

# Investing in U.S. Treasury Securities



Tulare Local  
Healthcare District

**January 25, 2023**

Presented by



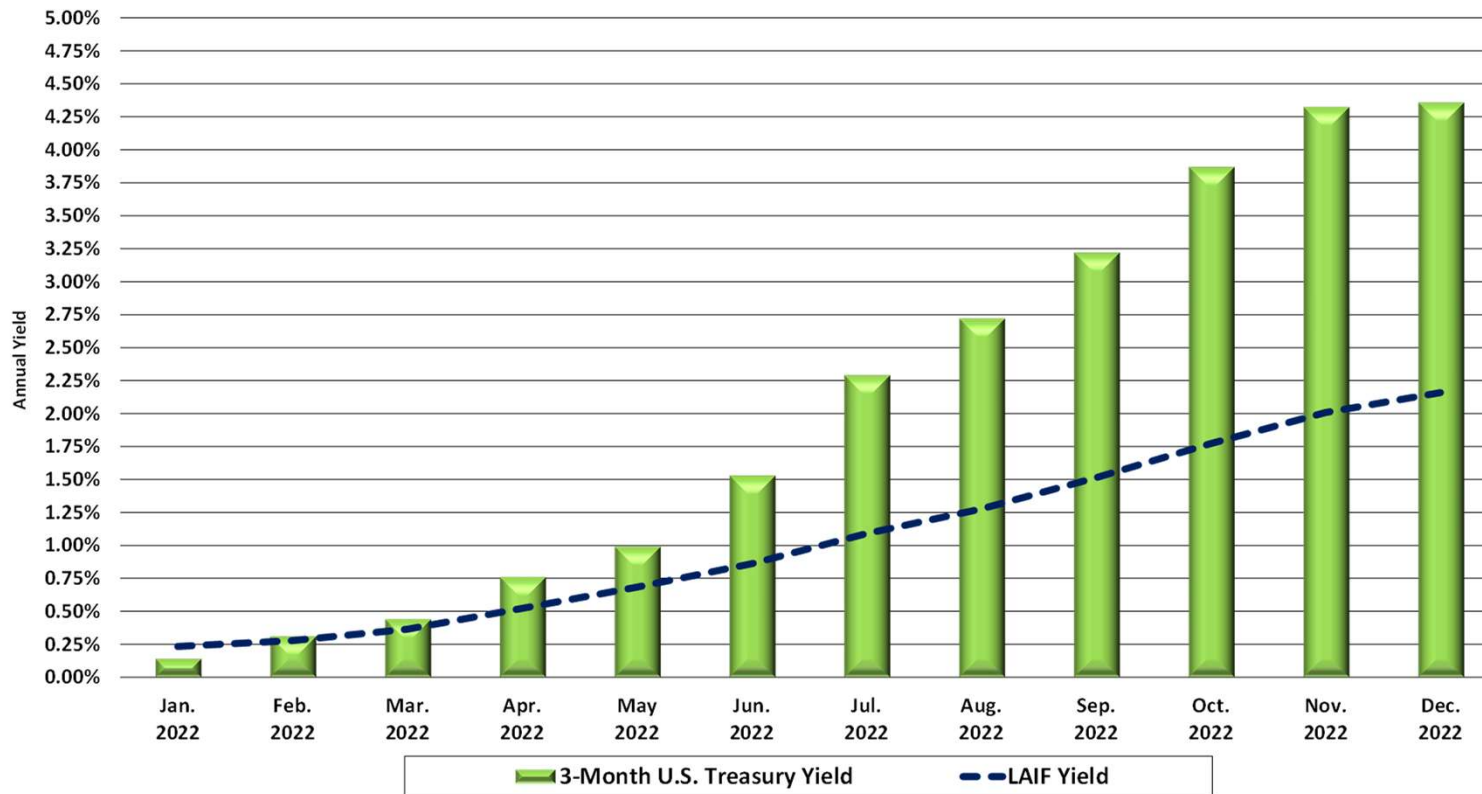
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## TLHCD's COVID-19 Relief Funds

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- Approximately \$6 million of Tulare Local Healthcare District's ("TLHCD" or the "District") Covid-19 relief funds are currently invested in the **Local Agency Investment Fund ("LAIF")**.
- LAIF is a popular investment among California special districts and local public agencies due to its low cost and convenience, and its emphasis on safety and liquidity.
- Notwithstanding its many advantages, one disadvantage of investing in LAIF is that the interest rate or 'yield' paid by LAIF is relatively low compared to the current yield on U.S. Treasury securities.
- **For example, the most recently reported yield paid by LAIF was 2.29% as of December 29, 2022; by contrast, the most recently reported yield on a 3-month U.S. Treasury security was 4.60% as of January 9, 2023.**

# Current Interest Rate Environment



The yield on 3-month U.S. Treasury securities increased significantly during 2022 due to a sharp rise in the rate of inflation and due to the Federal Reserve Board's policy of raising interest rates to combat inflation.

By comparison, the yield paid by LAIF increased by only half as much.

Source: U.S. Department of Treasury, California State Treasurer's Office, as of December 30, 2022

## **Benefits of Investing in U.S. Treasury Securities**

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- **While the District is reviewing its financial policies for 2023 and evaluating the best uses for its COVID-19 relief funds, the District should consider investing the funds in a 3-month U.S. Treasury security in order to earn additional interest income.**
- U.S. Treasury securities are guaranteed by the “full faith and credit” of the United States Government and are widely considered to be the safest and most liquid investment in the marketplace.
- **If for any reason the District needs the funds in less than 3 months, then the U.S. Treasury security can be sold very easily at the then-current market price.**

# Investing in a 3-Month U.S. Treasury Security

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Date of Investment	Face Value of Investment	Term of Investment	days	Final Maturity	Annual Yield (1/11/2023)	Interest Earnings
2/1/2023	6,000,000	3-months	88	4/30/2023	4.66%	67,410

<b>Gross Interest Earnings</b>	<b>4.66%</b>	<b>67,410</b>
<b>One-Time Program Expenses</b>	<b>0.64%</b>	<b>(6,000)</b>
<b>Net Interest Earnings</b>	<b>4.02%</b>	<b>61,410</b>

## 3-Month Investment in LAIF

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At today's interest rates a \$6 million investment in a 3-month U.S. Treasury security would generate approximately **\$27,416 more** interest income **for the District**, net of fees, than a \$6 million investment in LAIF.

\$6 Million Investment Scenario	
Total Earnings (Treasury Securities)	<b>\$67,410</b>
(less) Total Program Expenses	<b>(6,000)</b>
<b>(equals) Net Earnings (Treasury Securities)</b>	<b>61,410</b>
<b>Total LAIF Earnings (\$6MM x 2.29%)</b>	<b>33,127</b>
<b>Estimated Net Benefit above LAIF</b>	<b>\$28,283</b>

## Wulff, Hansen & Co. Services

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Wulff, Hansen & Co. can provide the following services:

- Help the District determine the amount of the investment and the final maturity of the investment.
- If requested, coordinate with the District and Causey, Demgen & Moore, a Registered Investment Advisor (RIA), on opening a brokerage account or bank account with an institution of the District's choice in which the U.S. Treasury security can be held for safe-keeping.
- Coordinate with Causey, Demgen & Moore, an RIA, to help ensure the successful purchase and settlement at a fair and competitive price.
- Help the District liquidate the Treasury security prior to maturity, if for any reason the District unexpectedly needs the money sooner-than-expected.
- Provide the District with any other services within its purview that are necessary to help the District achieve its investment objectives.

# Estimated Fees

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## One-Time Up-Front Fees:

Municipal Advisor Fee*	\$5,000
Miscellaneous Other Fees	\$1,000
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	<b>\$6,000</b>

## Notes to Fee Schedule

*Municipal Advisor fee is fully contingent upon the delivery of the Treasury security to the District.*

*Municipal Advisor does not receive any form of compensation from any third parties; Municipal Advisor is compensated exclusively by the District.*



## The Wulff Hansen Investment Program

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If the District purchases a 3-month U.S. Treasury security, then after the security matures in 3 months the District may wish to consider having us assist it in establishing a more versatile Treasury-based investment program as we have done with a number of other local agency clients.

Such a program is typically a laddered portfolio of U.S. Treasury securities and includes the following features:

- All funds are invested exclusively in U.S. Treasury securities;
- The client invests anywhere from \$5 million to \$60 million in a portfolio of U.S. Treasury securities with terms ranging from 12 to 36 months and with quarterly or semi-annual principal maturities;
- All securities are held on behalf of the client by a Custodian Bank of the client's choosing;
- Each portfolio of securities is purchased via a competitive bidding process;
- Each portfolio is structured to reflect the client's cash flow requirements and liquidity needs; and
- Wulff Hansen provides quarterly reporting and meets with each client on a quarterly basis to confirm that the portfolio continues to meet the client's cash flow requirements, liquidity needs and investment objectives.



## Questions?

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