



# Public Funds Investing 101

2024 Wisconsin Public Finance Seminar

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# Today's Objectives

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Your Role



Investment  
Basics



Investment  
Policies



Common  
Investment  
Options



Public Funds Investing 101

# YOUR ROLE

# Rules of Prudence & Standards of Care

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Investments shall be made with judgment and care under circumstances 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.

*- GFOA Financial Policies, Shayne C. Kavanagh*

# Your Primary Responsibilities

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Understand  
applicable state  
statutes & internal  
policies

Determine who will  
be responsible for  
investment  
program

Assemble &  
oversee portfolio  
management team  
(internal, external  
or combined)



Public Funds Investing 101

# INVESTMENT BASICS

# Investment Basics

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## Basic Terms

- Good to know before you buy

## Common Market Players

- Where do you purchase investments?

## Safekeeping

- Where you hold Investments

## Cash Management

- Which funds are available to invest?

# Liquidity

The background of the slide is a light blue surface with several concentric ripples from water droplets. The ripples are most prominent in the lower half of the image, with one large set on the left and two smaller ones on the right. The overall effect is a sense of fluidity and movement.

The ease with which an investment can be bought or sold at stated market value and considering transaction costs



# CUSIP

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- Committee on Uniform Securities Identification Procedures
- Unique, nine-character identification method for most registered securities



# Par Value

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**Principal or Face Amount:**  
The stated value of an investment (AKA par)



# Maturity

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The stated date upon which the issuer must pay the principal balance to security holders

- Bullet
- Periodic/Amortizing



# Optional Redemption

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## “Call” Date:

- Issuers may retain right to pay off bonds – at face or premium value – PRIOR to stated maturity
- Some callable securities require issuer make bondholders “whole” for foregone interest if exercising optional redemption
  - ✓ Pay bondholders present value of remaining interest

**Call Date:**  
July 1, 2022

2 years' foregone interest

**Maturity Date:**  
July 1, 2024

# Coupon & Yield

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**Coupon:** The stated interest rate issuers pay bondholders

Fixed  
Variable



**Yield:** The measure of investor return considering all net cash flows while holding security

May or may not be guaranteed  
Yield **MAY NOT** equal coupon

# Discount vs Premium

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## Discount

- Amount paid for a security below face or par value

## Premium



- Amount paid for a security in excess of face or par value



# Credit Rating

- Independent credit risk rating applied to securities

## Credit Ratings Scale

MOODY'S	S&P	FITCH	DESCRIPTIONS	GRADE
Aaa	AAA	AAA	Highest credit quality, minimum credit risk	 INVESTMENT
Aa	AA	AA	Very high credit quality, very low credit risk	
A	A	A	High credit quality, low credit risk	
Baa	BBB	BBB	Good credit quality, moderate credit risk	
Ba	BB	BB	Issuer faces adverse conditions and uncertainty, substantial credit risk	 HIGH YIELD (or "Junk")
B	B	B	High credit risk, issuer able to meet financial commitments	
Caa	CCC	CCC	Vulnerable and default likely	
Ca	CC	CC	Issuer is highly vulnerable or near default	
C	C	C	Lower ratings, issuer in default	
	D	RD	Lower ratings, issuer in default	
		D	Lower ratings, issuer in default	

# Putting it all Together

91282CDZ1 T UNITED STATES TREASURY NOTES ... 1.500% 02/15/25 TREA

Ratings: Aaa/-      Next Call: NC      Cpn Type: Fixed      Issued (MM): 80,248.1  
 Min/Den: 0/0      Cpn Freq: Semi-Annual      Outstd (MM): 80,247.9

Attributes:      Cpn Detail:

## Ticket Details

Trader ▼

Side	Sell ▼
Quantity (000s)	100 ↕
Price	96.648658 ↕
Concession (Add)	0 ↕
Fee	0 ↕
Yield	4.84 ↕
Settlement	01/31/24 📅

## Worksheet

Price	\$96.648658
Principal	\$96,648.66
Accrued (169 Days)	\$688.86
Net Money	\$97,337.52
Fee	\$0.00
Total Money	\$97,337.52
Ttl Sales Credit	\$0.00

## Characteristics

%Yield

Tax Equiv.

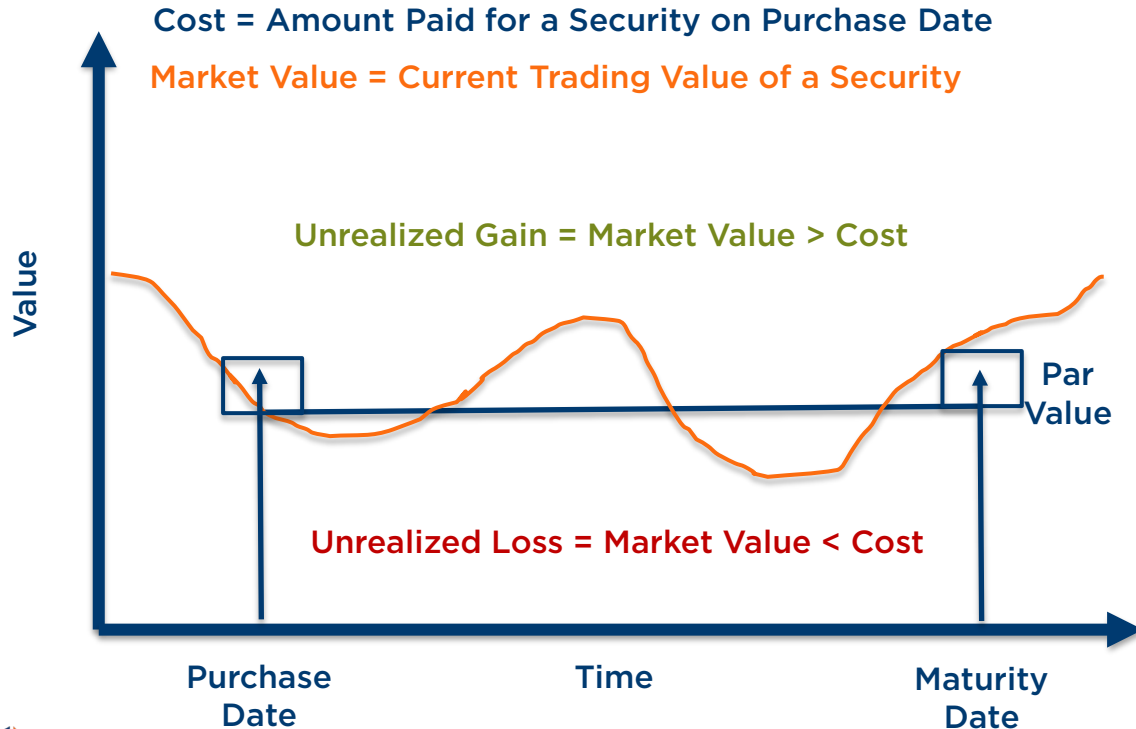
Price To	Maturity	02/15/25
YTW	4.840	3.049
YTM	4.840	3.049
Tax Rate	37	↕



# Putting it all Together

91282CDZ1 T UNITED STATES TREASURY NOTES		1.500%	02/15/25	TREA	
<b>Details</b>		<b>Call Schedule</b>		<b>Ratings</b>	
CUSIP	91282CDZ1	Callable	No	Moody's / S & P	Aaa -
Form	Book Entry	Par Call		Underlying	
Cpn Freq	Semi-Ann	Sinkable	No	Short Term	
Cpn Type	Fixed	Coupon Dates	Yes		
Benchmark		Make Whole Call	No		
Cpn Detail				<b>Issuance</b>	
Day Count	ACT/ACT	All	▼	Issue Date	02/15/2022
				Dated Date	02/15/2022
<b>Attributes</b>		Date	Side Qty Price Yield Sprd Idx	Orig. Settle	02/15/2022
Sinker	No			First Cpn	08/15/2022
				Int Acc Date	02/15/2022
				Issue Price	99.731530
				Issue Yield	1.594
				Amt Issued	80,248,121,000
				Outstanding Size	80,247,913,900

# Unrealized Gain or Loss



- Unrealized gain/loss only impacts municipality if security sold prior to maturity
- If held to maturity date, face value received
- Changes in market value do impact fund balance under GASB standards

# Fixed Rate vs. Variable Rate

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## Variable Rate

- Rate (& value in some cases) may fluctuate
- Difficult to predict income for budget



## Fixed Rate

- Predictable income
- Corresponding maturity schedule for budget



# Key Investment Risks

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## Liquidity Risk:

- The risk, or inability, to convert an asset into cash in a timely manner with minimal impact to price received and minimal transaction costs

## Credit Risk:

- The risk that an issuer or other counterparty to an investment will not fulfill obligation on time and in full

## Market/Interest Rate Risk:

- The risk that changes in interest rates will adversely affect fair value of an investment

# Common Market Players: Broker-Dealer

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Not a fiduciary to you – fair dealing & suitability standard

Acts as Broker when executing trades between customers

Acts as Dealer when trading from own inventory

May provide safekeeping account

You generally pay commission or mark-up for each transaction

Best Practice to obtain multiple quotes

You are responsible to ensure purchases are appropriate & competitive.

# Common Market Players: Investment Adviser

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Acts as a  
fiduciary to you

Professional  
portfolio  
management

Large broker  
network –  
responsible for  
diligence

May be  
discretionary or  
non-discretionary

Facilitates  
investment  
transactions on  
your behalf

Seeks best  
pricing execution  
& competitive  
bids on  
purchases

Fees generally  
based on dollar  
amount of assets  
under  
management

**Advises you on purchase of appropriate investments at a  
competitive market rate = saves you time**

# 3<sup>rd</sup> Party Custody: Brokerage

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- Cash & securities held FBO client
- Referred to as “street name”
- Broker/dealer can lend client securities
- Your assets considered their assets, and may be subject to creditor claims
- SIPC insured up to \$500,000, covers face value
- Likely no fees assessed
- May be able to trade with any broker-dealer

# 3<sup>rd</sup> Party Custody: Bank

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- Cash & securities held in your name
- Your assets, not likely subject to bank's creditors
- Can authorize lending, be compensated
- Can trade with any broker/dealer
- Investment adviser may receive limited authority to transact on your behalf
- Fee-based relationship

**Negotiated CDs held with issuing bank or credit union**



# Cash Management

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## Liquidity = actual cash or near liquid balances

- Funds can be invested: use pool, money market, or other 30 - 60 day investments

## Core = longer term general funds, reserve funds

- Funds should be invested with maturities to match anticipated capital and other large expenditures
- Potentially longer term, based on duration or maturity targets, investment policy

## Project funds based on draw schedule

- Invest debt proceeds based upon project timeline

# Cash Flow Forecasting

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Identifies liquidity needs in operational or project cash balances



Uncovers potential cash shortfalls or irregularities. Minimizes borrowing needs or liquidation of longer-term investments



Optimizes investment opportunities. Put idle cash to work!





Section 3:

# INVESTMENT POLICIES

# Your Road Map to Prudent Investing

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Scope

Objectives

Pooling of  
Funds

Standards of  
Care

Investment  
Portfolio

Safekeeping  
& Custody

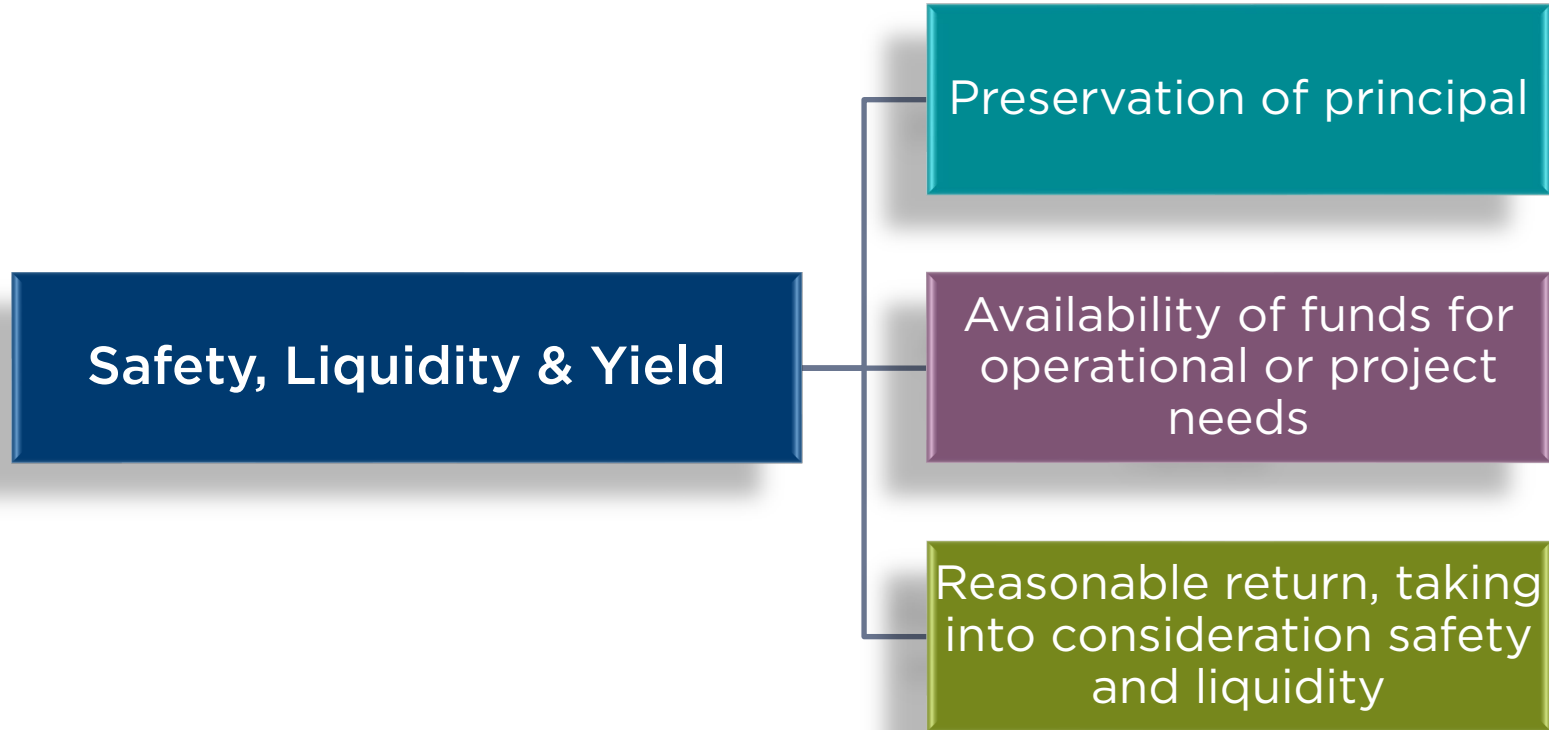
Reporting

# Scope

- Identify which funds policy applies to
- Generally, covers all funds except:
  - ✓ Project funds
  - ✓ Special funds

# Objectives

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# Pooling/Comingling of Funds

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- Organize by type of funds or objective:
  - ✓ Operational
    - match anticipated cash flow to investment maturities
  - ✓ Projects/Debt Proceeds
    - Generate predictable income
    - Match investment maturities to project schedules
    - Compliance with arbitrage requirements for tax-exempt debt proceeds
- Allocate income & fees in a timely manner
- *Check with auditors to confirm preferences- often policies may define which funds can or should be pooled*



# Standards of Care

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# Investment Portfolio

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- Authorized Investments
- Prohibited Investments
- Diversification
- Maturities
- Competitive Bids/Offers

# Safekeeping & Custody Policies

## Eligible Institutions

- Who you can work with to hold or invest funds
- Type of 3<sup>rd</sup> party safekeeping or custody

## Investment Advisers

- Portfolio management
- Forecasting
- Reporting
- Compliance

## Collateral

- Not required in Wisconsin
- FDIC/NCUA Insurance up to \$250,000\*
- State of WI Deposit Guarantee Fund up to \$400,000\*\*

\*FDIC coverage applies to demand deposits & savings/time deposits as two separate categories through Intra-state banks, potentially providing up to \$500,000 in coverage.

\*\*pending SB 773, may increase coverage limits to \$1M)

# Internal Controls

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- System seeking to prevent loss due to fraud, employee error, or imprudent actions
- Checks and balances to confirm compliance
- Actual control procedures should be in a separate document

# Reporting

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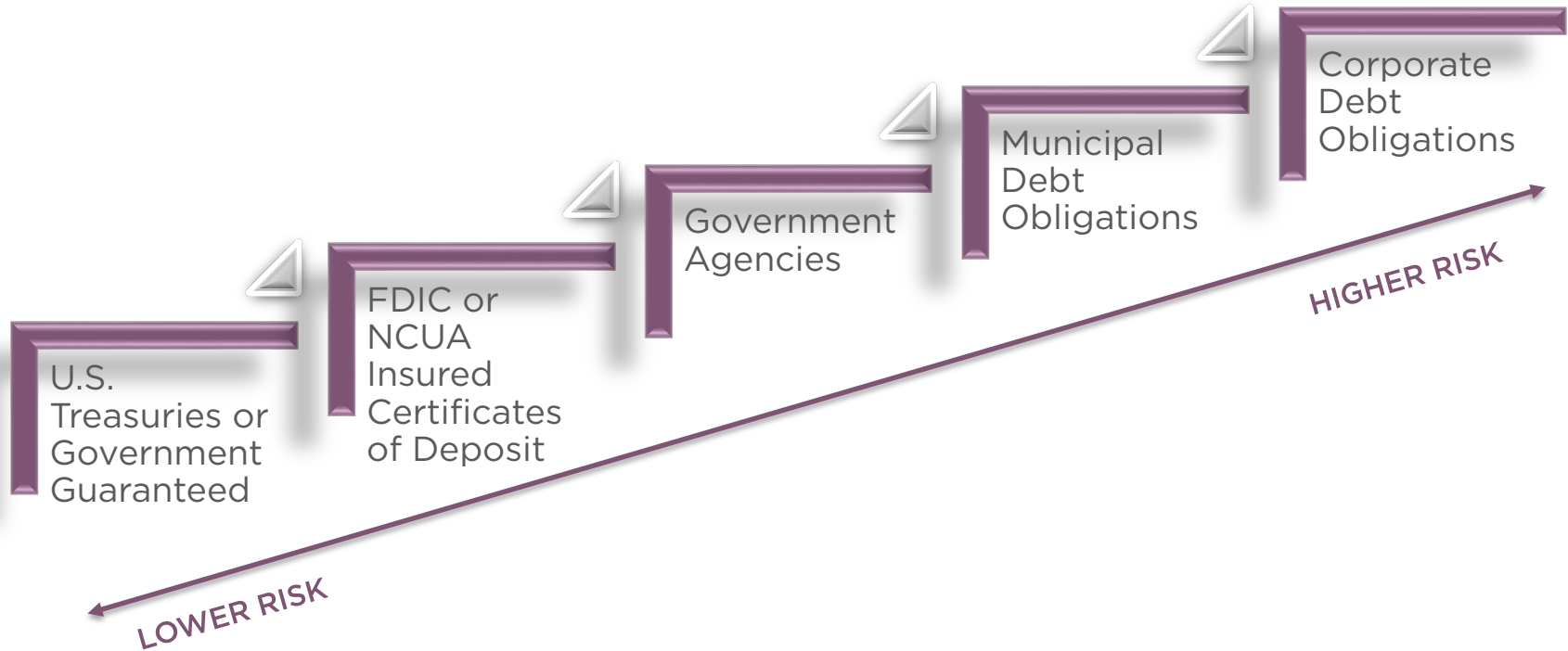
- Frequency
- Format
- Performance Targets



Public Funds Investing 101

# COMMON INVESTMENT OPTIONS

# Investment Options Risk Profile



# Permissible Investments

Wisc. Statutes 66.0603

- Time deposits (Certificate of Deposit)
- Securities issued or guaranteed by federal government, its commission, board or other instrumentality “Treasuries” or “Agencies”
- Municipal bonds/notes of Wisconsin municipalities





# Permissible Investments

Wisc. Statutes 66.0603

- **All other securities must:**
  - ✓ Mature no more than 7 years from acquisition
  - ✓ Carry highest or second highest credit rating category

## EXAMPLES:

- Municipal bonds issued in any other state
- Corporate obligations
- Asset-backed securities

# Permissible Investments

Wisc. Statutes 66.0603

- **Securities of an open-end management investment company or investment trust if:**
  - ✓ They're registered
  - ✓ Do not charge sales load
  - ✓ They invest in US government, commission, board securities
  - ✓ Repurchase agreements are fully collateralized by same as above

## **EXAMPLE:**

- ✓ Money market & mutual funds

# Permissible Investments

Wisc. Statutes 66.0603

- Local government pooled-investment fund (LGIP)



# Remember to...

- Know your responsibilities, limitations, & key investment terms
- Use policies to guide your decisions
- Select investments appropriate for your situation and experience level
  - Cash forecasts
  - Be mindful of your peaks & valleys
- Follow state statutes & your own policies
- Leverage industry resources & professionals



# Download the Presentation!

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# Your Presenters

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