Levy County 2023

Investment Update

Objectives for Public Investment

1. Safety
2. Liquidity
3. Yield

Brief Refresher of the Last 10 Years (Challenges)

1. The county's banking structure used to divide actual funding sources via separate bank accounts, spread mostly across two banks.
2. The resulting dozens of operational cash accounts had very negative impacts on work efficiency, and resource employment flexibility. Cash was spread so thinly across dozens of bank accounts cash flow management for operating was a constant concern, and excess cash available for investment was minimized.
3. In addition to practical challenges, there were fiscal problems, as operating deficits were reducing what was available for paying for operating and capital needs, let alone investment.
4. In 2016 the County was trending towards liquidity failures by 2018's fall season before the Property Tax payments would arrive.
5. External constraints included a decade of mostly historically-low interest rates.

Brief Refresher of the Last 10 Years (Adjustments)

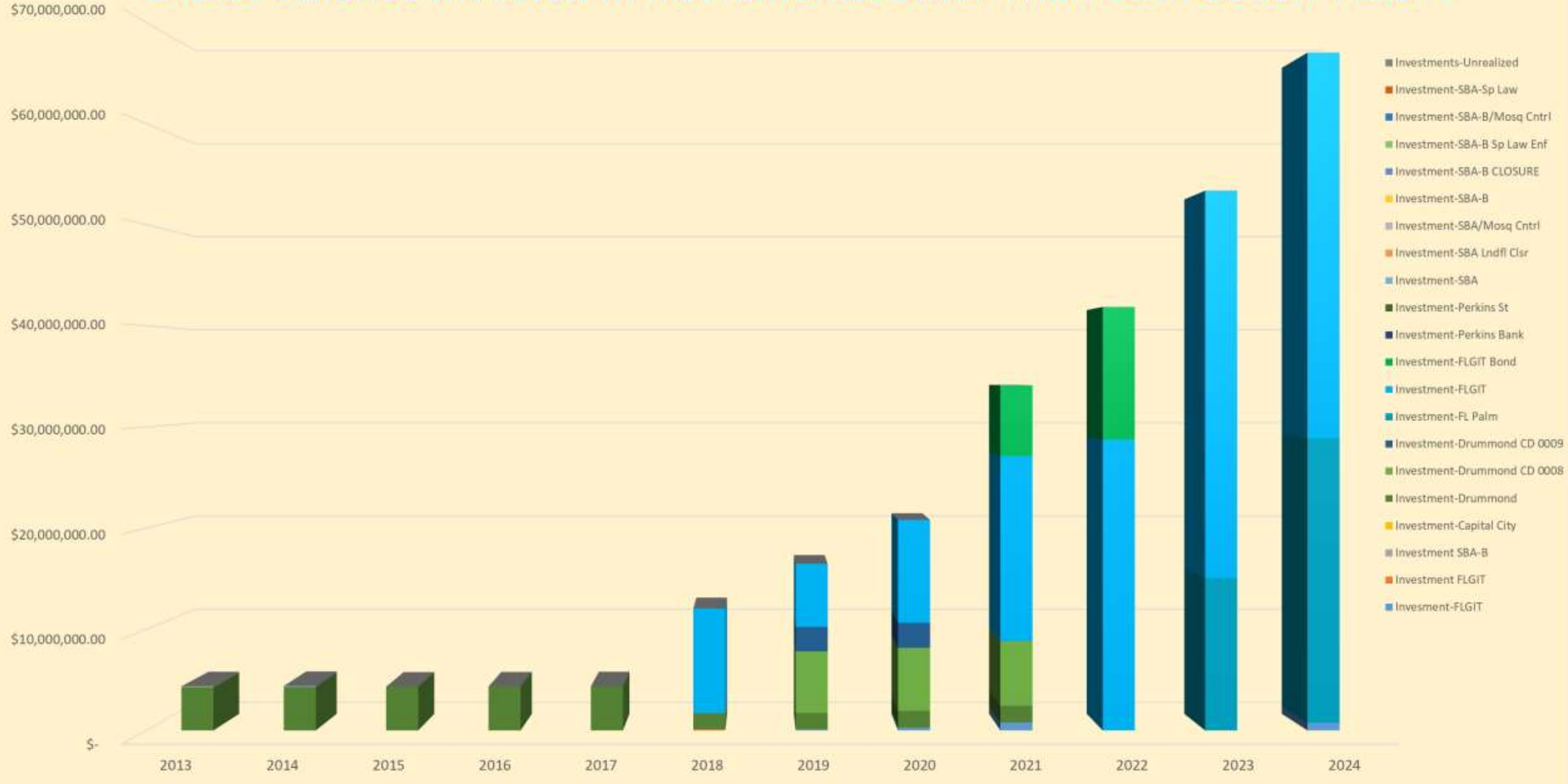
1. In Spring of 2016, we began utilizing a Pooled Operating Cash model, which is still acceptably allows us to segregate fund ownership for legal and accounting purposes.
2. This allowed for consolidation of excess cash and efficiency in AP and Payroll processing.
3. In summer of 2016, (2017's Budget Process) the County also began a multi-year process of correcting operating deficits, employing numerous structural (such as administrative cost allocation plans), revenue (taxes & assessments), and expense (compensation realignment) adjustment measures. The latter two hurt, but worked.
4. As a result, Reserves were recovered to historical levels, then beyond them.
5. Historically-low interest rates prevailed in the macro environment.

Brief Refresher of the Last 10 Years (Adjustments #2)

6. With Reserves reviving, but low rates, and Investments still spread thin like cash had been, we began reassessing our investment approach in Summer 2018. We began pooling investments as well, which provided flexibility to invest more.
7. This instantly more than doubled available resources for investment.
8. In anticipation of further rate drops to all-time lows and were able to lock in rates for 36 months to bridge us across a period of rates of 0.25%-0.5% at 2.6%.
9. In the meantime, tremendous growth in reserves the last several years was fueled by operating surpluses (75%) and CARES/ARPA infusions (25%).
10. Investment earnings have totaled nearly $4M in 5.5 years since restructure.
11. The result is an upward spiral in balances, and earnings.
12. Interest rates have also rocketed upward as the Fed quickly overreacted to inflation (after denying it existed, then claiming it was transitory, then claiming it was beneficial)

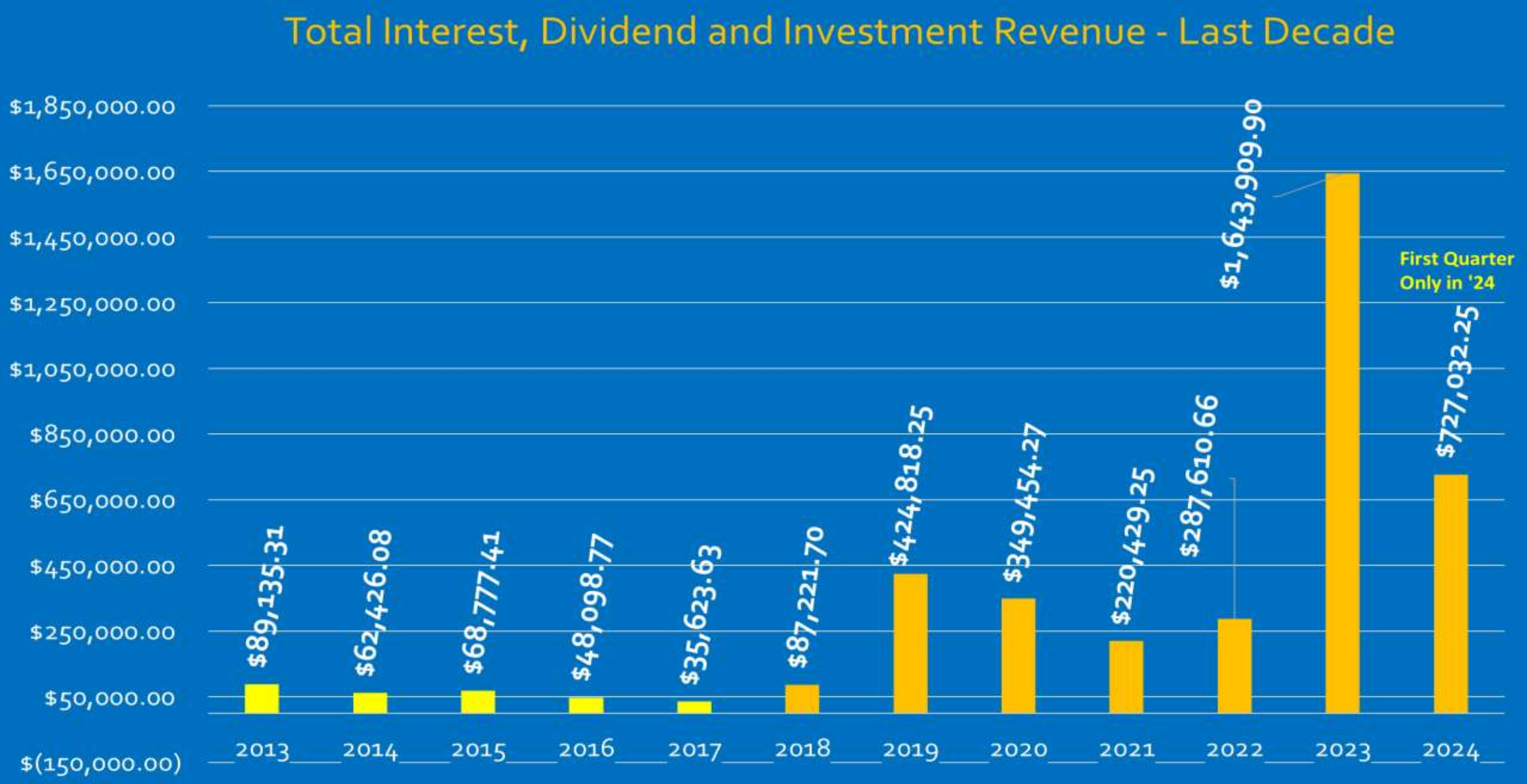
(See following slides for growth in investment balances and earnings)

Excess Balance Invested in Instruments Other Than Cash 2013-Present

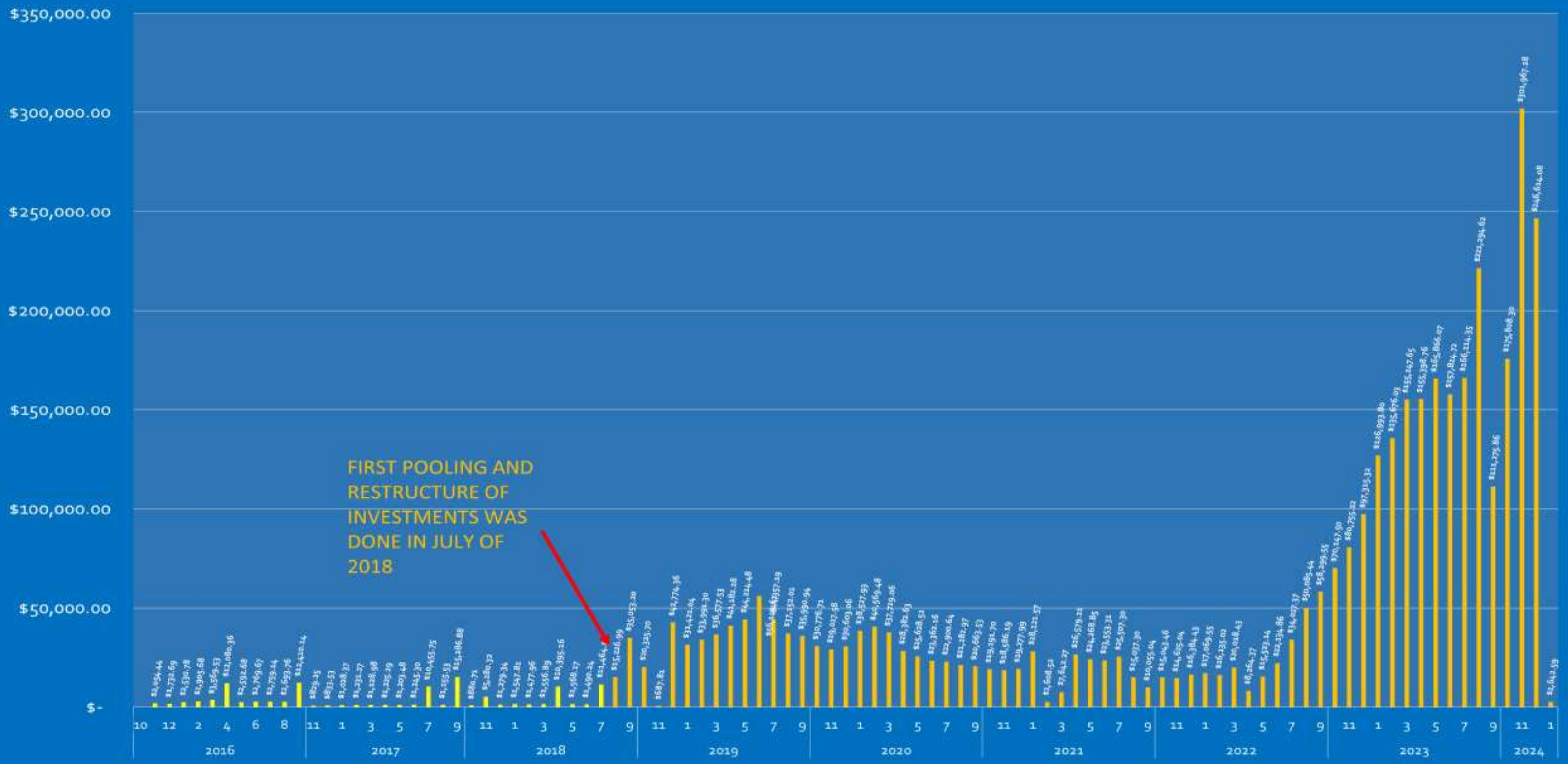


Our next look at our actual results would include just simple dividend and interest revenue (no value fluctuations, here, we've smoothed this for realized amounts only since exiting the Short Term Bond Fund):

Total Interest and Dividend Revenue


Total Interest, Dividend and Investment Revenue - Last Decade
$1,850,000.00
$1,650,000.00
$1,450,000.00
$1,250,000.00
$1,050,000.00
$850,000.00
$650,000.00
$450,000.00
$250,000.00
$50,000.00
$(150,000.00)
$89,135.31
$62,426.08
$68,777.41
$48,098.77
$35,623.63
$87,221.70
$424,818.25
$349,454.27
$220,429.25
$287,610.66
$1,643,909.90
$727,032.25
First Quarter
Only in '24
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024

Total Monthly Interest, Dividend and Realized Gain/Loss Revenue - Last 8.25 Years



Annual Interest, Dividend, Realized Gain/Loss Revenue – Last 10 Years

YEAR	Sum of Income Amount
2014	**$ 62,426.08**
2015	**$ 68,777.41**
2016	**$ 48,098.77**
2017	**$ 35,623.63**
2018	**$ 87,221.70**
2019	**$ 424,818.25**
2020	**$ 349,454.27**
2021	**$ 220,429.25**
2022	**$ 287,610.66**
2023	**$ 1,643,526.29**

Clarification

Note that excess invested cash in a moment of time (particularly 12/31) does not necessarily equal fund reserves, as cash flows fluctuate through the year in several funds. Our Reserves are healthy, but we don't want anyone thinking we've got $70M free without attachments to it.

We pull money in and out of these investments and convert back to cash as needed for Capital Projects, and, in the latter part of the year, for Operating Needs as the Property Tax collections drift downward and expenses often remain stable or increase.

Reporting and Policy Implementation Update

1. In 2020 we started reporting as required by FS 218.415, despite not having, at that time, a compliant policy.
2. In summer of 2021 the Board approved a policy that will allow us to comply with Statute and diversify our investments, and improve yield.
3. In 2022 we worked out terms with PFM Asset Management to serve as the County's Investment Advisor, and have signed an agreement with them to allow us to get the most out of our policy framework.
4. Since May of 2023 we have moved $28MM dollars in two instalments to PFM and due to the interest rate environment placed those dollars in the equivalent of money market funds and CD type instruments currently earning 5.5% to 5.8%. This has brought over $525K to the County.

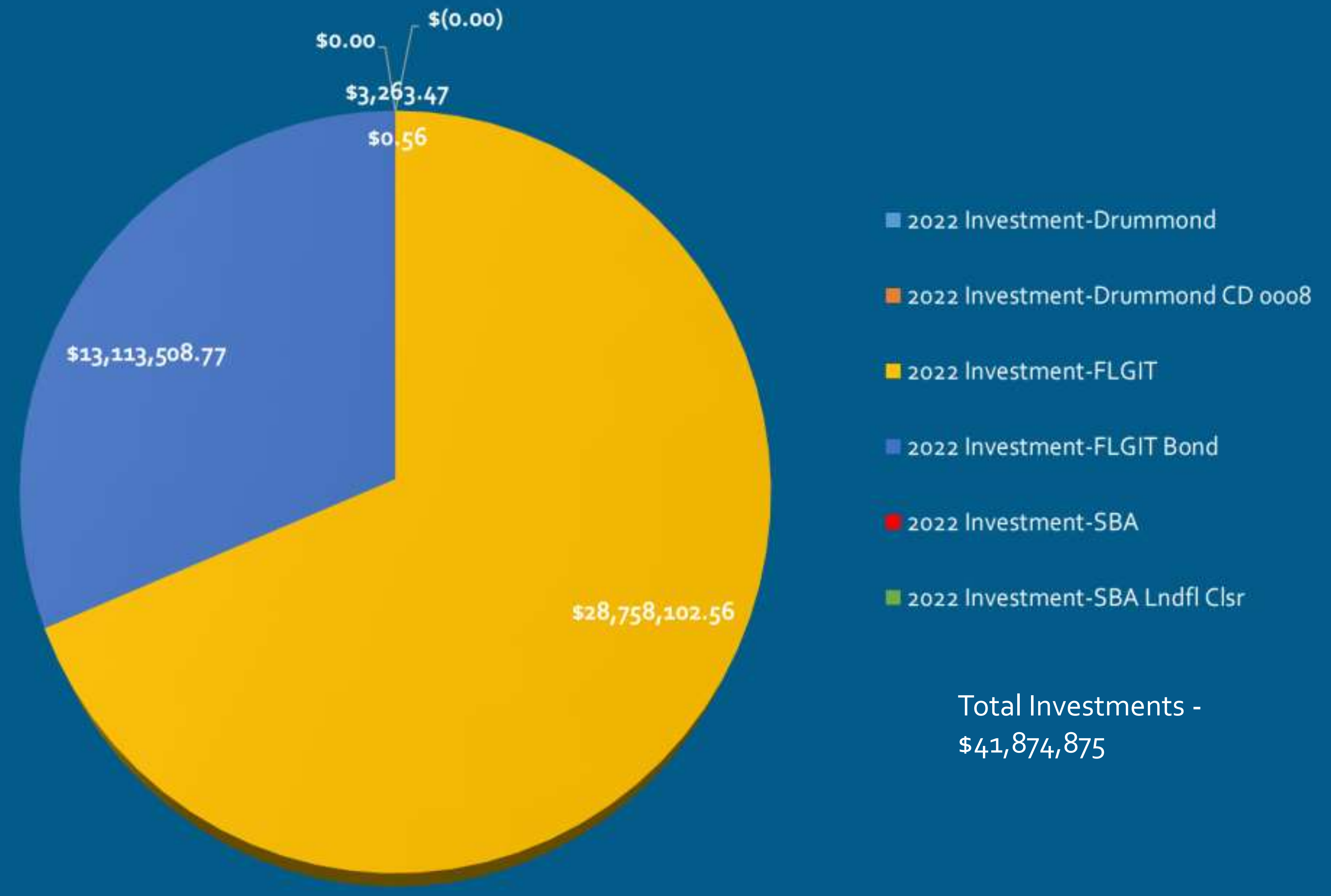
Reporting and Policy Implementation Update (continued)

6. We also had $39MM in the Florida Government Local Investment Trust. Due to higher rates we received over $1.9MM from that investment. This fund was also paying in the mid 5% range toward the end of 2023.
7. We moved out of the Florida Government Short Term Bond Fund in May of 2023. With all the gyrations of the fund we ended up losing about $50K since we first entered in January of 2021 and made $81K in 2023. The fund had a range of $7MM to $13.5MM during that time.

Our next look at investments would include fulfilling the requirement to report proportionate investments

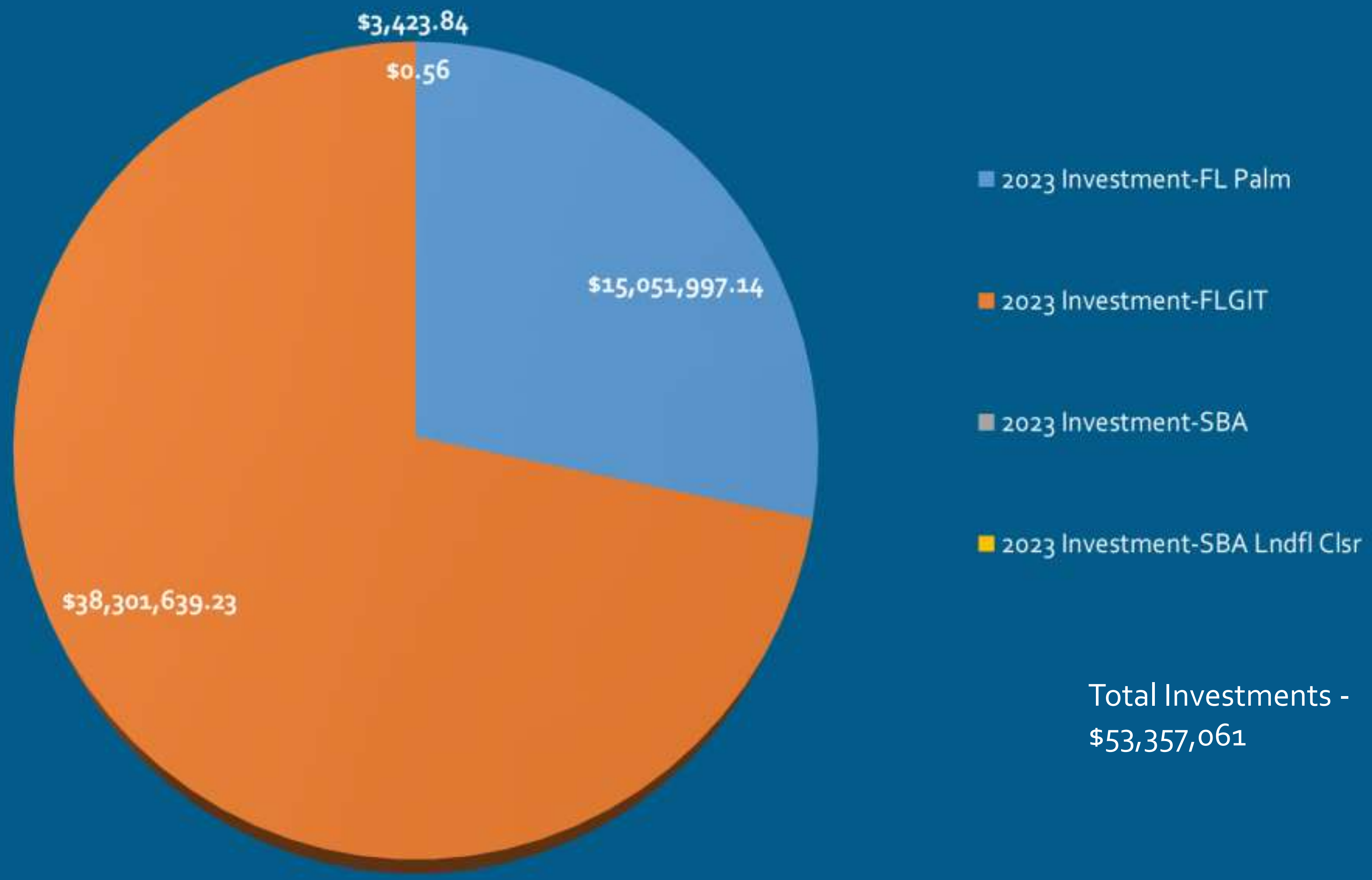
Total Investment Allocations

09/30/22 Investment Mix



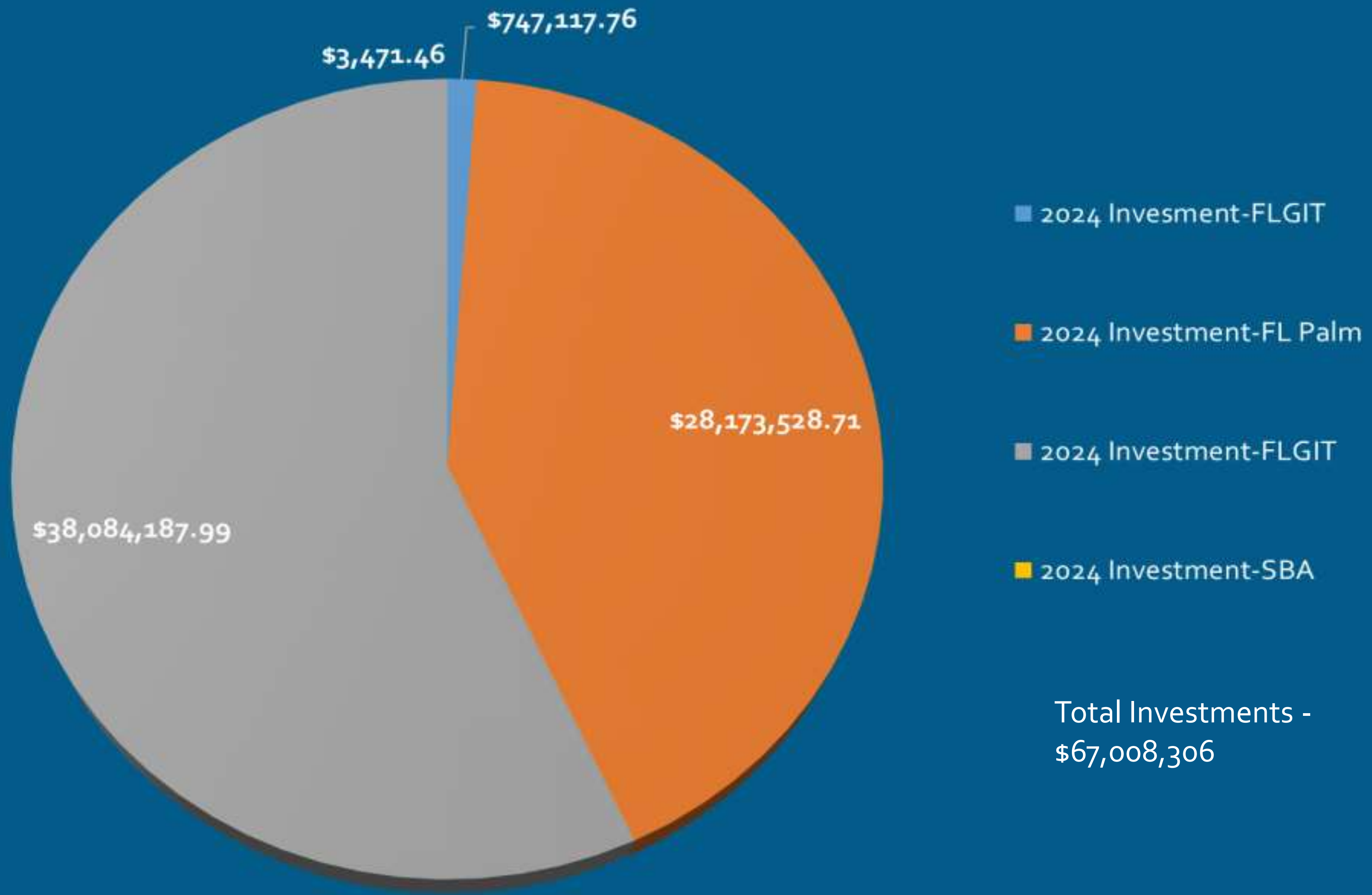
Total Investments -
$41,874,875

09/30/23 Investment Mix



Total Investments - $53,357,061

12/31/23 Investment Mix



Total Investments - $67,008,306

Discussion of Return Trends and Plans

- Even with our new investment policy we have substantially remained with very safe interest bearing instruments due to the increase in rates over the last year.
- If rates drop near the end of this year, as expected, we will be able to work with our investment advisor, PFM Asset Management, to move into other safe, liquid assets that will yield us the best assets given the current market.
- Because of some dynamics of the rate environment, to date, we have simply invested in PFM's vehicles, and haven't yet chosen to avail ourselves of their advisory services. That is likely to change as we progress through more complexities in rates and bond markets.

Discussion of Return Trends and Plans (2)

- The improving results over the last year are encouraging, but we need to look out into the future to see where the best returns will be with safety and liquidity as first priorities.
- We still expect the higher rates to generally benefit returns this year.
- In the future, we still anticipate fully integrating with PFM and further diversifying our holdings within the bounds of policy and law will add yet more improvement beyond the asset management expense we'll incur.
- Right now short-term rates remain enticing, particularly because the expectation of rate drops makes locking in longer term high rates impossible to find.

Discussion of Return Trends and Plans (3)

- Once again, the potential returns in this sort of environment speak much to the general thesis of keeping Reserves healthy. Not only do they provide you additional flexibility, but also income opportunities. This is quite a difference from having to pay these interest rates (or something similar) for capital needs.

Consideration of County & Community Impacts of Significant Reserves & Successful Investment Programs

- Money is a defense in uncertainty – allows for emergency response, and provides time to respond to downturn/deficit environments
- Is a hedge in high interest rate environments
- **Having significant reserves in this environment versus having insufficient reserves to fund capital projects could be the difference in an operating swing of $3M-$4M (paying interest on a bond versus earning it). This equates to 1.00-1.45 mills of property tax burden, currently.**

The End (For Now)

This concludes the annual report and update. We will keep the Board informed going forward, whether by consultant or staff presentation.