issuer, investments in any one portfolio that represents more than 5% of the portfolio (investments in mutual funds, investments pools, and treasuries are excluded).





Investment Reporting

☐ Reporting

- Shall provide for annual or more frequent reporting of investment

Interim Reporting

Frequency	In Conformance with Law
Staff Availability	In Conformance with Preference
Complexity	

Annual Reporting

Investment Manager's portfolio Outlook	Overall Performance Appraisal by Class
Economic Outlook	Interest Rate Trends
In Conformance with Law	





Investment Reporting

❑ Reporting

- The report shall include securities in the portfolio by class or type, book value, income earned, and market value as of the report date

Portfolio by Class or Type	Maturity Structure
Investment Quality	Market Exposure
Book Value	Income Earned
Market Value	Bench Marks





Investment Reporting

❑ Reporting

GASB 31 Financial Reporting

- Establishes fair value standards for investments in interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities
- Report investments at fair value on the balance sheet
- Report all investment income, including changes in fair value, as revenue on the operating statement





Investment Reporting

Governmental Accounting, Auditing and Financial Reporting

- ❖ May report pooled cash and investments as a single line item in each participating fund
- ❖ May allocate cash and investments and report on each component in each participating
- ❖ May report pooled cash and investments for some but not others in the participating funds





Federal Regulations



Federal Reserve System

- ☐ Federal Reserve Act of 1913
- ☐ Board of Governors
- ☐ Federal Open Market Committee

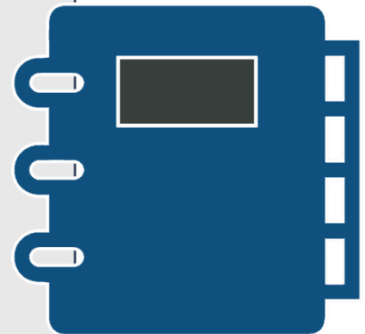




Federal Reserve System

Federal Reserve Act of 1913

- “... to provide for the establishment of federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”





Federal Reserve System

Board of Governors

Seven members

Nominated by the President

Confirmed by Senate

14-Year terms





Federal Reserve System

Federal Open Market Committee

Twelve members

- Seven members of the Board of Governors
- President of the NY Federal Reserve Bank
- Four rotating member from remaining 11 federal reserve banks, each serving a one-year term





Federal Reserve System

Monetary Policy



Principal Responsibility:

- ☐ Foster the long-term objectives of price stability and sustainable growth through monetary policy
 - ☐ Bank Reserve Requirements
 - ☐ **Discount Rate** – Rate on loans by fed to member banks
 - ☐ Open market operations
 - Buy & sell U.S. treasuries
 - Designate and maintain list of primary dealers
 - ☐ Direct bank regulations





Federal Reserve System

Monetary Policy



Manages the money supply through open market operations

- Tight money supply increases the cost of credit
- Decrease money supply- sell securities
- “Relaxed” money supply decrease the cost of credit
- Expand money supply – buy securities





Investment Types



Learning Objectives

Recall the different types of investments

Identify the characteristics of each type of investment





Investment Types

- ☐ U.S. Treasury notes and bonds
- ☐ Federal agency securities
- ☐ Federal instrumentalities
- ☐ Investment pools
- ☐ Repurchase agreements
- ☐ Derivatives
- ☐ Securities lending agreements
- ☐ Other securities





Investment Types

U.S. Treasury Bills

- Backed by full faith and credit of the U.S. Government
- Credit & default risk free
- Highly liquid
- Lowest rate of return (normally)
- Matures in one (1) year or less
- Sold and matures on Thursdays





Investment Types

U.S. Treasury Bills

- Issued at discount, interest paid at maturity
 - $\text{Discount} = \text{term} \times \text{discount \%} / 360$
 - $\text{Selling price} = \$100 - \text{discount}$
 - $\text{Yield} = \text{earnings} / \text{price}$
 - $\text{Bond equivalent yield} = \text{discount} / \text{dollar price} \times 365 / \text{term}$





Investment Types

U.S. Treasury Notes and Bonds



Backed by full faith and credit of the U.S. Government

Credit & default risk free

Highly liquid

Slightly higher interest rate of return than bills (normally)

Coupon bearing

Interest paid semi-annually

Matures from 2 – 30 years





Investment Types

Federal agencies

- ☐ Instruments backed by full faith and credit of U.S. Government
- ☐ Generally higher interest rates than comparable treasuries
- ☐ Generally long-term instruments
- ☐ Subject to liquidity and market risks

Examples:

- Small business administration
- Export-import bank
- Government national mortgage association





Investment Types

Federal instrumentalities

- Government-sponsored enterprise
- Established to implement federal lending programs
- Carries an implied backing of the federal government
- Backed by the full faith and credit of the issuing agency
- Generally higher interest rates compared to treasuries
- Short and long-term instrument



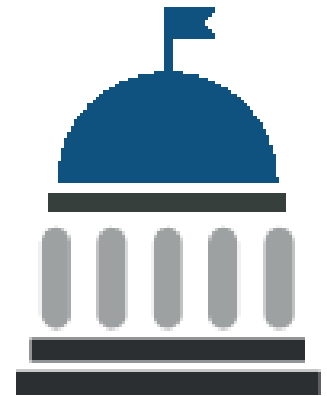


Investment Types

Federal Instrumentalities

Examples:

- Federal Farm Credit Banks
- Federal Home Loan Banks
- Federal Home Loan Mortgage Corporation
- Federal Nation Mortgage Corporation





Investment Types

Investment Pools

Allows local governments to pool funds to potentially achieve a higher rate of return

Pool sponsors (state-operated, political sub-divisions, third-parties)

☐ Before investing:

- Review policies – compare to your local government's investment policy
- Understand how they calculate and report interest
- Know the withdrawal requirements
- Know the costs





Investment Types

Repurchase agreements

- **Master repurchase agreements** – Governing agreement with a dealer, broker, bank that will guide future potential investment opportunities
 - **Repurchase agreement** – Agreement with a counterparty for a specific investment which establishes the amount to be invested, rate, and more importantly, the investment period
-
- XWY government will invest \$100,000 at 2% on February 1 until February 15
 - Ensures liquidity when needed





Investment Types

Repurchase agreements

Reverse repurchase agreement



Purchase of securities with the agreement to sell them at a higher price at a specific date (**leveraging**)

For the party selling the security and agreeing to repurchase it in the future, it a repurchase agreement

For the party that is buying the security and agreeing to sell it in the future it is a reverse repurchase agreement

Classified as money market instrument and usually used to raise short-term capital





Investment Types

Repurchase agreements

Reverse repurchase agreement



Associated Risks:

- The counterparty may default on its obligations
- Underlying securities are subject to and may erode due to volatile changes in market conditions
- The financial strength of the counterparties and value of the collateral are not properly monitored

Mitigation:

- Establish financial strength criteria for counterparties and for reviewing financial statements at the inception of the relationship and at least annually





Investment Types

Other Securities

- **Asset-backed securities** – debt instruments backed by a pledge of assets such as cars, mobile homes, or loans
- **Banker's acceptance** – short-term debt securities (matures in less than 270 days) used to finance foreign trade transactions
- **Money market mutual funds** – short-term investments regulated by the securities and exchange commission rule 2a-7
- **Certificate of deposits** – time deposits which may be negotiable or non-negotiable; Florida prohibits negotiable CDs as an authorized investment





Investment Types

Other Securities



- **Commercial paper** – unsecured promissory notes of corporations maturing in 270 days or less
- **Mortgage backed securities** – debt instruments backed by a pledge of mortgage asset
- **Collateralized mortgage obligations (CMO)** – fixed income security that uses mortgage backed securities as collateral
- **Zero-coupon securities** – interest is paid upon final maturity
- **Odd lot** – order for a security that is less than the normal unit of trading





Investment Types

Derivatives

- Financial instrument whose value depends on, or is derived from, the value of one or more underlying assets or index or asset value

Essential Characteristics

- ☐ Involves application of settlement factors
- ☐ Achieves objectives through leverage
- ☐ Allows for possibility of a net settlement





Investment Types

Options



- **Put Option** – contract giving the owner the right, but not the obligation, to sell a specific amount of an underlying security at a specified price within a specified time period
- **Call Option** – agreement that gives an investor the right, but not the obligation, to buy a stock, bond, commodity, or other instrument at a specified price within a specified time period



Investment Types

Securities lending agreement



Generally conducted between brokers and/or dealers and not individual investors

Lender allows an investor to **borrow** (risk) an investment for a specified time for a price

Ownership of the asset transfers to the borrower

Borrower sells the asset with the hope to re-purchase the asset at a lower price

Securities lending agreement sets forth the terms



Ratings and Duration



Learning Objectives

Recall the different types of credit ratings

Identify the components of duration





Ratings and Duration

Credit Ratings

Investment Grade

AAA

Extremely Strong Financials or Insured

AA

Very Strong Financials

A

Strong Financials

BBB

Good Financials





Ratings and Duration

Credit Ratings

Non-Investment Grade

BB

Marginal Financials

B

Weak Financials

CCC/CC

Very/Extremely Weak Financials

R

Under Supervision





Ratings and Duration

Using Credit Agencies

Evaluation Criteria

- Cost of Credit Rating
 - Administrative Burden – rating agencies may request multi-year budget documents and financial policies
 - Size of Issuance- debt with higher par may benefit more than a lower par issue
 - Potential economic benefit from the credit rating (lower bond yields) versus cost of obtaining and maintaining the rating
-





Ratings and Duration

Using Credit Agencies

Other Considerations

- Issuers are responsible for managing relationship with rating agency throughout the term of the bonds
 - Consult with Counsel before releasing non-public information - i.e., internal revenue forecasts, forward looking statements
 - Credit rating agencies are required by SEC to publish their rating methodologies
-





Ratings and Duration

Duration

Based on three variables:

- Term to maturity
- Coupon rate
- Yield to maturity



- Most commonly used to measure interest rate risk in bond investing





Ratings and Duration

Duration



☐ Fixed-income portfolio management

- ❖ Measures the average maturity of the portfolio
- ❖ Immunizing portfolios from interest rate risk
- ❖ Measures the sensitivity of price of a fixed rate investment to a change in interest rates



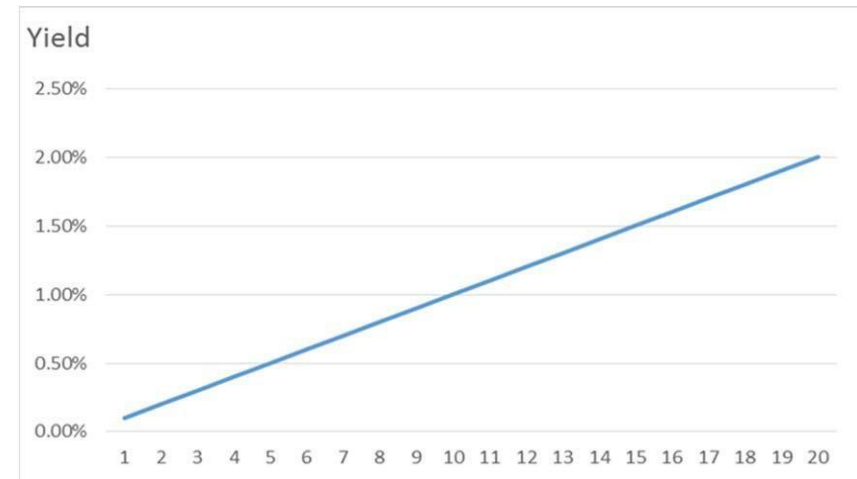


Ratings and Duration

Yield Curve

- Yields are low in the near term and rise for the long-term
- The longer the duration, the higher the interest rate risk and credit risk
- Value of a bond increases as the rate of return decreases

Normal Yield Curve





Collection/Receipts/Cash Flow



Learning Objectives

Identify the different methods of collections

Recall the internal controls for receipts

Define the types of collection floats

Recall the purpose of a cash flow forecast

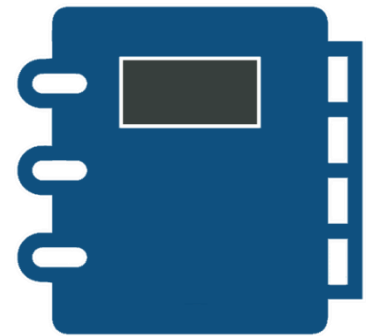




Collections and Cash Flow

Uniform Commercial Code

- Regulates and defines the responsibilities of counterparties in business and banking transactions
- States liability and monetary loss in fraudulent transactions is split between counterparties determined by each party's due diligence and negligence





Collections and Cash Flow

Collections

- Internal controls versus decreasing collections float

- **Central cashier and cash collections** – desirable if reasonable
- **Remote cashiering and cash collections** – should be used only where beneficial
- **Lockbox collections** – post office box for payments that are picked up by a bank and deposited
- **Federal wires** – fastest way to transfer/deposit funds through the federal reserve system
- **Accounts Receivable** – send invoices promptly





Collections and Cash Flow

Collections



☐ Credit Cards

- **Merchant fees** – paid per transaction
- **Interchange fees** – paid for the use of funds between merchant financial institution and the time of the settlement

Revenue control and management policy should consider:

- | | |
|---|-------------------------------------|
| ▪ Internal Controls | ▪ Returned Checks |
| ▪ Billing Practices | ▪ Escrowed Funds |
| ▪ Depositing Funds Received for Service | ▪ Budgetary Review Responsibilities |





Collections and Cash Flow

Collections



☐ Cash Collection Internal Controls

- | | |
|---------------------------|--|
| ▪ Segregation of Duties | ▪ Daily Processing |
| ▪ Timely Deposit of Funds | ▪ Reconciliation to the General Ledger |
| ▪ Physical Security | ▪ Timely Pick-up From Remote Sites |

Returned payments

- Process returned payments quickly
- GFOA recommends to deposit a returned check no more than twice





Collections and Cash Flow

❑ GFOA Recommended Best Practices

Internal Control Activities for Fraud Protection

- ❖ Proper segregation of duties
- ❖ Train and empower staff to ask questions
- ❖ Ensure controls for storage and destruction of documents
- ❖ Physical security of checks, signature plates, software
- ❖ Conduct periodic surprise audits
- ❖ Annual review of procedures

Fraud Protection - Traditional techniques not enough due to advances in technology





Collections and Cash Flow

Collections Float

**Administrative
Float**

Time to process a receipt

**Collection
Float**

Time to deposit a receipt

Mail Float

Time the receipt is in the mail

**Availability
Float**

Time between the deposit and when funds become available

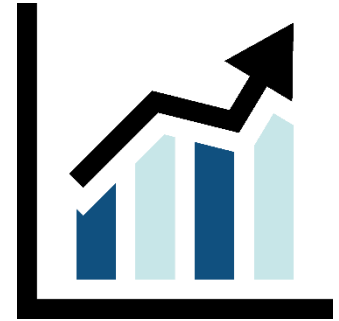




Collections and Cash Flow

❑ Treasury Cash Flow Forecast

- Used in the analyzing available surplus eligible to be invested and the term of the investment



- ❖ Liquidity needs
 - ❖ Maximum maturities
 - ❖ **Core fund** – surplus funds available for long-term investing
-
- Analysis of cash balances over time – not accounting or budgeting
 - Understand the inflows and outflows of cash for your organization

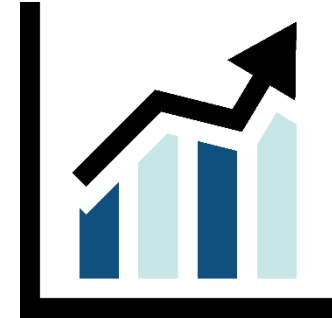




Collections and Cash Flow

☐ GFOA Recommended Best Practice for Using Cash Forecasts

- Based on conservative reasonable assumptions that are reviewed and updated regularly
- At least a 12-month rolling period
- Divided up in monthly sections for most governments
- Divided up in weekly or daily sections for larger, complex governments
- Update for major changes in operations i.e., new debt issuance, new taxes
- Compare actual cash flow results to cash forecast projections





Collections and Cash Flow

Treasury Cash Flow Model

		October	November	December	January	February	March	April	May	June	July	August	September
1	Beginning Cash Balance:	\$ 2,000,000	\$ 775,000	\$ 350,000	\$ 1,875,000	\$ 400,000	\$ 925,000	\$ 950,000	\$ 75,000	\$ 100,000	\$ 125,000	\$ 650,000	\$ 175,000
2													
3	Revenues:												
4	Property Taxes			\$ 6,000,000	\$ 3,000,000	\$ 1,000,000	\$ 500,000						
5	Other Revenues	\$ 500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
6	Total Cash Balance & Revenues	\$ 2,500,000	\$ 1,775,000	\$ 7,350,000	\$ 5,875,000	\$ 2,400,000	\$ 2,425,000	\$ 1,950,000	\$ 1,075,000	\$ 1,100,000	\$ 1,125,000	\$ 1,650,000	\$ 1,175,000
7													
8	Expenditures:												
9	Salaries & Benefits	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)
10	Operating Expenditures	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)
11	Capital Improvement Expenditures	\$ (100,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)
12	Debt Service Payments							\$ (2,500,000)					\$ (5,000,000)
13	Total Expenditures:	\$ (325,000)	\$ (475,000)	\$ (475,000)	\$ (475,000)	\$ (475,000)	\$ (475,000)	\$ (2,975,000)	\$ (475,000)	\$ (475,000)	\$ (475,000)	\$ (475,000)	\$ (5,475,000)
14													
15	Investments Maturing		\$ 50,000					\$ 2,100,000	\$ 500,000	\$ 500,000	\$ 1,000,000	\$ -	\$ 5,500,000
16	Minimum Cash Requirement	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)
17	Surplus Cash - Available to Invest	\$ 1,175,000	\$ 350,000	\$ 5,875,000	\$ 4,400,000	\$ 925,000	\$ 950,000	\$ 75,000	\$ 100,000	\$ 125,000	\$ 650,000	\$ 175,000	\$ 200,000
18													
19	Amount Invested	\$ (400,000)		\$ (4,000,000)	\$ (4,000,000)								
20	Ending Cash Balance	\$ 775,000	\$ 350,000	\$ 1,875,000	\$ 400,000	\$ 925,000	\$ 950,000	\$ 75,000	\$ 100,000	\$ 125,000	\$ 650,000	\$ 175,000	\$ 200,000
21													
22													
23													
24		Investment Portfolio Balances											
24	Beginning Portfolio Balance	\$ 10,000,000	\$ 10,400,000	\$ 10,350,000	\$ 14,350,000	\$ 18,350,000	\$ 18,350,000	\$ 18,350,000	\$ 16,250,000	\$ 15,750,000	\$ 15,250,000	\$ 14,250,000	\$ 14,250,000
25	Increased Investments	\$ 400,000	\$ -	\$ 4,000,000	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	Maturities	\$ -	\$ (50,000)	\$ -	\$ -	\$ -	\$ -	\$ (2,100,000)	\$ (500,000)	\$ (500,000)	\$ (1,000,000)	\$ -	\$ (5,500,000)
27		\$ 10,400,000	\$ 10,350,000	\$ 14,350,000	\$ 18,350,000	\$ 18,350,000	\$ 18,350,000	\$ 16,250,000	\$ 15,750,000	\$ 15,250,000	\$ 14,250,000	\$ 14,250,000	\$ 8,750,000





Managing Banking Services



Learning Objectives

Recall the requirements for public deposits

Identify the components of general banking services agreement

Define the elements of positive pay

Recognize common terminology used in banking services





Learning Objectives

Identify the reporting for banking services

Recall other banking services available

Identify best practices related to banking services





Managing Banking Services

Public Deposits

Qualified public depository (QPD) – banks and savings associations that has:

- A branch authorized to receive deposits in Florida,
- FDIC deposit insurance,
- Meets the requirements of F.S. 280, and
- Been designated by Florida chief financial officer as a QPD

A bank must be designated as a QPD to accept Florida public funds for deposit





Managing Banking Services

☐ Public Deposits

- Must be made in a QPD unless exempted by law
- Fully secured by a collateral requirement under federal regulations or held outside the country are exempt from F.S. 280
- A QPD can fail
- A QPD can be bought by another bank



☐ QPDs must file:

- **Form 1295** – public deposit identification and acknowledgement form
- **Form 1004** – qualified public depository annual report to the chief financial officer





Managing Banking Services

☐ Public Depositors Reporting Requirements F. S. 280

- Public Depositor must confirm annually public deposit information as of the close of business on September 30 has been provided by each QPD and is in agreement with public depositor's records,
- Public Depositor must submit an annual report to the Florida CFO by November 30 confirming public deposit information





Managing Banking Services

☐ GFOA Recommended Best Practices to Protect State and Local Government's Deposits

- ❖ Use an independent third-party custodial service for safekeeping of investments
- ❖ Use a written agreement with pledging requirements in adherence with state and federal laws, including FDIC regulations
- ❖ Review applicable federal and state statutes and follow procedures for ongoing review of collateral holdings
- ❖ Pledged collateral is valued at market to market





Managing Banking Services

General Banking Services Agreement

- Collecting and transferring amounts
- Describe fees, warranties, limitations of liability
- Term
- Governing law
- Notice and insurance
- Process to amend/modify the agreement





Managing Banking Services

☐ **Benefits of Annual Banking Services Contract**

- Take advantage of technological enhancements
- Obtain market competitive rates
- Negotiate preferable terms and conditions





Managing Banking Services

Positive pay

- Automated fraud detection tool
- Matches the check number and dollar amount of each check presented for payment against a list of checks previously authorized

Default preferences:

- Pay all checks – bank reports mismatched checks and **will pay** unless otherwise directed by the government
- Return all checks – bank reports mismatched checks and **will not** pay unless otherwise directed by the government





Managing Banking Services

Reverse positive pay

- Banks sends the issuer a list of checks presented for payment for review
- Allows the issuer to further investigate checks that do not match those checks that were issued





Managing Banking Services

- ☐ **Funds transfer schedules** – How transfers are initiated and approved
- ☐ **ACH fraud control agreement** – Selects ACH blocks and controls by account
- ☐ **Deposit agreement** – Establishes the accounts and account characteristics and authorized personnel





Managing Banking Services

Account Balances

Available balance

- Balance that may be withdrawn or invested

Average daily balance

- Balance that is used in calculating bank fees and overnight earnings

Compensating balance

- Excess balance available to indirectly pay bank service charges

Sweep balance

- Method to transfer surplus balances from a deposit account to an investment account





Managing Banking Services

Accounts

Zero-balance accounts

- Account with sufficient funds to cover outstanding checks and a reconciled zero-dollar balance

Cash concentration accounts

- Account whose funds are periodically transferred to zero-balanced accounts to pay obligations

Controlled payment account

- Controls the amount of cash being presented for payment





Managing Banking Services

Banking Charges

Fee for service

- Tailor banking services to includes only those services needed
- Interest income is not lost with a compensating balance
- Avoid requirement to maintain a reserve

- **Compensating balance** - excess balance available to indirectly pay bank service charges





Managing Banking Services

Reporting

- ❑ **Account analysis** - similar to personal banking statements, however, in greater detail

Bank Reconciliation

- Compare bank's records with government records
 - Identify errors
 - Central management function in banking services
-
- **Proof of cash statement** – roll forward of each line in a bank reconciliation from one period to the next; highlights discrepancies





Managing Banking Services

Other Banking Services

- ❑ **Electronic benefits transfer** – Electronic system that allows a recipient to authorize transfer of government benefits from a federal account to a retailer
- ❑ **Remote deposit capture** - Decreases deposit float

▪ Simplified processing of deposits	▪ Reduced costs
▪ Accelerated clearing of checks	▪ Improved availability of funds
▪ Added convenience	▪ Reduced return items risk
▪ Item archive	▪ Digitized format and reporting
▪ Expands window for deposit	▪ No physical check to deposit





Managing Banking Services

Procuring Banking Services

- ❑ **Define Scope**— identify specific evaluation criteria and prepare strategy to evaluate responses

Evaluation Criteria

▪ Quality of servicing staff	▪ Reputation and Social Responsibility
▪ Financial Strength	▪ Providers status with applicable regulatory agency
▪ Cost	▪ Service capacity – ability to process sufficient transaction volume
▪ Operating History	▪ Profitability
▪ Net Capital	▪ Ability to provide solutions





Managing Banking Services

❑ GFOA Recommended Best Practices

- Bear in mind costs in processing cards such as administrative costs i.e., equipment, personnel, assuring compliance
- Negotiate lowest possible fee to minimize financial impact to the government or to the consumer, whoever will ultimately pay the fee
- Review contracts every five years and use a competitive process for procurement of financial services
- Consider use of a payment consolidation service





Key Terms and Definitions



Definitions – Florida Statutes

- **Unit of local government** – any governmental entity within the state, including: county, municipality, property appraiser, tax collector, supervisor of elections, authority, board, public corporation, or any other political subdivision of the state
- **Governing board** – the body or board in which the legislative power of the local government is vested
- **Chief financial officer** – the mayor, manager, administrator, clerk, comptroller, treasurer, director of finance, or other local government official, regardless of title, charged with administering the fiscal affairs of the government





Definitions – Florida Statutes

- **Short-term** – A maximum of six months of operations
- **Current expenses** – expenses to meet known cash needs and anticipated cash-flow requirements for the short-term
- **Surplus funds** – any funds in any general or specific account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended
- **Trust fund** – the pooled investment fund created by FS 218.405 and known as the local government surplus funds trust fund





Reference Materials



Reference Materials

Florida Statutes

<http://www.leg.state.fl.us/STATUTES/>

- **Chapter 218.405** – Local Government Surplus Funds Trust Fund; Creation; Objectives; Certification; Interest; Rulemaking
- **Chapter 218.415** – Local Government Investment Policies
- **Chapter 280** - Security for Public Deposits





Reference Materials

Federal Reserve System

- Purpose, Requirements to Serve and Roles and Responsibilities

Governmental Accounting Standards Board (GASB)

- **Statement No 31**
 - Accounting and Financial Reporting for Certain Investments and External Investment Pools
- **Statement No 40**
 - Deposit and Investment Risk Disclosures





Reference Materials

Government Finance Officers Association

- **Investing Public Funds**, Second Edition, Girard Miller w/Corinne Larson and W.Paul Zorn
- **Best Practices – Treasury and Investment Management**
- **Governmental Accounting, Auditing and Financial Reporting (GAAFR)**
 - Chapter 22, Fair Value and Investments
 - Chapter 25, Derivative Instruments





Questions?



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Florida Government Finance Officers Association

Thank You!



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.