Investments 101

July 23rd, 2025

RISING LEADERS IN SCHOOL BUSINESS

Introductions

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- CSBO, Indian Prairie School District 204

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- Director, Mesirow Public Finance

PTMA

INDIAN PRAIRIE SCHOOL DISTRICT 204

Mesirow

Objectives of Investing 101

To Determine…

- What can a district invest in?
- When should a district invest?
- Why should a district invest?
- How can a district invest?

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What can a district invest in?

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What can a district invest in?

Defined by Illinois Statute - (ILCS 235)

- Registered Money Market Fund Pools
- US Treasury and Agency Securities
- Certificates of Deposit
- Demand/Checking Accounts
- Corporate Obligations
- Municipal Securities
- Repurchase Agreements

Further defined by district Investment Policy (Section 4:30)

Certificates of Deposit

- Federally insured institutions up to $250k (FDIC)
- Deposits in excess of $250k
  - Insured Certificates of Deposit
  - Collateralized – Must be segregated and in district's name and held by third party
  - Unsecured – most District Policies require secured deposits
- Fixed term investment with specified maturity date
  Penalties for early withdrawal (typically 3 months of interest)

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US Treasury Securities

Treasury Bills

- Issued by US. Treasury- maturities of 360 days or less
- Original bill is sold at auction. Secondary bill is sold at competitive market pricing.
- Issued at a discount of face value

Treasury Notes

- Shorter-term bonds with original maturities of 1 to 10 years
- Issued in denominations of $1k, $5k, $10k, $100k & $1.0mm
- Securities are held on either registered or book-entry basis

Treasury Bonds

- Major Issuers: US Treasury, Agencies sponsored by US Government, State & Local Governments
- Fixed income investment-issuer pays fixed amount periodically
- Nearly all pay interest semiannually

US Agency/Instrumentalities

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC) (Freddie Mac)
- Federal Farm Credit System

Commercial Paper (CP) & Corporates

Commercial Paper

- Short-term unsecured promissory note
- Default risk present
- CP Requirements: The Public Funds Investment Act
  - Obligations rated at time of purchase at one of 3 highest classifications by at least 2 standard rating services and which mature not later than 270 days from the date of purchase
  - Purchases do not exceed 10% of the corporation's outstanding obligations
  - No more than 33% of the public agency's fund may be invested in short term obligations of corporations

Corporates

- Corporate Requirements: The Public Funds Investment Act
  - Obligations rated at time of purchase at one of 3 highest classifications by at least 2 standard rating services and which mature more than 270 days but less than 3 years from the date of purchase
  - Purchases do not exceed 10% of the corporation's outstanding obligations
  - No more than 33% of the public agency's fund may be invested in obligations of corporations

District Policy typically more conservative requiring the purchase of only top-tier paper (A1/P1)

Analyzing Investments

Three Major Factors

- **Safety** – "Will I get my principal back?"
  - Credit Risk

- **Liquidity** – "When can I get my principal back?"
  - Liquidity Risk
  - Market Risk

- **Yield** – "Am I receiving an appropriate return?"

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Credit Risk Scale

- Treasury (Bills, Notes, Bonds)
- Government Agencies Securities
- Investment Pools (ISDLAF+ AAA rated pool)
- Insured Bank CDs
- Collateralized Bank CDs
- Commercial Paper (A1/P1)
- Bank CDs (Uninsured/Uncollateralized)

Risk Free

↓

↓

↓

Higher Degree of Risk

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Credit Ratings

Moody's	S&P	Fitch	Credit Worthiness
Aaa	AAA	AAA	An obligor has EXTREMELY STRONG capacity to meet its financial commitments.
Aa1	AA+	AA+	An obligor has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	An obligor has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	An obligor has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	

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Liquidity Risk Scale

- Cash
- Investment Pools (ISDLAF+ AAA rated pool)
- Treasury (Bills, Notes, Bonds)
- Government Agency Securities
- Commercial Paper (A1/P1)
- Certificates of Deposit
- Mortgage-Backed Securities

Cash

degree of liquidity

Illiquid

When should a district invest?

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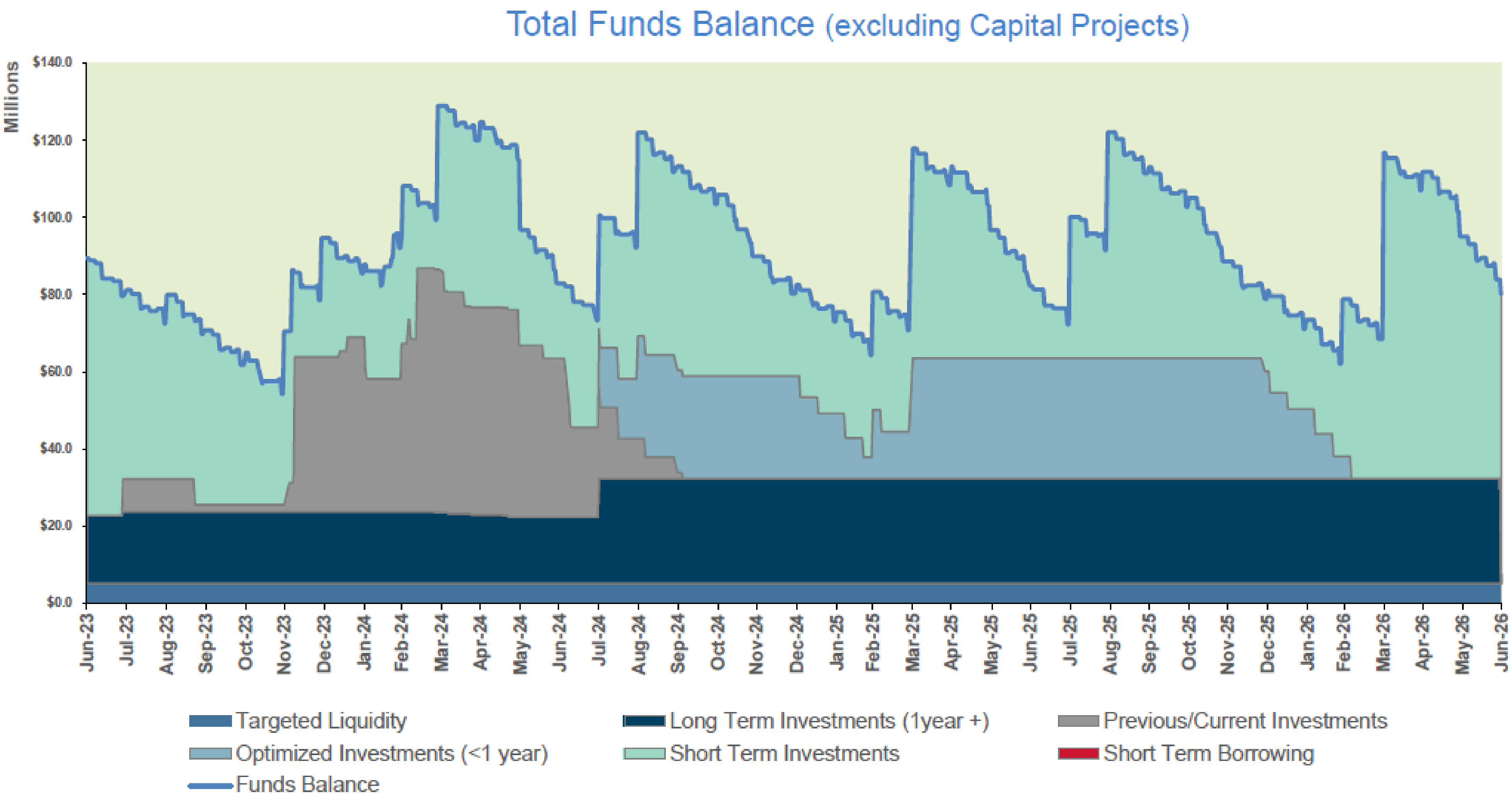
When should a district invest?

- Determined by a district's cash flow
- A good Cash Flow plan will…
  - Ensure all liabilities are properly funded
    - Project/identify cash flow timing & amount
    - Avoid over-funding of liabilities
    - Use just-in-time funding
  - Establish/maintain adequate liquidity level
  - Allow immediate investment execution - maximize interest

Cash Flow Plan



Cash Flow Plan

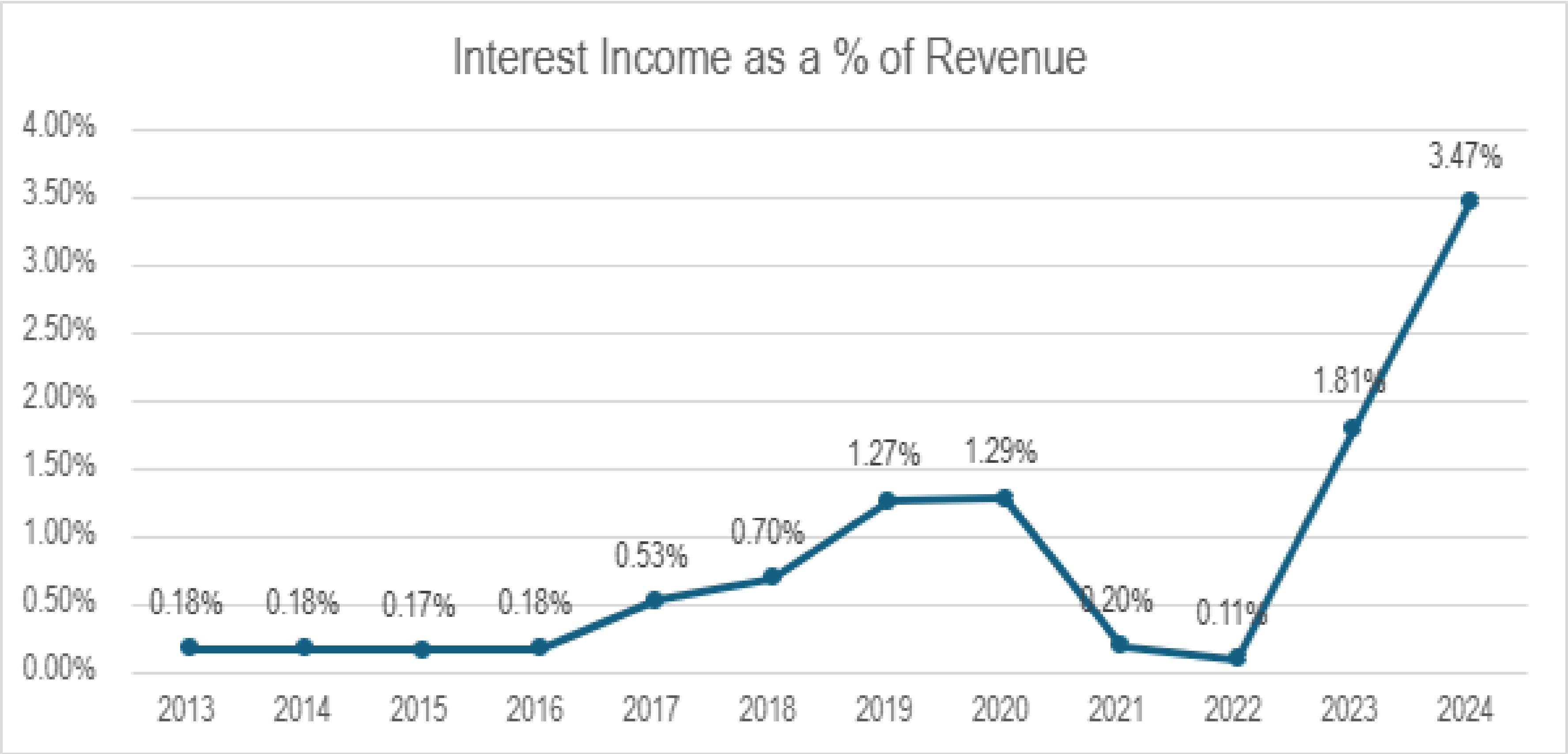
Cash Flow Schedule - November 2024										
Date	Day	Revenues			Expenditures			Maturities	Investments	Money Mkt Funds
		Taxes	EBF	Other	Payables	Payroll	Other			
								Opening Balance		$5,023,904
1	Fri									$5,023,904
4	Mon									$5,023,904
5	Tue									$5,023,904
6	Wed									$5,023,904
7	Thu									$5,023,904
8	Fri				$2,755,103			$8,900,000		$11,168,801
11	Mon		Veterans' Day							$11,168,801
12	Tue									$11,168,801
13	Wed					$4,040,541				$7,128,259
14	Thu		$615,470							$7,743,729
15	Fri				$2,755,103					$4,988,626
18	Mon									$4,988,626

Why should a district invest?

Why should a district invest?

- Maximize investment earnings
  - Optimal investment schedule to extend duration
  - Identify reserve balances to capture yield curve benefits of longer-term investing
- Diversify holdings from just one type of investment

Interest Income Data



Average of 20 Illinois school districts
Source: AFRs from ISBE

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Interest Income Data

Example - $30,000,000 Budget

AFR Year	% of Revenue	Interest Income	Fed Funds Rate (June)
2013	0.18%	$54,170.27	0.09%
2014	0.18%	$55,019.99	0.10%
2015	0.17%	$50,142.96	0.13%
2016	0.18%	$54,545.19	0.38%
2017	0.53%	$159,888.26	1.04%
2018	0.70%	$209,942.64	1.82%
2019	1.27%	$380,681.35	2.38%
2020	1.29%	$385,715.68	0.08%
2021	0.20%	$59,233.74	0.08%
2022	0.11%	$31,877.65	1.21%
2023	1.81%	$542,673.26	5.08%
2024	3.47%	$1,042,430.86	5.33%

Average of 20 Illinois school districts
Source: AFRs from ISBE

Yield Curve

Bloomberg as of 6/30/25

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Source: Bloomberg 7/8/2024

How can a district start investing?

Starting the Investment Process

- Get an understanding of the district's current financial holdings and cash flow
  - Identify long term potential and operating needs throughout the year
- Have a general sense of the current market conditions
  - Many investment providers release market updates that can offer a snapshot of the market
- Be aware of your checking/savings account rate
- Work with your investment provider(s) to find a wide range of investment options based on the district's cash flow needs

Starting the Investment Process (continued)

- Make sure the investment provider understands the district’s investment policy and state statute
- Continually evaluate the district’s liquid balances and invest per the plan

What makes a good investment provider

- Trust
- Understanding of district's cash flow
- Understanding of state statute and investment policy
- Wide range of offerings
- Open communication
- Transparency
- Additional services provided

Presenters

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