FLCLASS®

An Investment Solution for Public Funds



# FIXED INCOME INVESTMENT STRATEGIES


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Investment Policy Review

# INVESTMENT POLICY REVIEW

- **Chapter 218 FINANCIAL MATTERS PERTAINING TO POLITICAL SUBDIVISIONS**
  - Part IV – INVESTMENT OF LOCAL GOVERNMENT SURPLUS FUNDS (ss 218.40-218.415

**(1)** SCOPE
**(2)** INVESTMENT OBJECTIVES
**(3)** PERFORMANCE MEASUREMENT
**(4)** PRUDENCE AND ETHICAL STANDARDS
**(5)** LISTING OF AUTHORIZED INVESTMENTS
**(6)** MATURITY AND LIQUIDITY REQUIREMENTS
**(7)** PORTFOLIO COMPOSITION
**(8)** RISK AND DIVERSIFICATION
**(9)** AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS
**(10)** THIRD PARTY CUSTODIAL AGREEMENTS
**(11)** MASTER REPURCHASE AGREEMENT
**(12)** BID REQUIREMENT
**(13)** INTERNAL CONTROLS
**(14)** CONTINUING EDUCATION
**(15)** REPORTING
**(16)** AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES
**(17)** AUTHORIZED INVESTMENTS; **NO** WRITTEN INVESTMENT POLICIES
**(18)** SECURITIES; DISPOSITION
**(19)** SALE OF SECURITIES
**(20)** PREEXISTING CONTRACTS (OCT 1, 2000)
**(21)** PREEMPTION
**(22)** AUDITS
**(23)** AUTHORIZED DEPOSITS
**(24)** INVESTMENT DECISIONS

Source: https://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0200-0299/0218/Sections/0218.415.html, https://www.sifma.org/documents/master-repurchase-agreement-mra-2/

# INVESTMENT POLICY REVIEW

- **218.415 Local Government Investment Policies** - Investment activity by a unit of local government must be consistent with a written investment plan adopted by the governing body, or in the absence of the existence of a governing body, the respective principal officer of the unit of local government and maintained by the unit of local government or, in the alternative, such activity must be conducted in accordance with subsection (17).
- **(17) AUTHORIZED INVESTMENTS; NO WRITTEN INVESTMENT POLICY.**—Those units of local government electing not to adopt a written investment policy in accordance with investment policies developed as provided in subsections (1)-(15) may invest or reinvest any surplus public funds in their control or possession in:
  - (a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
  - (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
  - (c) Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in s. 280.02.
  - (d) Direct obligations of the U.S. Treasury.

*The securities listed in paragraphs (c) and (d) shall be invested to provide sufficient liquidity to pay obligations as they come due.*

Source: https://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0200-0299/0218/Sections/0218.415.html, https://www.sifma.org/documents/master-repurchase-agreement-mra-2/

# INVESTMENT POLICY REVIEW

- **218.415 Local Government Investment Policies** - Any such unit of local government shall have an investment policy for any public funds in excess of the amounts needed to meet current expenses as provided in subsections (1)-(16)
- **(16) AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES.**—Those units of local government electing to adopt a written investment policy as provided in subsections (1)-(15) may by resolution invest and reinvest any surplus public funds in their control or possession in:
  - (a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.
  - (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
  - (c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.
  - (d) Direct obligations of the United States Treasury.
  - (e) Federal agencies and instrumentalities.
  - (f) Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.
  - (g) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., (abbreviated – see statute for entire definition).
  - **(h) Other investments authorized by law or by ordinance for a county or a municipality.**
  - **(i) Other investments authorized by law or by resolution for a school district or a special district.**

Source: https://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0200-0299/0218/Sections/0218.415.html, https://www.sifma.org/documents/master-repurchase-agreement-mra-2/

# INVESTMENT POLICY REVIEW

- **2023 – HB3**

(24) INVESTMENT DECISIONS.—

(a) As used in this subsection, the term "pecuniary factor" means a factor that the governing body of the unit of local government, or in the absence of the existence of a governing body, the respective principal officer of the unit of local government, prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objectives and funding policy. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

(b) Notwithstanding any other law, when deciding whether to invest and when investing public funds pursuant to this section, the unit of local government must make decisions based solely on pecuniary factors and may not subordinate the interests of the people of this state to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns.

- **2025 – HB669**

(5) LISTING OF AUTHORIZED INVESTMENTS.—The investment policy shall list investments authorized by the governing body of the unit of local government, subject to the provisions of subsection (16). The investment policy authorized by the governing body of the unit of local government may not require a minimum bond rating for investments authorized pursuant to paragraph (16)(f). Investments not listed in the investment policy are prohibited. If the policy authorizes investments in derivative products, the policy must require that the unit of local government's officials responsible for making investment decisions or chief financial officer have developed sufficient understanding of the derivative products and have the expertise to manage them. For purposes of this subsection, a "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values. If the policy authorizes investments in reverse repurchase agreements or other forms of leverage, the policy must limit the investments to transactions in which the proceeds are intended to provide liquidity and for which the unit of local government has sufficient resources and expertise.

Source: https://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0200-0299/0218/Sections/0218.415.html, https://www.sifma.org/documents/master-repurchase-agreement-mra-2/

# PERMITTED INVESTMENTS – INTERNAL

| Entity and Investment Manager Authorized Investment – Sector Type | Minimum Rating Requirement | Maturity Limits | Maximum Allocation | Individual Issuer Limit |
|---|---|---|---|---|
| Cash and Cash Equivalents | N/A | NA | 100% | N/A |
| United States Government Securities | N/A | 5 Years | 100% | N/A |
| United States Government Agencies | N/A | 5 Years | 50% | N/A |
| Federal Instrumentalities (United States Government Sponsored Enterprises "GSE") | N/A | 5 Years | 75% | 40% |
| Interest Bearing Time Deposit or Savings Accounts | N/A | 1 Year | 20% | 10% |
| Repurchase Agreements | N/A | 90 Days | 25% | 10% |
| Registered Investment Companies (Money Market Mutual Funds) | AAAm (or equivalent) | N/A | 100% | 10% |
| Intergovernmental Investment Pools (Stable Net Asset Value) | AAAm (or equivalent) | N/A | 100% | N/A |
| Intergovernmental Investment Pools (Floating Net Asset Value) | AAAf (or equivalent) | N/A | 50% | N/A |
| Florida PRIME Fund | AAAm | NA | 25% | N/A |

# PERMITTED INVESTMENTS – EXTERNAL

| Investment Manager Authorized Investment – Sector Type | Minimum Rating Requirement | Maturity Limits | Maximum Allocation | Individual Issuer Limit |
|---|---|---|---|---|
| Mortgage Backed Securities "MBS" | AA | 5 Years | 20% | 15% |
| State and/or Local Government Taxable and/or Tax-Exempt Debt | Single "A" category by two NRSROs | 5 Years | 30% | 5% |
| Commercial Paper | A-1 by S&P and P-1 by Moody's | 270 Days | 20% | 5% |
| Corporate Notes | Single "A" category by any NRSROs | 5 Years | 25% | 5% |
| Asset-Backed Securities (ABS) | Double "A" category by any two NRSROs | 5 Years | 20% | 5% |



# Developing a Useful Cashflow Analysis

# FUNDAMENTALS OF A CASH FLOW

- **Defining the Cash Flow Analysis**
  - Analysis that measures the timing and amount of Revenues and Expenditures
- **Analysis based on historical cash and investment balances**
  - This approach utilizes historical monthly balances to determine high and low balances throughout multiple fiscal years.
  - Typically calculated with on a fund by fund and total of all funds (commingled) basis
  - Excludes non-recurring revenues and expenditures that may over/under state the results of the analysis
  - Output based on differences between low balances and high balances over time
- **Analysis based on historical revenues and expenditures by source and use**
  - **Revenue:** Property Taxes, Gas Taxes, Tourist Development Taxes, Charges for Services
  - **Expenditures:** Payroll, Public Safety, Debt Service, Capital Projects, Public Works



# COMMON CASH FLOW CHALLENGES



## Revenue Volatility

Economic conditions can reduce tax revenue streams and investment income.  Cyclical cycle of taxes.



## Expenditure Pressures

Rising costs on services, goods and infrastructure coupled with unexpected expenditures.



## Political Constraints

Budget cycles and **new legislation** can limit flexibility.



## Regulatory Requirements

Mandates can restrict fund allocation and timing due to specific tracking requirements.

# BENEFITS OF A STRONG CASH FLOW ANALYSIS



## Enhanced Visibility

Reveals timing mismatches between receipts and disbursements. Helps identify cash surpluses and shortages in advance.



## Resource Optimization

Enables strategic investment of idle funds. Minimizes borrowing costs during cash shortfalls.



## Financial Stability

Ensures sufficient liquidity for operations. Provides confidence to staff, rating agencies, etc.



## Risk Management

Identifies potential liquidity risks. Enables proactive mitigation strategies. Proper reporting to Boards and Public.



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# POTENTIAL OUTCOMES OF A POOR CASH FLOW ANALYSIS



## Lack of Visibility

Possible liquidity shortage as well as lack of funds to pay expenses.  Regulatory exposure and other reporting shortfalls.



## Resource Depletion

Unable to make investment decisions due to lack of understanding as well as the possibility of having to sell a security at a loss.



## Financial Instability

Operational risk and stress on staff.  Possible negative impact on credit ratings and increased borrowing costs.



## Risk

Exposed to possible liquidity or other risks



# Implementing a Holistic Approach to the Investment Program

# SCHOOL DISTRICT CASH FLOW PROFILE

### State FEFP Revenue

Distributed to districts one to two times per month, creating a relatively level inflow.

### Ad Valorem Property Taxes

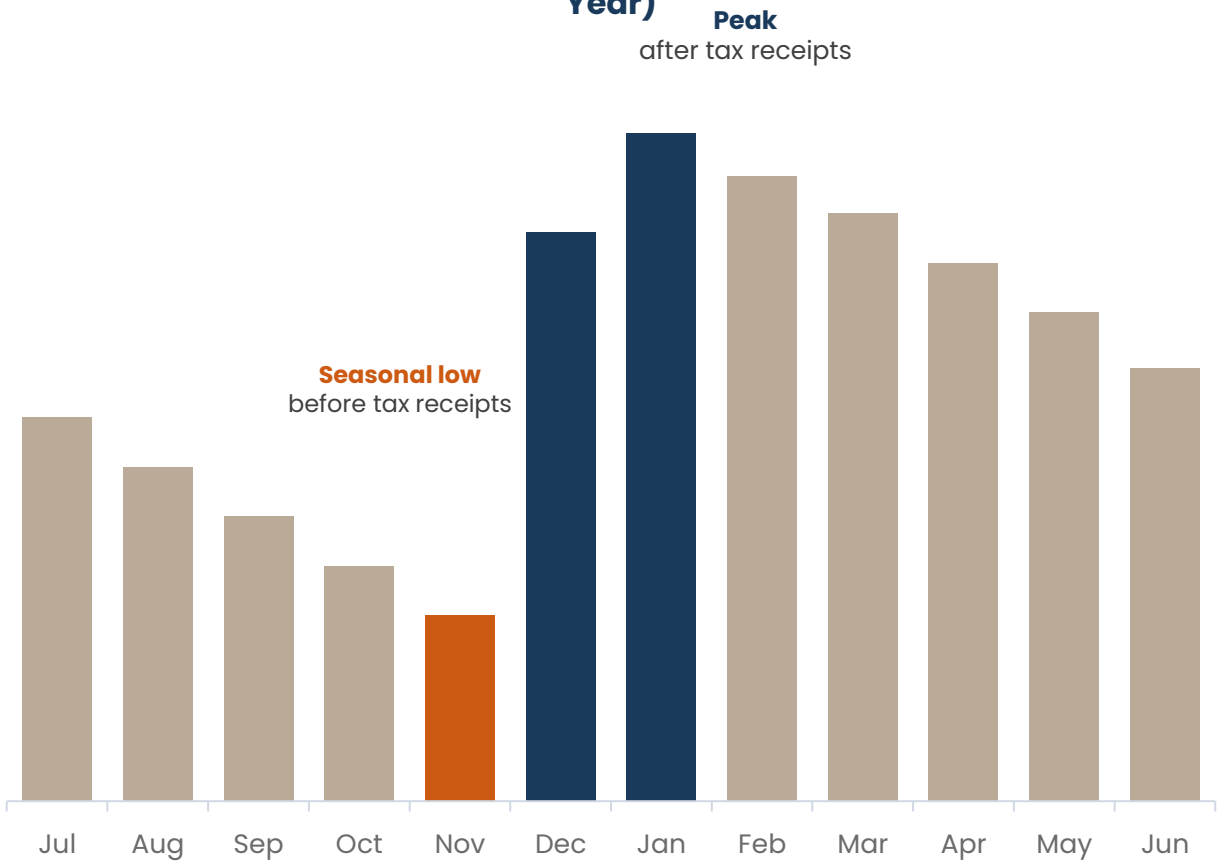
Receipts concentrate from late November through December, producing a mid-year cash peak.

### Recurring Disbursements

Payroll, charter school transfers, debt service and capital projects draw cash throughout the year, often ahead of tax receipts.

**Planning implication:** hold liquidity for the fall low point and put post-tax-season surplus to work in fixed-term vehicles.

**Hypothetical Operating Cash Balance by Month (Fiscal Year)**




Source: Florida School Finance Officers Association, "Debt Basics – TANs," June 2026. Chart is a hypothetical illustration of a typical seasonal pattern, not data for any specific district. Actual cash flows vary by district.

# COMPREHENSIVE CASH MANAGEMENT

## LGIP Programs Coupled with a Diverse Investment Toolkit

**ENHANCED CASH/LTD**
Longer duration, pooled variable NAV investment strategies.

**TERM SERIES I & II**
Longer duration, pooled investment strategies with fixed maturities and rates.

**SEPARATELY MANAGED ACCOUNTS**
A separate, professionally managed portfolio.




**CASHFLOW ANALYSIS**
Cash flow modeling tool, designed to assist in optimizing the entire cash management strategy.

**FIXED RATE INVESTMENTS**
Fixed rate investment designed to complement liquid investment strategies.

**BOND PROCEEDS MANAGEMENT**
Active management of the BPM process including areas of investment, arbitrage and reporting.

# SHORT-TERM INVESTMENT OPTIONS AT A GLANCE

| Option | Statutory Reference | Liquidity | Rate Structure | Protection Features | Typical Use |
|---|---|---|---|---|---|
| **Bank Deposits** | s. 218.415(16)(c), (17)(c); Chapter 280 | Daily | Variable, set by the bank | FDIC insurance plus Chapter 280 collateral at a Qualified Public Depository | Operating accounts, payroll and disbursements |
| **Money Market Funds** | s. 218.415(16)(b), (17)(b) | Same-day or next-day | Variable, market-based | SEC Rule 2a-7 portfolio limits; highest rating required; not FDIC insured | Supplemental daily liquidity |
| **LGIPs (e.g., FLCLASS)** | s. 218.415(16)(a), (17)(a); s. 163.01 | Daily (stable NAV) or next-day (variable NAV) | Variable, market-based | Rated, diversified pooled portfolio; not FDIC insured | Operating reserves and core liquidity |
| **Certificates of Deposit** | s. 218.415(16)(c), (17)(c), (23) | Fixed term; early withdrawal penalty | Fixed | Chapter 280 collateral, or full FDIC insurance through (23) placement | Cash needed on a known future date |
| **Term Investments** | s. 218.415(16)(a), (d), (e) | Fixed maturity or planned redemption date | Fixed | Rated term pools; U.S. Treasury and agency credit | Strategic reserves matched to future needs |

Source: Section 218.415 and Chapter 280, Florida Statutes; FLCLASS.com. Subsection references are to s. 218.415, F.S. Subsection (16) applies to entities with a written investment policy and (17) to those without one. Each district's investment policy governs which options are authorized and in what amounts.

# BANK DEPOSITS: QUALIFIED PUBLIC DEPOSITORIES

## How It Works

- Florida public funds must be held in Qualified Public Depositories (QPDs) designated by the State Chief Financial Officer under Chapter 280, F.S.
- Applies to checking, savings, money market deposit accounts and certificates of deposit.
- Rates are set by the bank and may adjust more slowly than market rates. Earnings credits can offset bank service fees.

## District Responsibilities

- Complete the Public Deposit Identification and Acknowledgment Form when opening each account.
- File the Public Depositor Annual Report to the CFO by November 30 each year.
- Monitor balances against operating needs. Funds above near-term requirements may earn more in other authorized options.

## Layers of Protection

### FDIC Insurance

Deposits are insured by the FDIC up to applicable limits.

### QPD Collateral

Each QPD pledges collateral with the CFO at a 25%, 50%, 110% or 150% level, set by the CFO based on the bank's financial condition.

### Statewide Program

The Florida Security for Public Deposits Act is designed to protect public depositors against loss of principal and accrued interest if a QPD fails.

Source: Chapter 280, Florida Statutes (s. 280.04); Florida Department of Financial Services, Division of Treasury, "Major Characteristics of Florida's Public Deposits Program."

# MONEY MARKET FUNDS

### Statutory Requirement

Must be registered with the SEC and carry the highest credit quality rating from a nationally recognized rating agency, s. 218.415(16)(b) and (17)(b).

### Regulatory Framework

Governed by SEC Rule 2a-7, which limits portfolio maturity, credit quality and diversification and sets minimum daily and weekly liquidity levels.

### Fund Types

Government funds invest at least 99.5% of assets in cash, government securities and fully collateralized repurchase agreements. Prime funds may also hold corporate and bank obligations.

### Liquidity

Typically same-day or next-day access, depending on each fund's trade cut-off times and settlement terms.

### Considerations

- Not FDIC insured. Stable NAV funds seek to maintain a $1.00 share price, but this is not guaranteed.
- Expense ratios reduce net yield. Compare returns net of fees.
- Institutional prime funds may charge liquidity fees during periods of heavy redemptions.
- Confirm investment policy allocation and issuer limits. The sample policy in this presentation allows up to 20% of the portfolio, 10% per fund.

Source: Section 218.415, Florida Statutes; SEC Rule 2a-7 (17 CFR 270.2a-7), as amended 2023. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency.

# LOCAL GOVERNMENT INVESTMENT POOLS: FLCLASS

LGIPs pool the cash of participating public entities in a professionally managed portfolio.

| Daily Liquidity Pool | |
|---|---|
| **Purpose** | Daily liquidity |
| **Access** | Same-day withdrawals, 3:00 p.m. ET cut-off |
| **NAV** | Stable, seeks $1.00 per share |
| **Rating** | AAAm (S&P Global Ratings) |
| **Minimum** | None |

| Enhanced Cash Pool | |
|---|---|
| **Purpose** | Short-term liquidity |
| **Access** | Next-day |
| **NAV** | Variable, $10.00 per share |
| **Rating** | AAAf/S1 (Fitch Ratings) |
| **Minimum** | None |

| Term Investments | |
|---|---|
| **Purpose** | Strategic reserves |
| **Access** | Planned redemption, 60 to 365 days |
| **Rate** | Fixed, dividends paid at maturity |
| **Rating** | AAAf (Fitch Ratings) |
| **Minimum** | $1,000,000 per pool |

- Board of Trustees drawn from participants
- Public Trust Advisors, LLC: Investment Adviser and Administrator
- Fifth Third Bank: Custodian
- No banking fees charged to participants

Source: FLCLASS.com (Overview, Term Series II and FAQs), accessed October 2026. Public Trust Advisors, LLC, a PTMA affiliate, serves as investment adviser and administrator to FLCLASS and receives fees for these services. Ratings are not a recommendation and are subject to change. Early redemption from a Term Series pool will likely result in a penalty. Please review the FLCLASS Information Statement before investing.

# INVESTMENT POOL/FUND QUESTIONNAIRE

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Describe the credit review process for investments within the pool/fund.
7. Are reserves, retained earnings, etc. utilized by the pool/fund?
8. A fee schedule, and when and how is it assessed.
9. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

# Amortized Cost vs. Fair Value

How an external investment pool values its holdings, and what each method means for participants

| METHOD | **Amortized Cost**<br>GASB 79 qualifying pools | **Fair Value / NAV**<br>GASB 31 and GASB 72 |
|---|---|---|
| **How securities are carried** | Purchase price, with any discount or premium spread evenly to maturity. Daily market moves are not reflected. | Marked to market. Unrealized gains and losses are reflected. |
| **Share price** | Stable $1.00 | Stable $1.00 (prime-style pools) or floating (enhanced and variable NAV products) |
| **Safeguard** | Shadow pricing: the pool checks market value against amortized cost | Market value is the reported number |
| **Participant footnote** | Kept out of the fair value hierarchy; any redemption limits must be disclosed | Reported at fair value, typically measured at NAV |

Sources: GASB Statement No. 31; GASB Statement No. 72, Fair Value Measurement and Application; GASB Statement No. 79, Certain External Investment Pools and Pool Participants. For Florida public entity finance officers. For informational purposes only; not accounting or legal advice. Participants should confirm treatment with their auditor and each pool's current information statement. PTMA Financial Solutions is a registered investment adviser. Registration does not imply a certain level of skill or training.

# THE IMPORTANCE OF CREDIT RESEARCH IN LGIPS

## Why It Matters

- LGIPs hold commercial paper, bank obligations, corporate notes and repurchase agreements, not only Treasuries, so each holding carries issuer credit risk.
- Ratings are a starting point. They can lag market developments and do not replace independent analysis.
- A credit event in a pooled fund affects every participant's value and access to cash.

**FLORIDA CASE STUDY |** November 2007

**$13B+** withdrawn from the Local Government Surplus Funds Trust Fund in weeks, about 46% of its balance

- Downgraded commercial paper tied to the subprime crisis triggered the outflows.
- Withdrawals were suspended November 29, 2007; about $2B of impaired holdings were moved to a restricted pool, later Fund B.

## Elements of a Credit Research Process

1. **Independent issuer analysis**
   Financial strength, industry and liquidity review before purchase, beyond agency ratings.
2. **Approved issuer list**
   Formal approval with limits by issuer, sector and maturity.
3. **Ongoing surveillance**
   Continuous monitoring with early-warning triggers and a defined downgrade response.
4. **Diversification**
   Concentration limits so no single issuer can materially impair the pool.
5. **Liquidity stress testing**
   Testing the portfolio against large redemptions and market disruption.

Source: Florida Auditor General, Report No. 2013-095, State Board of Administration, Local Government Surplus Funds Trust Fund. Historical events are presented for educational purposes and are not indicative of future results. Ask any pool under consideration who performs its credit research and how downgraded holdings are handled (see the Investment Pool/Fund Questionnaire).

# TERM INVESTMENTS: MATCHING MATURITIES TO CASH NEEDS




### LGIP Term Series

Fixed rate with a planned redemption date, such as FLCLASS Term Series II: 60 to 365 days, $1,000,000 minimum. Early redemption will likely result in a penalty.

### U.S. Treasury Bills and Notes

Direct obligations of the U.S. Treasury, s. 218.415(16)(d). Active secondary market, but market value fluctuates if sold before maturity.

### Federal Agency Securities

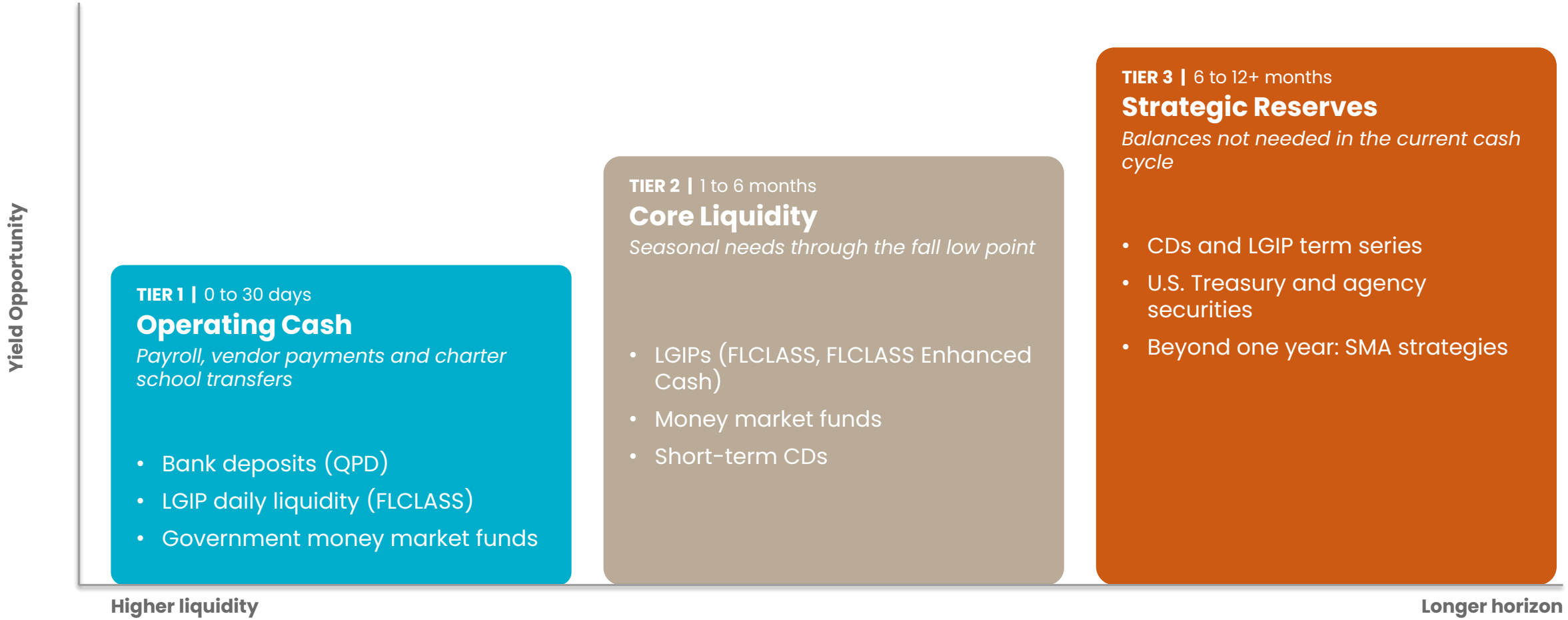
Federal agencies and instrumentalities, s. 218.415(16)(e), where authorized by the district's investment policy. Discount notes offer short maturities.

### Certificates of Deposit

Collateralized or FDIC-insured CDs with fixed rates and terms, structured to mature ahead of known disbursements.

Source: Section 218.415, Florida Statutes; FLCLASS.com. Timeline is a hypothetical illustration of a typical school district cash cycle. Fixed-rate investments sold or redeemed before maturity may result in a loss of principal or penalty.

# BUILDING A SHORT-TERM LIQUIDITY STRUCTURE




Sample scenario, not intended to be an investment recommendation. Tier sizing should reflect the district's cash flow analysis, investment policy and risk tolerance. Higher yield opportunity generally involves less liquidity or more interest rate risk. Investing involves risk including the possible loss of principal.

# INVESTMENT PROGRAM QUESTIONS TO CONSIDER

- What is my risk tolerance?
- Is the investment policy statement current?
- Has a cash flow analysis been prepared and updated?
- Is there a written internal controls procedures manual?
- Have separation of duties been clearly defined and are these roles consistent with the organizational structure?
- Who is responsible for bank and custody reconciliation?
- Are records properly documented and stored?
- Are report formats consistent with investment policy and organizational requirements?
- Is a periodic review of the investment program and market conditions performed?
- Active vs. Passive Investment Strategy (prior authorization vs. duration target approach)
- What investment sectors are permitted and what are the maturity limits?
- Who is responsible for authorizing investment transactions?
- Have I completed my annual 8 eight hour of CPE?

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