



Quarterly Investment Report

Period Ending June 30, 2023

Executive Summary

North Carolina General Statute 159-30 authorizes the Finance Officer to invest idle funds of the County subject to restrictions and directions of the governing board as outlined in the Cash Management and Investment Policy that was adopted April 19, 2019. The adopted policy outlines the objectives of investments, so funds are invested in a manner that ensures safety, liquidity, and yield. When evaluating investments, safety of County funds is most important followed by liquidity to ensure we have adequate cash on hand to pay the obligations of the County. The policy mirrors state statute for allowable investments and places additional restriction on the portfolio as follows:

- No investment in [Repurchase Agreements](#) shall be made unless the underlying collateral shall be placed in safekeeping in the trust department of a third-party bank.
- The combined total investment in [commercial paper](#) and [banker's acceptances](#) shall not exceed 35% of the total portfolio and the investment in commercial paper or banker's acceptance of a single issuer shall not exceed 15% of the total portfolio at the time of the investment.
- No investment shall be made in any security with a maturity greater than five years from the date of purchase. Total investment in securities with a maturity date in excess of one year shall not exceed 50% of the total portfolio.
- All [government securities](#) and other negotiable instruments shall be held in safekeeping by the trust department of a bank.

The attached quarterly investment report provides the following information for the Board as required by policy:

- Summary of investment activities in the most recent quarter
- Anticipated investments in the next quarter
- General description of the portfolio in terms of investment securities, maturities, yield and other features
- Investment earnings for the quarter and fiscal year-to-date, including the weighted average yield to maturity
- Comparison of actual investment earnings with budgetary expectations
- Any areas of policy concern and suggested or planned revisions of investment strategies

Table 1 - Provides a summary of investment activity for each investment type that occurred in the preceding quarter. Information is provided to show the amount purchased, amount matured, the maturity date of the investment, and the interest rate. Staff anticipates reinvesting maturities that may mature in the next quarter into investments that are within the guidelines of NGCS 159-30 and the County's Cash Management and Investment Policy. All investment decisions consider the cash flow needs of the County when determining the term of investments.

Table 1
INVESTMENT ACTIVITY QUARTER ENDING 06/30/23

| INVESTMENT DESCRIPTION | PURCHASE | MATURITY | MATURITY DATE | AMORITIZED YIELD | INVESTMENT NUMBER |
|--|--------------------|--------------------|---------------|------------------|-------------------|
| NCCMT Government Portfolio | 196,237,654 | 177,575,149 | N/A | 5.00% | N/A |
| FFCB | | 2,000,000 | 04/13/23 | 4.62% | 23-0104 |
| FHLB | | 1,400,000 | 04/21/23 | 3.44% | 23-0031 |
| FHLMC | | 2,750,000 | 05/05/23 | 0.20% | 22-0076 |
| FHLB | | 2,000,000 | 05/12/23 | 2.25% | 22-0120 |
| FHLMC | | 2,000,000 | 05/19/23 | 0.19% | 22-0074 |
| FNMA | | 1,500,000 | 05/22/23 | 4.62% | 23-0096 |
| FHLB | | 3,000,000 | 06/02/23 | 0.17% | 22-0052 |
| FHLB | | 1,000,000 | 06/09/23 | 4.76% | 23-0102 |
| FHLMC | | 1,925,000 | 06/26/23 | 0.20% | 22-0032 |
| FHLB | | 3,000,000 | 06/27/23 | 4.71% | 23-0066 |
| FHLMC | | 2,000,000 | 06/30/23 | 0.25% | 22-0040 |
| Commercial Paper - Arkansas Electric Cooperative | 3,000,000 | | 09/27/23 | 5.48% | 23-0111 |
| Commercial Paper - Coco-Cola Co | 2,000,000 | | 09/27/23 | 5.28% | 23-0112 |
| Commercial Paper - Lloyds Bank | | 5,000,000 | 05/08/23 | 3.78% | 23-0012 |
| Commercial Paper - DNB Bank | | 5,000,000 | 05/15/23 | 3.81% | 23-0013 |
| Commercial Paper - Credit Suisse First Boston NY | | 3,000,000 | 05/26/23 | 4.16% | 23-0035 |
| Commercial Paper - JP Morgan Securities | | 3,000,000 | 06/01/23 | 3.98% | 23-0036 |
| Commercial Paper - JP Morgan Securities | | 3,000,000 | 06/07/23 | 4.02% | 23-0040 |
| Commercial Paper - Natixis NY Branch | | 3,000,000 | 06/09/23 | 4.45% | 23-0043 |
| Commercial Paper - JP Morgan Securities | | 3,000,000 | 06/12/23 | 4.40% | 23-0044 |
| Commercial Paper - Natixis NY Branch | | 3,000,000 | 04/13/23 | 4.31% | 23-0045 |
| Commercial Paper - JP Morgan Securities | | 2,000,000 | 06/23/23 | 4.50% | 23-0053 |
| Commercial Paper - JP Morgan Securities | | 3,000,000 | 04/06/23 | 4.43% | 23-0056 |
| Commercial Paper - Credit Agricole | | 632,000 | 05/22/23 | 5.09% | 23-0061 |
| Commercial Paper - Macquarie Bank Ltd | | 650,000 | 04/06/23 | 5.06% | 23-0067 |
| Commercial Paper - Royal Bank of Canada | | 2,035,000 | 04/11/23 | 5.06% | 23-0068 |
| Commercial Paper - Banco Santander | | 3,000,000 | 05/25/23 | 5.43% | 23-0070 |
| Commercial Paper - Lloyds Bank | | 1,250,000 | 05/08/23 | 4.96% | 23-0076 |
| Commercial Paper - Walnut Energy | | 1,500,000 | 04/04/23 | 4.62% | 23-0080 |
| Commercial Paper - Santander UK | | 3,000,000 | 04/04/23 | 4.70% | 23-0081 |
| Commercial Paper - Banco Santander | | 3,000,000 | 06/26/23 | 5.24% | 23-0083 |
| Commercial Paper - Natixis NY Branch | | 3,000,000 | 05/11/23 | 4.90% | 23-0085 |
| Commercial Paper - Barton Capital | | 3,193,000 | 04/03/23 | 4.79% | 23-0088 |
| Commercial Paper - Banco Santander | | 600,000 | 04/06/23 | 4.86% | 23-0089 |
| Commercial Paper - Chesham Finance | | 2,000,000 | 04/18/23 | 4.78% | 23-0093 |
| Commercial Paper - Gotham Funding | | 1,550,000 | 04/11/23 | 4.76% | 23-0106 |
| Commercial Paper - Collateralized CP | | 2,000,000 | 06/29/23 | 5.04% | 23-0107 |
| Total Investments | 201,237,654 | 260,560,149 | | | |

Table 2 - Provides a summary of the total portfolio distribution as of the end of the quarter and the graph that follows provides a visual representation of the portfolio distribution. Information is provided to show the par amount, the range of **maturities**, **weighted average maturity**, range of **yields** and the **weighted average yield** for the portfolio. The graph provides information on the composition of the portfolio and the corresponding percentages. Bond funds are included in the investment balance for the quarter, but the funds are restricted to projects satisfying the original bond purpose. Unspent bond proceeds are kept in separate accounts at the [North Carolina Capital Management Trust](#).

**Table 2
INVESTMENT PORTFOLIO AT 06/30/23**

| INVESTMENT DESCRIPTION | PAR AMOUNT | MATURITIES | WEIGHTED AVERAGE MATURITIES | YIELDS | WEIGHTED AVERAGE YIELDS |
|----------------------------|--------------------|--------------|-----------------------------|----------------|-------------------------|
| NCCMT Government Portfolio | 108,273,188 | N/A | N/A | 5.00% | 5.14% |
| Government Agency - FFCB | 8,590,000 | 75d to 1.9y | 40d | 0.19% to .74% | 0.31% |
| Government Agency - FHLB | 117,345,000 | 81d to 3.5y | 2.4y | 0.24% to 8.17% | 2.09% |
| Government Agency - FHLMC | 14,700,000 | 348d to 2.3y | 1.4y | 0.40% to 6.53% | 3.08% |
| Government Agency - FNMA | 21,646,000 | 33d to 2.5y | 1.1y | 0.24% to 5.08% | 1.41% |
| Commercial Paper | 15,000,000 | up to 89d | 11d | 5.08% to 5.48% | 5.19% |
| Municipal Bonds | 1,850,000 | 121d to 331d | 80d | 0.32% to 2.23% | 1.41% |
| NCCMT - Bond Funds | 176,945,939 | N/A | N/A | 5.00% | 5.14% |
| Total Portfolio | 464,350,127 | | | | |

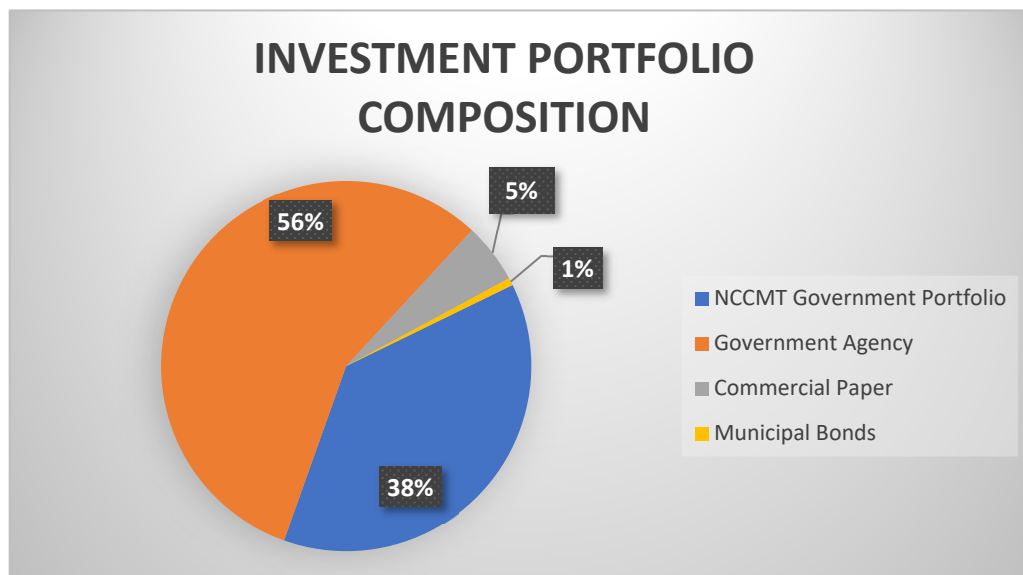


Table 3 - Provides information on quarter-to-date and year-to-date investment earnings as of the end of the quarter for the entire portfolio and the General Fund. Information is also provided based on the year-to-date investment earnings compared to the amount budgeted for interest earnings for the current fiscal year for the General Fund. The interest earnings as presented during the year are subject to the [Governmental Accounting Standards Board \(GASB\) Statement 31 Mark-to-Market](#) calculation at year end and will have an impact on actual interest earnings recorded for the year. The County budgets interest every year which is used to balance the General Fund budget. The budget variance is due to interest rates on short-term investments increasing significantly, and the County has been able to take advantage of higher yields on funds in [North Carolina Capital Management Trust](#). Additionally, lower yielding investments have matured, and the County has been able to reinvest at higher yields.

Table 3

| INVESTMENT EARNINGS | QTD | FYTD | MARK-TO-MARKET | ADJUSTED FYTD | BUDGET | VARIANCE |
|----------------------------------|-----------|-----------|----------------|---------------|-----------|-----------|
| County Investment Portfolio | 3,334,352 | 8,394,263 | (1,809,813) | 6,584,450 | | |
| Amount Allocated to General Fund | 3,196,913 | 7,469,355 | (1,439,715) | 6,029,640 | 2,345,067 | 3,684,573 |

Table 4 - Provides information on quarter-to-date and year-to-date investment earnings as of the end of the quarter for the unspent bond proceeds based on series. Interest earned on unspent bond proceeds are restricted to projects satisfying the original bond purpose and all funds are kept in separate accounts at the [North Carolina Capital Management Trust](#). It should be noted that the County could be subject to an [arbitrage rebate payment](#) to the IRS if the County’s interest earnings on unspent bond proceeds are in excess of allowable calculated amounts compared to the interest that is paid on tax exempt debt. Based on the latest required [arbitrage calculations](#), the County recorded liabilities and reduced interest revenue for the 2019A GO Bonds (\$237,013), 2022A GO Bonds (\$46,913) and 2022B GO Bonds (\$97,505). The totals in Table 4 reflect the reduction in interest revenue after the arbitrage adjustment.

Table 4

| INVESTMENT EARNINGS | QTD | FYTD |
|-----------------------------------|------------------|------------------|
| 2017A Public Building Bonds | 48,741 | 163,765 |
| 2017B Public Improvement Bonds | 165,950 | 430,191 |
| 2019A GO Public Improvement Bonds | 31,042 | 588,702 |
| 2012A GO Bonds | 342 | 1021 |
| 2010B Build America Bonds | 11,564 | 40,965 |
| 2007A GO Bonds | 441 | 1,393 |
| 2022A GO Public Improvement Bonds | 495,192 | 1,601,527 |
| 2022B GO School Bonds | 1,206,256 | 4,181,060 |
| Total Bond Interest Earned | 1,959,528 | 7,008,624 |

Additional Information

- At the end of the 2023 fiscal year, we had to do a calculation called the [GASB 31 Mark-to-Market](#). The calculation looks at what our investments are worth today compared to what we paid for them. We have to make an accounting entry to record an increase or gain if it is more or a decrease or loss if it is less. For the fiscal year 2023 it was a loss of \$1,809,813. But this is much less than the loss for fiscal year 2022 of \$7,525,205. It was less than last year because we were able to buy new investments with higher interest rates during the year to replace investment with lower interest rates that became due during the year. As more lower interest rate investments become due and we are able to buy investments at higher interest rates, we expect the GASB 31 entry will be lower for fiscal year 2024.
- On June 6, 2022, the Series 2019A GO Bonds we sold were three years old and still had bond money that was not spent. So Finance staff had to do a “[yield reduction calculation](#)” to see if we might have to make a payment to the IRS next year. Because interest rates have gone up so much, we earned more interest on the bond money than was allowed by IRS rules. Right now, it looks like we will have to make a payment of \$237,013 next year. We will do a final calculation next year to see if we have to make a payment. If it shows there is a [yield reduction payment](#) due to the IRS, we will use some of our extra interest we earned to make the payment within 60-days after the June 1, 2024 evaluation date.
- Finance staff did the first-year [arbitrage](#) calculation on the County’s, Series 2022A and 2022B GO Bonds. It showed we owe the IRS \$144,418.63 for what is called an “[arbitrage rebate liability](#)”. We don’t have to pay the IRS until after the fifth year of the bonds, which is April 1, 2027. So we have time to gather the money we may need to pay the IRS by using the extra interest we earn over the next four years.
- Finance staff are thinking about investing money in the [North Carolina Investment Pool](#). This will help us spread out our short-term investments more.
- Finance staff are working on a Request For Proposal (RFP) to help us choose an investment advisory service. The service will give us advice on investment management. They will also make sure we follow all the rules and help lower our risk.

Glossary

Amortized Yield - Amortized yield on investments refers to the average annualized rate of return earned by the government entity on its investments over a given period of time, after taking into account any fees, expenses, and losses associated with those investments.

Arbitrage - Local governments may choose to invest the bond proceeds in higher-yielding taxable securities. The difference between the interest earned on the taxable securities and the interest paid on the tax-exempt bonds is the arbitrage profit. There are strict regulations governing arbitrage for tax-exempt bonds to prevent abuse and ensure that the practice is not used for personal gain. The Internal Revenue Service (IRS) requires local governments to calculate their arbitrage profit and pay any excess earnings to the U.S. Treasury.

Arbitrage Rebate Liability - The amount that is owed to the to the federal government from profit earned from arbitrage.

Arbitrage Rebate Payment - The dollar profit earned from arbitrage that is paid back (or rebated) to the federal government.

Banker's Acceptance - Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has out-standing publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.

Commercial Paper - Short-term, unsecured debt issued by companies and financial institutions to finance their short-term funding needs. It is typically issued for a term of between 1 and 270 days and is generally sold at a discount to its face value.

Federal Farm Credit Bank (FFCB) - Investment in an obligation of the Federal Farm Credit Bank refers to purchasing debt securities issued by the FFCB. The FFCB is a government-sponsored entity that provides funding and financial services to agricultural and rural communities in the United States. FFCB obligations are considered to be a safe investment because they are backed by the full faith and credit of the U.S. government.

Federal Home Loan Bank (FHLB) - Investment in an obligation of the Federal Home Loan Bank refers to purchasing debt securities issued by the FHLB. The FHLB is a government-sponsored entity created by Congress in 1932 to support the housing finance activities of its member institutions, such as commercial banks, thrifts, credit unions, and insurance companies. FHLB obligations are considered to be a safe investment because they are backed by the full faith and credit of the U.S. government.

Federal National Mortgage Association (FNMA) - Investment in an obligation of the Federal National Mortgage Association, commonly known as Fannie Mae, refers to purchasing debt securities issued by Fannie Mae. Fannie Mae is a government-sponsored enterprise (GSE) that was established by Congress in 1938 to expand the secondary mortgage market by purchasing and securitizing mortgages from lenders. FNMA obligations are considered to be a safe investment because they are backed by the full faith and credit of the U.S. government.

Governmental Accounting Standards Board (GASB) - A private, non-profit organization that sets accounting and financial reporting standards for state and local governments in the United States. GASB is recognized as the official source of Generally Accepted Accounting Principles (GAAP) for state and local governments in the US, and its standards are used by thousands of government entities across the country.

Government Agencies - government agency obligations refers to buying debt securities issued by government agencies, which are typically backed by the full faith and credit of the U.S. government. These obligations are essentially loans made by investors to government agencies to finance their operations or specific projects. Examples of government agency obligations include bonds issued by agencies such as the Federal National Mortgage Association (FNMA or Fannie Mae), and Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) in the mortgage market, or bonds issued by agencies such as the Federal Farm Credit Bank in the lending market.

Interest Rate - An investment interest rate is the rate of return that an investor can earn on an investment. It is the interest rate that an investor receives from an investment.

Mark-to-Market – GASB Statement No. 31, the "mark-to-market" requirement mandates that state and local governments must report the fair value of their investments at the end of each reporting period. This means that investments must be valued based on their current market prices or other relevant market data, rather than at their original cost or historical value and any unrealized gain or loss is record in the financial statements.

Maturity - The agreed-upon date on which the investment ends, often triggering the repayment of an investment.

North Carolina Capital Management Trust (NCCMT) - A an investment pool for local governments in North Carolina. The Government Portfolio, which invests in treasuries and government agencies, is a money market mutual fund (2a7) and maintains an AAAM rating from S&P.

North Carolina Investment Pool (NCIP) - A commingled local government investment pool established to invest idle funds in various short-term investments in accordance with North Carolina General Statute 159-30. NCIP is duly authorized under North Carolina General Statute 159-30(c)(10), was created by an interlocal agreement established under North Carolina General Statute 160A-461 through 464 and is administered by a statutorily compliant trust for the benefit of North Carolina Units of Local Government and governed by a board of trustees comprised of representatives of those Units of Local Government.

Par Amount - Par amount refers to the face value or the principal amount of a financial security, such as a bond. It is the amount that the security was issued for and represents the initial investment.

Repurchase Agreement - A transaction in which the borrower temporarily lends a security to the lender for cash with an agreement to buy it back in the future at a pre-determined price.

Weighted Average Maturity - Weighted average maturity (WAM) is a measure used in finance to calculate the average time it takes for a pool of financial instruments or investments to mature.

Weighted Average Yield - A weighted average yield is a financial calculation that considers the different yields of various investments, weighted by the amount of money invested in each investment.

Yield - Investment yield refers to the return on an investment, expressed as a percentage of the amount invested. It is the profit or income earned on an investment over a specific period of time and is usually calculated on an annual basis. Yield considers the interest payments and any discounts, premiums, capital gains or losses, whereas interest rate only reflects the interest payments.

Yield Reduction Payment – Yield restriction calculations are performed after the three-year temporary period on the bonds is complete and unspent bond proceeds remain outstanding. The County is allowed to earn investment yield equivalent to your bond yield plus 0.125%. Any amount in excess of that limit should be paid to the IRS as a yield reduction payment.