

How to Set Up an Investment Plan for Small to Medium Governments

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FGFOA School of Governmental Finance

St. Augustine, Florida

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Outline

- I. Best Practices – Public Funds Investments
- II. Investment Approach
 - A. Small to Medium Government Approach
 - B. Small to Medium Government Example
- III. Recommendations
- IV. Appendix
 - A. Bio



Best Practices

Public Funds Investments

- Suitability
 - Risk return tolerance
 - Industry rules demand “know your client”
 - Objectives and your responsibility, understand the investment
 - Unique characteristics and today’s challenge of limited time to analyze and manage
- Diversification
- Stewardship
- Cash Flow Analysis
- Maturity Term (max 3-10 yrs.)



Suitability

Key Issues Include:

- Everyone is different, there is no “copy-cat plan”
- Understand what you, your boss, and elected or appointed officials understand
- DO NOT invest in anything that you can not explain in 5 minutes or less
- Keep it simple
- Match your ability to monitor and report with you and your team’s experience and availability



Diversification

Key Issues Include:

- Set objectives and keep it simple to maintain
- Do not put your eggs in one basket
- Err on being conservative and liquid
- Protect principal versus chasing yield
- Utilize investment ratings to create boundaries
- Maximum terms for various investments
- Seasonality of cash balances



LGIP NAV Options

Stable NAV

- Maintain \$1 in/ \$1 out
- Highest S&P rating is “AAAm”
- Short-term
- WAM for LGIP is < 60 days
- WAM for MMF is < 90 days
- SBA-A shares (Prime)
- FL SAFE SNAV, FL CLASS, FL PALM
- Day to Day Fund
- MMF’s

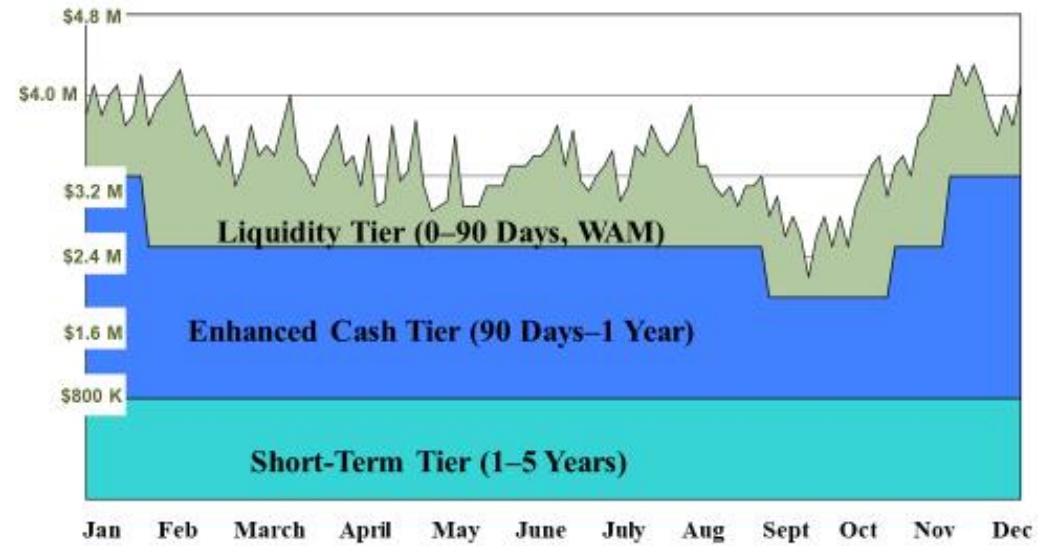
Variable NAV

- Designed to fluctuate to increase yield
- Highest S&P rating is “AAAf”
- Highest S&P volatility rating is “S1+”
- Medium to long term
- WAM for bond fund > 90 days
- FMVT, FLGIT, FL FIT, FL SAFE VNAV, Core Fund



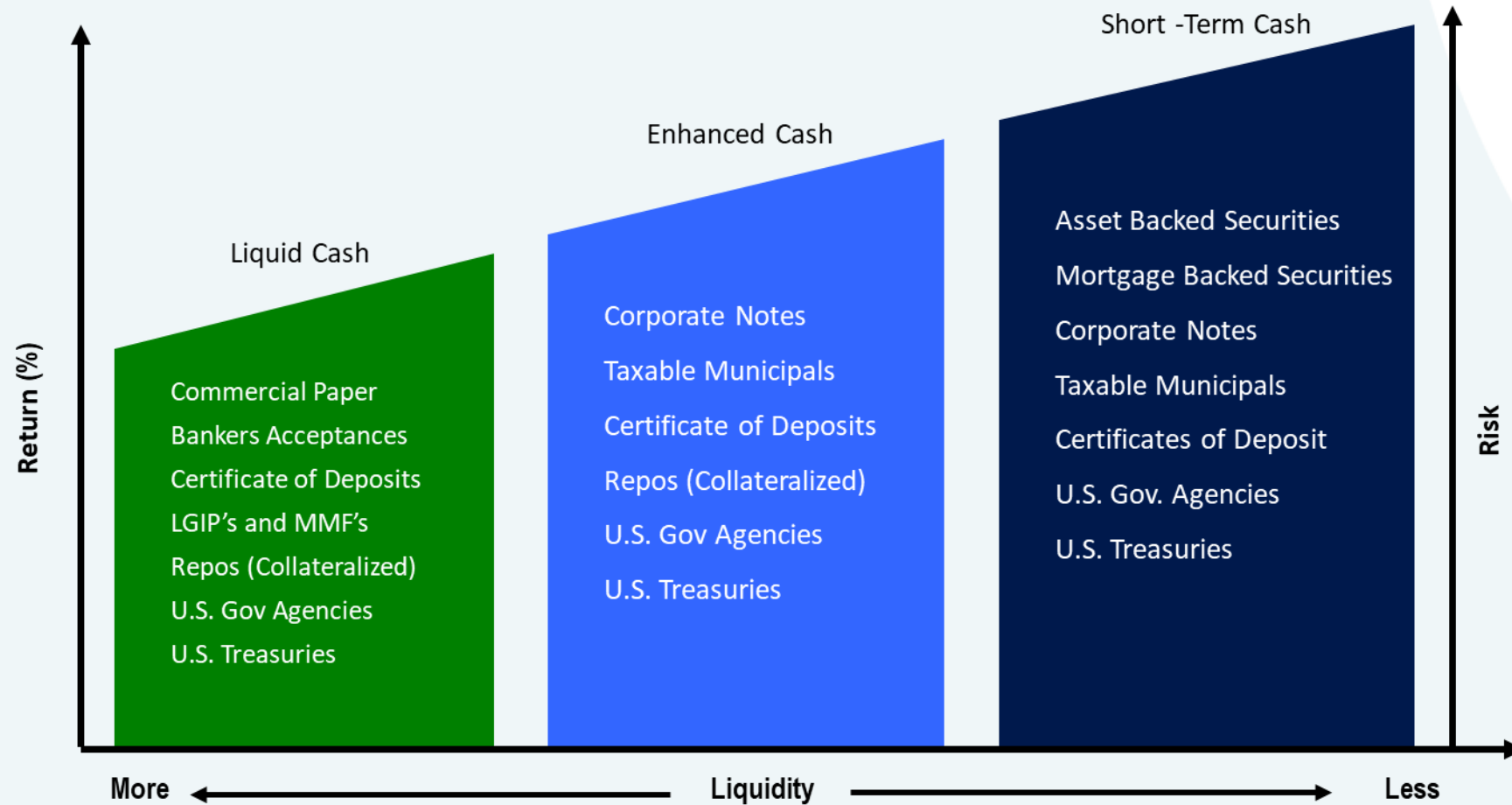
Operating Funds

Core Funds



Investment Tools & Options

Portfolio Allocations by Time Horizon



Stewardship

- You are a manager, not an owner
- Investments should be well managed with clear goals, parameters, processes, and controls
- Public funds management should be transparent
- You are a fiduciary and the interests of your local government outweigh your own
- Build knowledge depth in your staff
- Review Investment Policy, portfolio, and approach regularly



Cash Flow Analysis

- What is it?
- Suggestions include
 - Review 5 to 7 years of Audits to track unrestricted and restricted cash and investments
 - Look for trends
 - Focus on 3 key areas
 - Funds at local bank(s), bills, payroll
 - Review bank “break-even” analysis
 - Liquidity
 - Core Funds



II. Investment Approach

A. Small to Medium Government Approach

- Process begins with review of permitted and current investments
- Step 1
 - Immediate Cash Flow needs
- Step 2
 - Support “short-term” Cash flow needs, additional liquidity
- Step 3
 - Develop approach for longer term “core funds”



Typical Investment Choices Per Florida Statutes⁽¹⁾

- Bank checking account, money market
- Bank QPD CD's – F.S. 280
- Local Government Investment Pools - “LGIP's”
- U.S. Treasuries or U.S. Agencies

(1) Permitted investments per F.S. 218.415 if no local government investment policy



Step 1

How to Determine Appropriate Level of Immediate Cash Flow Needs

- GFOA Best Practices

- Target 2 to 3 months of annual operating expenses
- If annual operating expenses = \$33 Million, then 2 to 3 months sets range of \$5.5 Million to \$8.5 Million
- Keep that amount at local bank, QPD, review overnight investment rate
- Monitor levels
- Review local banking agreement



Step 2

Support Short-term Cash Flow Needs, Additional Liquidity

- Determine annual portion of current 5-year CIP Plan – set aside funds
- Cushion to match state or local grants
- Set aside ARPA, CARES ACT Funds
- Set aside grant funds
- Determine emergency reserve
- Set aside additional cushion for unexpected needs of management and elected officials



Step 3

Approach to Investing Core Funds

- Total funds (est. \$25 Million) less
 - Overnight liquidity at bank (est. \$5.5 Million)
 - Other liquidity (est. \$5.5 Million)
- Equals Core Funds (est. \$14 Million) for two to five plus years
- Options



Step 3

Approach to Investing Core Funds

- Example \$14 Million
 - Option 1
 - Leave overnight, lose out on potential yield curve advantages and returns
 - Option 2
 - Create an investment ladder out two to three years
 - Investment options currently include
 - QPD CD's
 - U.S. Treasuries & U.S. Agencies



II. Investment Approach

Small to Medium Government Example

- **Overview of Inverness**
 - In Citrus County, on Gulf Coast, north of Clearwater
 - Incorporated in 1917
 - Population est. 7,200, 7 square miles
 - Managing FTE's, outsourcing, PPP's
 - City achieved initial underlying ratings of "A+" (Fitch) and "A" (S&P), recently upgraded to "AA-" (S&P)
 - Government Services Include:
 - CRA, Development, Cultural and Recreation, Public Safety, Roads and Streets, Parks, Cemetery, Water, Sewer, Reclaimed Water, Stormwater, General Government



Investment Approach

- Finance Director reports to City Manager
- Finance Director is also CRA Board Treasurer
- Annual Budget of approximately \$84 M
- Five-year Capital Improvement Program
- Cash and Investment Portfolio of approx. \$67 M
- Limited resources and time
- Fiscal year 2024-25 Mileage Rate: 7.76 mils
- Historical approach works again
- Due to shifting yield curve, just restarted laddering approach paused in 2022

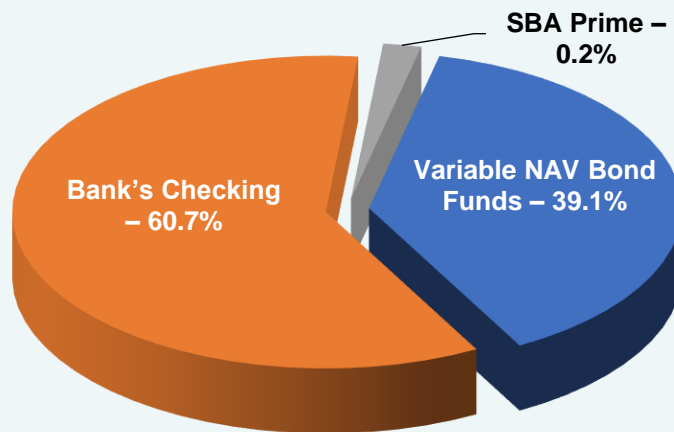


Inverness' Investment Approach

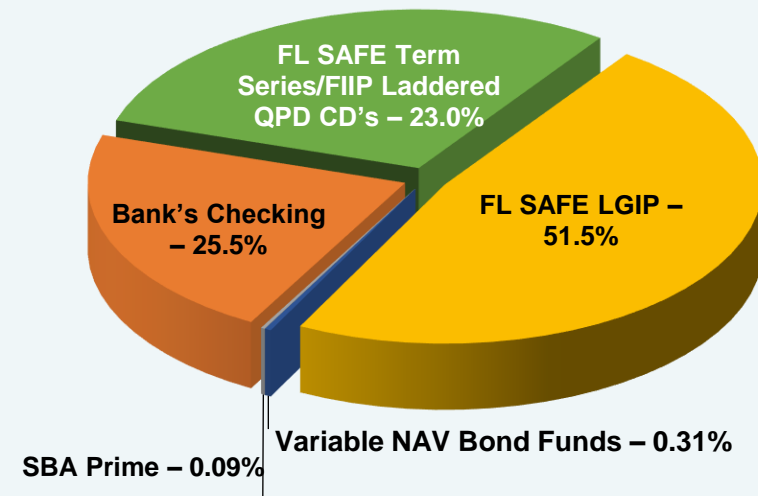
- Finance Director in 2013 started reviewing its existing banking arrangements and investments with its Financial Advisor.
 - Discovered that City could achieve greater portfolio diversification and improve returns, adopt some key objectives
- Updated Investment Approach in 2015, Reviewed Investment Policy, follows F.S. 218.415, set simple targets, conservative, adjust to market

PORTFOLIO COMPOSITION ⁽¹⁾

Before (September 2014)



As of December 2019 ⁽²⁾⁽³⁾



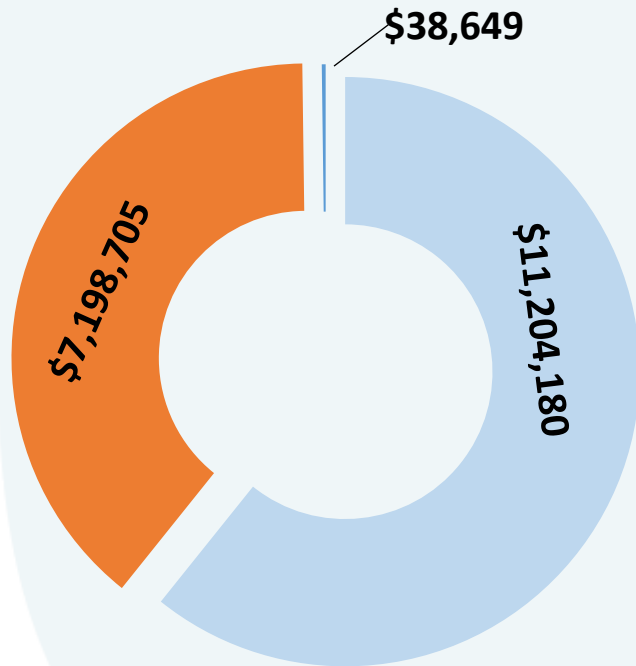
- (1) Source – City of Inverness, Finance Department.
- (2) City receives monthly FL SAFE Portfolio Report
- (3) Bank balance represents approx. 3 months of operating expenses.



City of Inverness

BEFORE (September 2014)

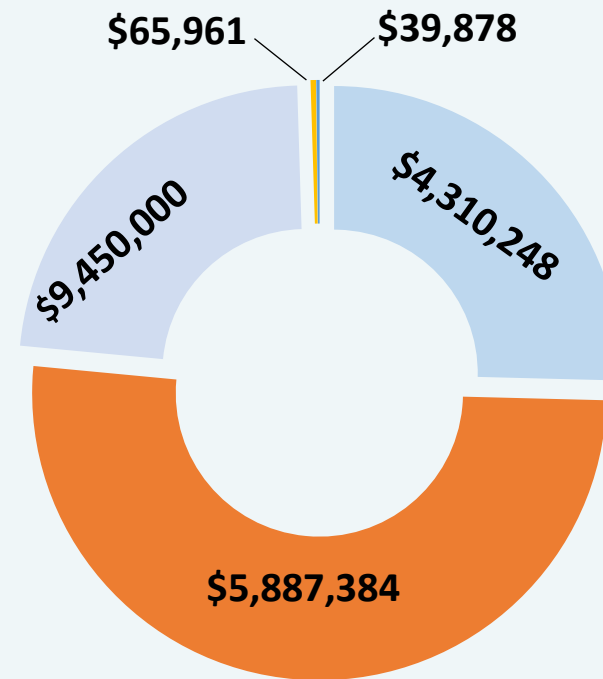
\$18,441,534



- Bank - Checking (60.7%)
- Bond Funds - (39.1%)
- SBA - (0.2%)

AFTER (December 2019) ⁽²⁾

\$21,652,384



- Bank - Checking (25.5%)
- FLSAFE LGIP (51.1%)
- FLSAFE QPD/Term Series Ladder (23.0%)
- Variable NAV Bond Funds (0.31%)
- SBA Prime (0.09%)



(1) Source – City of Inverness Finance Department, approximate Bank, SBA, and SNAV balances as of December 2019.

(2) Excludes CRA Restricted Surplus Fund, City contribution to 2017 CRA Projects, 2017 Bond Proceeds.

Ladder Example

U.S. Treasuries - \$14 Million (as of Sep. 27, 2024⁽¹⁾)

<u>Term</u>	<u>Yield (Indicative)</u>
1 month	4.90%
2 months	4.87%
3 months	4.68%
4 months	4.64%
6 months	4.35%
12 months	3.90%
24 months	3.55%
36 months	3.49%
60 months	3.50%

(1) After initial Fed Funds cut of 0.50% on September 18, 2024.

(2) 7 Day effective LGIP note of 5.06% as of September 29, 2024.



Benefits of Laddering

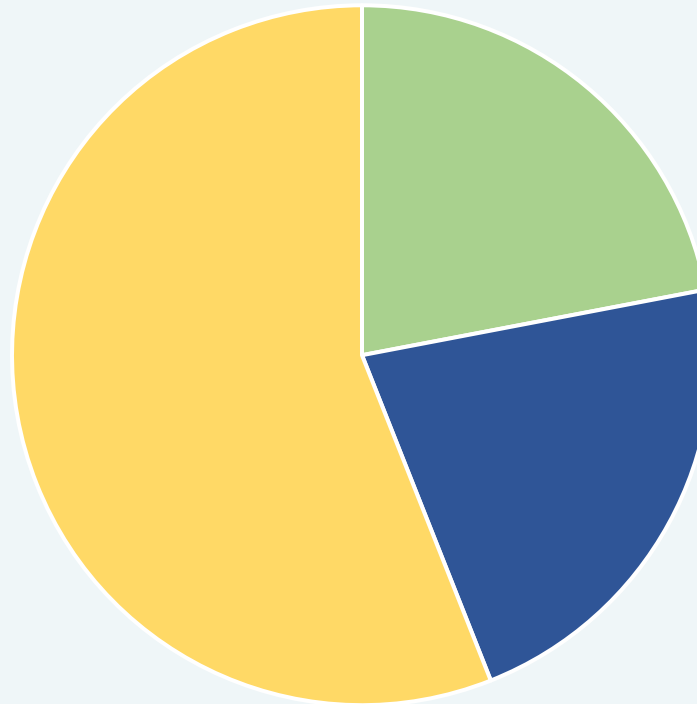
- Establishes simplified and manageable approach to diversify your core funds into different periods
- When funds mature, you can either return cash to more liquid portions of portfolio if needed, or reinvest at end of ladder
- Not guessing on direction of rates
- Typically benefit from upward sloping yield curve
- Helps lock in investment yields, hold to maturity
- Conservative, defensible fiduciary approach



Net Portfolio Approach

Total: \$25 Million

Bank: \$5.5 Million
LGIP's: \$5.5 Million
Core Funds: \$14 Million



■ Bank ■ LGIP's ■ Core Funds



III. Recommendations

- Review Investment Policy
- Importance of Cash Flow Analysis
- Update Investment Approach Given Market Changes, Federal Reserve Action
- Awareness of New ESG Legislation Regarding QPD Banks
- Remember Laddering
- Gather ideas from comparable local governments



III. Recommendations

- Determine if External Help is Needed, What Services are Available
- Good Time to Review Banking Relationship, Agreement
- Update Investment Policy
- Develop Understanding and Knowledge of Finance Staff
- Develop Solid Reporting to Management and Elected Officials
 - Quarterly Reporting
 - Annual Audit or ACFR



Questions?



IV. Bio

- Jeffrey T. Larson



Jeffrey T. Larson

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Based in Orlando, and as President of Larson Consulting Services (“LCS”), an independent SEC and MSRB registered financial advisory firm, Jeff has successfully closed a wide range of municipal project finance and corporate financings totaling over \$10 billion. Florida projects have ranged from negotiating and structuring transportation/road improvement programs, higher education project financings, multiple utility acquisitions, extensive water and wastewater capital expansions, investments support services, economic development and redevelopment initiatives, utility enterprise restructurings, refinancing and restructuring, downtown redevelopment, CRA TIF financings, debt and lease purchase private placements, multiple public/private partnership project finance issues, multiple phased Charter School financing, and a \$240 Million University / Developer PPP Project financing. In May of 2011, Jeff and FMAS was asked by the AAAM rated FL SAFE Local Government Investment Pool (“LGIP”), to serve as its Administrator and Executive Director. He has served many Florida governments since 1992 as an Investment Banker, Financial Consultant, Administrator, or Financial Advisor.

Prior to establishing LCS and FMAS, Jeff managed D.A. Davidson’s Southeast Regional Investment Banking Office. Prior to joining D.A. Davidson, Mr. Larson was the S.E. Regional Director Investment Banking and Consulting Services with Kirkpatrick Pettis, the investment banking arm of Mutual of Omaha, the Managing Director for Stifel Nicolaus/Hanifen Imhoff, and a Vice President, Investment Banking for SunTrust Capital Markets in Orlando, Florida. Recruited by these firms, he specialized since 1992 in Florida with the structuring and marketing of a variety of public finance and capital markets products. Prior to that, he spent ten years with C & S/Sovran in Atlanta and Barclays Bank PLC in Atlanta and San Francisco as a corporate finance, large corporate/Fortune 500, and Middle Market Banker.

Mr. Larson received his MBA degree on an academic scholarship from Emory University, Atlanta, Georgia, in 1982. As part of his MBA graduate work, Mr. Larson worked, studied and taught in Germany and Austria and was a Fulbright Scholar at the Johannes Kepler University in Linz, Austria. He received an A.B. in Business Administration with honors in 1980 from Franklin & Marshall College, Lancaster, PA. Mr. Larson’s professional licenses with the Securities and Exchange Commission (“SEC”) and Municipal Securities Rulemaking Board (“MSRB”) including a Series 50 Municipal Advisor and Series 54 Municipal Advisor Principal.

Jeff is a frequent speaker at industry conferences including the annual FGFOA, FCCMA, Florida Bond Buyer, FICPA, Florida Redevelopment Association (FRA), Florida Bar Association, Florida League of Cities, Ernst & Young Professional Development Conference, FGFOA Webinars, FINRA, Regional FGFOA Chapter meetings, FGFOA Career Seminars, Smith’s National Investor Conference, Annual FGFOA Institute (School of Governmental Finance) and Special District conferences on topics ranging from “the Bond Issuance Process”, “Best Practices in Debt Management”, “Best Practices in Investment Management”, “Planning and Capital Financing”, to “Public-Private Partnership Financings.” Jeff has also served as a member of the FGFOA Annual Conference Program Committee for over 20 years.



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- Tribal Finance
- Healthcare Finance
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- Developer Project Negotiations
- Arbitrage Support
- Workforce Housing
- Project Financings
- Utility Financings
- Public Private Partnerships
- School Districts
- Project Consulting Services
- Lease-Purchase Financings
- Internet-Based Public Sales
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- State Governments
- Utility Acquisition Analysis
- Refundings and Restructurings

