



School of Governmental Finance (SOGF)

# Structure of the Treasury Market

10/30/25

Presented by:

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# Today's Objectives

- 1. Explore the U.S. Treasury and the role of the Federal Reserve*
- 2. Describe how the US Treasury Market works*
- 3. Review allowable investments*
- 4. Explore the U.S. National Debt*
- 5. Discuss the implications for Florida Local Government*

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# U.S. Treasury Department



## History:

- Founded in 1789 to manage U.S. Finances and pay Revolutionary War debts
- Alexander Hamilton was the first Secretary
- Created the IRS in 1862 and Secret Service in 1865

## Purpose:

- Advices economic policy
- Produces U.S. Currency
- Manages Federal Finances
- Protects financial systems
- Oversees tax policy
- Issues Treasury Securities



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# Role of the Federal Reserve

## How Does the Federal Reserve Work And Who Owns It?



Federal Reserve Board is an independent agency of the federal government and its decisions don't need approval from the president, legislators, or any elected officials



The Fed is comprised of a government-appointed central board and 12 regional banks




The Fed's primary function is to manage inflation



The Fed is accountable to the public and Congress



The Fed's funding comes from investments

 the balance

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# Role of the Federal Reserve



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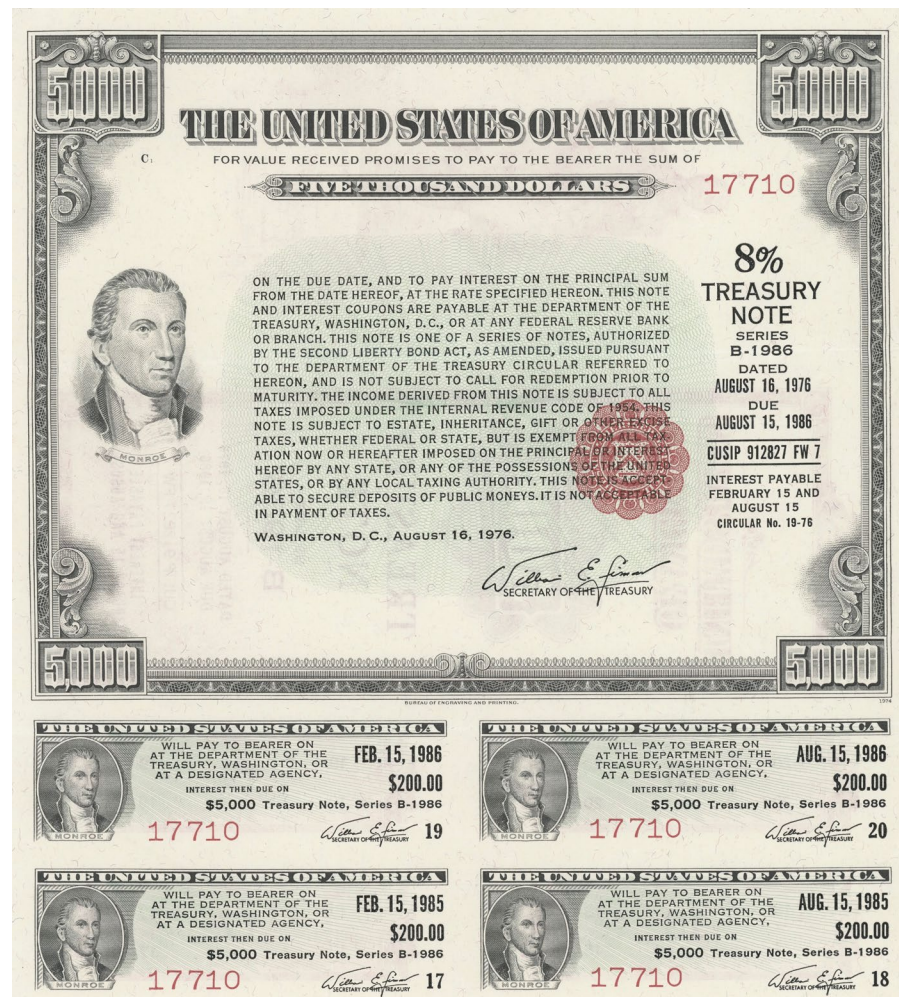
# Role of the Federal Reserve

- **Conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;**
- Promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- Promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;
- Fosters payment and settlement system safety and efficiency through services to the banking industry and the U.S. government that facilitate U.S.-dollar transactions and payments; and
- Promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations.

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# US Treasury Market

- Treasuries are debt issued by the United States Federal Government to finance operations
- They are considered the safest investment worldwide due to full faith and credit of US Government
- Approximately \$30.5 trillion in securities outstanding as of October 23, 2025
- The average daily trading volume is over \$1 trillion



# US Treasury Securities

US Treasury securities come in various forms, each with different characteristics and maturities



- Treasury bills (T-bills)
  - Short term debt with maturities of 1 year or less
  - Sold at a discount to face value and mature at face value. There are no periodic interest payments. Investors earn interest by buying the bills at a discount and receiving the full-face value at maturity.
- Treasury notes (T-notes)
  - Intermediate-term debt securities with maturities ranging from 2 to 10 years.
  - Pay semiannual interest payments based on a fixed coupon rate
- Treasury bonds (T-bonds)
  - Long-term debt securities with maturities ranging from 10 to 30 years.
  - Pay semiannual interest payments based on a fixed coupon rate.

# Florida State Statute 218.415

- Such policies shall be structured to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment returns shall be secondary to the requirements for safety and liquidity. Each unit of local government shall adopt policies that are commensurate with the nature and size of the public funds within its custody.

# Florida State Statute 218.415 (17)

- (17) AUTHORIZED INVESTMENTS; NO WRITTEN INVESTMENT POLICY.—Those units of local government electing not to adopt a written investment policy in accordance with investment policies developed as provided in subsections (1)-(15) may invest or reinvest any surplus public funds in their control or possession in:
  - (a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
  - (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
  - (c) Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in s. 280.02.
  - (d) Direct obligations of the U.S. Treasury.

# Florida State Statute 218.415 (16)

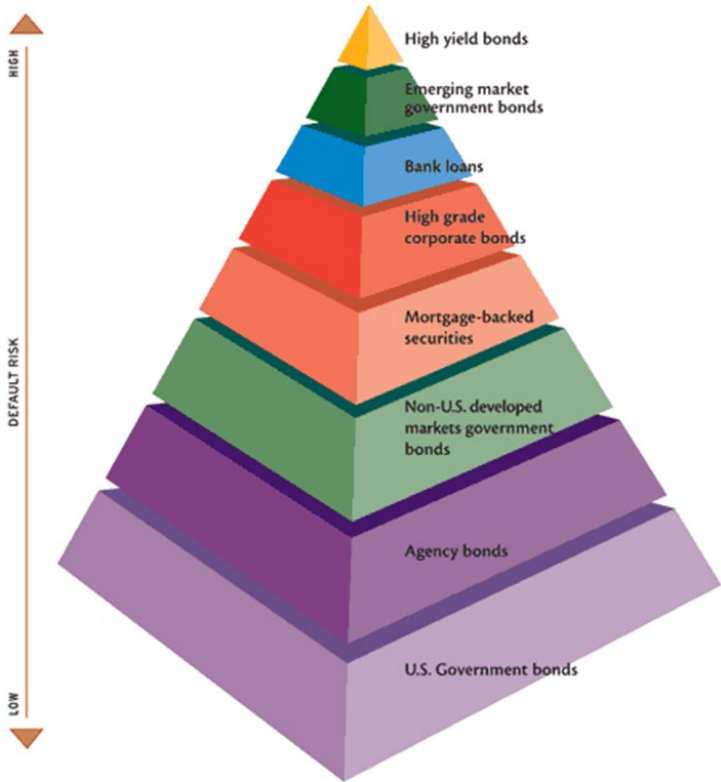
- (16) AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES.—Those units of local government electing to adopt a written investment policy as provided in subsections (1)-(15) may by resolution invest and reinvest any surplus public funds in their control or possession in:
  - (a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
  - (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
  - (c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.
  - (d) Direct obligations of the United States Treasury.
  - (e) Federal agencies and instrumentalities.
  - (f) Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.
  - (g) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
  - (h) Other investments authorized by law or by ordinance for a county or a municipality.
  - (i) Other investments authorized by law or by resolution for a school district or a special district.

# Florida State Statute 215.47

Allow for investing in the following (among other investment):

- (j) Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.
- (2) **With no more than 25 percent of any fund in:**
  - (a) Bonds, notes, or obligations of any state or organized territory of the United States or the District of Columbia; of any municipality or political subdivision or any agency, district, or authority thereof; or of any agency or authority of this state, if the obligations are rated investment grade by at least one nationally recognized statistical rating organization.
  - (b) Notes secured by first mortgages, insured or guaranteed by the Federal Housing Administration or the United States Department of Veterans Affairs.
  - (c) Mortgage securities which represent participation in or are collateralized by mortgage loans secured by real property. Such securities must be issued by an agency of or enterprise sponsored by the United States Government, including, but not limited to, the Government National Mortgage Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.
- (4) With no more than 80 percent of any fund, in interest-bearing obligations with a fixed maturity of any corporation or commercial entity within the United States.

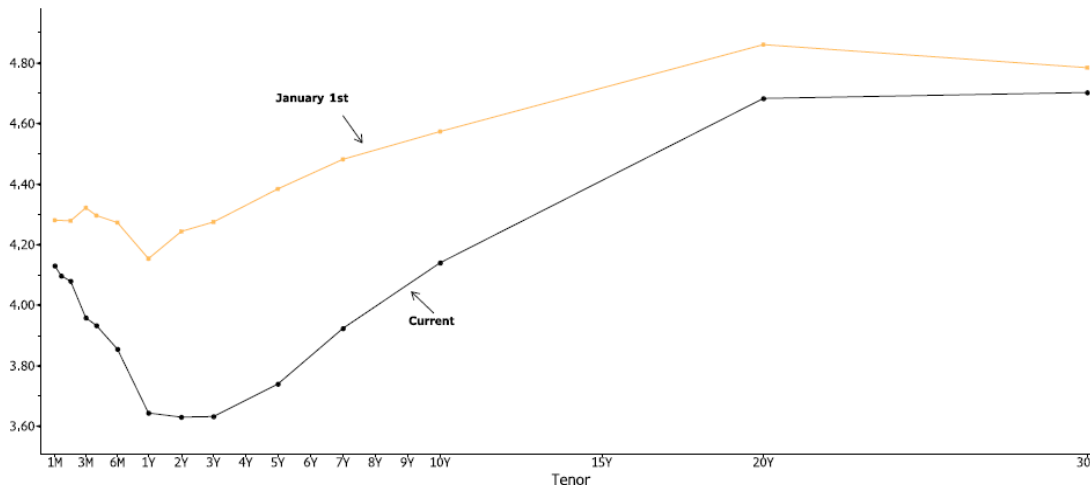
# Type of Bonds



There are many different types of bonds:

- U.S. Treasury Bonds – issued by the U.S. government, considered a safe investment
- Agency Bonds – issued by agencies of the U.S. government or government sponsored enterprises.
- Municipal Bonds – issued by states, cities, counties, etc. to fund public projects. Taxable and non-taxable
- Corporate Bonds – issued by corporations

# US Treasury Market



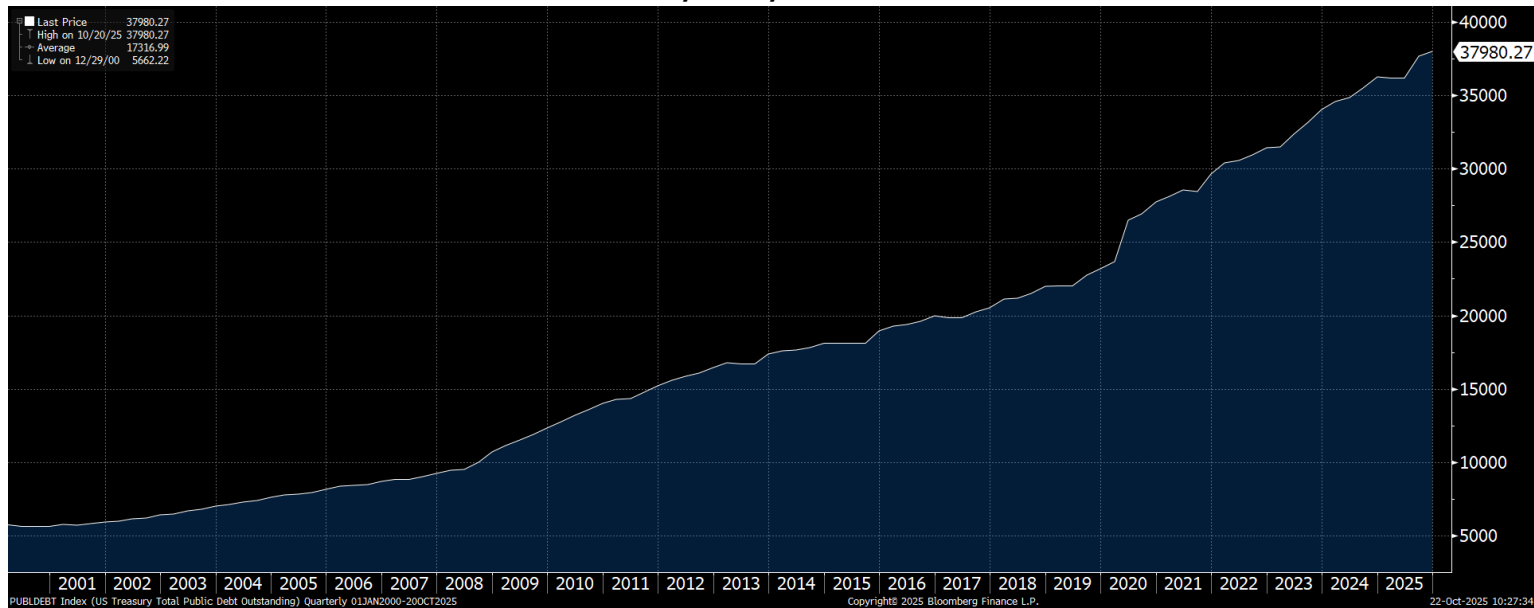
- Primary issuance auctioned from the U.S. Treasury
- Secondary markets traded between market participants via broker dealers
- Most liquid market worldwide
  - Very narrow bid ask spread
  - Small impact when buying or selling into the market
- Pricing or yields change based on interest rates, inflation expectations, economic news, and fiscal policy

# US Treasury Auction

- 1. Announcement:** Auctions are public, announced in advance and are held regularly – weekly for T-Bills, monthly/quarterly for others. Details like auction date, amount, issue dates, maturity, settlement date and more are provided.
- 2. Bidding Process:** Investors submit bids before the auction closes. Bids can be submitted directly through Treasury Direct or through banks and brokers.
  - Competitive Bids: For larger institutions that specify the exact rate they want. They may get some, all or none of what they ask for depending on how their bid compares to others.
  - Non-Competitive Bids: Accepted first and are bids from individual investors who accept whatever the rate the auction sets.
- 3. Execution & Issuance:** On auction day, the yield is set by sorting all competitive bids from lowest to highest, then matching bids until the total amount the Treasury wants to sell is reached (after for accounting for the value of the non-competitive bids). The highest accepted yield to fill the offering needs becomes the yield for everyone. Securities are then issued and delivered to accounts and payments from participants are debited.

# US Treasury Debt

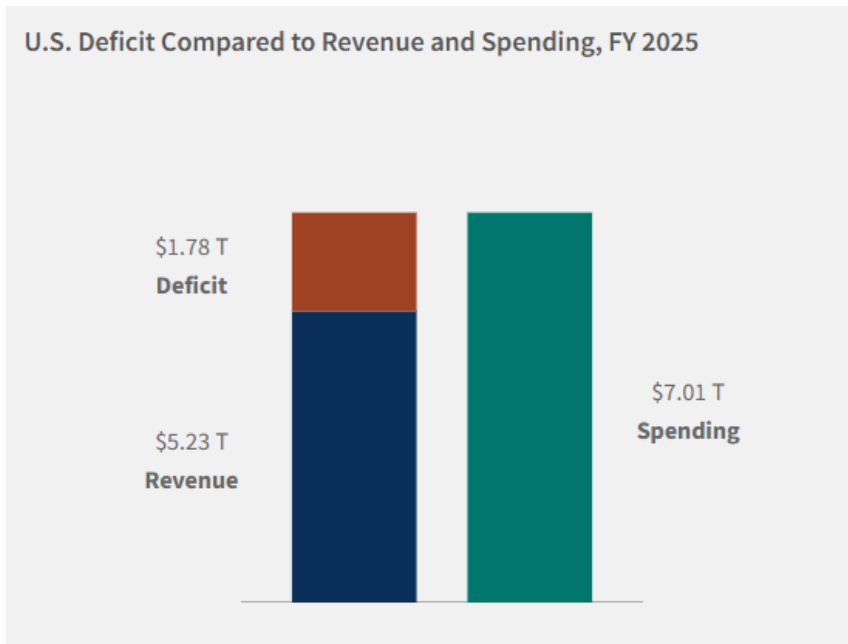
The US National debt is approximately \$37.98 Trillion as of 10/24/2025



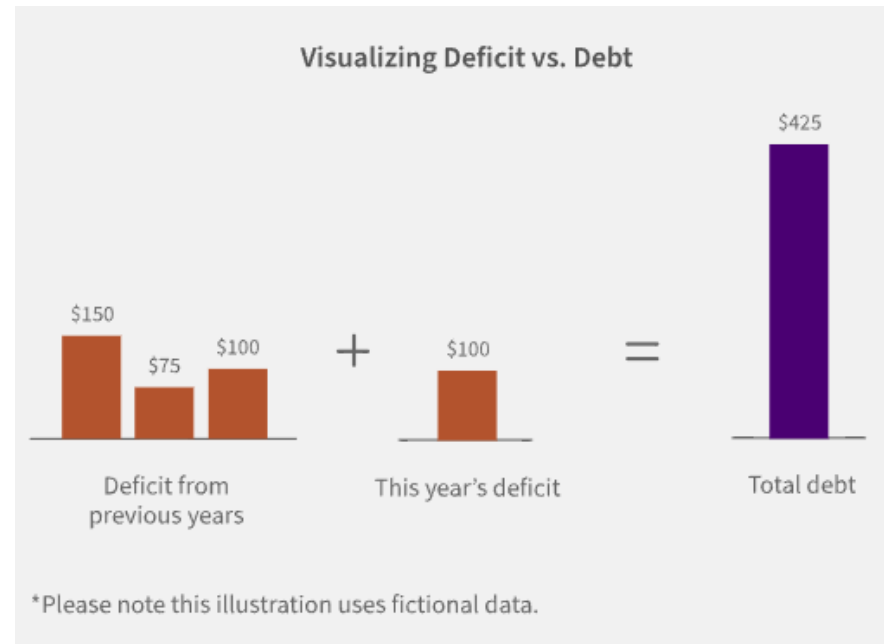
We fund this debt through the sale of UST securities via Auctions

# US National Deficit: Driving Debt Issuance

The Federal deficit arises when government spending exceeds revenue in a fiscal year



Deficits from previous years are added to the current year's deficit to equal total debt.

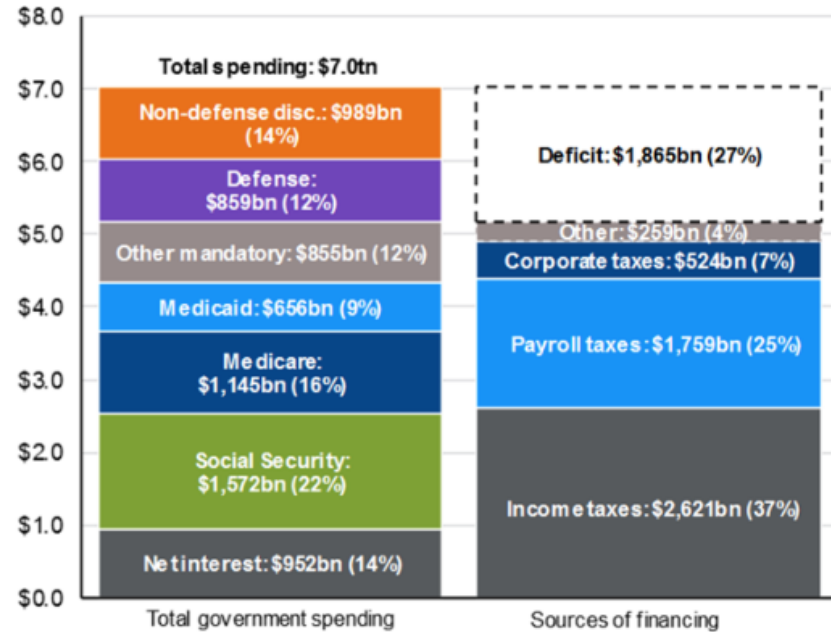


The illustration on the right is simplified to show how debt and deficit are different. In reality, the U.S. government must pay interest on the national debt. This interest expense increases spending each year, widening the deficits further.

# US National Deficit: Driving Debt Issuance

## The 2025 federal budget

USD trillions



## CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

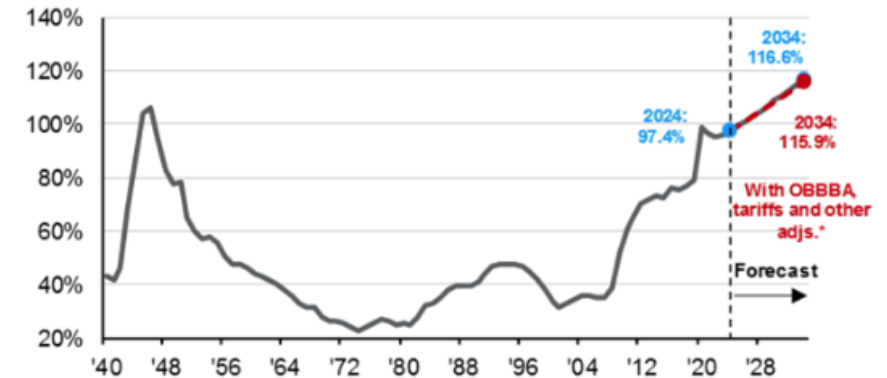
## Federal deficit and net interest payments

% of GDP, 1973 - 2034, CBO Baseline Forecast



## Federal net debt (accumulated deficits)

% of GDP, 1940 - 2034, CBO Baseline Forecast, end of fiscal year



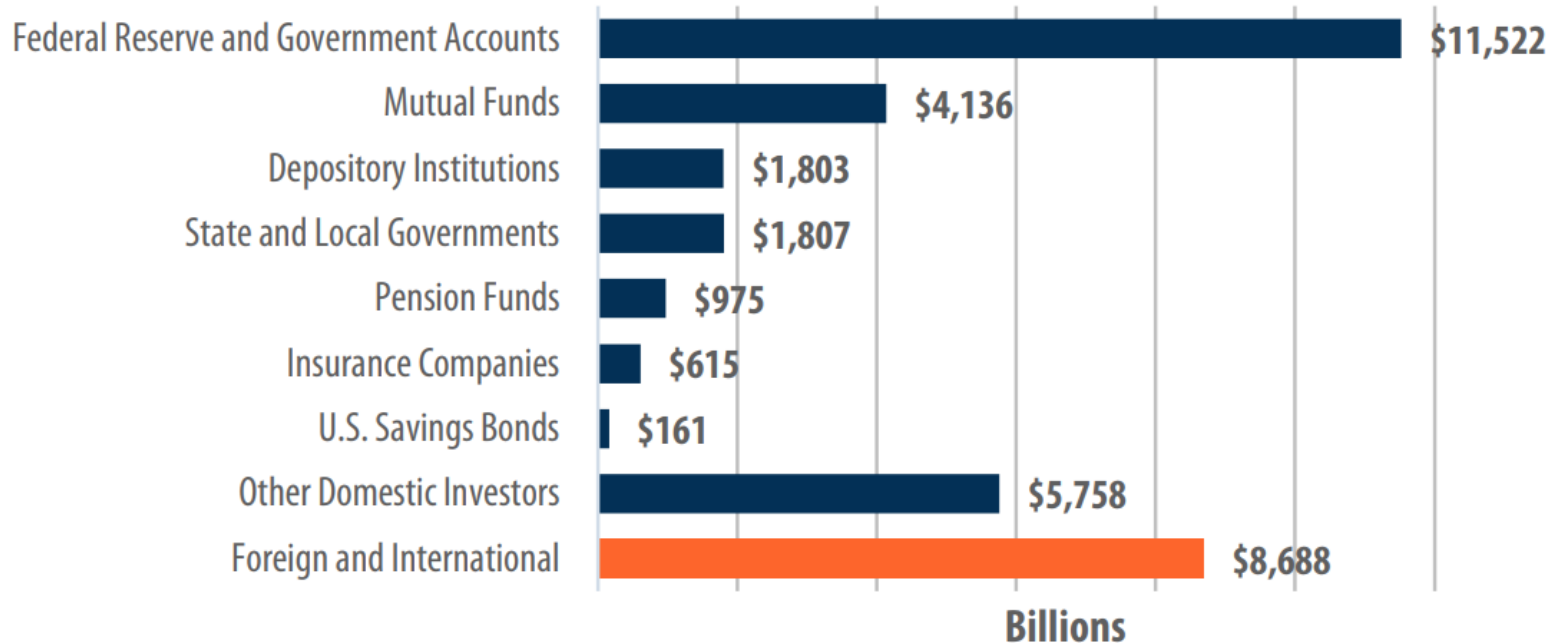
# US National Deficit: Driving Debt Issuance

Since 2001, the federal government's budget has run a deficit each year. Starting in 2016, increases in spending on Social Security, health care, and interest on federal debt have outpaced the growth of federal revenue. Interest expense alone is now over 1 Trillion dollars per year.



# Who owns the US National Debt

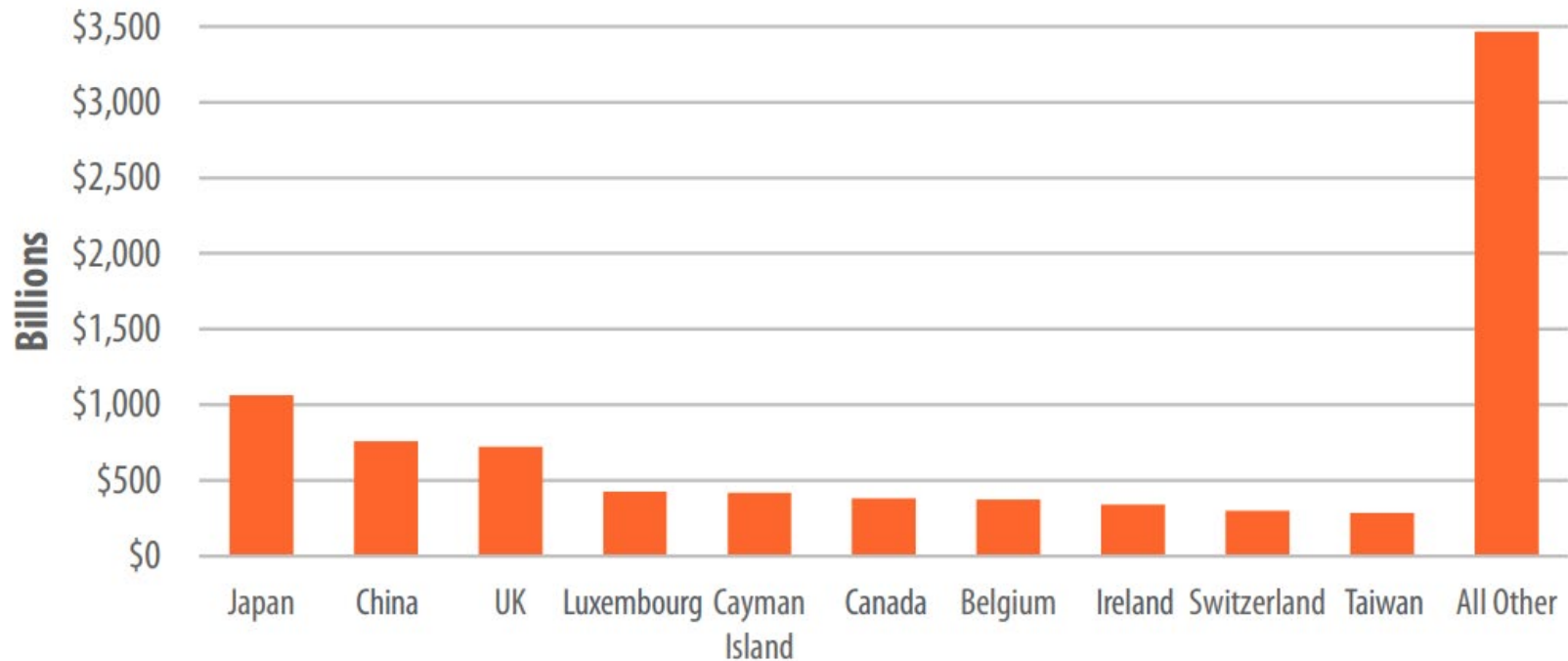
## U.S. Federal Debt Ownership by Category



Source: Treasury Department, First Trust Advisors. Data as of Q3 2024. Other domestic investors include individuals, government-sponsored enterprises, brokers and dealers, bank personal trusts and estates, corporate and non-corporate businesses, and other investors.

# Who owns the US National Debt

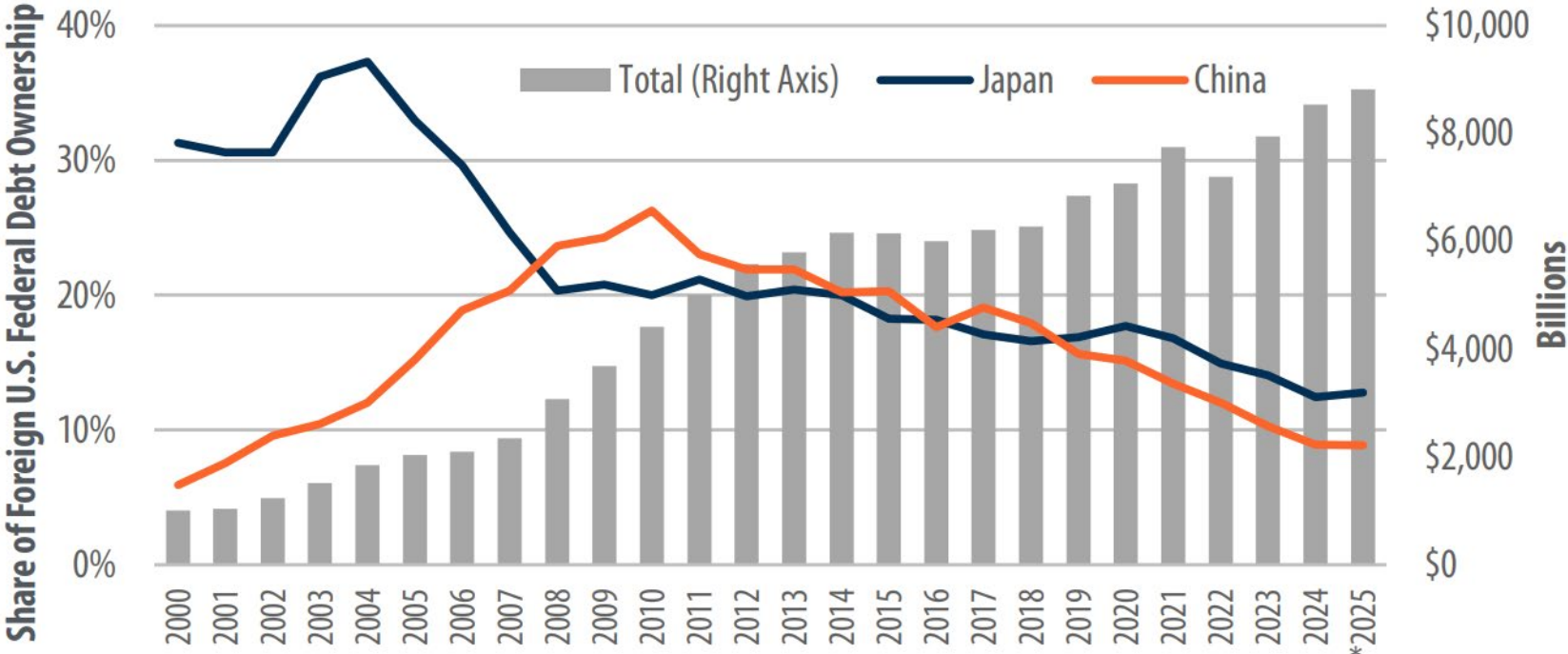
## Major Foreign Holders of U.S. Federal Debt



Source: Treasury Department, First Trust Advisors. Data through end of 2024.

# Who owns the US National Debt

## Foreign Ownership of U.S. Treasuries Hits Record High



Source: Treasury Department, First Trust Advisors. Annual end of period data from 2000-2024. \*2025 data through the end of February.

# Benefits and Risk

## Benefits

Near-Zero Default Risk: Backed by the US Government, which can print money or issue more debt to repay if needed.

High Liquidity: Easily bought/sold in a deep market, available.

Safe Haven Status: Globally recognized as premium collateral, providing stability in economic uncertainty.

Competitive Yields: Often better yields than bank deposits or CDs for similar liquidity/tenor.

## Risks

Interest Rate Risk: Bond prices fall if rates rise, potentially leading to losses if sold early

Inflation Risk: Fixed yields may erode purchasing power if inflation outpaces returns

Opportunity Cost: Lower potential returns compared to riskier assets like corporate bonds, mortgage securities, stocks and more.

Reinvestment Risk: Maturing bonds may be reinvested at lower rates in a declining rate environment.

# Cash Management



Procurement of Financial Services GFOA recommends that:

- Governments review their financial services contracts every five years and use a competitive process for the procurement of financial services. Governments rely on a variety of vendors to provide essential financial services, including:
  - Banking services
  - Trustee/custodial
  - Securities broker/dealer
  - Underwriting and other debt related services
  - Financial advisory
  - Merchant services
  - Investment advisory services

These industries are subject to constantly changing regulations, technologies, and market conditions. As a result, governments must provide regular due diligence of all financial service providers. Part of ongoing due diligence includes regular competition for the procurement of services.

GFOA recommends that governments review their financial services contracts every five years and use a competitive process for the procurement of financial services. A competitive procurement process provides an **opportunity for the government to obtain market competitive rates** and negotiate preferable terms and conditions and/or service enhancements in financial service contracts

# Cash Management

The changing economic environment highlights the importance of regularly evaluating the performance of cash held in depository accounts

- With the Federal Reserve lowering interest rates, treasury departments may consider changing cash management strategies to take advantage of potential decreased returns on deposits.
  - ECR's typically are not tied to any index or market rate but rather "managed" by the bank.
  - It is necessary to understand the terms of the ECR, bank specific fees and adjustments to how the earnings credits are calculated to effectively manage bank balances.
    - Bank services and fees can be difficult to identify due to variance in the name of the fee such as FDIC Assessment Fee or Balance Based Service Fees and varies bank to bank.
    - Some banks impose a Reserve Requirement which reduces the amount of the balance available to calculate the ECR.
    - Because Earnings Credits can only be used to offset bank fees, banks can recover a higher ECR by raising the charges for cash management and treasury services.

During a period of lower rates, higher bank balances may be required to offset fees. A great time to evaluate utilizing a daily liquidity investment vehicle such as a LGIP, allowing for the opportunity to earn higher interest earnings to then use to offset bank fees.

# Borrowing Costs

- As the U.S. government's debt grows, it can push up long-term interest rates, which increases the cost for all borrowers, including local governments.
- The yield on the 10-year Treasury note has a significant impact on homeowners' borrowing costs because fixed-rate mortgages closely track this yield.



Source: Federal Reserve; Freddie Mac

# Summary

- The US Treasury Department is the steward of the U.S. economic and financial systems
- The U.S. Treasury Market is the largest, safest, most liquid market in the world.
- U.S. Treasuries are sold on the primary market to fund the federal budget deficit.
- The largest holder of the U.S. federal debt is the U.S. Government
- The Treasury market effects cash management and borrowing cost

# Questions



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## René O'Day

*Director of Florida Client Relationship Management & Investments*

38 Years Investment Experience

René O'Day is a seasoned investment strategist and financial advisor to Florida's local governments, bringing more than 38 years of experience in public finance. She specializes in delivering investment solutions that prioritize safety, liquidity, and performance—all while maintaining the highest standards of ethics and transparency. René has built long-term partnerships with cities, counties, and special districts across Florida, helping to grow investment programs, enhance fund performance, and align financial strategies with each entity's unique goals. Her approach is built on trust, accountability, and results.

Before joining Deep Blue Investment Advisors, René served as Director of Investment Services at Public Trust Advisors and Senior Vice President at PMA Financial Network. Her decades of experience have deepened her expertise in the Florida market, treasury management, government-held bank debt, operations, cash flow analysis, and public sector investments.

René is a proud mother of two sons, both raised in Florida. She holds her Series 7 license and is deeply committed to empowering government finance leaders through education, collaboration, and strategic insight. She currently serves as Florida's President of Women in Public Finance, championing the advancement and support of women in the industry.

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### PRESENTERS' BIO

René  
O'Day



## PRESENTERS' BIO

# John Scott

## John Scott, CTP

*Client Advisory Associate*

2 Years Investment Experience

John Scott is a Client Advisory Associate at Deep Blue Investment Advisors. John plays a key role in supporting the Client Advisory team, specializing in cultivating new and existing client investment relationships with an emphasis on separately managed accounts and Florida Fixed Income Trust (FL-FIT) investment pools.

Before joining Deep Blue, John dedicated fourteen years to teaching mathematics. He transitioned into the wealth management sector as an Operations Analyst at Members Trust Company, where he honed his account management and client service acumen. His background in education paired with these skills makes him a valuable and dynamic asset to our team

John holds a Bachelor of Science degree in secondary mathematics education from St. Petersburg College. He currently holds a FINRA Series 65 license. He earned the Association of Financial Professionals (AFP) designation of Certified Treasury Professional (CTP).

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