



# Time To Put Your Funds To Work

November 18, 2022

*PFM Asset Management LLC*

**NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE**

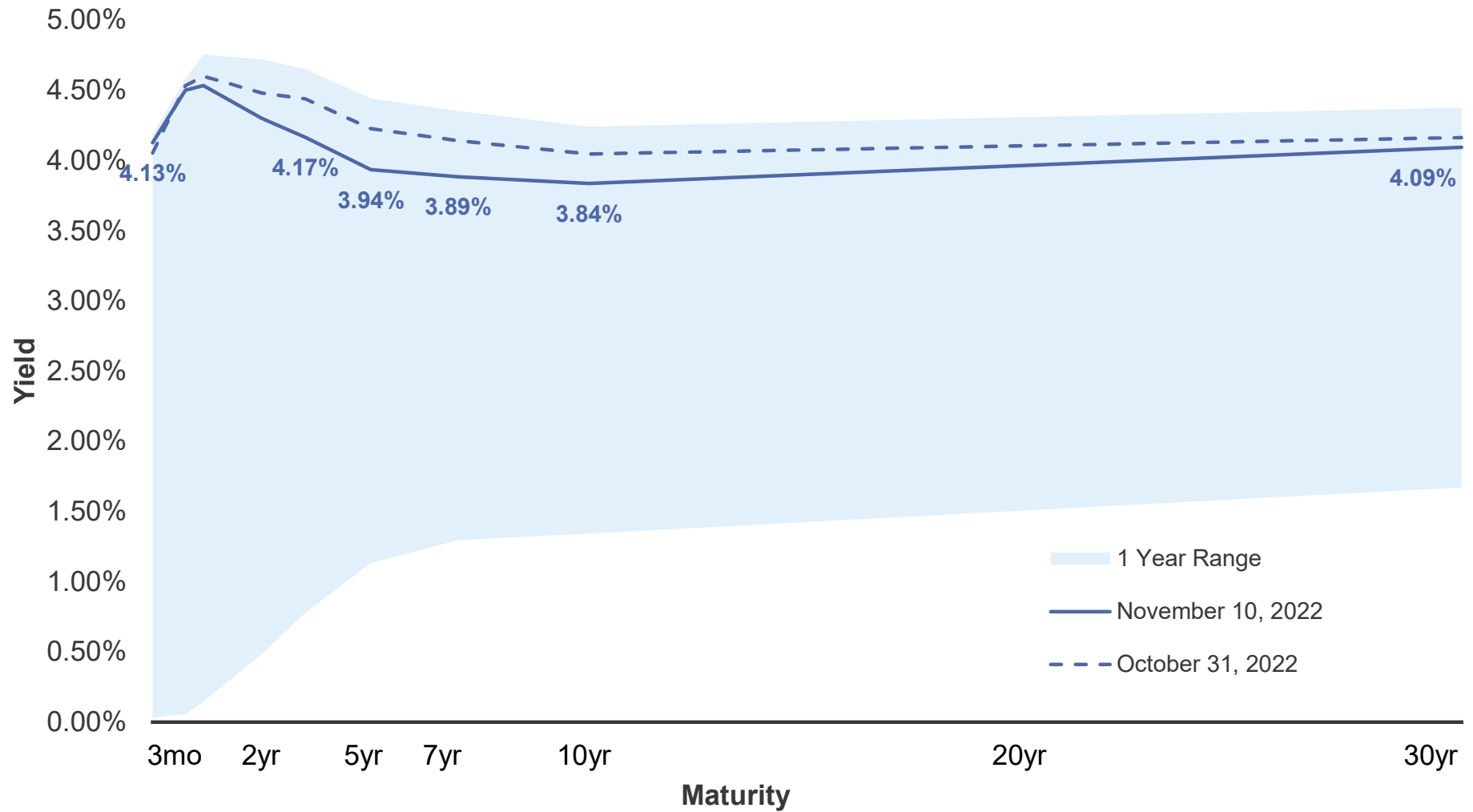
# Market Update

Inflation concerns persist,  
Fed committed to higher rates  
as long as it takes



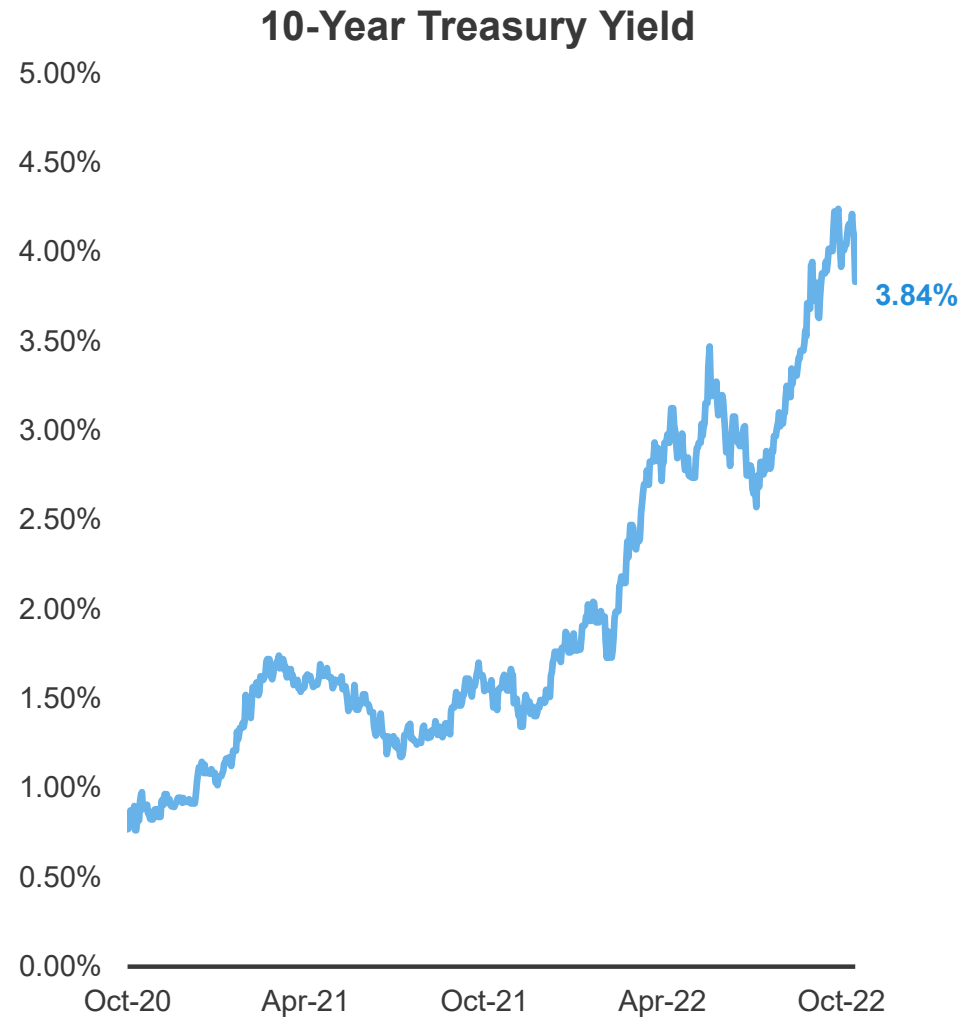
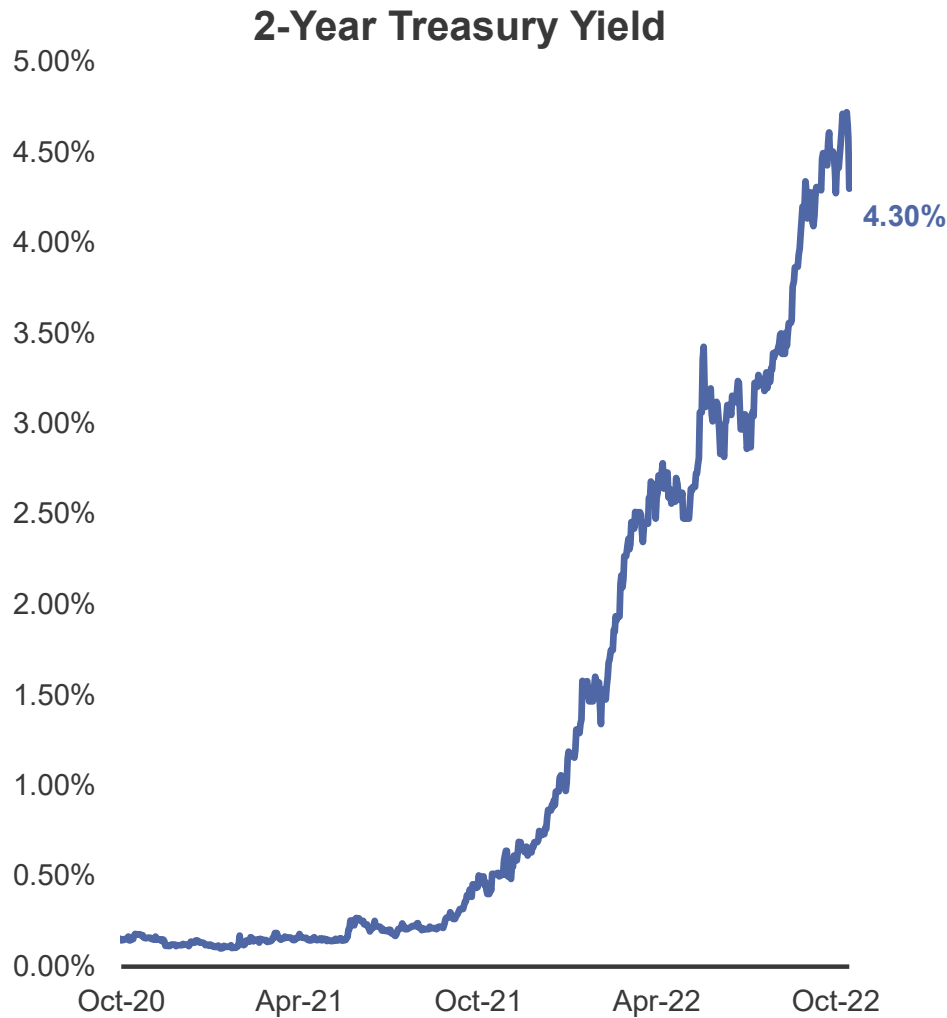
# Treasuries Rally Across the Curve From CPI Reading

## U.S. Treasury Yield Curve



Source: Bloomberg, as of 11/10/2022.

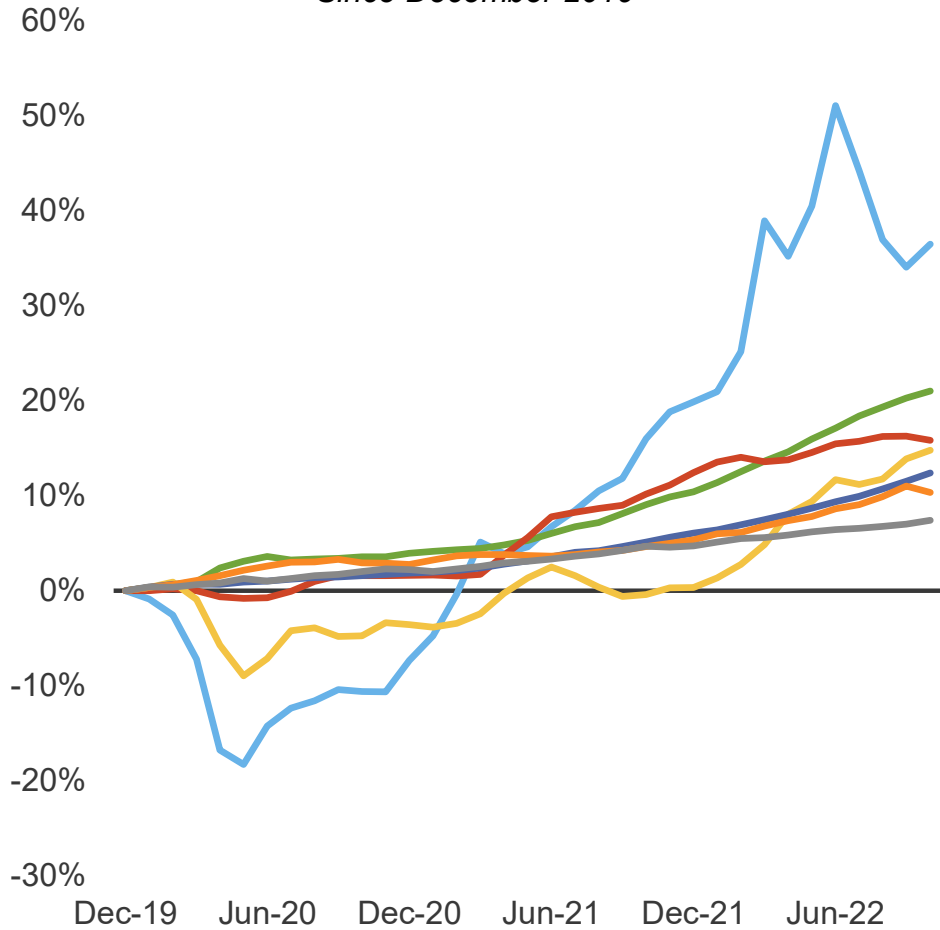
# Treasury Yields Plunge on Soft CPI



Source: Bloomberg, as of 11/10/2022.

# Growing Disinflation in Goods Sectors Helps Drag Inflation Against Energy and Shelter Costs

**Price Change of Major CPI Components**  
Since December 2019



CPI Component	12-mo. Change	Weight <sup>1</sup>	Contribution to YoY CPI
Energy	17.6%	8.0%	1.4%
Food	10.9%	13.7%	1.5%
Goods	5.1%	21.2%	1.1%
Transportation	15.3%	5.9%	0.9%
Shelter	6.9%	32.6%	2.3%
Medical services	5.4%	6.9%	0.4%
Other Services <sup>2</sup>	2.6%	11.6%	0.3%
<b>Overall</b>	<b>7.7%</b>		

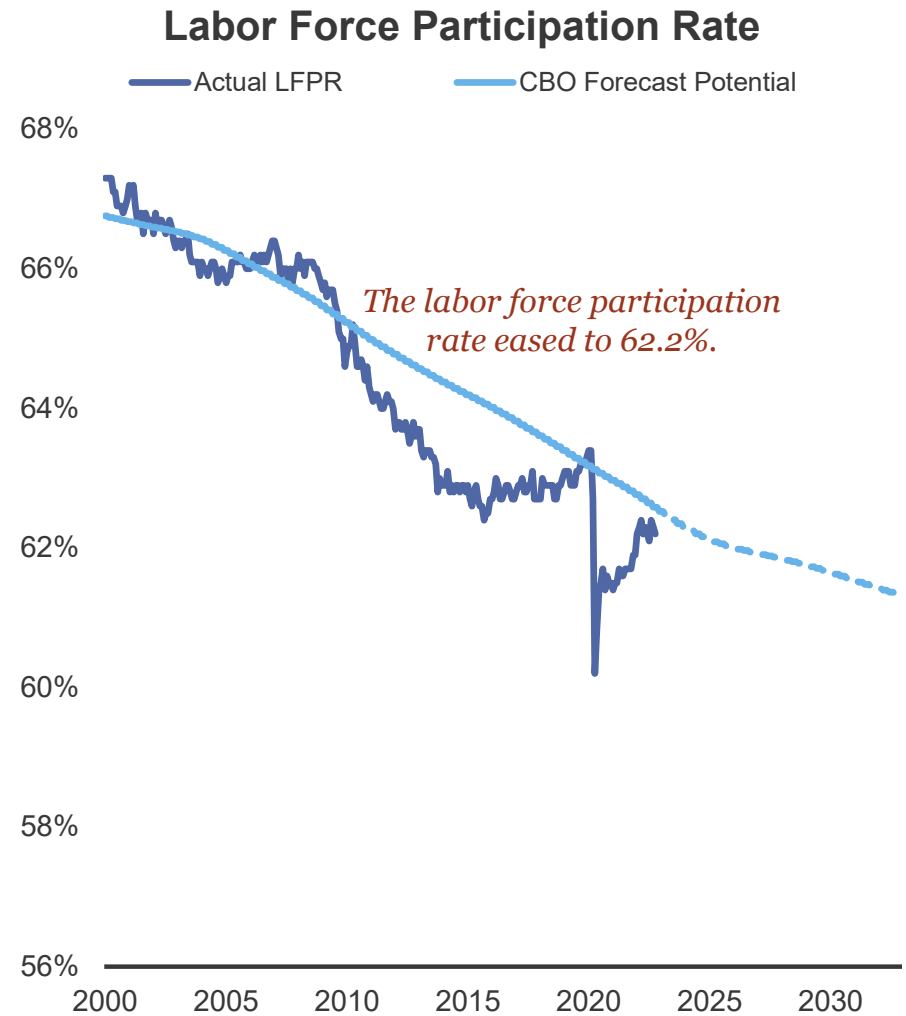
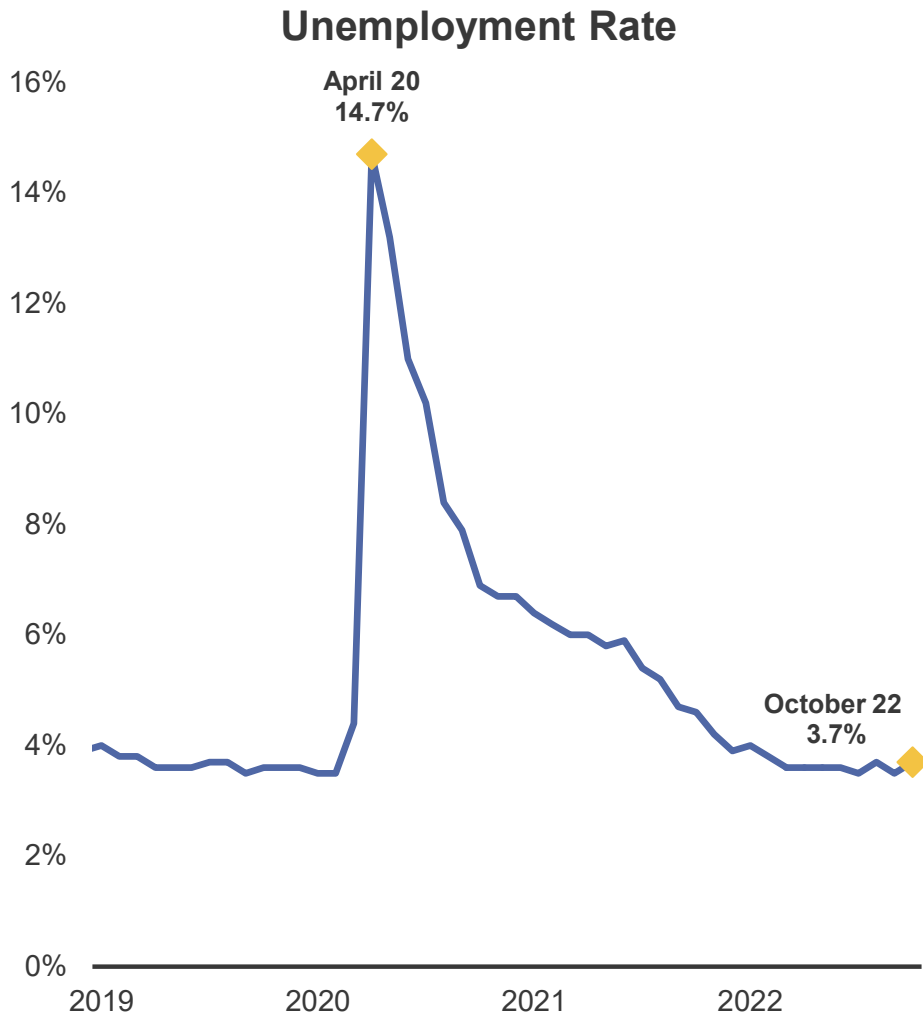
Source: Bloomberg, Bureau of Labor Statistics as of October 2022.

<sup>1</sup>Index weights are as of September 2022 as they are published on a one-month lag.

<sup>2</sup>Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, and Education and Communication services.



# U.S. Economy Added 261,000 Jobs in October; Unemployment Rate Rose to 3.7%

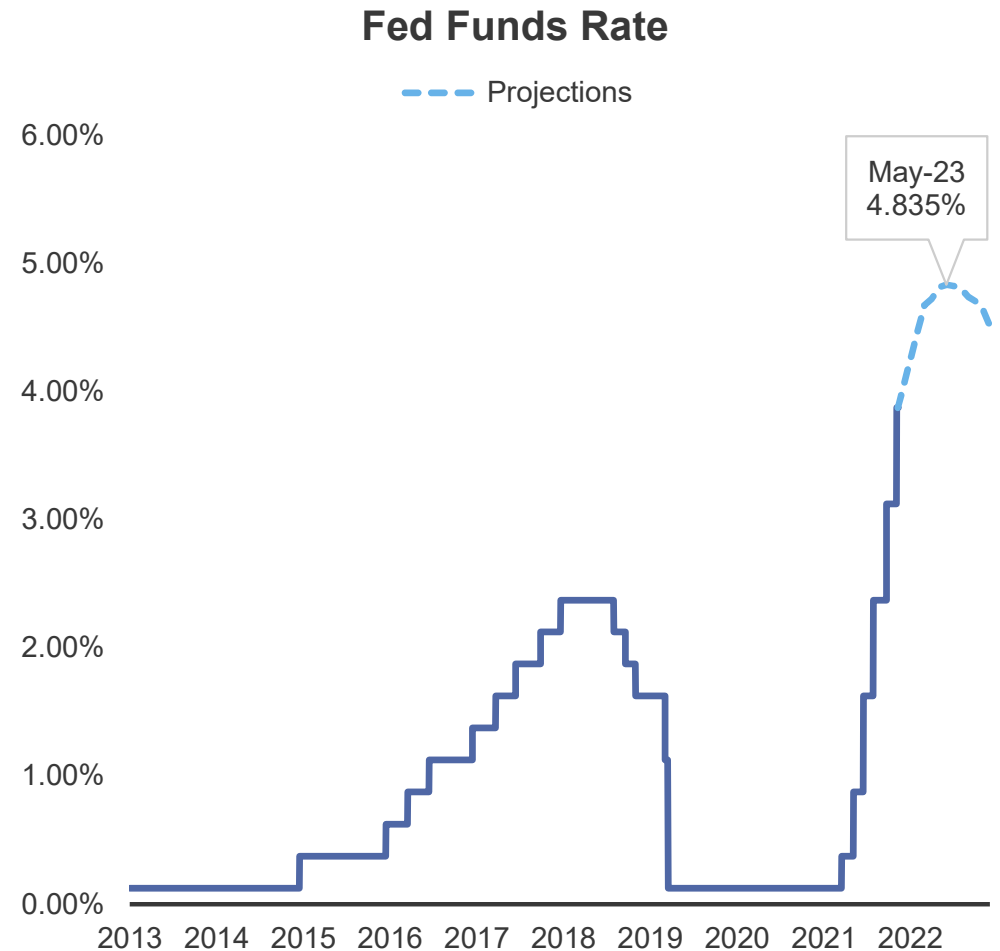


Source: Congressional Budget Office October 2022 economic projections, Bureau of Labor Statistics. Bloomberg, as of October 2022. Data is seasonally adjusted.

# Fed Hikes Rates 75 Basis Points At November FOMC Meeting

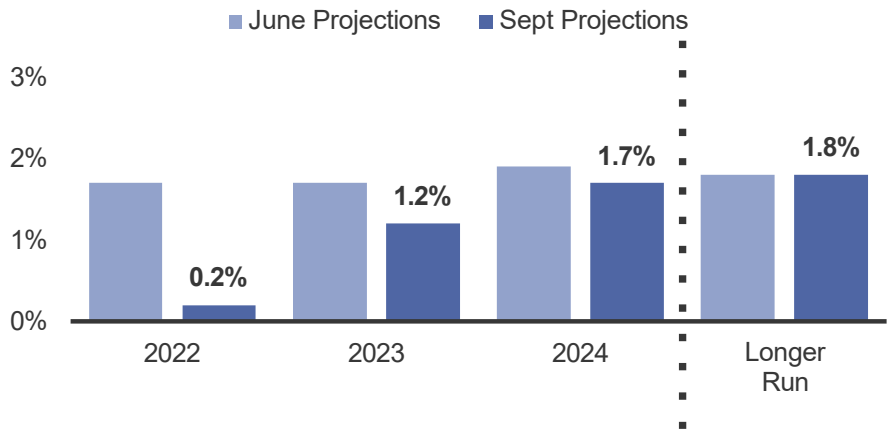
## The November FOMC Meeting:

- The fourth 75 basis point rate hike in 2022
- Raised the Fed Funds rate to a target range of 3.75% – 4.00%
- FOMC hints at slowing pace of rate hikes, but higher terminal rate

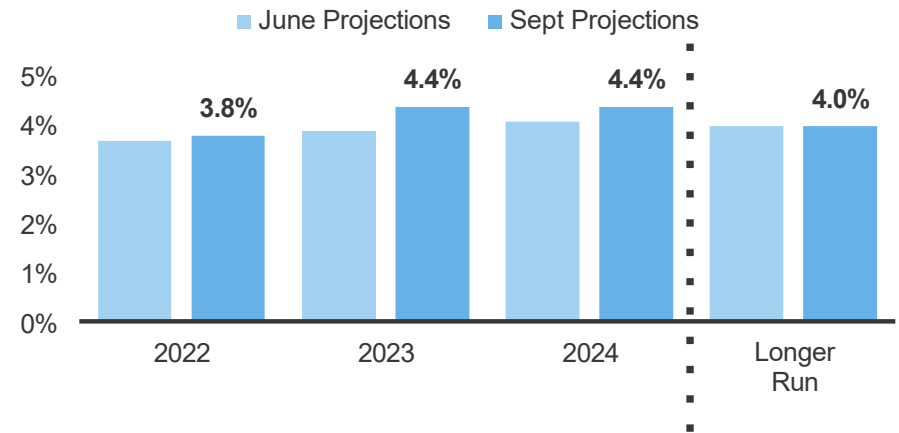


# Fed's Projections Reflect Weaker Economic Growth and Extended Timeline for Tighter Policy

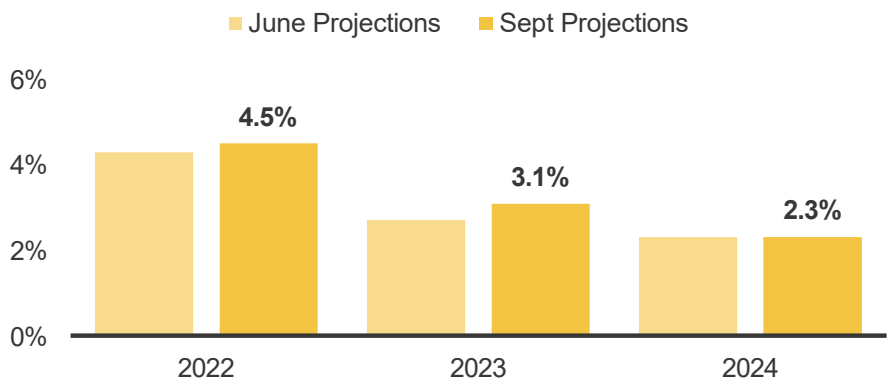
### Change in Real GDP



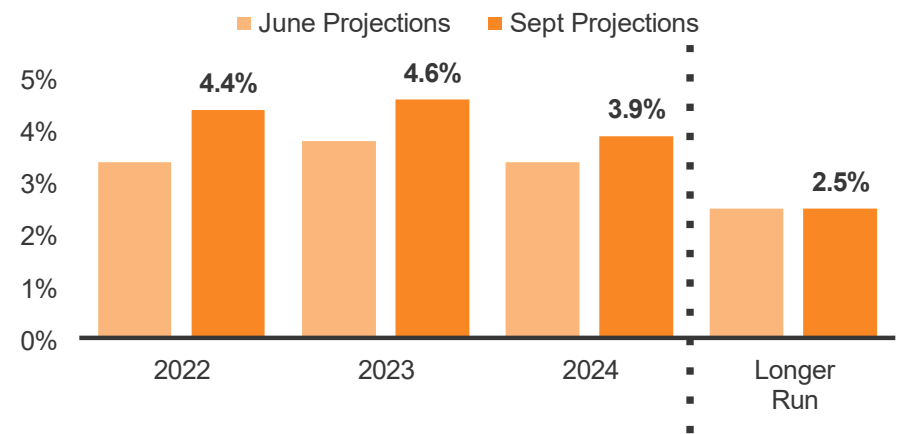
### Unemployment Rate



### Core PCE Inflation



### Federal Funds Rate



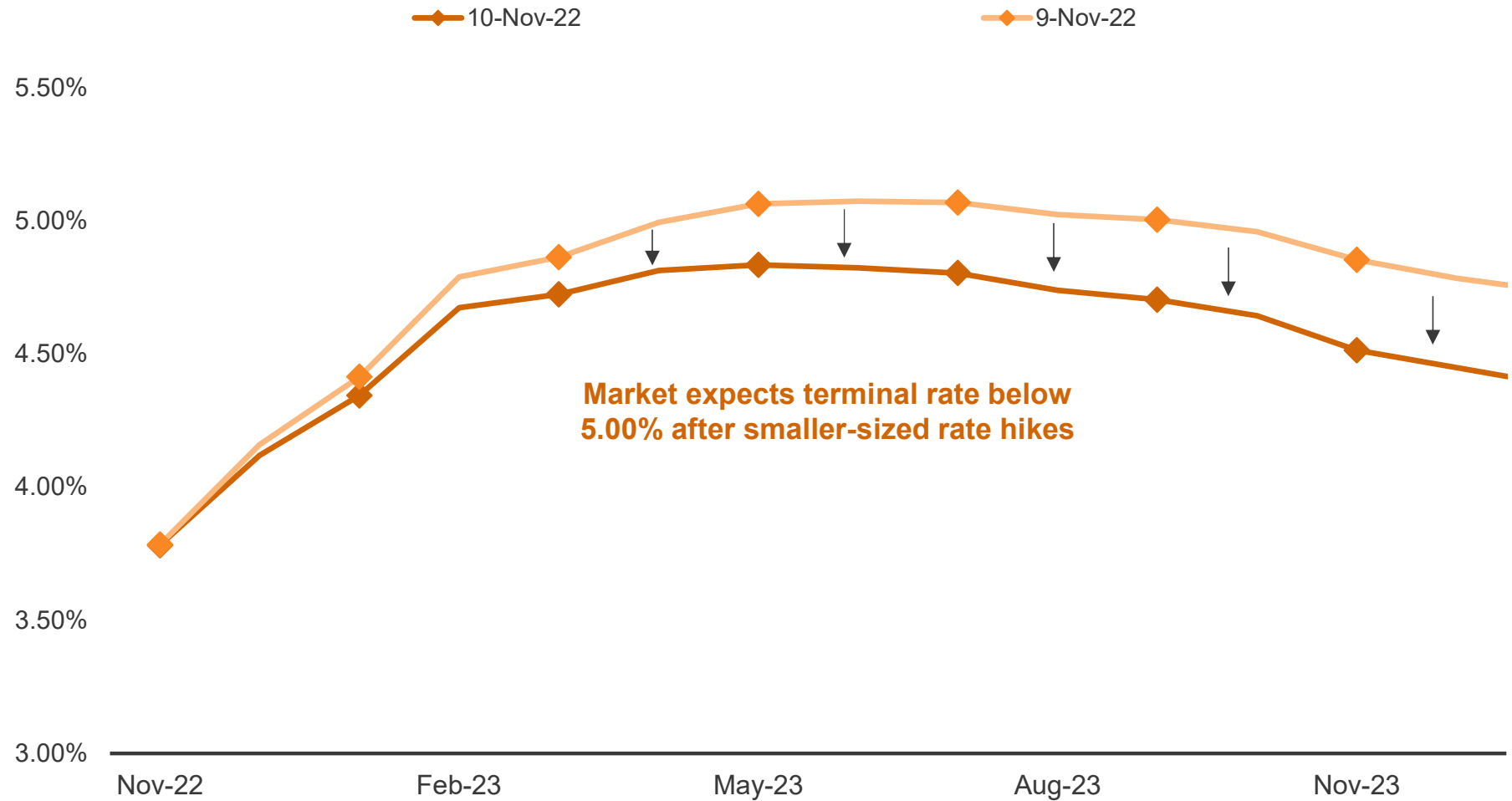
Source: Federal Reserve, latest economic projections as of September 2022





# October's CPI Reading Drags Down Rate Expectations

## Implied Fed Funds Rate



Source: Bloomberg, as of 11/10/2022.

# Equities Give Ovation to Better-Than-Expected Inflation Reading



Source: Bloomberg, as of 11/10/2022.

# Putting your Money to work for your District

Higher rates provide significant opportunity for increased interest income



# Benefits of Cash Flow Forecast

- ◆ Ensures liquidity
- ◆ Can increase investment income / decrease interest expense
  - Amounts available for investment
  - Period of time to hold the investment
  - Assists with investment strategies
- ◆ Forecasts problems: trend lines
  - Revenues not being collected properly
  - Expenditures exceed budget



# Earnings Credit Rates/Compensating Balances

- ◆ Earnings Credit Rates (ECRs) are credits offered by a bank to offset service charges.
  - Credits typically are only good for paying bank fees and
  - Unused credits expire eventually
- ◆ Historically, the rate paid was often pegged to the U.S. Treasury bill rate.
- ◆ During the financial crisis, banks moved from pegs to bank-managed rates.



# What to Watch For in Your Compensating Balances

- ◆ Some banks set aside a 10% reserve.
  - This reduces the amount they pay you a credit on.
- ◆ Banks that charge FDIC assessments typically apply it on the ledger balance (a higher amount).
  - They are charging you for balances that are not yet available to you in the account
- ◆ Earnings Credit paid on the collected balance (a lower amount).
  - They are paying you only for the balances that are available in the account



# What to look for?

**Bank of America**



Deposit Bank Assessment

**J.P.Morgan**

Premium Assessment Fee

**KeyBank**



Deposit Assessment

**usbank**

Deposit Coverage

**WELLS  
FARGO**

Recoupment Monthly

# Bank Charges Can Significantly Reduce the Benefit of the ECR

<i>No Reserve Requirement or FDIC</i>			<i>Reserve Requirement and FDIC Assessed</i>		
Earnings Credit on Compensating Balance			Earnings Credit on Compensating Balance		
Total Collected Balance		\$25,000,000	Total Collected Balance		\$25,000,000
Less Reserve Requirement	0%	\$0	Less Reserve Requirement	10%	\$2,500,000
Available Balance		\$25,000,000	Available Balance		\$22,500,000
Earnings Credit	0.25%	\$5,308	Earnings Credit	0.25%	\$4,777
	$\$25,000,000 * 0.25 * 31/365$			$\$22,500,000 * 0.25 * 31/365$	
Less FDIC Assessment	0%	\$0	Less FDIC Assessment	0.10%	\$2,123
	$\$0 / (\$25,000,000 * (31/365))$			$\$2,123 / (\$25,000,000 * (31/365))$	
Net Earnings Credit	0.25% on Collected Balance	\$5,308	Net Earnings Credit	0.125% on Collected Balance	\$2,654

*For illustrative purposes only.*





<b>Current Scenario</b>				
			<u>Balances</u>	
Investable Balance			11,518,863	
Less Fed Reserve Requirement			(1,151,886)	Unused
Investable Balance Available for Service			10,366,977	
	<u>Balance</u>	<u>Fee Rate</u>	<u>Monthly</u>	<u>Annualized</u>
Deposit Admin Charge	11,692,000	0.0852%	996	11,729
Total Analyzed Charges			3,763	44,306
		<u>Monthly</u>	<u>Annualized</u>	<u>Yield</u>
Earnings Credit Allowance		4,686	55,174	0.55%
Analyzed Charges		3,763	44,306	0.44%
Unused Earnings Credit		923		

# Scenario 2 – Partial Investment

<b>Investment Scenario</b>				
			<u>Balances</u>	
Investable Balance			5,518,863	
Less Fed Reserve Requirement			(551,886)	Unused
Investable Balance Available for Service			<u>4,966,977</u>	
<u>Description</u>	<u>Balance</u>	<u>Fee Rate</u>	<u>Monthly</u>	<u>Annualized</u>
Deposit Admin Charge	5,692,000	0.0852%	477	5,620
Total Analyzed Charges			3,244	38,197
		<u>Monthly</u>	<u>Annualized</u>	<u>Yield</u>
Earnings Credit Allowance		2,245	26,435	0.55%
Analyzed Charges		3,244	38,197	0.79%
Unused Earnings Credit		(999)	Paying	
Money Market Investment	6,000,000	14,625	172,200	2.87%
Blended Return	11,518,863		186,647	<u>1.62%</u>

Source: Sample Analysis statement from actual client for month of August 2022.



Through any Cash Management Strategy, we need to always look through the Public Funds lens of Safety, Liquidity & Yield.

How did we fair?

- ✓ Moved funds from a single A credit with \$250k of insurance to a AAAM rating
- ✓ By lowering balances at the bank, we decreased fees and fully utilize Earnings Credit
- ✓ The change retains liquidity levels as the funds are 100% available
- ✓ The “investment” produces \$172,000 of additional earnings

BUT

This process requires your time to money manage the funds between bank and money market.



***Money Market Rate***      **3.12%**

<b><u>Maturity</u></b>	<b><u>Date</u></b>	<b><u>Net Rate</u></b>
60 Days	January	<b>4.02%</b>
90 Days	February	<b>4.37%</b>
120 Days	March	<b>4.57%</b>
150 Days	April	<b>4.77%</b>
180 Days	May	<b>4.97%</b>
210 Days	June	<b>5.02%</b>
240 Days	July	<b>5.07%</b>
270 Days	August	<b>5.17%</b>
300 Days	September	<b>4.67%</b>
330 Days	October	<b>4.68%</b>
365 Days	November	<b>4.68%</b>



**What if YOU COULD...**

**turn your AP process into a revenue source?**

**Change the Way You PAY**



# Top Spend Vendors - Michigan

**Consumer's Energy**

**Apple**

**4IMPRINT**

**KSS Enterprises**

**Robert Half**

**Motorola Solutions**

**Scholastic**

**SSI School Specialty**

**Prairie Farms Dairy**

**Cloverland Electrical Co.**

**AT&T**

**Verizon Wireless**

**The Webstaurant Store**

**Waste Management**

**Granger**

**Cintas**

**Amazon**

**COMCAST**

**Pioneer Valley Books**

**Teaching Strategies, LL**

**DTE Energy**

**Raymond Gedds**

**AWL Pearson Education**



# Payment Solutions - Program Highlights

- **No Annual Card Fee**
- **Credit limit & Card controls set by Program Administrator**
- **MasterCard® accepted at over 9M locations in the US**
- **Dedicated support teams**
- **24/7/365 access to Proprietary, web based program management, data warehouse, reporting and statement generation tool**
- **Level 1,2,& 3 Addendum Detail**
- **Vendor is paid within 24-48 hours**
- **1099's requirement is eliminated when paying by P-Card**
- **Central Billing/Corporate Liability Program**
- **One Billing cut-off date  
27<sup>th</sup> of the month paid 7 calendar days later**
- **Lost or Stolen Liability- \$0**
- **\$100,000.00 coverage per cardholder-Employee Misuse for organizations that have 5 cards or over. \$25,000.00 coverage for 2 – 4 cards**



# Purchasing Card Account Options

## Traditional Card Accounts

**Plastic Commercial Cards which are issued to specific employees who use the card with multiple suppliers**

*(Credit line replenishes each month after bill is paid)*

## Ghost Card Accounts

**An account number is issued to individual employees, departments, or specific suppliers or supplier types, who initiate purchases that are processed to a single virtual account**

## Budget Card Accounts

**With a fixed credit line that is depleted as transactions are made, the Banks Corporate Budget Card is a secure and convenient solution for managing business expenses with fixed budgets**

*(Credit line does not automatically replenish once amount is exhausted)*

## Department Card Accounts

**Plastic Commercial Cards are issued with a department name to be utilized by different employees within that specific department**

***(Card not covered by MasterCoverage; it is not issued to an individual)***



# Questions?



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