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Legislative update

by Betsy Dotson

As the 103rd Congress enters the final days of its first session, several pending bills of interest to public investors are receiving attention. The following is an update on those bills.

Government securities reform. The end of the first session has brought with it success on one of GFOA's priority legislative issues. Despite difficult House-Senate negotiations following passage of two very different versions of government securities reform, agreement was finally reached on an acceptable compromise. The final bill contains *no* Treasury veto provision and includes the stronger sales practice rules passed by the House. All that now remains is the formal signing of the bill by the President; regulatory activities will follow.

Investment adviser oversight and reform. Legislation to provide a self-funding mechanism for the Securities and Exchange Commission (SEC) to increase oversight and inspection of investment advisers and financial planners passed the House of Representatives (H.R. 578) earlier this year. The Senate version of the bill (S. 423), which is more limited in scope, recently was approved with changes in the fidelity bonding provision by the full Senate. A conference to resolve differences between the bills will be called next year.

Collateralization of public deposits. The Senate Committee on Banking, Housing and Urban Affairs has approved S. 1275, the "Community Development Banking and Financial Institutions Act of 1993." Included in this bill is a provision that would add a new section to the U.S. Code regarding claims against the Federal Deposit Insurance Corporation (FDIC). Under the new section, a collateralization agreement will not be invalidated under the contemporaneous acquisition requirement of the statute solely because of the substitution of collateral made under the terms of the collateral agreement. While this provision differs significantly from other legislation that would exempt public depositors from the conditions of the statute, it nevertheless appears to address some of the concerns resulting from the *North Arkansas v. Barrett*

decision (962 F.2d 780) handed down in 1992. That decision held that a public entity hospital could not enforce its security interest against the FDIC as receiver of a failed thrift institution because it had not met all the statutory requirements, including the contemporaneous acquisition provision. (See the March 1993 *Public Investor* issue.) The Senate bill is currently pending on the Senate calendar; no identical companion bill has been introduced in the House.

Credit card surcharges. Hearings have been postponed on H.R. 2175, a bill sponsored by Representative Jim Moran (D-VA) that would prohibit credit card issuers from limiting the ability of federal, state or local governments from passing on credit card surcharges to card users. The legislation currently has four cosponsors. Discussions with the credit card companies have so far indicated that only Discover is amenable to allowing its charges to be passed on to card users. An increasing number of public entities are discussing this option with Discover Card.

GFOA will continue to follow the progress of these legislative issues when Congress begins its second session in January.

Betsy Dotson is assistant director of GFOA's Federal Liaison Center.

Orange County cash awareness program

by Steven Alexander

As we all know, interest rates have declined over the past few years putting added pressure on many state and local governments to maintain previous interest earning levels without significantly increasing risks. Orange County, Florida, faced this dilemma and came up with a way to deal with the low interest rate environment.

To maintain previous interest earning levels, the Orange County Comptroller's Office decided to extend the maturity of its investment portfolio to take advantage of higher yields farther out along the yield curve. This strategy had to be consistent with the investment philosophy of the comptroller's office, which is to provide liquidity,

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preserve capital and increase earnings.

The Investment Section of the comptroller's office manages investments for 16 non-pooled funds and one pooled fund which is comprised of 348 operating funds. Many of these funds typically carry large fund balances, which the investment office reasoned could generate additional interest earnings if the funds were invested for maximum time periods. To increase earnings and stay within the parameters of the investment policy, the investment office found it needed more detailed information on the county's cash flow needs. The steps that were taken to gather this information and the resulting cash flow model that was developed became known as the Cash Awareness Program.

Cash Awareness Program. The comptroller's program was implemented in three phases which took approximately one year. First, the investment office made presentations to county managers responsible for large funds, such as the construction and operational funds. These presentations, conducted on an individual basis, were designed to provide department managers with information on investment concepts regarding yield curve analysis, the county's permitted investments and investment policy guidelines, as well as emphasizing the importance of providing cash flow information on a regular basis. The investment office also conducted monthly follow-up meetings to provide

that the investment office continued to receive the most current cash flow information from each department.

Before any substantial restructuring of the portfolio could take place, the investment office reviewed each fund in detail. The office conducted a three-year historical balance analysis and calculated the low, average and high dollar balances of each targeted fund. An example of this report is shown in Exhibit 1. Once this type of report was completed for a particular fund, the investment office was able to adjust the portfolio accordingly.

The investment office found that the detailed analysis of cash flows for the various funds did, in fact, improve investment earnings. For example, the Self Insurance Fund, a pooled fund, was invested at the State Board of Administration (SBA), which at the time, was yielding 3.5 percent. As a result of the cash flow information, \$12 million of the fund was reinvested in the Florida Counties Investment Trust Fund yielding 5.43 percent, a gain of approximately 200 basis points. In addition, this adjustment to the portfolio improved diversification by reducing the county's overall exposure to the SBA.

Secondly, the program established the Debt Administration Officer as the central receiving center for all cash flow information. Upon receipt of the information, the debt officer prepares draw

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**Exhibit 1
Orange County Comptroller's Office Balance Analysis
Fund 001—General Fund**

Month	Average Balance	Month	Average Balance	Month	Average Balance
10/90	23,314,556	10/91	22,724,886	10/92	26,942,833
11/90	17,873,704	11/91	16,337,149	11/92	27,132,641
12/90	48,106,074	12/91	48,134,063	12/92	54,800,051
01/91	79,748,287	01/92	83,458,018	01/93	102,293,008
02/91	92,583,118	02/92	95,653,987	02/93	113,838,936
03/91	92,549,671	03/92	84,431,479	03/93	105,267,828
04/91	80,362,876	04/92	82,040,564	04/93	93,700,030
05/91	77,687,761	05/92	82,449,732	05/93	92,002,319
06/91	75,384,224	06/92	72,321,541	06/93	81,106,345
07/91	80,081,851	07/92	57,804,347	07/93	63,179,930
08/91	50,651,559	08/92	45,630,458	08/93	49,688,426
09/91	38,945,599	09/92	44,322,623	09/93	36,255,720

Summary

	FY 90-91	FY 91-92	FY 92-93	3-year Average
Low	\$ 17,873,704	\$ 16,337,149	\$ 26,942,833	\$ 20,384,562
Average	61,440,773	61,275,737	70,517,339	64,411,283
High	92,583,118	95,653,987	113,838,936	100,692,013
Budget	265,990,394	287,240,412	297,097,917	

and projected schedules, which then are used to determine the optimal investment strategy within the investment policy. (See Exhibit 2.) After preparing the projected schedules, the debt officer continues to work with the department managers and the construction managers in case any cash flow modifications are needed. This ongoing communication link is vital to the long-term success of the program.

Thirdly, expenditures reports were developed to track past expenditure history and variances between projected and actual expenditures. Furthermore, the reports keep the investment staff informed regarding possible cash shortages or overages in any one fund. The comptroller's office has found that proper investment schedules result in higher interest earnings and greater expenditure capabilities in those same funds. Overall, the program has increased returns of the selected funds by an average of 92 basis points.

Benefits of the program. In addition to increased investment income, this program benefits the county in other ways. This program provides department managers, construction managers and the investment manager with the

management team to ensure that their weekly expenditures will be fully funded. Additional interest income is produced as a result of long-term forecasting rather than short-term forecasting in today's market, and is only possible with the full cooperation of the department managers.

The Cash Awareness Program also provides department managers with the incentive to view their funds not only from a budget standpoint but also from a cash projection standpoint. It is the understanding of this concept that has helped the investment office earn additional cash (interest earnings) on investments. Since interest earnings are returned to the producing fund, the department manager receives feedback on the value of their cash flow information reports. It is at this point that nonfinancial managers become aware of their cash balances and the importance of the program.

In essence, the goal of the program is to increase the level of awareness of the need for detailed cash flow information to allow the comptroller's office to increase interest earnings without jeopardizing liquidity and safety requirements.

Copies of the complete Cash Flow Analysis Report may be obtained by writing to: Debt Administration Officer, Orange County Comptroller's Office, P.O. Box 38, Orlando, FL 32802.

Steven Alexander, CCM, is the investment manager for Orange County, Florida.

**Exhibit 2
Water Utilities System
92 Construction
Fund 420—Cash Account 2585
As of September 1993**

FY 93-94	Drawdown	Cash Flow	Cash Balance
October	\$2,515,550	\$17,005,411	\$14,489,861
November	3,022,859	1,769,544	13,236,546
December	2,859,134	1,764,000	12,141,412
January	2,341,675	1,837,145	11,636,882
February	2,476,651	1,798,860	10,959,091
March	3,001,708	1,754,340	9,711,723
April	2,898,242	1,831,370	8,644,851
May	2,668,368	1,795,794	7,772,277
June	4,434,806	1,722,000	5,059,471
July	3,074,656	1,775,825	3,760,640
August	4,081,977	1,736,280	1,414,943
September	4,181,258	1,752,450	(1,013,865)
Total FY 93-94	\$37,556,884	\$36,543,019	
FY 94-95			
October		\$ 1,307,110	\$ 293,245
November			293,245
December			293,245
January		1,253,245	1,546,490
February			1,546,490
March			1,546,490
April		825,500	2,371,990
Total FY 94-95	\$0	\$ 3,385,855	
Grand Total	\$37,556,884	\$39,928,874	

**Water Utilities System
92 Construction
Fund 420—Cash Account 2585
Investment Schedule
As of September 1993**

Maturity Date	Name	Maturity Amount
00/00/00	SBA	\$15,123,641
10/31/93	UST-NOTES	1,680,000
11/30/93	UST-NOTES	1,680,000
12/31/93	UST-NOTES	1,680,000
01/25/94	FHLB	1,680,000
02/25/94	FHLB	1,680,000
03/28/94	FHLB	1,680,000
04/11/94	FHLB	1,680,000
05/27/94	FHLB	1,680,000
06/01/94	FHLB	1,680,000
07/11/94	FHLB	1,680,000
08/25/94	FHLB	1,680,000
09/01/94	FHLB	1,680,000
10/11/94	FHLB	1,220,000
01/25/95	FHLB	1,220,000
04/03/95	FHLB	800,000
		\$38,523,641