

Kentucky Association of Counties 2022 Annual Conference

Investment Rates, Options and Strategies

November 17, 2022



Presentation Overview

01

Market Update

Overview of year to date investment rate changes and trends.

02

Options and Strategies

What options are available to Kentucky Counties?

03

Q&A

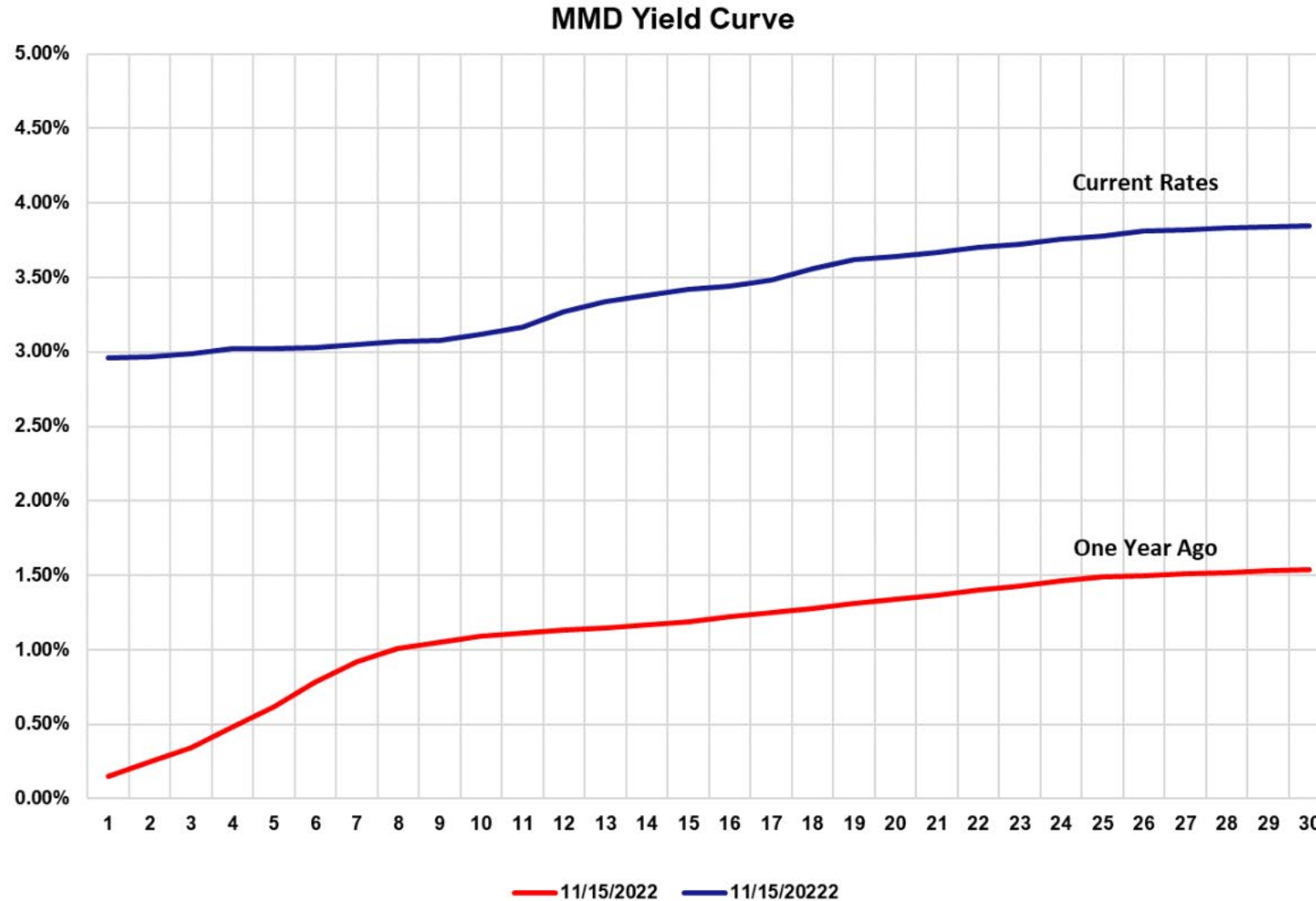
Return of Significant Investment Rates

Short-term interest rates have skyrocketed in the past year as the Federal Reserve has increased the benchmark lending rate to combat inflation.

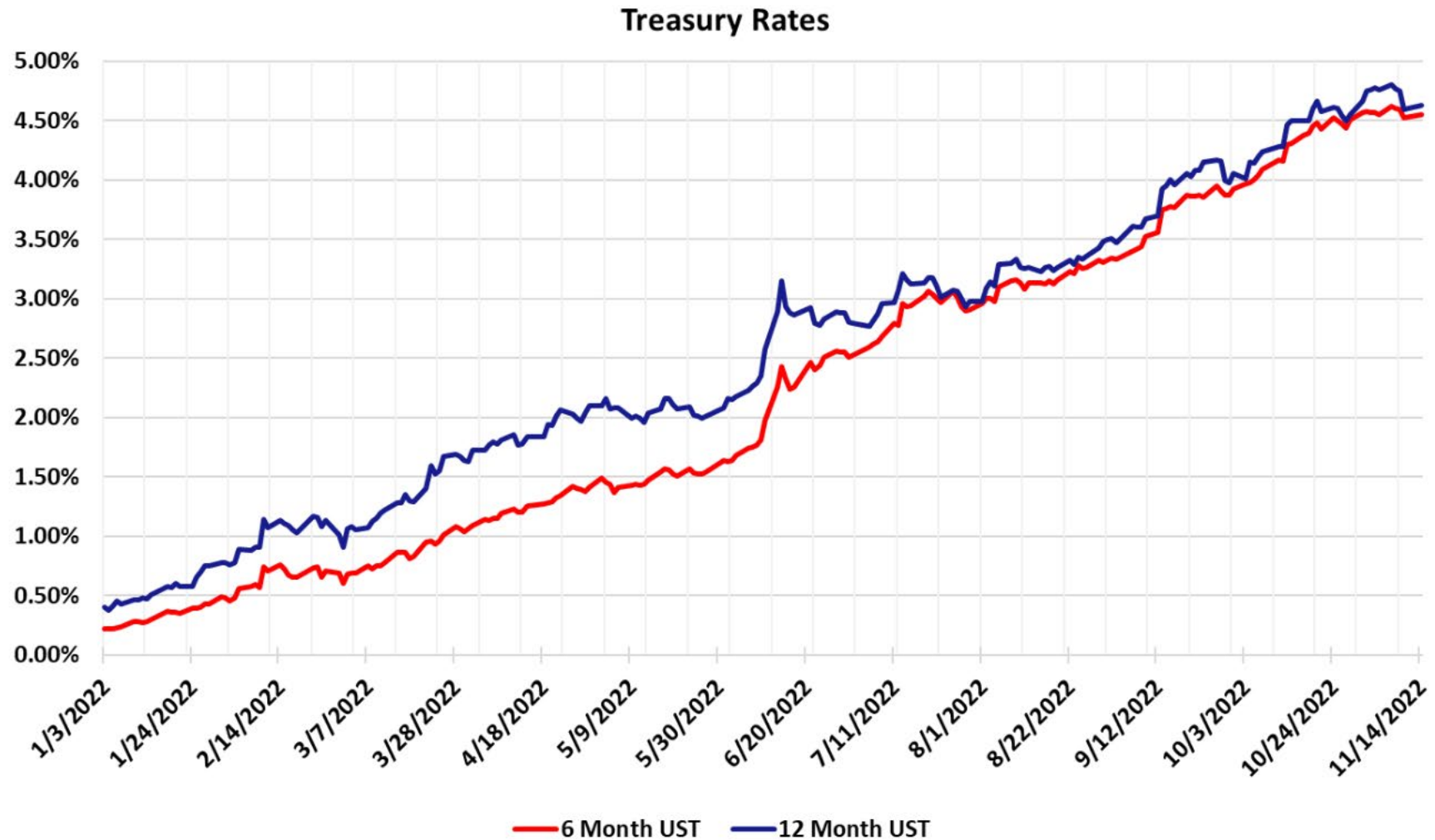
- Fed Funds target rate is 3.75% – 4.00% today
 - It was 0.00% – 0.25% in November 2021
- Additional Fed hikes are anticipated in the coming quarters
- Yield curve inversion
 - Shorter-term rates are higher than long-term rates
 - Historically this is a precursor for a recession
 - The bond market does not believe this is a long-term trend (i.e. they expect rates to drop over a longer-term horizon)



"AAA" Municipal Bond Rates



Short-Term Treasury Rates



Eligible Investments

Eligible investments are defined in KRS 66.480 and include but are not limited to the following:

US Treasury and Agency Obligations



Municipal Bonds issued by the state of Kentucky and its agencies



Money market accounts and mutual funds consisting of eligible securities



Collateralized certificates of deposit or related interest bearing bank accounts



Municipal bonds not issued in Kentucky that are rated in one of the three highest rating categories



Short-Term Investment Rates

US Treasury & SLGS Rates

- 1 Month - 3.71%
- 3 Month - 4.30%
- 6 Month - 4.54%
- 9 Month - 4.64%
- 12 Months - 4.64%
- 18 Months - 4.50%
- 24 Months - 4.39%

Products Offering Daily Liquidity

- US Government Money Market - 3.54%
- Deposit/Sweep Accounts - 3.00% - 3.50%
- SLGS Demand Deposit Notes - 3.25%



Investment Strategies

When dealing with public funds, a sound investment strategy centers around three primary concepts (in order):

1. Preservation of Capital – the first goal with any investment of public funds should be to protect and maintain the initial investment amount.
2. Liquidity – maintaining property liquidity is essential to fund the day-to-day operations of a municipal entity or to ensure funds are readily available for project draws or debt service.
3. Return – Once safety and proper liquidity are established, municipal entities and their advisors can then look at maximizing investment returns.



Investment Strategies

Based on the primary concepts mentioned and the current market environment, municipal entities should consider the following strategy:

- Utilize a sweep or government money market account for liquidity
 - Current yields > 3.00%
 - Daily access to your funds
- Purchase CD's, Treasury securities, or other Government securities that mature between 2 and 24 months.
 - Current yields > 4.25%
 - The maturity of these investments would correspond with cash needs
- Re-evaluate as investments mature
 - Consider changes in cash needs and the interest rate environment



Laddered Portfolio Example

Project Fund Example

- \$10,000,000 project
- 18-Month construction period with level draws
- Cash Investments – US Government Money Market Fund
- Securities Investments – US Treasury Notes
- 30% liquidity target
 - 30% of all future draws remains liquid at all time
- Interest is reinvested in the money market fund



Laddered Portfolio Example

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
							3.54%	(Portfolio Liquidity)	
Date	Estimated Construction Expenditures	Construction Fund Deposit	Treasury Bond Purchase	Treasury Bond Maturity	Treasury Bond Rate	Treasury Bond Interest	Estimated MMKT Interest	Cash Equivalent Balance	Cash as a % of Remaining Draws
12/01/22		\$10,000,000	\$6,800,000					\$3,200,000	32.00%
01/01/23	\$555,556			\$325,000	3.71%	\$3,072	\$9,440	\$2,981,956	31.57%
02/01/23	\$555,556			\$325,000	4.06%	\$6,319	\$8,797	\$2,766,516	31.12%
03/01/23	\$555,556			\$350,000	4.30%	\$9,689	\$8,161	\$2,578,811	30.95%
04/01/23	\$555,556			\$350,000	4.38%	\$13,040	\$7,607	\$2,393,903	30.78%
05/01/23	\$555,556			\$400,000	4.48%	\$7,413	\$7,062	\$2,252,823	31.19%
06/01/23	\$555,556			\$400,000	4.54%	\$9,055	\$6,646	\$2,112,968	31.69%
07/01/23	\$555,556			\$400,000	4.58%	\$22,794	\$6,233	\$1,986,440	32.51%
08/01/23	\$555,556			\$400,000	4.62%	\$24,404	\$5,860	\$1,861,149	33.50%
09/01/23	\$555,556			\$425,000	4.64%	\$26,826	\$5,490	\$1,762,910	35.26%
10/01/23	\$555,556			\$425,000	4.65%	\$28,430	\$5,201	\$1,665,985	37.48%
11/01/23	\$555,556			\$450,000	4.65%	\$19,205	\$4,915	\$1,584,549	40.75%
12/01/23	\$555,556			\$450,000	4.64%	\$20,880	\$4,674	\$1,504,548	45.14%
01/01/24	\$555,556			\$525,000	4.63%	\$12,154	\$4,438	\$1,490,584	53.66%
02/01/24	\$555,556			\$525,000	4.61%	\$12,101	\$4,397	\$1,476,527	66.44%
03/01/24	\$555,556			\$525,000	4.58%	\$12,023	\$4,356	\$1,462,350	87.74%
04/01/24	\$555,556			\$525,000	4.56%	\$11,970	\$4,314	\$1,448,078	---
05/01/24	\$555,556						\$4,272	\$896,795	---
06/01/24	\$555,556						\$2,646	\$343,885	---
Totals:	\$10,000,000	\$10,000,000	\$6,800,000	\$6,800,000	4.57%	\$239,375	\$104,509	---	---

Portfolio Summary

- The portfolio generates an estimated return of \$343,885 based on current rates.
- The blended yield of the entire investment is 4.20%.
 - 3.54% MMKT – variable and subject to change
 - 4.57% US Treasuries – rate is fixed and locked in at closing
- Funds can be reinvested as US Treasury securities mature.
 - This can be a way to further increase investment returns if construction is delayed.

This same strategy can be utilized for your general funds.

- A \$5.0MM general fund investment with the same structure would generate ~\$172,000 in interest over the same investment period.



Other Considerations

- Investments are not just limited to project funds.
 - Maximizing general fund returns is important
 - No investment amount is too small
- Consider bringing in advisors for amounts exceeding \$2.0MM.
 - Avoid standard management fees based on your invested balance
 - Goal is to establish an annual all in fee amount (more competitive)
- Leverage Treasury and other market rates to get a better yield from your local bank.
- For large Treasury purchases, consider competitively bidding out to ensure fair market value.
- Consider implementing investment policies that govern how you invest.
 - Provides continuity and clarity for new staff, Judges and Fiscal Court members

Questions?



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