



CASH MANAGEMENT

November 11, 2020

INTRODUCTION

Your Presenters

J.C. Leonard, Stephen H. McDonald & Associates

- Serving OLAP as Marketing Agent
- Serving Oklahoma Schools' public finance needs

Amy Mitchell, PMA Financial

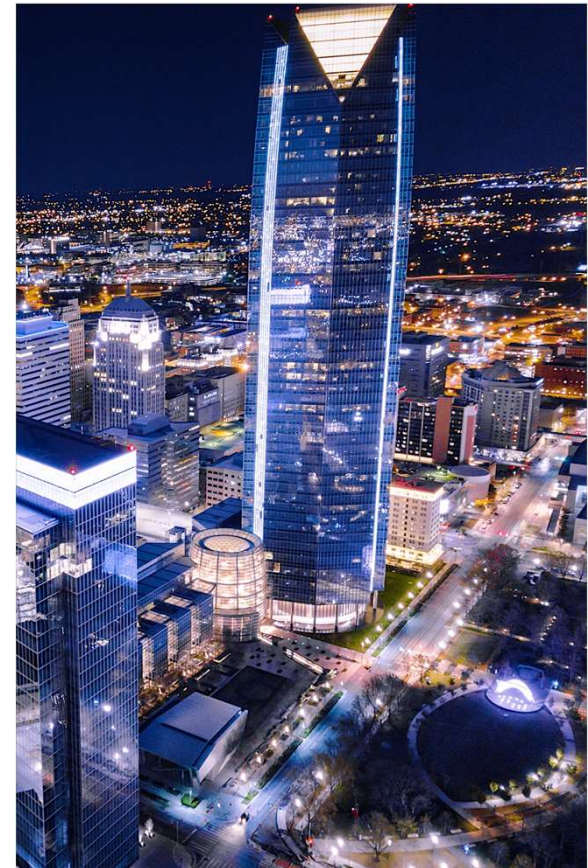
- Serving OLAP as Investment Advisor, Administrator, and Marketing Support Services
- SVP, Relationship Manager



AGENDA

What Will We Cover?

- Oklahoma Statute: 70-5-115
- Short-Term Rate History
- Market Update
- Cash Flow and Investment Scenarios
- Investment Proposals
- Oklahoma Statute: Permissible Investments
- Investment Policy Statement
- Resources
- Oklahoma Liquid Assets Pool Program



CASH MANAGEMENT

Why?

Requirement of Oklahoma Statutes – Title 70. Schools: 70-5-115 G.

The board of education shall, each month, set aside funds to an operating account and to an investment account. Investments by the treasurer shall be made in accordance with a written policy adopted by the board of education. The written investment policy shall address liquidity, diversification, safety of principal, yield, maturity, quality of the instrument, and capability of investment management. Acting within the investment policy, the treasurer shall place primary emphasis on safety and liquidity in the investment of funds. Taking into account the need to use sound investment judgment, school districts shall, to the extent practicable, use competitive bids when they purchase direct obligations of the United States Government or other obligations of the United States Government, its agencies or instrumentalities. Such system shall be designed to maximize yield within each class of investment instrument, consistent with the safety of the funds invested. The board of education must review the investment performance of the treasurer on a regular basis and no less than each month. The treasurer of every school district shall invest the full amount of the investment account in: (to be continued)



MAGICAL



IT'S YOUR RESPONSIBILITY

Cash Management

Managing and maximizing investment income from cash investing is just one of many of your responsibilities ... there is help out there.



"You busy?"

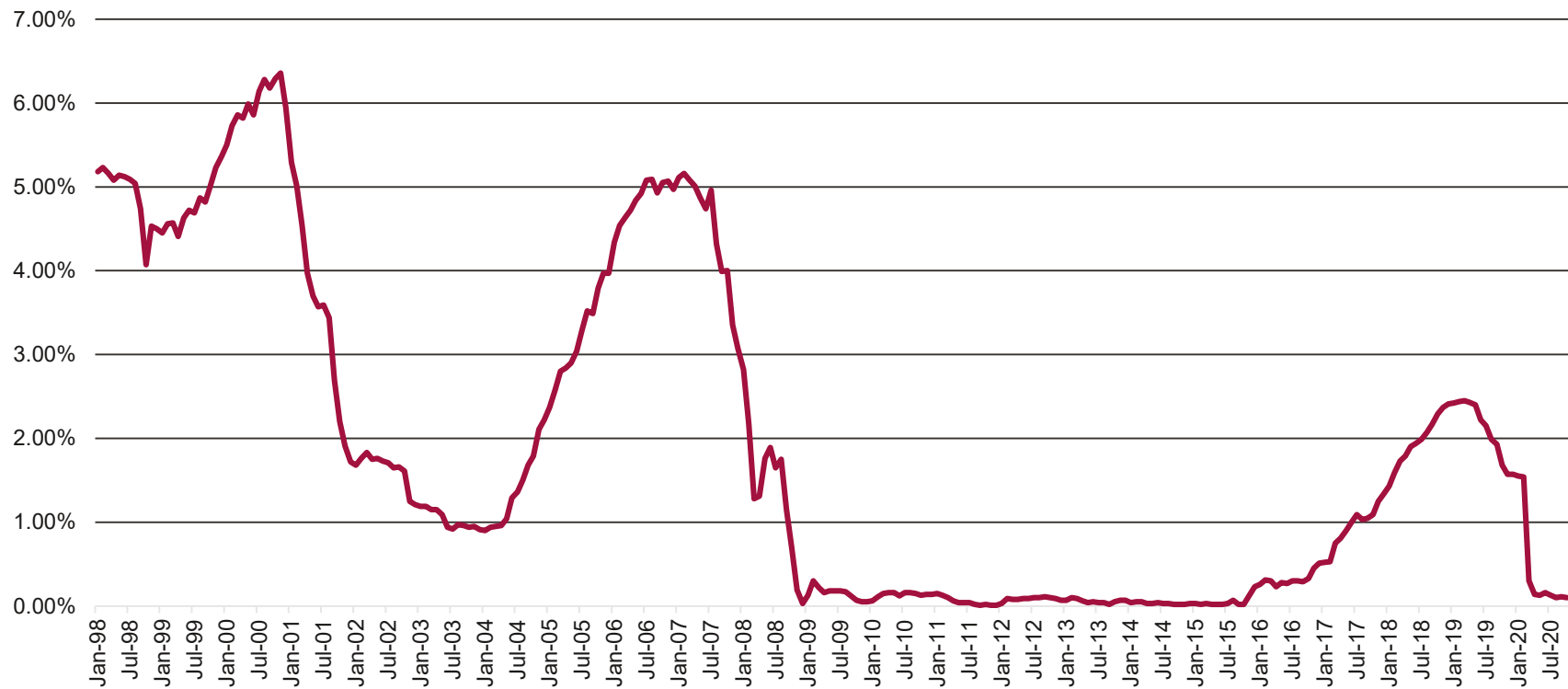
Source: Internet



SHORT-TERM RATES

Historical Perspective

**Historical 3 MO UST Yield
1998 - 2020**



Source: Bloomberg



TIME WELL SPENT

Investment Income

What could you do with more investment income?

- Staff
- Technology
- Activities
- Programs
- _____
- _____



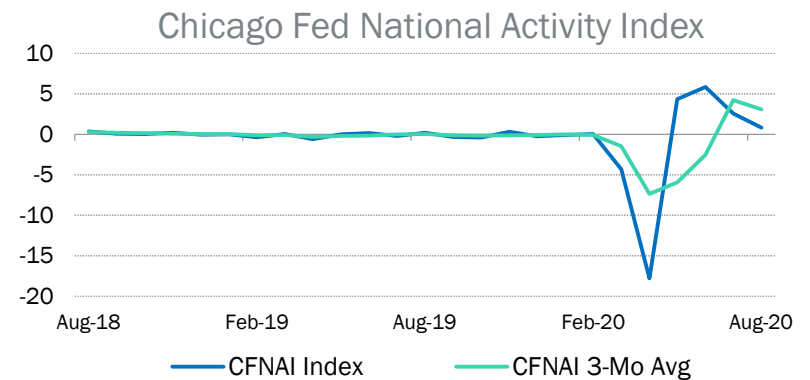
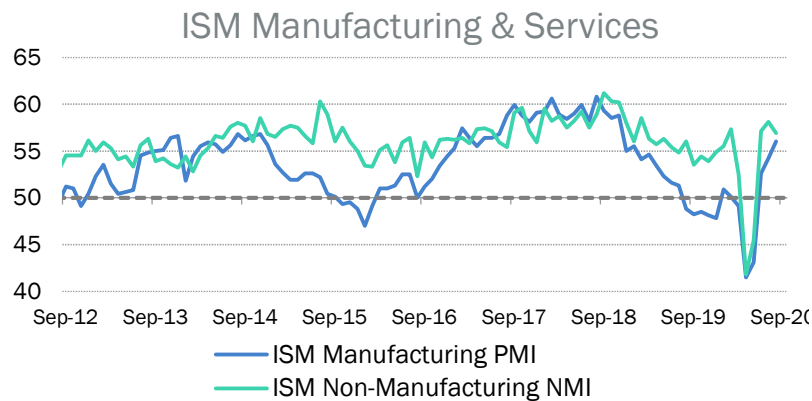
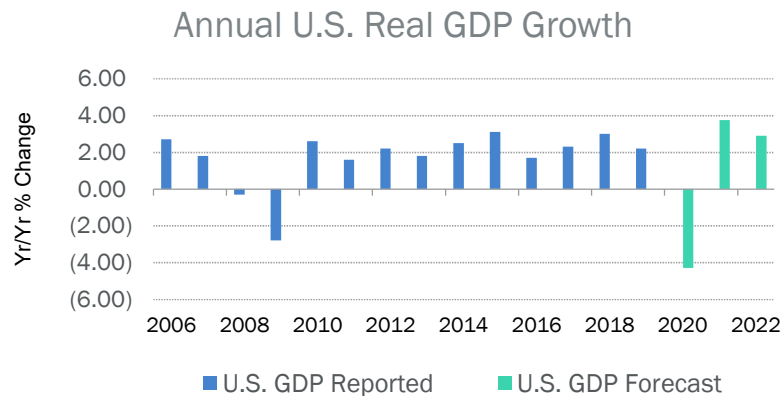


MARKET UPDATE

CURRENT RATES AND TRENDS

MARKET UPDATE

Economic Growth



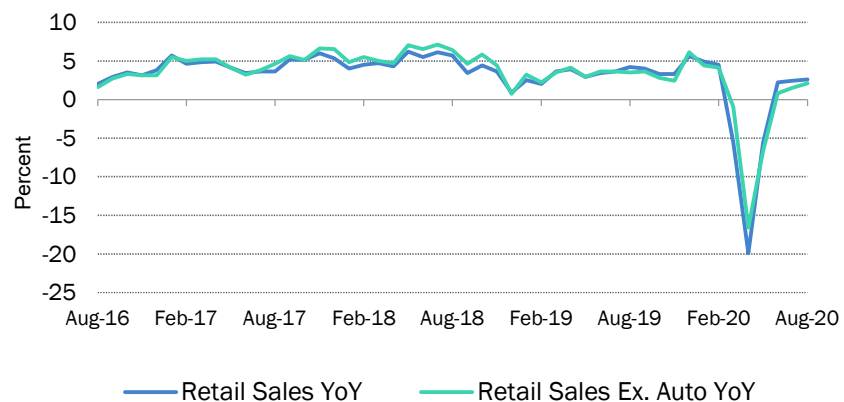
Source: Bloomberg



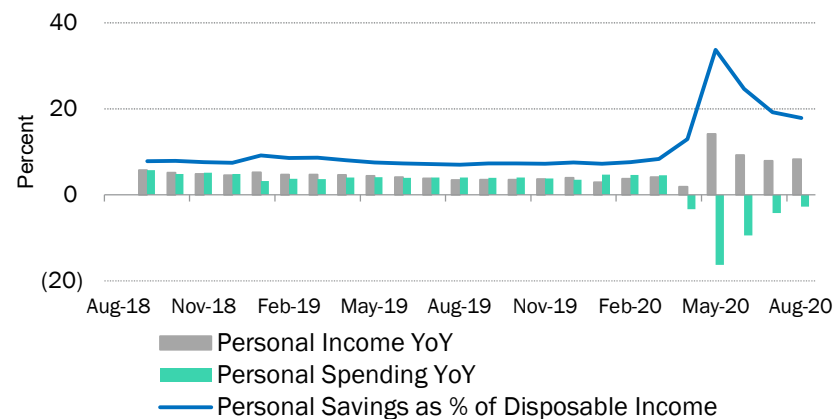
MARKET UPDATE

US Consumer

Retail Sales



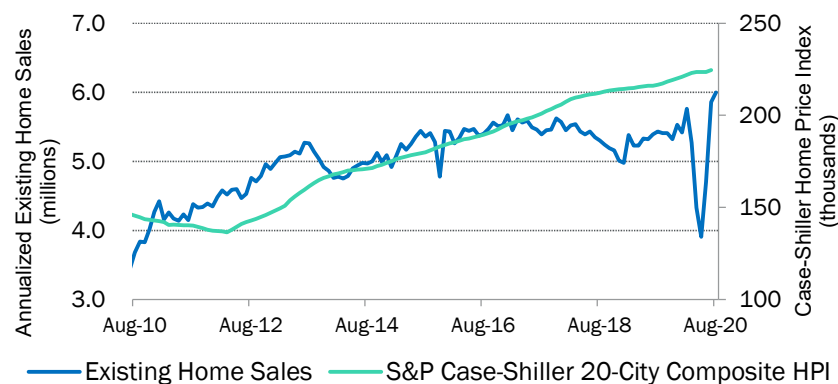
Personal Income & Spending



Consumer Confidence



Housing

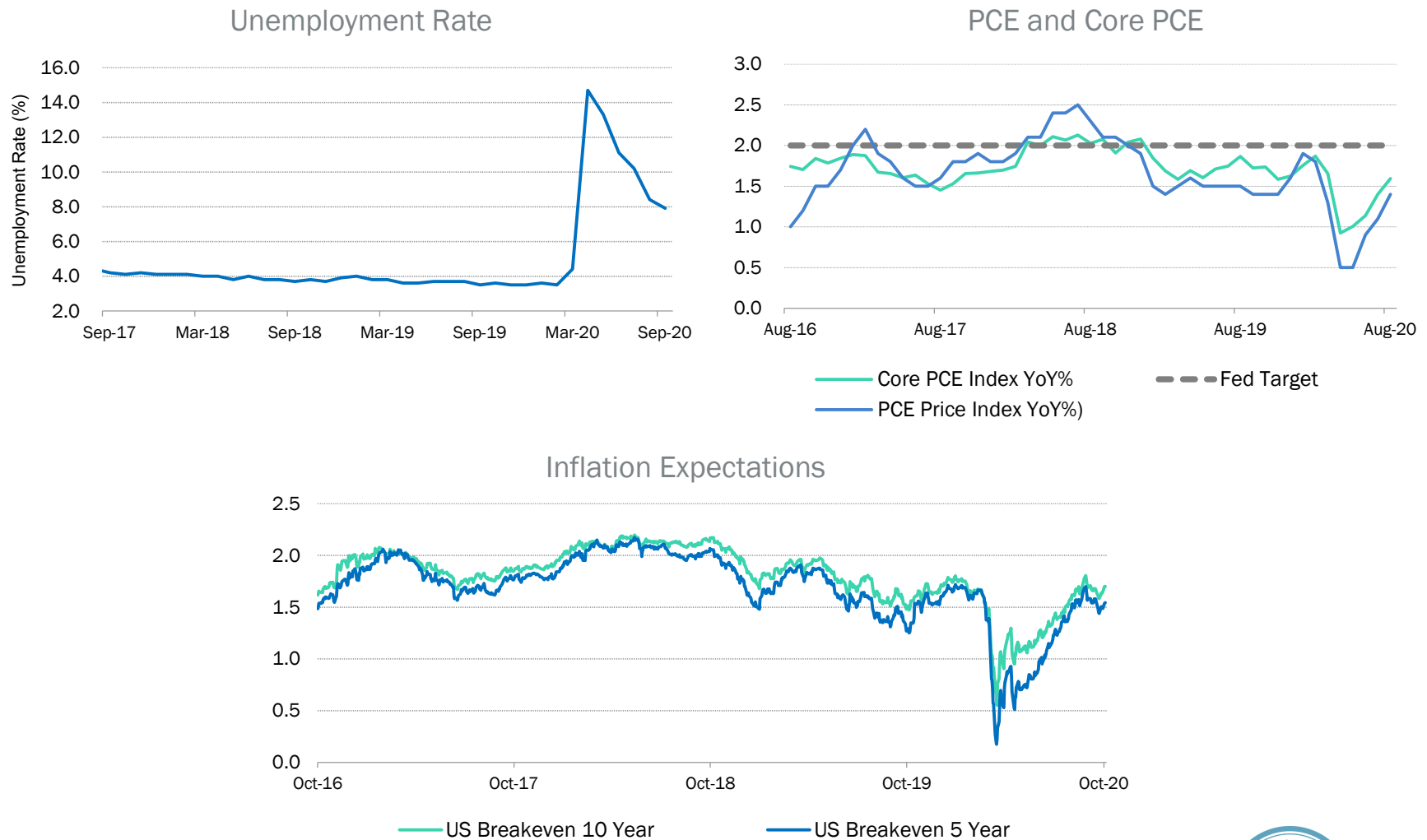


Source: Bloomberg



MARKET UPDATE

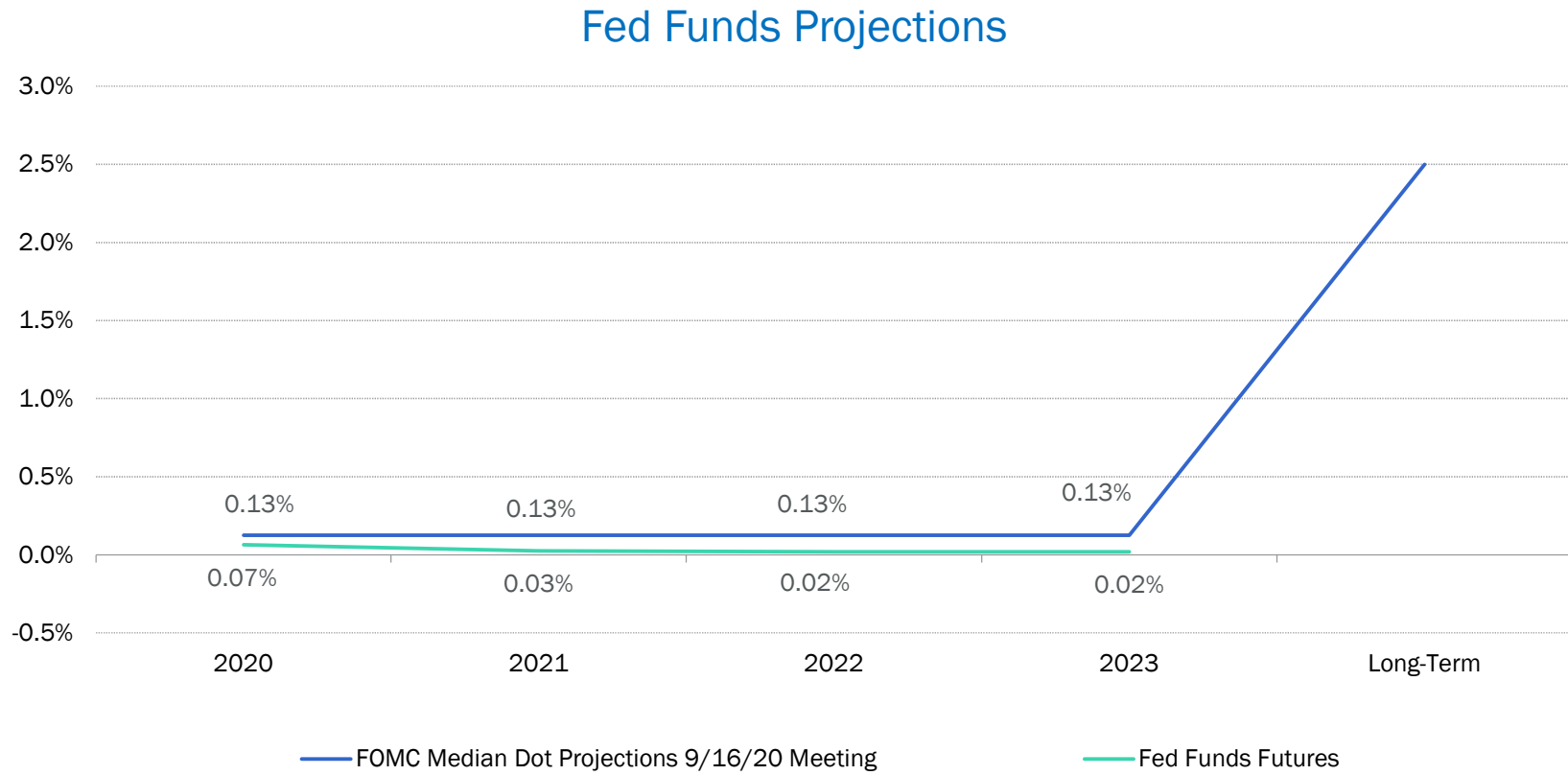
Fed's Dual Mandate



Source: Bloomberg



MARKET UPDATE

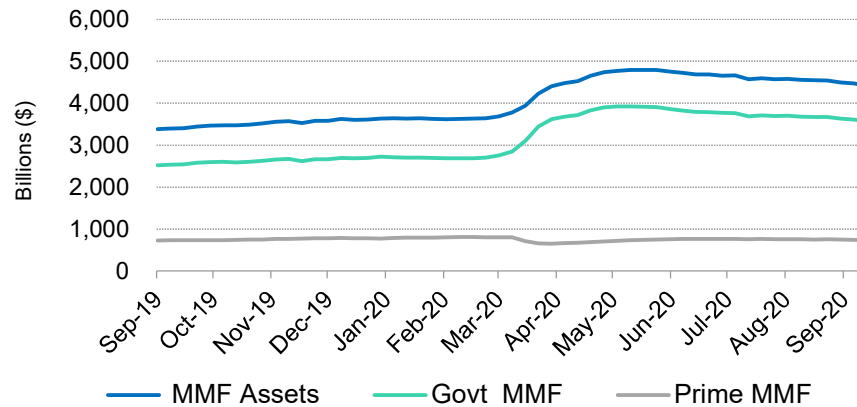


Source: Bloomberg

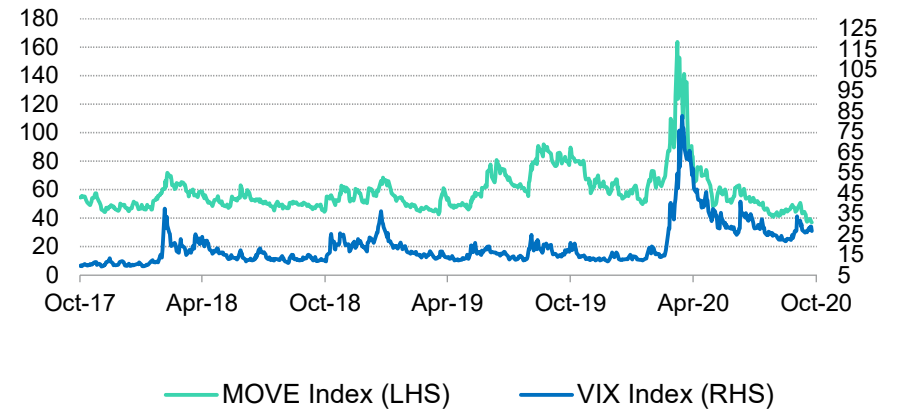


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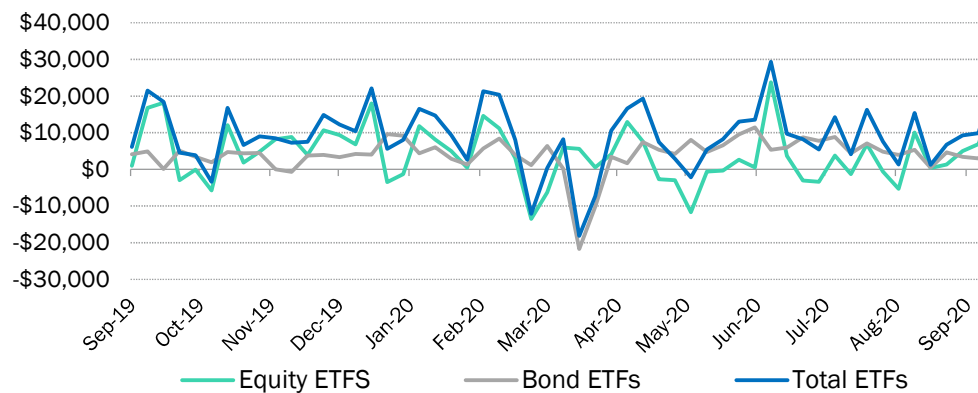
Money Market Fund Assets



Volatility



Weekly ETF Fund Flows



Source: Bloomberg





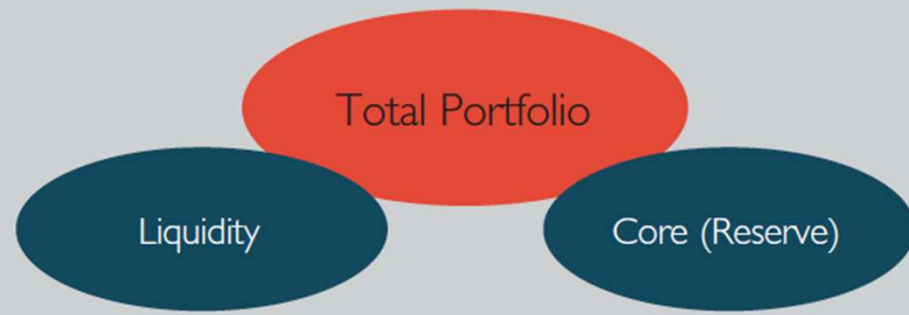
CASH FLOW

WHAT DO I HAVE TO INVEST?

INVESTING

Investing Liquidity and Core Portfolios

Exhibit I: Investing Liquidity and Core Portfolios



Liquidity Portfolio (≤ 1 Year)

- Meets Specific Liquidity Needs
- Invest in Short-term Securities
- Average Maturity Short
- Very Low Volatility
- Cash Flow Matching
- LGIPs and Money Market Instruments

Core Portfolio (> 1 Year)

- Targeted to Highest Suitable Duration
- Longer-term Securities
- Normally Not Used for Liquidity, but Invested in Highly Marketable Securities, in Case
- Greater Volatility

Jaskulak, Stefan, and James M. Nicholson. "Liquidity Management Made Easy."
Government Finance Review, February 2017.



INVESTING

GFOA Best Practices

- Involve all operating departments
- Prioritize expenditures
- Use historical financial data
- Include expected investment income and maturing inflows
- Include regular expenditures
- Use cash-flow forecasts
- Make forecasts conservatively
- Update forecasts regularly

*Jaskulak, Stefan, and James M. Nicholson. "Liquidity Management Made Easy."
Government Finance Review, February 2017.*



CASH FLOW

How Do We Evaluate Cash Flow?

Operating Funds

- Do I have an estimate of monthly revenues and expenditures for my operating budget?
- Am I comfortable that I will retain a minimum balance of \$_____ in each fund?

Capital Projects Funds

- Do you have a monthly or annual cash flow schedule for your capital project funds?
- Do you have debt proceeds from a recent capital project borrowing and a cash flow from the architect/construction manager?
- Are you saving funds for a future project?

CASH FLOW

How Much Can We Invest?

Operating Funds

- Understand the ebb and flow of the operating funds
- Potential 1 year investment of “minimum balance”
- Shorter term investments to take advantage of “yield curve”

Capital Project Funds

- Understand the limitations in the cash flow provided and need for liquidity for projects
- Flexible investments (liquidity provisions) may allow for larger fixed investments vs. liquid investments



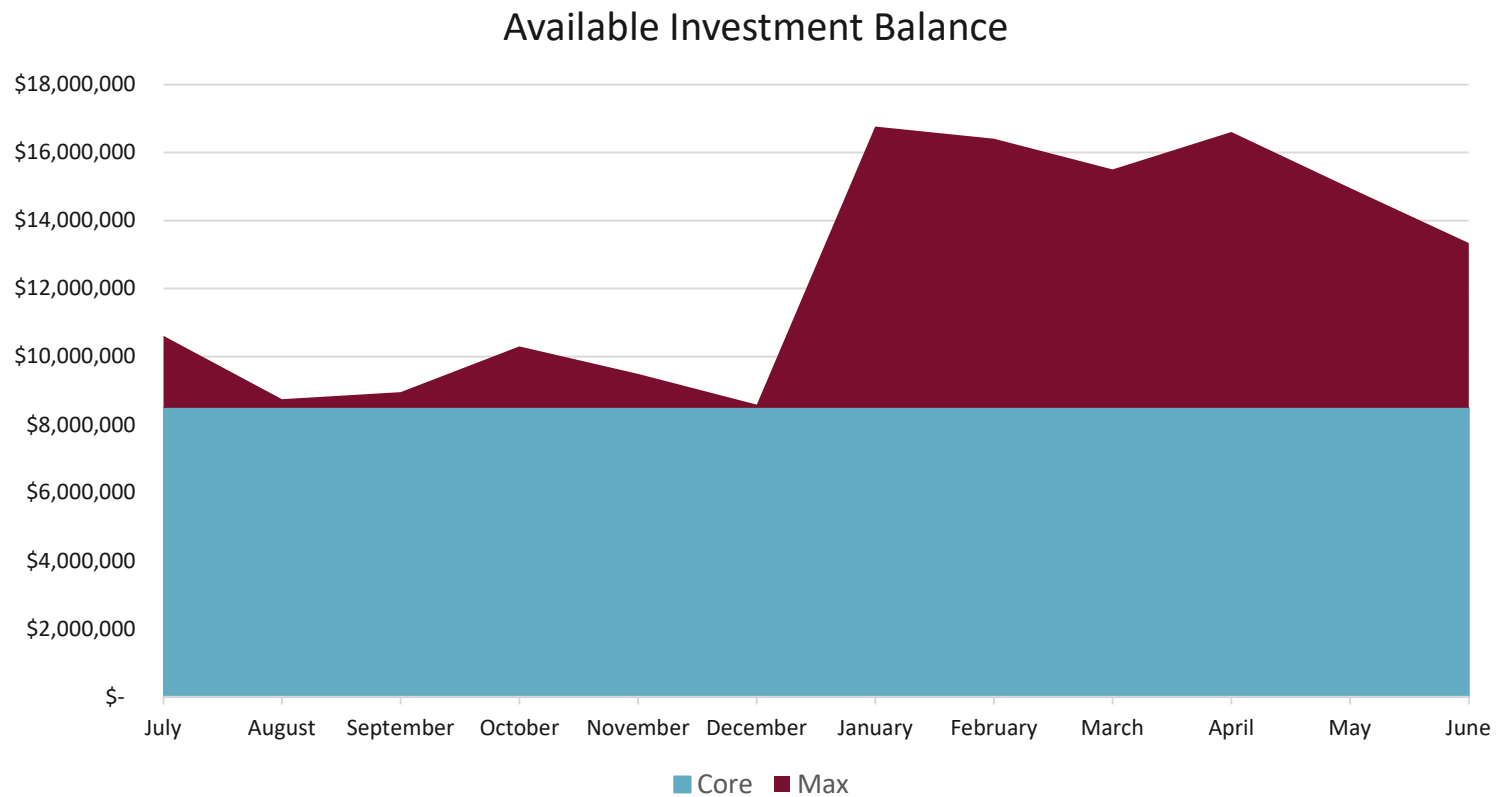
CASH FLOW

Know It

ABC School													
Revenue	July	August	September	October	November	December	January	February	March	April	May	June	Total
Source 1	\$ -	\$ 16,000	\$ 500,000	\$ 2,500,000	\$ 350,000	\$ 125,000	\$ 9,000,000	\$ 275,000	\$ 250,000	\$ 2,100,000	\$ 200,000	\$ 15,000	\$15,331,000
Source 2	\$ 1,000	\$ 5,000	\$ -	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ 650,000	\$ -	\$ -	\$ -	\$ 1,156,000
Source 3	\$ 900	\$ 3,500	\$ 275,000	\$ -	\$ 750,000	\$ -	\$ -	\$ 950,000	\$ -	\$ 875,000	\$ -	\$ -	\$ 2,854,400
Source 4	\$ 500	\$ -	\$ -	\$ 850,000	\$ -	\$ -	\$ 884,000	\$ -	\$ -	\$ -	\$ 150,000	\$ -	\$ 1,884,500
Source 5	\$ -	\$ 35,000	\$ 550,000	\$ 3,000	\$ -	\$ 250,000	\$ -	\$ -	\$ 115,000	\$ -	\$ -	\$ -	\$ 953,000
Source 6	\$ 750	\$ 40,000	\$ 108,000	\$ -	\$ 85,000	\$ -	\$ -	\$ 398,000	\$ -	\$ 9,500	\$ -	\$ -	\$ 641,250
Source 7	\$ 1,200	\$ -	\$ 760,000	\$ -	\$ -	\$ 77,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 838,200
Total Monthly Revenues	\$ 4,350	\$ 99,500	\$2,193,000	\$ 3,353,000	\$ 1,185,000	\$ 952,000	\$ 9,884,000	\$ 1,623,000	\$ 1,015,000	\$ 2,984,500	\$ 350,000	\$ 15,000	\$23,658,350
Expenses													
Expense 1	\$ 400,000	\$ 350,000	\$ 375,000	\$ 275,000	\$ 325,000	\$ 350,000	\$ 300,000	\$ 210,000	\$ 275,000	\$ 350,000	\$ 325,000	\$ 335,000	\$ 3,870,000
Expense 2	\$ -	\$ 900,000	\$ 275,000	\$ 323,000	\$ 618,000	\$ -	\$ 955,000	\$ 954,000	\$ -	\$ 385,000	\$ -	\$ -	\$ 4,410,000
Expense 3	\$ 500,000	\$ -	\$ 885,000	\$ 417,000	\$ 755,000	\$ 412,000	\$ -	\$ 412,000	\$ -	\$ -	\$ 450,000	\$ 12,000	\$ 3,843,000
Expense 4	\$ -	\$ 455,000	\$ -	\$ 412,000	\$ -	\$ -	\$ -	\$ 330,000	\$ 428,000	\$ -	\$ 342,000	\$ -	\$ 1,967,000
Expense 5	\$ 685,000	\$ 113,000	\$ 350,000	\$ -	\$ 297,000	\$1,100,000	\$ -	\$ -	\$ -	\$ 912,000	\$ -	\$ 374,000	\$ 3,831,000
Expense 6	\$ 350,000	\$ -	\$ -	\$ 575,000	\$ -	\$ -	\$ 444,000	\$ 85,000	\$ -	\$ 238,000	\$ -	\$ 915,000	\$ 2,607,000
Expense 7	\$ -	\$ 150,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,212,000	\$ -	\$ 875,000	\$ -	\$ 2,337,000
Total Monthly Expenses	\$ 1,935,000	\$ 1,968,000	\$1,985,000	\$ 2,002,000	\$ 1,995,000	\$1,862,000	\$ 1,699,000	\$ 1,991,000	\$ 1,915,000	\$ 1,885,000	\$ 1,992,000	\$ 1,636,000	\$22,865,000
Beginning Fund Balance	\$12,545,000	\$10,614,350	\$8,745,850	\$ 8,953,850	\$10,304,850	\$9,494,850	\$ 8,584,850	\$16,769,850	\$16,401,850	\$15,501,850	\$16,601,350	\$14,959,350	
+ Revenues	\$ 4,350	\$ 99,500	\$2,193,000	\$ 3,353,000	\$ 1,185,000	\$ 952,000	\$ 9,884,000	\$ 1,623,000	\$ 1,015,000	\$ 2,984,500	\$ 350,000	\$ 15,000	
-- Expenses	\$ 1,935,000	\$ 1,968,000	\$1,985,000	\$ 2,002,000	\$ 1,995,000	\$1,862,000	\$ 1,699,000	\$ 1,991,000	\$ 1,915,000	\$ 1,885,000	\$ 1,992,000	\$ 1,636,000	
Ending Fund Balance	\$10,614,350	\$ 8,745,850	\$8,953,850	\$10,304,850	\$ 9,494,850	\$8,584,850	\$16,769,850	\$16,401,850	\$15,501,850	\$16,601,350	\$14,959,350	\$13,338,350	

CASH FLOW

Graph It



MAGICAL



CASH FLOW

Invest It

Option One

- Keep 100% Liquid in Checking/Bank Money Market Account earning 0.01%
- Potential investment income: \$1,252

Option Two

- Optimize with investments based on liquidity needs earning 0.15% on core balances
- Potential Investment Income: \$12,452

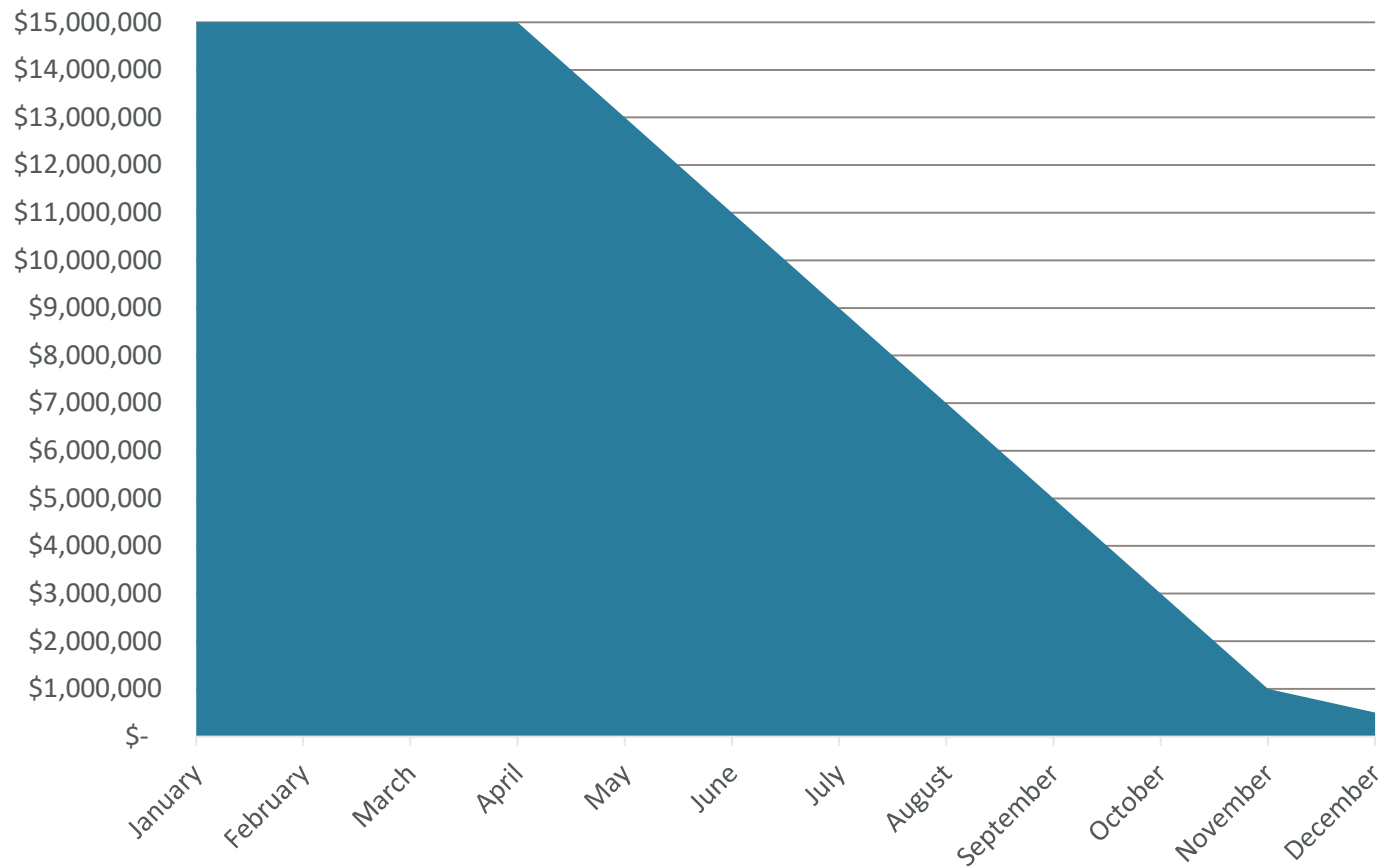
For illustrative purposes only. The data shown is hypothetical is based on numerous assumptions that may change without notice or prove to be incorrect. Different assumptions would produce different results. Hypothetical data is subject to risk, does not reflect actual investment results of any particular market, product, or account, and cannot guarantee or assure future results. The material is provided for limited purposes, is not definitive investment advice and should not be relied on as such.



CASH FLOW

Project Funds

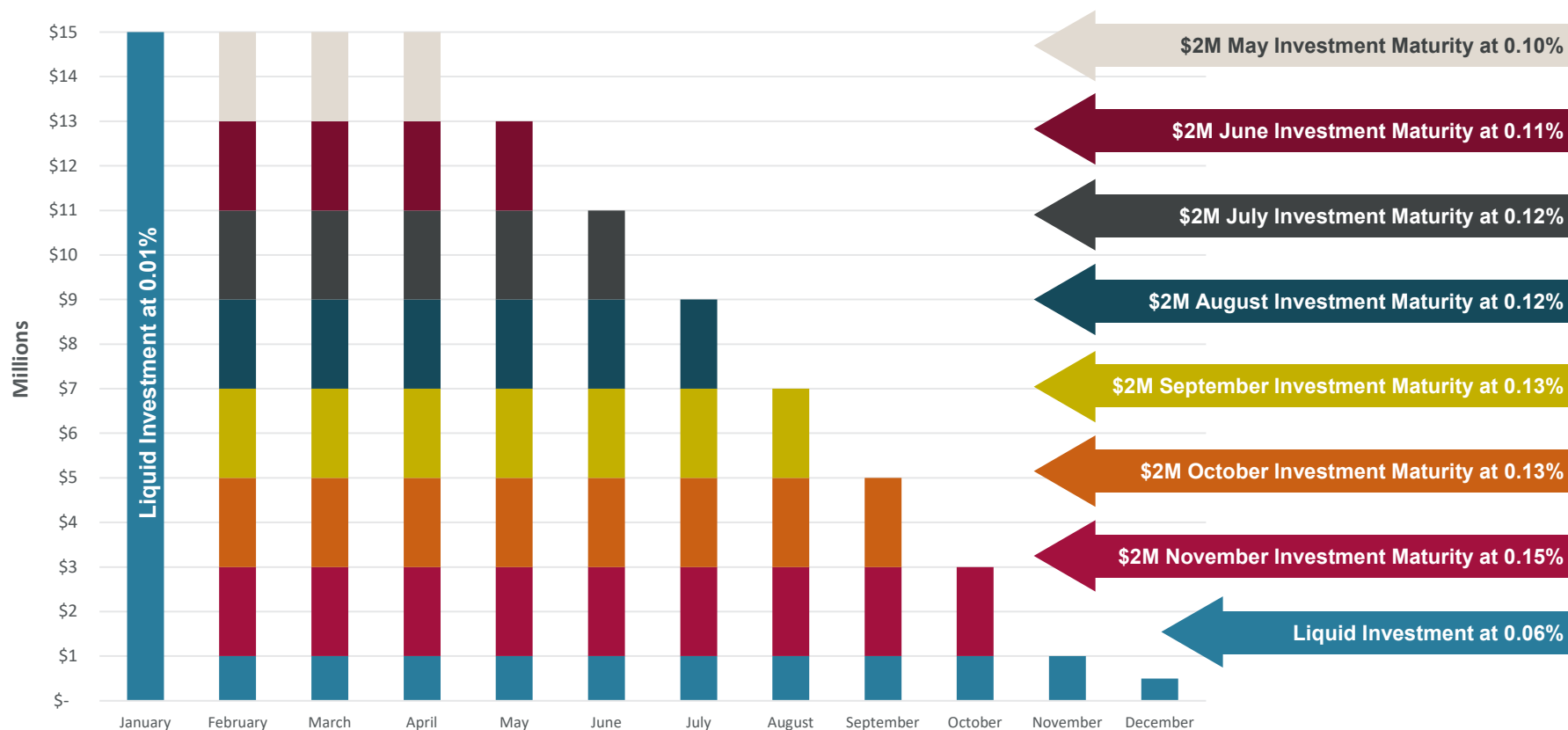
\$15,000,000 PROJECT SCENARIO



CASH FLOW

Laddered Investment Approach

\$15,000,000 INVESTMENT LADDER SCENARIO



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CASH FLOW

Investment Earnings

Option One

- Keep 100% Liquid in Checking/Bank Money Market Account earning 0.01%
- Potential investment income: \$1,033

Option Two

- Optimize with laddered investments based on liquidity needs earning between 0.10% and 0.15%
- Potential Investment Income: \$12,400

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PROPOSALS

REQUESTING AND EVALUATING

PROPOSALS

Request Multiple Proposals, Shop Options

- Specify guidelines for easiest comparison
- Rates
 - Fixed / Variable
 - If variable, how is rate determined and how often is rate reset
 - Net / Gross
- Fees – net of rate, hard dollar, earnings credit
- Interest – payment frequency, reinvest for compounding
- Liquidity
- Maturity
- Repeat

OVERVIEW

Oklahoma Statute Title 70. Schools: 70-5-115 G

1. Direct obligations of the United States Government
2. Obligations to the payment of which the full faith and credit of this state is pledged.
3. Certificates of deposits of banks when such certificates of deposits are secured by acceptable collateral as in the deposit of other public monies.
4. Savings accounts or savings certificates of savings and loan associations to the extent that such accounts or certificates are fully insured by the Federal Savings and Loan Insurance Corporation.
5. Repurchase agreements that have underlying collateral consisting of those items specified in 1 and 2 above where the collateral has been deposited with a trustee or custodian bank in an irrevocable trust or escrow account established for such purposes.
6. County, municipal or school district direct debt obligations for which an ad valorem tax may be levied or bond and revenue anticipation notes, money judgments against such county, municipality or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipality or school district is a beneficiary thereof.



OVERVIEW

Oklahoma Statute Title 70. Schools: 70-5-115 G

7. Money market mutual funds regulated by the Securities and Exchange Commission and which investments consist of obligations of the United States, its agencies and instrumentalities, and investments in those items and those restrictions specified in 1 through 6 above.
8. Warrants, bonds or judgements of the school district.
9. Qualified pooled investment programs, the investments of which consist of those items specified in 1 through 8 above as well as obligations of the United States agencies and instrumentalities, regardless of the size of the district's budget. To be qualified, a pooled investment program for school funds must be governed through an interlocal cooperative agreement formed pursuant to Section 5-117b and the program must competitively select its investment advisors and other professionals. Any pooled investment program used must be approved by the board of education.
10. Investment programs administered by the State Treasurer.





POLICY

INVESTMENT POLICY STATEMENT

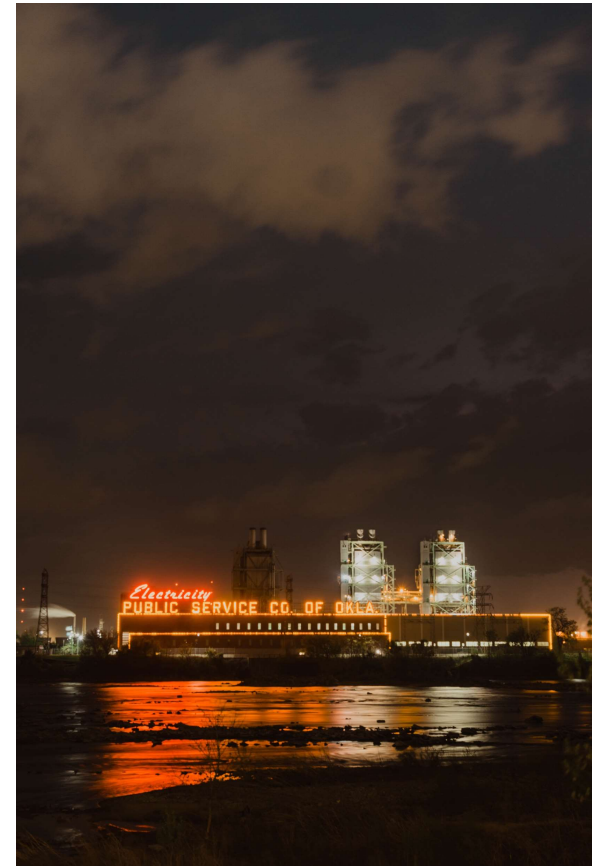
INVESTMENT POLICY

Purpose

Purpose of an IPS

- Identifies investment objectives, tolerance for risk, allowable investments
- Lays out how the cash investments will be managed and monitored
- Enhances the quality of decision making
- Demonstrates a commitment to the fiduciary care of public funds
- Acts as a communication tool

All Districts should have an IPS adopted and periodically reviewed by the Board.



INVESTMENT POLICY

Policy Coverage

An IPS Includes:

- Scope and investment objectives
- Roles, responsibilities, and standards of care
- Suitable and authorized investments
- Investment diversification
- Safekeeping, custody, and internal controls
- Authorized financial institutions, depositories, and broker/dealers
- Risk and performance standards
- Reporting and disclosure standards





WRAPUP

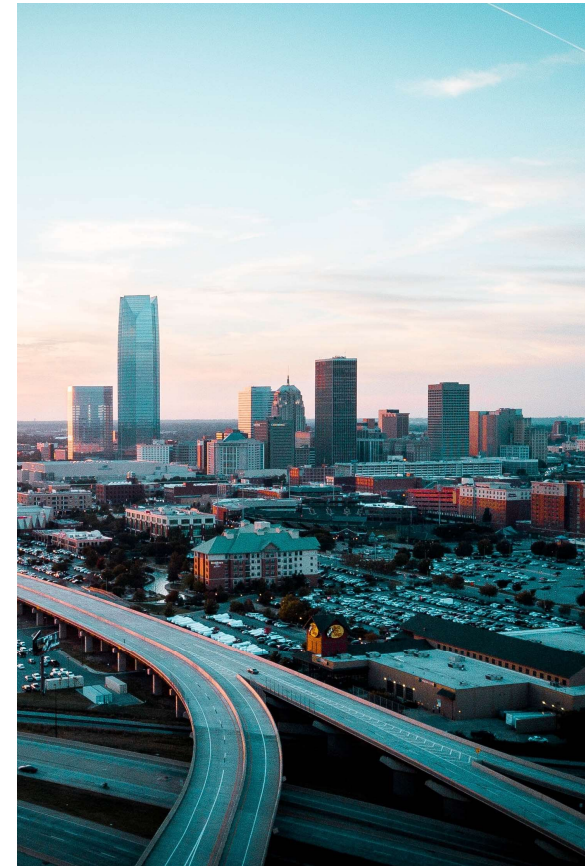
AND RESOURCES

RESOURCES

Government Finance Officers Association

GFOA.ORG

- Financial Policies
- Accounting & Financial Reporting
- Budgeting & Financial Planning
- Capital Planning / Infrastructure
- Debt Management
- Financial Management
- Pension & Benefit Administration
- Technology
- Treasury & Investment Management



RESOURCES

Other Resources

Oklahoma State Code:

- <http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=89844>

Sample Investment Policy:

- <https://www.ossba.org/services/policy-services/>

Government Finance Officers Association

- <https://www.gfoa.org>





OKLAHOMA LIQUID ASSET POOL

OLAP

- Program organized as an Interlocal under the laws of Oklahoma in 1996
- Established for the purpose of Oklahoma school funds to pool investments
- Meeting the goals of:
 - Safety of principal
 - Maintenance of liquidity
 - Competitive yield
- Offering solutions for
 - Daily operating funds
 - Reserve funds
 - Bond proceeds



OKLAHOMA LIQUID ASSET POOL

OLAP

Sponsored by:

- Oklahoma State School Boards Association
- Cooperative Council of Oklahoma School Administration
- Organization of Rural Oklahoma Schools
- Oklahoma Association of School Business Officials

Governed by a Board of Directors



CALL TO ACTION

What now?

- Focus, it's worth your time
- Setup policies, processes, and procedures
- Determine your investable cash amounts
- Request investment solutions from multiple providers
- Ask for assistance
- Ask questions



MAGICAL





THANK YOU!
QUESTIONS OR COMMENTS?