



IGFOA ANNUAL CONFERENCE

Moving into the Future with Purpose

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Balancing the Books and Beyond: A Multi- Perspective Approach to Public Funds Investment

Nikki Larson, Deputy Village Manager/CFO,
Village of Glencoe

Jamie Wilkey, Partner,
Lauterbach & Amen

Brian Hextell, Senior Vice President,
Institutional Portfolio Manager,
PMA Asset Management, LLC

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Public Funds Investment Act

- Allowable Investments
- State Bill 0536 – Governor Approved

Deposit Accounts

- Transactional Checking Accounts
- Savings/Money Market Accounts
- Earnings Credit Rate
 - Rates applied to non-interest bearing balances to offset services charges
 - Typically settles monthly
- Certificates of Deposit
 - Fixed term investment with specified maturity date
 - Penalties for early withdrawal
- Most investment policies require all deposits to be collateralized by securities or other forms of collateral

Registered Money Market Fund / Local Government Investment Pools (LGIPs)

- Investors own shares of the fund/pool
- Net Asset Value (NAV)
 - Stable NAV (Managed to dollar in/dollar out)
 - Floating NAV (bond funds/pools)
- Maximum WAM = 60 days (WAM to Reset for Stable NAV funds)
- Longer WAM's for Floating NAV funds
- Look for funds rated by S&P or other rating agencies (AAA)
- Not a bank deposit

U.S. Treasury Securities

- Treasury Bills
 - Issued by US. Treasury – maturities of 1-year or less
 - Issued at a discount of face value (Zero Coupon)
 - Same or next day settlement date
- Government Notes
 - Maturities of 2 to 10 years – mature on 15th and Last Day of Month
 - Coupon Bonds – Purchase at par, premium or discount
 - Interest (Coupons) paid semi-annually
 - Same or next day settlement date
- Government Bonds
 - Maturities of 10 to 30 years – Mature on 15th and Last Day of Month
 - Coupon Bonds – Purchase at par, premium or discount
 - Interest (Coupons) paid semi-annually
 - Same or next day settlement date

U.S. Agency and Instrumentality Securities (Government Sponsored Enterprises)

- Financing entities to fund loans to certain groups of borrowers
- Unsecured debt obligations with implied guarantee of the US Government
 - Government National Mortgage Association (GNMA) (Ginnie Mae)
 - Federal National Mortgage Association (FNMA) (Fannie Mae)
 - Federal Home Loan Mortgage Corporation (FHLMC) (Freddie Mac)
 - Federal Home Loan Bank (FHLB)
 - Federal Farm Credit System (FFC)

Callable Agency Notes

- Issuer has right to redeem the security on a given date or dates – call date(s)
- The value of the “call option” varies depending on the following factors:
 - Current market rates relative to the security’s coupon rate
 - Time remaining to the call date
 - Call type

Agency Mortgage-Backed Securities

- Agency Residential Mortgage-Backed Securities (RMBS)
 - The Agency RMBS market reduces credit risk for investors by providing a guarantee (provided by the Government Agency) of timely payment of principal and interest as described more fully below.
 - Where once predominantly sponsored by private lenders and securities, the RMBS securities market is now guaranteed by one of the Government Sponsored Enterprises (GSE's).
- Agency Commercial Mortgage-Backed Securities (CMBS)
 - The Agency Commercial Mortgage-Backed Securities (CMBS) market provides financing to borrowers on multi-family and healthcare properties.
 - There are three primary agencies and instrumentalities (or GSE's) in the Agency CMBS market offering a variety of programs – Ginnie Mae which is backed by the full faith and credit of the U.S. Government, and Fannie Mae and Freddie Mac, which are guaranteed by the respective GSE. In general, these securities pay interest monthly and have less interest rate risk compared to Residential MBS due to prepayment penalties and other restrictions on prepayments.
 - Like Agency Bullets, the GSE's provide a guarantee of principal and interest.

Municipal Securities

- Obligation of a State, County, City, Village, School District or other special purpose district
- General Obligation
 - Not all GO bonds are the same
 - Limited versus Unlimited Tax
 - Some GO bonds have no separate tax levy
- Revenue
 - Essential service revenue bonds (water & sewer)
 - Other revenue generating entities including toll roads, airports, parking and many others

Commercial Paper (CP) & Corporates

- Commercial Paper
 - Short-term unsecured promissory note
 - Default risk present
 - Industrial & financial firms are issuers of CP
 - Commercial paper usually offers a higher return compared to other short-term investments such as Treasury bills, compensating for the slightly higher risk.
- Corporate Notes and Bonds
 - Similar to commercial paper, but with maturities greater than 1 year
 - Can offer higher returns compared to government securities
 - Credit risk is generally higher
 - Risk and return can vary greatly depending on the specific security and the issuing corporation's financial health

Investment Types



Investments And Corresponding Risks

- Registered Money Market Funds / Stable NAV LGIPs
 - Reinvestment, Credit, Default, Headline Risk
- US Treasuries
 - Interest Rate, Reinvestment, Default Risk, Headline Risk
- Certificates of Deposit
 - Reinvestment, Liquidity, Headline Risk
- Municipal Securities
 - Interest Rate, Reinvestment, Credit, Default, Liquidity, Headline Risk
- Commercial Paper
 - Interest Rate, Reinvestment, Credit, Default, Liquidity, Headline Risk

Additional risks may exist for all security types

Senate Bill 0536 – Governor Approved

- The Bill proposed the following change to the Public Funds Investment Act
 - The Bill has been approved by the Governor and becomes effective January 1, 2025.

(k) In addition to all other investments authorized under
2 this Section, a public agency may adopt an ordinance or
3 resolution to allow for investment of public funds in other
4 instruments not specifically listed in this Section provided
5 that those investments comply with (i) any other law that
6 authorizes public agencies to invest funds and (ii) the
7 investment policy adopted by the public agency under Section
8 2.5 of this Act.

Accounting Requirements

- Understanding your required disclosures for financial report
- Investment policy disclosures
- Accounting for Investments
- IFPIF Investment Hot Topic Update

Understanding your Required Deposit and Investment Disclosures

- Purpose: Provide users of the financial statements information about the risks associated with your government's deposits and investments and how fair value for your cash and investments is measured
- GASB Statement No. 40 and GASB Statement No. 72 both have disclosure requirements for cash and investments
- GASB Statement No. 40 also requires you to disclose your investment policy based on the categories on the next slide

Understanding your Required Deposit and Investment Disclosures

- GASB 40 requires the following disclosures in your financial statements (qualitative disclosures):
 - **Credit Risk**: Have you disclosed the credit quality ratings of your investments?
 - **Custodial Credit Risk**: Are your deposits and investments insured, collateralized, or exposed to custodial risk?
 - **Concentration of Credit Risk**: Have you disclosed any investments in a single issuer that exceed 5% of the government's total investments?
 - **Interest Rate Risk**: Have you provided necessary disclosures related to investment maturities and sensitivity to interest rate changes?
 - **Foreign Currency Risk**: Have you disclosed any exposure to foreign currency risk, including the type of investment and amount?

Understanding your Required Deposit and Investment Disclosures

- GASB 40 investment policy disclosures
 - Your investment policy related to each of the disclosure categories on the prior slide or indicate that your policy does not address a certain risk
 - Best practice of periodically reviewing your investment policy
 - Does it align with current investment goals?
 - Are there any statutory updates to address?
 - Does the policy address collateral arrangements actually utilized in practice?
 - Lots of resources related to treasury and investment management, sample policies, etc. on GFOA.org

Understanding your Required Deposit and Investment Disclosures

- GASB 72 requires the following disclosures in your financial statements (quantitative disclosures):
 - **Fair Value Measurement Technique:** Have you disclosed your fair value measurement technique, such as market approach, cost approach, or income approach?
 - **Level of Fair Value Hierarchy:** Have you disclosed the fair value measurement category (Level 1, Level 2, or Level 3) based on the inputs used in the valuation?
 - **Changes in Valuation Techniques:** Have you disclosed any changes in the valuation techniques or inputs and the reasons for such changes, if applicable?
 - **Investments not Measured at Fair Value:** Have you provided the basis for measurement for investments not measured at fair value?

Understanding your Required Deposit and Investment Disclosures

- GASB 72 Fair Value Levels
 - **Level 1**: Quoted prices in active markets for identical assets
 - Examples: Publicly Traded Stocks with Daily Quoted Prices, Mutual Funds where NAV is Determined Daily and Observable, Exchange-Traded Funds (ETFs) with Daily Quoted Prices
 - **Level 2**: Inputs other than quoted prices, which are observable for the assets
 - Examples: Corporate Bonds, Government Agency Securities, Mortgage-Baked Securities
 - **Level 3**: Unobservable inputs used to measure fair value when Level 1 and Level 2 inputs are not available
 - Private Equity Investments, Real Estate Investments, etc. where there is no active market

Accounting for Investments

- For most investments we “mark to market”
 - Periodically adjusting the value assigned to investments to reflect changes in their fair value
- GFOA Best Practices
 - Investments should be marked to market a least:
 - Monthly for investment pools
 - Quarterly for non-investment pools
 - Market values should also be obtained from a reputable, independent source and reported at least quarterly to your governing body or oversight committee with a written report

Accounting for Investments

- Not everyone's general ledger setup for investments is the same
 - Some basic accounts required but might record in more detail, for example by investment type or even by individual investment
- Standard Accounts
 - Investment
 - Investment Income
 - Realized Gain (Loss) – When sale occurs
 - Unrealized Gain (Loss) – “Paper” gain/loss when value increases/decreases

Accounting for Investments – Simple Example

- Purchase of Security

A government purchases a 5%, \$1M Treasury security on 1/1/XX

To record the purchase, the following entry is made:

DR Investment	\$1,000,000	
	CR Cash	\$1,000,000

From 1/1 to 6/30, interest rates rise and the market value of the security falls to \$925,000

To record coupon and interest:

DR Cash	\$25,000	
	CR Investment Income	\$25,000

To record market value adjustment:

DR Unrealized Loss	\$75,000	
	CR Mkt. Value Adjustment/Investment	\$75,000

Accounting for Investments – Simple Example

- Prior transaction impact to the operating statement after 6 months:

Income from the Coupon	\$25,000
Market Value Adjustment (Loss)	<u>\$(75,000)</u>
Net Performance after 6 Months	\$(50,000)

- On 7/1/XX you Sell the Security:

To record the sale, the following entry is made:

DR Cash (Sale Proceeds)	\$925,000	
DR Mkt. Value Adj./Investment	\$75,000	
CR Investment		\$1,000,000
DR Realized Loss	\$75,000	
CR Unrealized Loss		\$75,000

Assets Measured at Net Asset Value

- Net Asset Value (NAV) used as a practical expedient to estimate fair value of investments in certain entities that calculate their net asset value per share (for example, \$1 per share)
- GASB 72 requires that investments in 2a-7 like pools be valued at NAV per share of the pool
- Caution: Investments in pools that don't meet the criteria of 2a-7 like pools should be reported at fair value

Assets Measured at Net Asset Value – SEC Rule 2a-7 Requirements

- **Stable NAV**

- Pools must maintain a stable NAC, typically \$1 per share

- **Liquidity Requirements**

- Significant portion of the Pool's assets must be highly liquid investments to meet redemption requests

- **Maturity Limits**

- Investments must have short maturities, typically 60 days or less on average

- **Credit Quality**

- Investments must be of high credit quality to minimize risk of default

Some Fair Value Complexities with Fire Pension Funds

- Funds in the Consolidated Investment Trust (IFPIF) are now being deployed to private capital markets as of June 30, 2024
- Private markets provide a unique challenge, because there is no central exchange that tracks fair value of these investment instruments
- The investment managers will be required to maintain and report the fair value of private market assets on a quarterly basis with an approximate 3 months of lag time

Some Fair Value Complexities with Fire Pension Funds

- What does this mean for you and your Fire Pension Fund?
 - The timeline to receive final financial information as of your individual fiscal year-end from IFPIF will be extended
 - The magnitude of this fair value adjustment could be material to your financials
 - Impacted reporting:
 - AFR/ACFR Employer Reporting and Separate Pension AFR
 - Actuarial Valuations
 - IDOI annual filings
 - Annual municipal compliance report/tax levy request from pension fund to employer

IFPIF Link: https://uploads-ssl.webflow.com/5be5f29043450c1328429471/6675a7adbb7886a010843812_Private%20Markets%20Communication%20to%20PPF.pdf

Case Study – Getting Started

- Determine needs: broker, advisor, etc.
- Request for Proposal
- Cash flow analysis
 - Monthly available cash
 - Analyze long term needs, 10-year CIP, operational changes

Case Study – Getting Started

Beginning Fund Balance 15,125,361

	ACTUAL							PROJECTED				
<u>Revenue</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Total Revenue =	860,013	3,593,889	4,853,645	970,638	1,526,475	1,076,546	4,077,845	3,101,622	915,139	918,507	926,610	1,141,286

	ACTUAL							PROJECTED				
<u>Expenditures</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Total Operating Expenditures =	2,259,091	1,920,872	2,364,102	1,708,531	1,808,366	1,699,959	2,146,120	1,991,620	2,010,757	2,170,310	2,475,602	1,884,166

Projected Cash Flow = (1,399,079) 1,673,017 2,489,543 (737,894) (281,891) (623,413) 1,931,725 1,110,002 (1,095,618) (1,251,803) (1,548,992) (742,879)

Reserve Projection = 13,726,282 15,399,300 17,888,843 17,150,949 16,869,058 16,245,645 18,177,370 19,287,372 18,191,754 16,939,951 15,390,959 14,648,079

Case Study – Post Selection Process

- Investment policy discussion with Board, Finance Committee [30 ILCS 235/2.5]
- Determine goals
 - Source of funds - long term reserves, bond proceeds
 - Risk tolerance
 - Collateralization

INVESTMENT POLICY RISK EXAMPLE	
Investment Type	Maximum Portfolio Investment Exposure
U.S. Treasury and other issuers backed by the full faith and credit of the U.S. Government	100%
U.S. Agency and instrumentality bonds or notes	50%
U.S. Agency and instrumentality Residential MBS	25%
U.S. Agency and instrumentality Commercial MBS	40%
Insured or Collateralized Deposits	100%
Municipal Securities	50%
Corporate Obligations	33%
Money Market Funds	50%
Authorized Pools	100%

Case Study – Ongoing Monitoring & Accounting

- Monthly accounting to record activity: Interest, fees, purchases, sales

DESCRIPTION	FUND	DEPT	DIV	ACCT	ACCT TITLE	DR.	CR.
						-	
INTEREST RECEIVED	100	000	000	10201	MONEY MARKET	16,503.69	
	100	000	000	37105	INTEREST	-	16,503.69
							-
MISC. DISBURSEMENT / FEES	100	100	130	50305	FEES	493.89	-
	100	000	000	10201	MONEY MARKET	-	493.89
	100	000	000	37505	REALIZED GAIN/(LOSS)	-	-
	100	000	000	37505	UNREALIZED GAIN/(LOSS)	-	-
PURCHASES-MONEY MARKET	100	000	000	10305	TREASURIES	225,324.22	
DEPOSIT	100	000	000	10201	MONEY MARKET		225,324.22
	100	000	000	37505	REALIZED GANI/(LOSS)	3,303.35	-
SALES-US TREASURIES	100	000	000	10201	MONEY MARKET	147,450.09	-
	100	000	000	10305	MUTUAL FUNDS-MISC EQUIT		150,753.44
	100	000	000	37505	UNREALIZED GANI/(LOSS)		622.50
MUNICIPAL OBLIGATIONS-MATURITIES	100	000	000	10201	MONEY MARKET	48,395.50	-
	100	000	000	10340	MUNICIPAL OBLIGATIONS	-	47,773.00

Case Study – Ongoing Monitoring & Accounting

- Reporting to the Finance Committee/Village Board
 - Monthly updates – returns, substantial changes
 - Market conditions
- Quarterly Updates
 - Staff
 - Elected officials

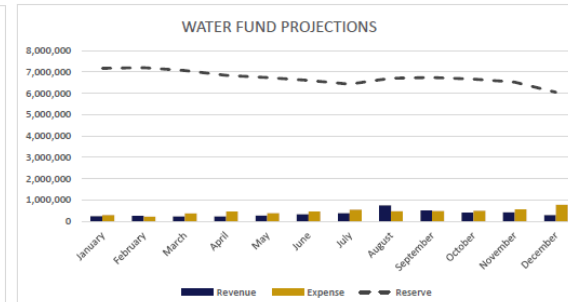
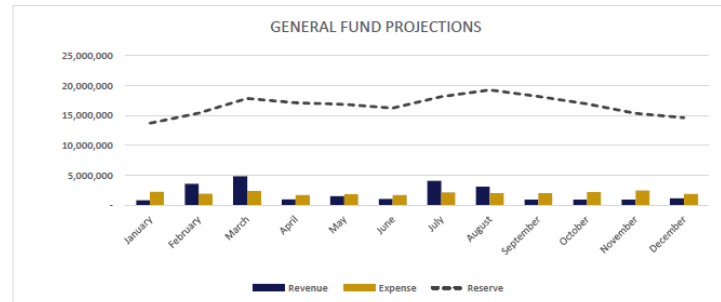
Case Study – Reporting Samples



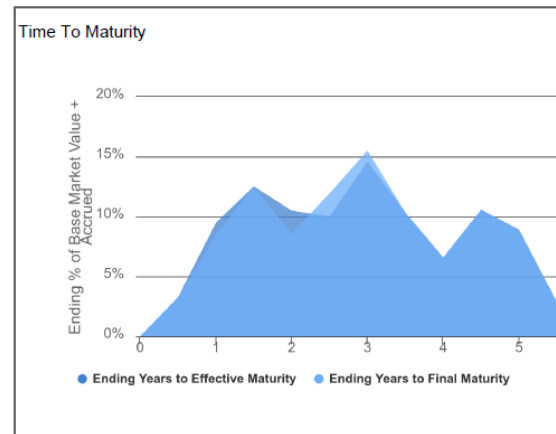
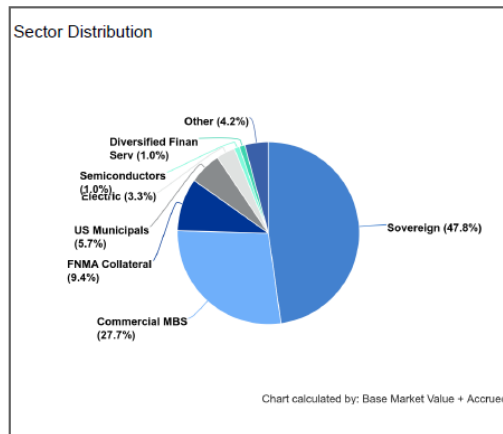
VILLAGE OF GLENCOE RESERVE MONITORING Calendar Year 2024

Cash Balance Projections

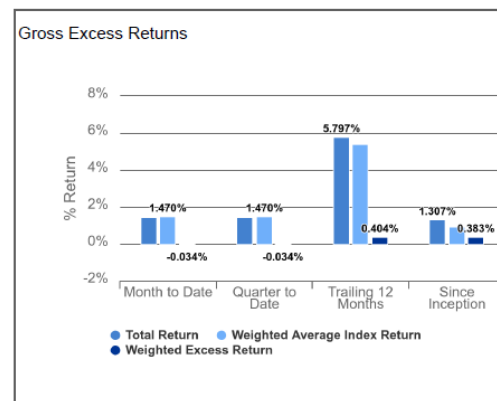
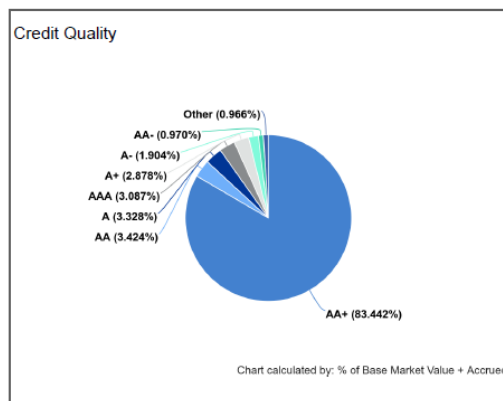
	<u>Beginning Balance</u>	ACTUAL							PROJECTED				
		<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
General Fund	15,125,361	13,726,282	15,399,300	17,888,843	17,150,949	16,869,058	16,245,645	18,177,370	19,287,372	18,191,754	16,939,951	15,390,959	14,648,079
Water Fund	7,223,871	7,173,305	7,202,398	7,067,672	6,844,109	6,742,550	6,603,573	6,432,798	6,707,666	6,739,462	6,663,589	6,524,398	6,050,394
Motor Fuel Tax Fund	1,616,506	1,659,920	1,698,869	1,739,346	1,777,724	1,804,416	1,836,155	1,740,183	1,727,255	1,714,244	1,703,381	1,689,242	1,679,207
Capital Projects Fund	3,938,449	3,955,600	3,961,258	3,964,828	3,831,943	3,679,047	6,169,285	5,273,310	5,181,119	5,089,823	5,000,667	6,912,967	5,720,835
Golf Club Fund	2,584,166	2,521,843	2,461,579	2,419,658	2,461,630	2,639,786	2,838,648	3,152,129	3,286,278	3,369,403	3,352,505	3,224,626	3,292,803
Total Cash Balance =	27,904,187	26,515,107	28,261,825	30,660,688	29,604,725	29,095,071	30,854,657	31,623,661	32,903,413	31,735,283	30,307,588	30,517,565	28,098,516



Case Study – Reporting Samples



Balance Sheet	
Field	Value
Book Value + Accrued	5,375,597.51
Net Unrealized Gain/Loss	-65,418.66
Market Value + Accrued	5,310,178.85



Benchmark Comparison			
Risk Metric	Portfolio	Index	Difference
Duration	3.047	2.552	0.495
Years to Final Maturity	2.899	2.745	0.154
Years to Effective Maturity	2.859	2.745	0.114
Yield	4.017	4.208	-0.189
Average Credit Rating	AA	AA+	---

Footnote: 1

Thank you!

Nikki Larson, Deputy Village Manager/CFO,
Village of Glencoe
nlarson@villageofglencoe.org

Jamie Wilkey, Partner,
Lauterbach & Amen
jwilkey@lauterbachamen.com

Brian Hextell, Senior Vice President, Institutional Portfolio Manager,
PMA Asset Management, LLC
bhextell@pmanetwork.com

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Illinois Government Finance Officers Association
800 Roosevelt Road, Building C, Suite 312
Glen Ellyn, IL 60137
Phone: 630-942-6587
Email: info@igfoa.org
Visit <http://www.igfoa.org>