

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE TREASURER OF NORTH CAROLINA
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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

Debt Management Section Update Cash and Investments – Current Issues

Jennifer Wimmer – Director, Debt Management Section

Becky Dzingeleski – Senior Accounting and Financial Management Advisor

July 21, 2022



Agenda – Local Debt Management | NC Treasurer

- Recent Legislation Impacts
- Interest Rate updates
- Recent Municipal Sales
- Project and Financing Factors



Welcome to the Local Debt Management Section

The Local Debt Management Section (DMS) of the State and Local Government Finance Division consults with units of local government wishing to apply for Local Government Commission approval of debt. Staff works with local governments to determine the necessity of a project, the size of the issue, and the most expedient form of financing, then guides all projects through a rigorous review to ensure the financing meets all statutory requirements. The Debt Management Section oversees the sale and issuance of all local government debt, then monitors repayment of debt and issues debt notices required under statute.



Recent Legislation Impacts



Recent Legislation Impacting Reporting and Debt Transactions to the LGC

[SL 2022-53](#) (S265 - **Bond Info Transparency** / LGC Toolkit II)

- Modifies Article 4 of Chapter 159 (Local Government Bond Act)
- Creates new requirements for finance officer to disclose and file with the LGC estimates of interest to be paid on the bonds, increase in property tax necessary to service the debt, amount of two-thirds bonds available (new 159-155.1)



Recent Legislation Impacts

SL 2022-53 (S265 - **Bond Info Transparency** / LGC Toolkit II)

- Creates a new finding required for the LGC to approve an application under this section:
“That the assumptions used by the finance officer of the unit in preparing the statement of estimated interest...are reasonable” (modification to 159-52(b))
- Modifies requirements for bond orders (modifications to 159-56 and 159-58)
- Effective for all bond orders introduced on or after October 1, 2022



Recent Legislation Impacts

[SL 2022-53](#) (S265/Bond Info Transparency / **LGC Toolkit II**)

- Interim event reporting required (new 159-33.2)
 - Events to be reported are those that will or may have a material, adverse effect on the financial health, operations, or internal controls
 - Specific events not defined in statute but through a policy adopted by the LGC
 - LGC staff anticipates having a policy adopted at the August LGC meeting
 - An online interface will allow units to easily report events



Recent Legislation Impacts

[SL 2022-53](#) (S265/Bond Info Transparency / **LGC Toolkit II**)

- New lower limits for LGC approval for contracts for UAL units (modification to 159-148)
 - Contracts that extend for three or more years (five or more years for other units)
 - Contracts that obligate the unit to at least \$50,000 (generally \$500,000 for other units)
 - Does not change statutory language that a contract must meet all of four defined criteria to require LGC approval
 - Effective for contracts entered into on or after October 1, 2022.



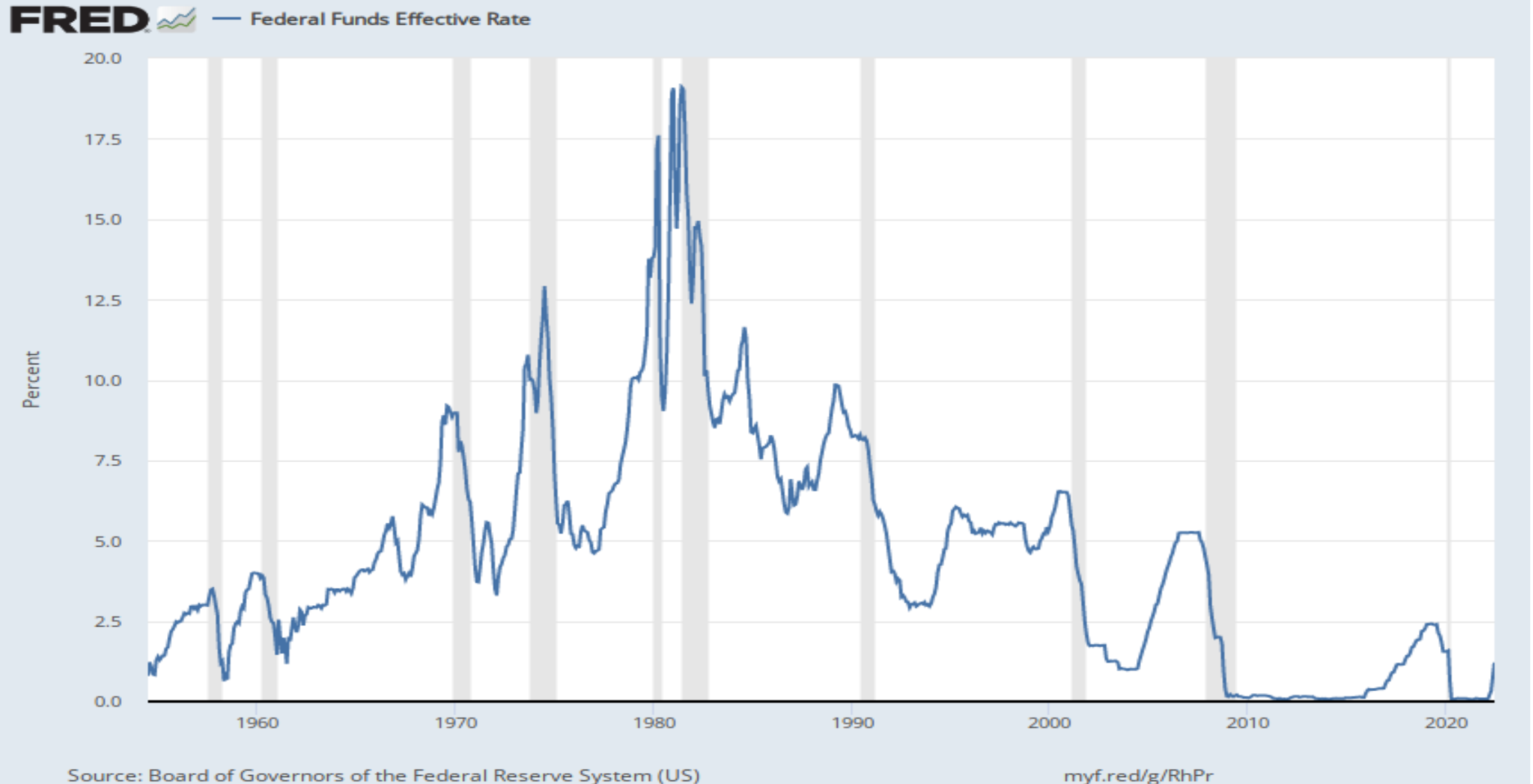
Recent Legislation Impacts

SL 2022-74: 2022 Appropriations Bill

- Over \$500 million included for water/wastewater
 - Many directed grants

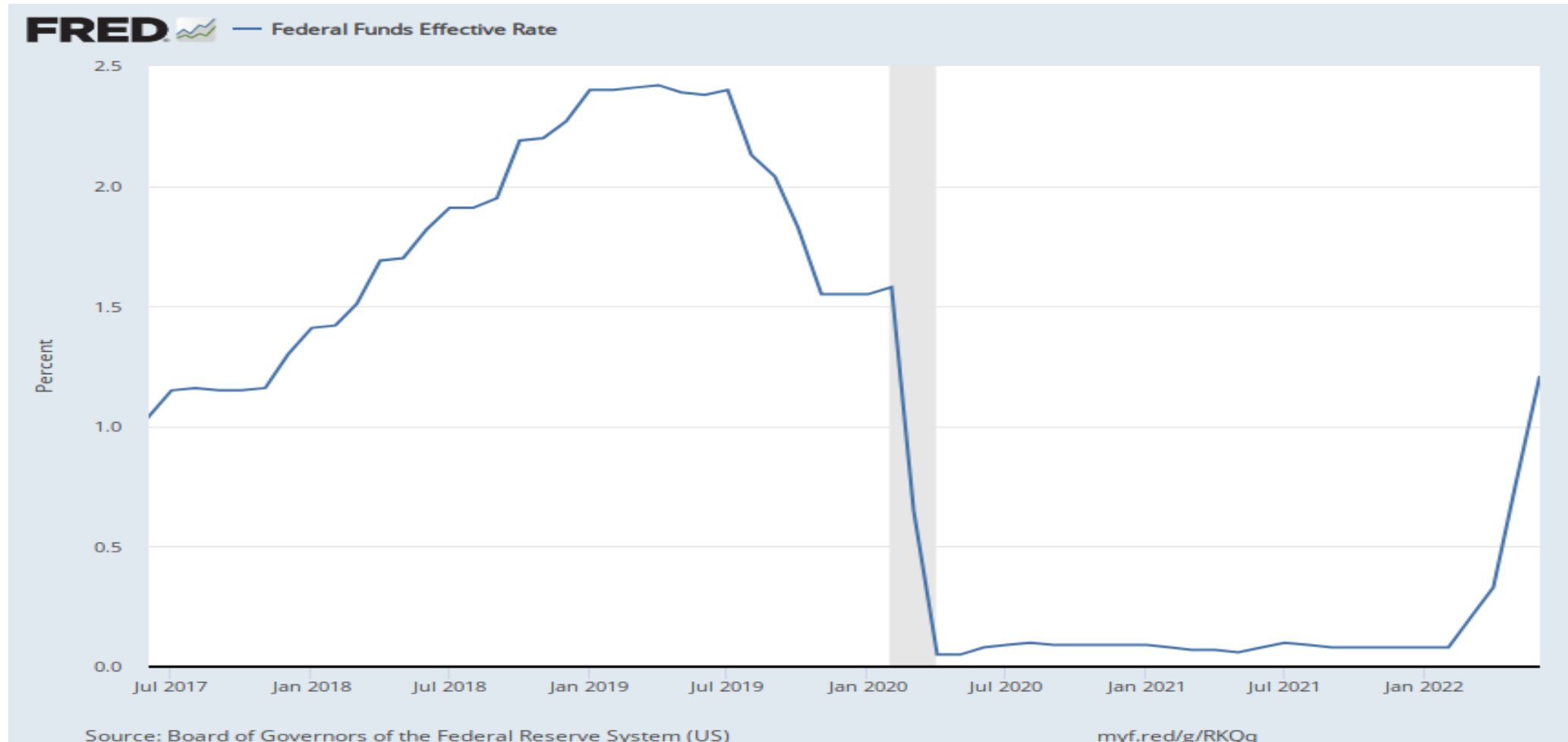


Interest Rates





Federal Funds Rate 5-year lookback



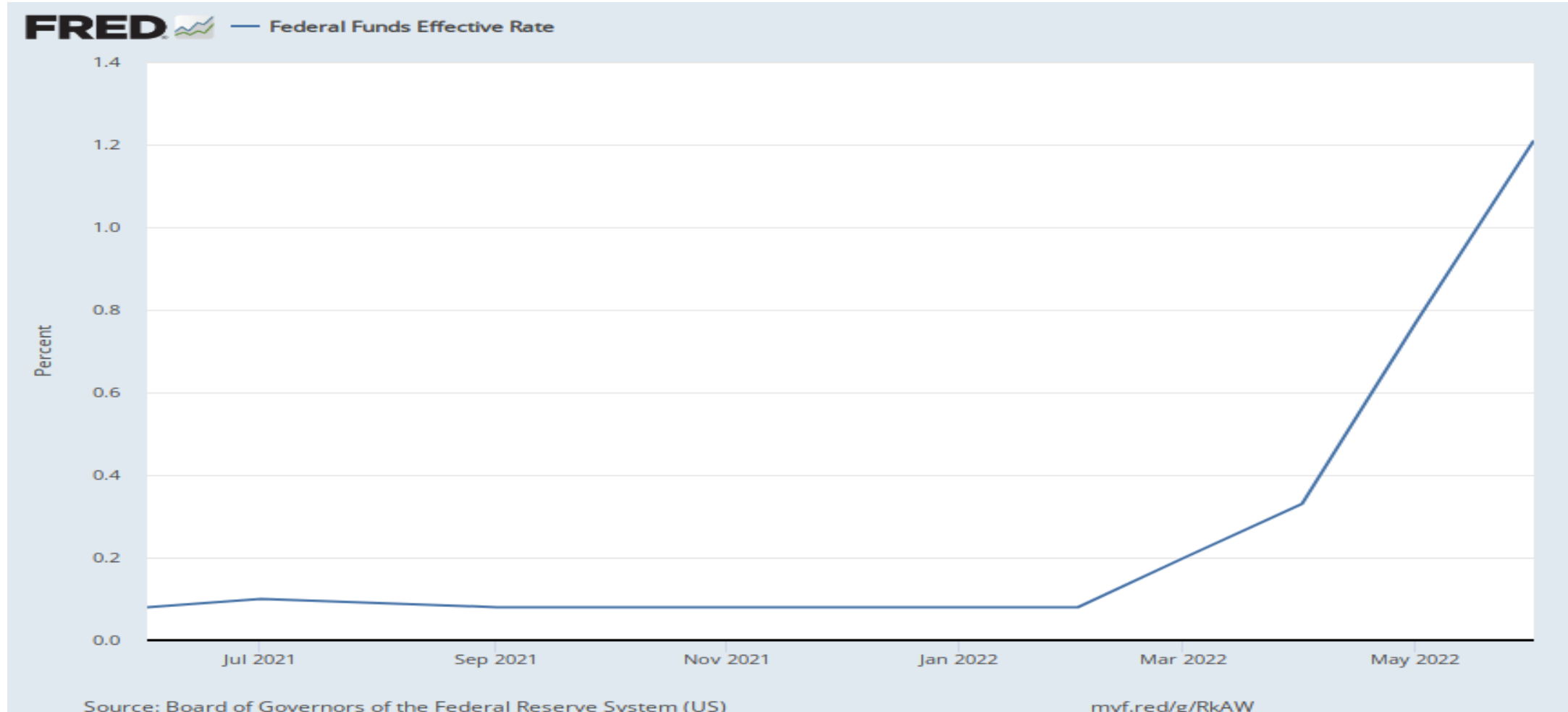


Recent Fed Funds Rates

• March 2020	0.65
• April 2020	0.05
• March 2021	0.07
• January 2022	0.08
• February 2022	0.08
• March 2022	0.20
• April 2022	0.33
• May 2022	0.77
• June 2022	1.21



Fed Funds Rate Year over Year



Warning Sign

Deepest inversion since 2000 highlights recession concerns



Source: BLS, Bloomberg

Bloomberg



What's next?

- Federal Reserve meeting July 26-27
 - Talk of 75 bps or more increase



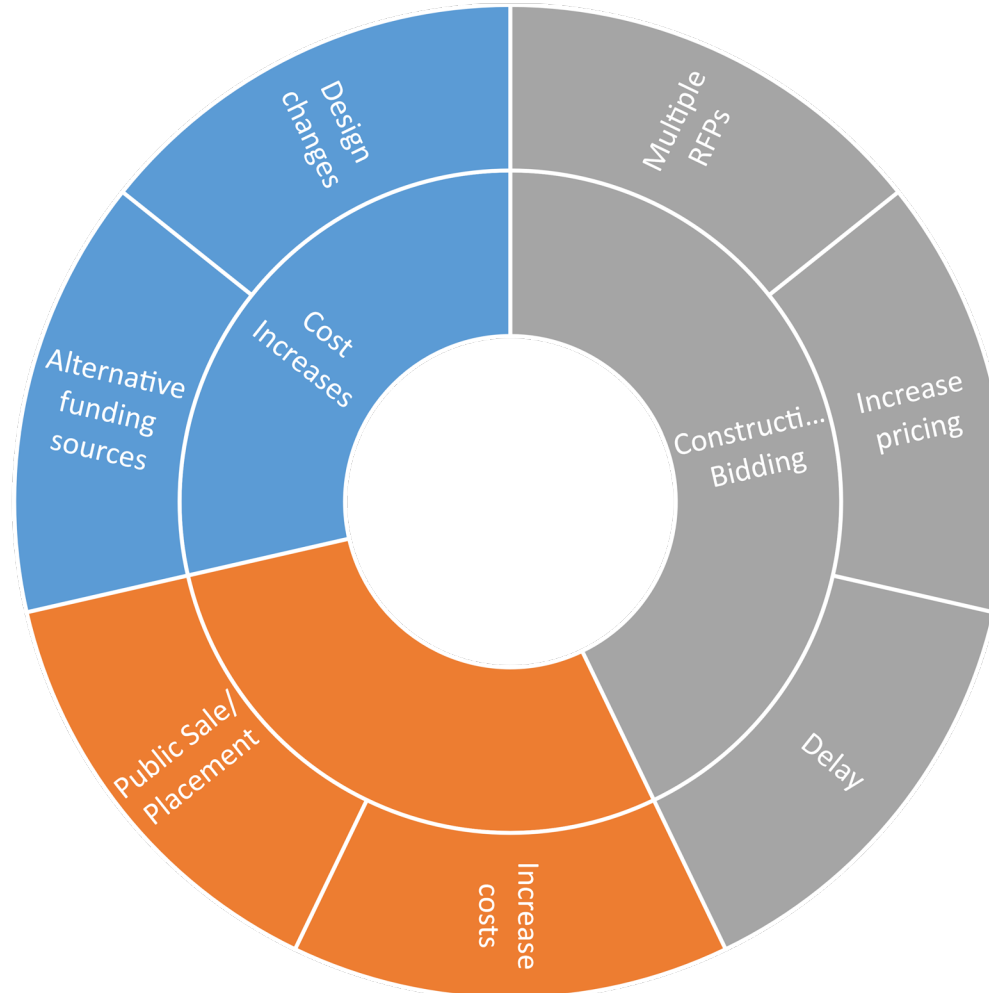
Project and Financing Factors to Consider in the Current Environment



Balancing the Project(s) to Pricing

Outside factors

- Community input
- Regulations/mandates
- Demand because of growth or need to attract





Feeling
like this?





Are you ready to sell bonds?

- Project/Projects ready
 - Bids in Hand
 - Final Guaranteed Maximum Price (GMP) based on bids
 - CMAR – Construction Manager at Risk
 - Design-Build procurement
- All major permits
 - DOI-OSFM – shell and foundation - >20,000 sq ft
 - FONSI
 - ACE; DEQ; etc.



What affects the pricing of your bonds?

- Current Market conditions – supply/demand; “shocks”
 - Sale Date; Concurrent or other sales that week
- Type of bond/collateral
- Credit quality of the bond issuer – credit rating
- Size of issue
 - Number of underwriters; “Lot sizes” – size of each maturity
- Underwriter – depth of sales force; “niche” bonds; competitive
- Average Bond Life – longer life = higher interest rates



Recent Municipal GO bond Sales

Unit	Amount	Type - Date	Rating	Ave. Bond Life	UST- 10 yr	All-in TIC
Brunswick County	\$45,815,000	GO – 7/12/2022	Aaa AAA	10.506 yrs	3.0775%	
Orange County	\$14,540,000	GO – 5/17/2022	Aaa AAA AAA	11.15yrs	3.5458%	
Morrisville	\$17,610,000	GO- 4/26/2022	Aaa AAA AAA	10.20 yrs	3.1551%	
High Point	\$5,300,000	GO – 4/19/2022	Aa1 AAA AA+	5.31 yrs	2.6002%	
High Point	\$26,000,000	GO – 4/19/2022	Aa1 AAA AA+	11.32 yrs	3.2291%	
Fayetteville	\$19,000,000	GO – 4/12/2022	Aa1 AA+	10.58 yrs	2.9637%	
Union County	\$20,590,000	GO – 3/22/2022	Aaa AAA AAA	10.38 yrs	2.6056%	
Wake County	\$206,065,000	GO – 2/15/2022	Aaa AAA AAA	9.89 yrs	2.1309%	
Wake County	\$41,525,000	GO- 2/15/2022	Aaa AAA AAA	9.89 yrs	2.1653%	



Recent Municipal GO bond Sales

Unit	Amount	Type - Date	Rating	Ave. Bond Life	UST- 10 yr	All-in TIC
Holly Springs	\$14,565,000	GO – 1/25/2022	Aa1 AAA	7.115 yrs	1.437%	
Cornelius	\$7,645,000	GO – 1/19/2022	AAA	9.553 yrs	1.7472%	



Questions???

- Contact Information
 - Jennifer Wimmer, Director Debt Management Section, SLGFD
 - 919 814 4285
 - Jennifer.Wimmer@nctreasurer.com



Agenda – Local Fiscal Management | NC Treasurer

- LGC Staff news
- Current Cash & Investment Violations
- Reminders
- Mark to Market
- Investments of North Carolina Counties & Municipalities
 - Comparative Portfolios, Statistics





LGC Staff News

Fiscal Division

Staff Additions:

Brenda Thornton—
Accounting and Financial
Management Advisor

Terri Morris - Accounting
and Financial Management
Advisor



Coach Team

- Melissa Cardinali
- Natalie Roundtree

Debt Division

Staff Additions:

Lynne Taylor –
Administrative Support

Roslyn Cozart – Financial
Analyst

Stephanie Bacik –
Financial Analyst

[Job Opportunities | Departments: Dept of State Treasurer | Sorted by
Job Title ascending | Careers \(governmentjobs.com\)](#)



Current Investment Violations

- REMIC Investments – AG Opinion: REMICS are a trust /a third party obligation. Not a Direct Obligation of the US Govt. Agency. For investment to be allowable must be a liability on the books of the agency (FNMA) not an off-balance sheet item
- Stock investments – ONLY with expanded investment authority granted by NC General Assembly.
- Endowment/gifts Investments to non-school unit - divest of investment as required by G.S. 159-33 or is to be noted as a statutory violation until sold.
- CDARS & Insured Cash Sweeps – G.S. 159-30(b1) *...provided that no funds shall be deposited in a bank or savings and loan association that at the time holds other deposits from the local government or public authority.*
- LEOSSA Trust - not invested per G.S. 159-30, No expanded investment authority
- Federal Agriculture Mtg Disc Note – not listed in G.S. 159-30(c)(2)
- First American Govt. Obligation fund - not certified by LGC per G.S. 159-30(c)(8)



Reminders - Banking & Collateralization

Know the requirements of [§ 159-31. Selection of depository; deposits to be secured](#). *It shall be unlawful for any public moneys to be deposited in any place, bank, or trust company other than an official depository.*

- Pooling method of collateralization - [Pooling Bank List](#), always subject to change
 - NC Department of State Treasurer Financial Operations Division is responsible to monitor pledged collateral
- Dedicated method of collateralization – Unit's Finance Officer is responsible to monitor the market value of pledged collateral

All NC Banks not on the pooling list who accept public deposits and all deposits of Public Housing Authorities. Federal Govt (HUD) requires collateralizing through use of dedicated method.

Make sure your agreements are in order

- ✓ [COLL-94A](#) – Security agreement
- ✓ [Escrow Agent Agreement \(COLL-94B\)](#) - *For public deposits collateralized under the Dedicated Method*

Variation: FDIC pass-through protection [[G.S. 159-30\(b1\)](#)] - CDARs, Insured Cash Sweep – initially started through **your unit's official depository**



Money Market Deposit Account vs. Money Market Mutual Fund

	Money Market Deposit Account	Money Market Mutual Fund
Liquid	Yes	Yes
Competitive Interest Rate	Yes	Yes
Limited Withdrawals	Yes	No
FDIC Insured	Yes	No
Statutorily Allowable	Yes	No – except for NCCMT



Reminders.....

- Brokered CDs are not allowable for most NC Local Government Investments
- Money market deposit accounts are allowed.
 - Investments in mutual funds are limited to NC G.S.159-30(c)(8) and (c)13.
 - Ask for more details on the “Money market” account being offered
 - Deposit or investment? Funds collateralized?
- Only Public Schools have special legislative authority to invest endowments in things other than what is specified in G.S. 159-30. No other Local Governments have this same authority
- Not all Bond investments are allowable. Review the Bond offering statement at the Electronic Municipal Market Access. <https://emma.msrb.org/>



Mark-to-Market Investments

- Market risk is significant in public investment portfolios. The value of mark-to-market investments is determined by current market conditions. These investments include U.S. Treasury securities, municipal bonds, and other fixed income investments.
- When interest rates go up, the market values of many fixed income investments goes down. There was a rapid rise in interest rates in the last quarter of 2021 and first quarter of 2022.
- Because of this increase in interest rates, your unit could see significant unrealized losses for these investments in your 2022 audited financial statements which might negatively impact fund balance.



Mark-to-Market Investments

- [GASBS 31 Para. 13](#) ...”*When identified separately as an element of investment income, the **change in fair value of investments** should be captioned as net increase (decrease) in the fair value of investments...*
- [GFOA BEST PRACTICES - Mark-to-Market Reporting for Public Investment Portfolios](#)
- The LGC 2022 audit review process will have mechanisms in place to identify these losses



Investments of North Carolina Counties & Municipalities





County and Municipal Investments

	100 of 100 Counties Based on June 30, 2021 Data	97 of 100 Counties Based on December 31, 2021 Data	544 of 551 Municipalities Based on June 30, 2021 Data	511 of 551 Municipalities Based on December 31, 2021 Data
Government Securities	15	14	15	17
Government Agencies	30	28	24	25
Commercial Paper	26	29	20	17
State & Municipal Obligations	2	2	4	4
OPEB Trust State Treasurer	10	10	10	11
LEO Trust State Treasurer	2	3	3	3
NCCMT Government Portfolio	98	96	386	367



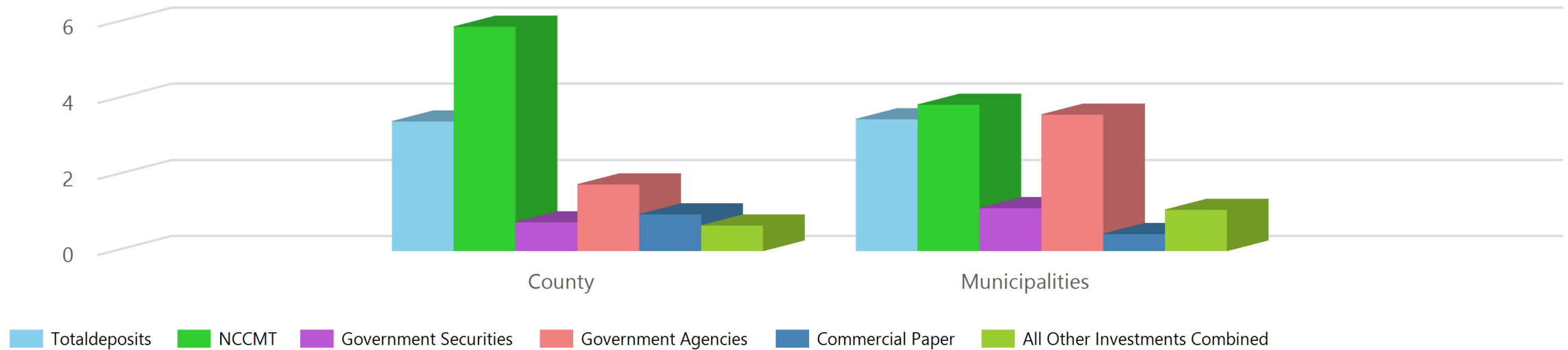
NC Local Government & Public Authority Investments

	All Units Based on June 30, 2021 Data	All Units Based on December 31, 2021 Data
Government Securities	42 of 1169 - 4%	42 of 1106 - 4%
Government Agencies	69 of 1169 - 6%	65 of 1106 - 6%
Commercial Paper	54 of 1169 - 5%	57 of 1106 - 5%
State & Municipal Obligations	11 of 1169 - 1%	8 of 1106 - 1%
OPEB Trust State Treasurer	29 of 1169 - 2%	29 of 1106 - 3%
LEO Trust State Treasurer	5 of 1169 - < 1%	6 of 1106 - 1%
NCCMT Government Portfolio	664 of 1169 - 57%	630 of 1106 - 57%
STIF	84 of 1169 - 7%	77 of 1106 - 7%



County and Municipality Combined Portfolio Based on June 30, 2021 Data

In Billions (\$)

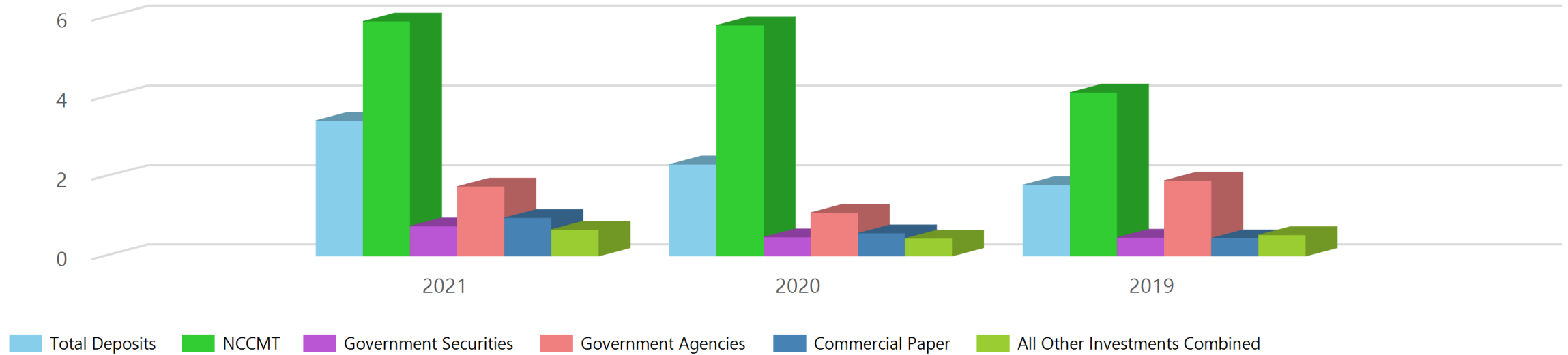


In Billions	Total Deposits	NCCMT	Government Securities	Government Agencies	Commercial Paper	All Other Investments Combined
County	3.41	5.90	0.75	1.75	0.96	0.67
Municipalities	3.47	3.85	1.13	3.59	0.45	1.08



County Combined Portfolio - 3 Year Trend Based on June 30 Data

In Billions (\$)

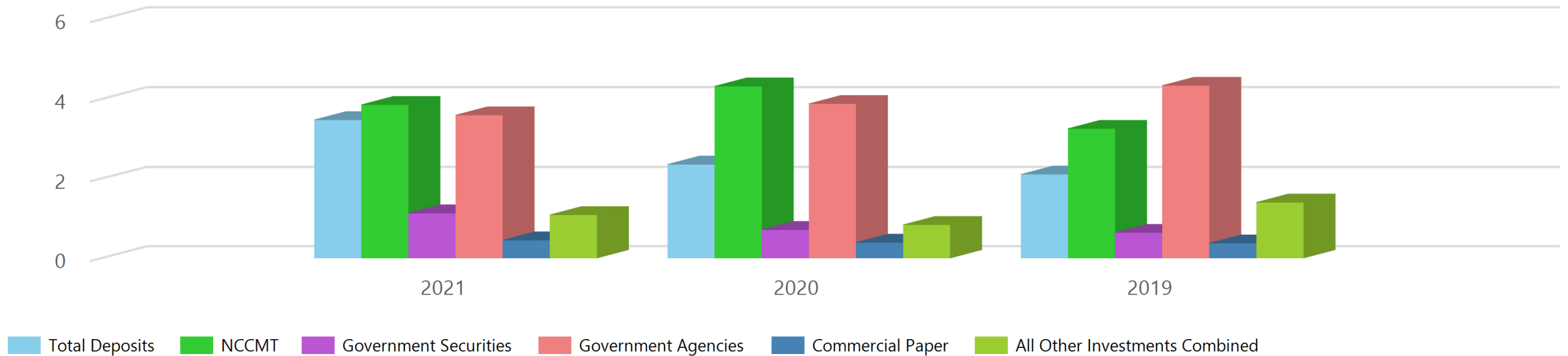


Billions(\$)	by Year	Total Deposits	NCCMT	Government Securities	Government Agencies	Commercial Paper	All Other Investments Combined
2021		3.41	5.90	0.75	1.75	0.96	0.67
2020		2.31	5.80	0.48	1.10	0.58	0.44
2019		1.79	4.12	0.47	1.90	0.45	0.53



Municipality Combined Portfolio - 3 Year Trend Based on June 30 Data

In Billions (\$)

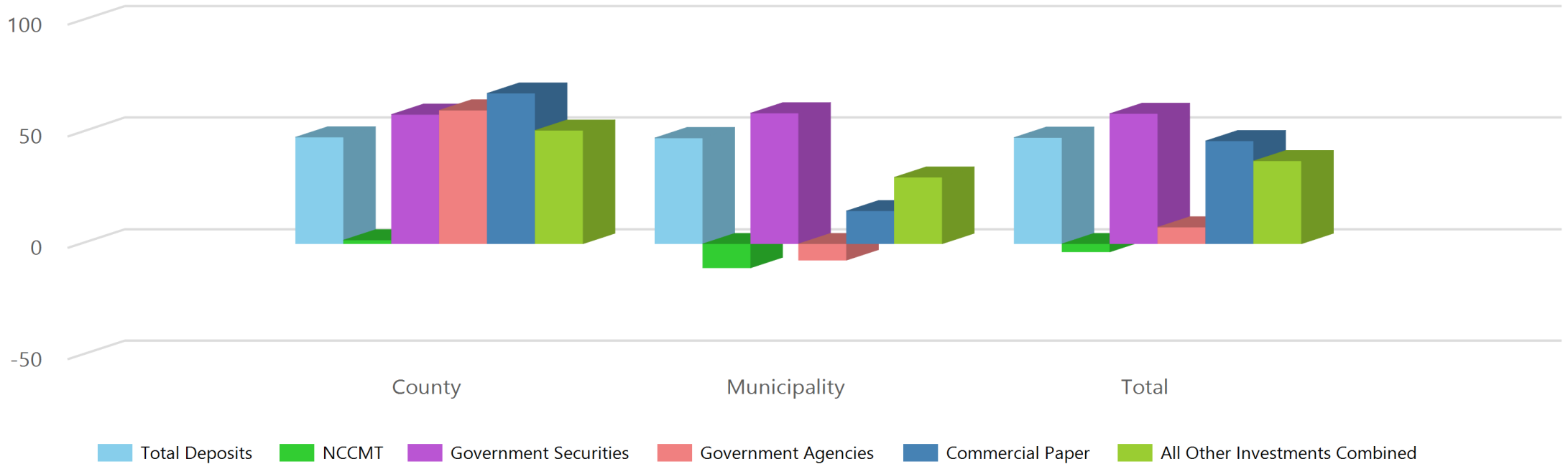


Billions(\$) by Year	Total Deposits	NCCMT	Government Securities	Government Agencies	Commercial Paper	All Other Investments Combined
2021	3.47	3.85	1.13	3.59	0.45	1.08
2020	2.35	4.31	0.71	3.87	0.39	0.84
2019	2.10	3.25	0.64	4.33	0.37	1.40



Percent Change from June 30, 2020 to June 30, 2021

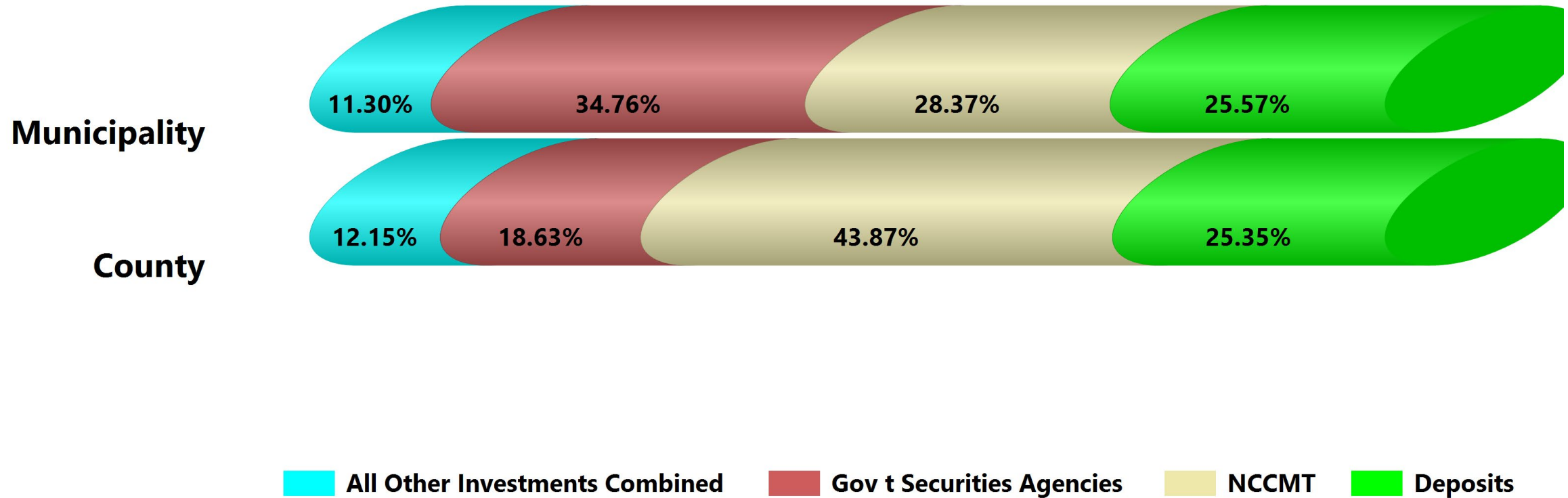
Percentage (%)



In Billions (\$)	Total Deposits	NCCMT	Government Securities	Government Agencies	Commercial Paper	All Other Investments Combined
Total	47.65%	-3.64%	58.36%	7.47%	46.14%	37.14%
Municipality	47.48%	-10.79%	58.61%	-7.36%	14.73%	29.84%
County	47.82%	1.67%	57.99%	59.90%	67.48%	50.87%



County & Municipal Portfolio Mix - June 30, 2021





Keep us up-to-date so we can keep you up-to-date!

When there is a change in your Unit's Finance Officer,
please notify us at FOLiaison@NCTreasurer.com

- Finance Officer - name and title
- Email address and phone number
- Date appointed by Governing Body



LGC STAFF BLOG - Announcements/Reminders

- Best way to stay informed is through
The LGC Staff Blog: The Balance Sheet
 - Informal discussions of new legislation, best practices, changes in our procedures, deadline reminders, ARPA information
 - Reminders - *LGC-203 reports are ready to be prepared now*
- Click “Sign Up” to receive email alerts when new blog posts are released. <https://www.nctreasurer.com/slglgcblog/Pages/default.aspx>





LGC-203 or COLL-91 Questions/Assistance



Automated LOGOS LGC-203 reporting system

[LGC-203 Semi-Annual Report of Cash and Investments - Resources | NC Treasurer](#)

LOGOS Team – LOGOS user accounts

Office: 919-814-4300

Email: LOGOS@nctreasurer.com

LGC-203 Team – Report review

Kathy Howell – phone number pending

Becky Dzingeleski (jingle-eski) – 919-814-4287

Email: LGC203@nctreasurer.com

* [Pooling Bank List](#)

* [COLL-91 Notification of Public Deposit Annual Report](#)

[Collateralization of Public Deposits | NC Treasurer Financial Operations Division](#)

COLL-91 Email:

sbu.collateral@nctreasurer.com