

SPECIAL TREASURY INVESTMENT BOARD MEETING
Tuesday, November 29, 2022, 10:00 a.m. in Village Hall

Members Present: Mayor Koons, Finance Chairman Galicki, Fiscal Officer Romanowski,
Solicitor Matheney

Visitors: Eileen Stanic, Meeder Investments; Tom King, Manor Brook Dr.

The Mayor called the meeting to order. He noted that Tom King was present theoretically as a visitor because he had not been appointed to the Treasury Investment Board yet because the board wanted to give him a chance to meet the board and for the board to meet him. Ideally, on December 12th, the Chair of Finance would make that recommendation and Council will approve for that. King will be moving to Indianapolis within a year, but he brings a wealth of talent and interest.

Stanic provided the board with her background and explained that she had been involved in investment and Treasury investment for 30 years. Her responsibilities revolve around overseeing the Meeder advisory group as well as having individual clients like the Village. Meeder Investments has been in business since 1974 and have been serving public entities since 1990.

As an investment advisory firm registered with the Securities and Exchange Commission (SEC), Meeder has a fiduciary duty to the Village. This means that as they develop an investment program as they execute investment securities, they are doing what is in the best interest of the Village. They do not receive any commissions and their source of revenue is their fixed fee that is covered under the agreement with the Village. Meeder started as an Ohio based organization, but through acquisitions and growth, they now cover clients nationwide, helping them meet their investment objectives of safety, liquidity, and return. According to most recent reporting date to the SEC, Meeder has over \$42 billion of assets under advisement and management. Stanic provided the board with an overview of services provided, to include investment policy. They can look at cash flow, developing investment strategy and execute the transactions, and then provide reporting and review. On a monthly basis, the Fiscal Officer would receive a statement of all the holdings not only from Meeder, but from a third-party custodian. The reconciliation is provided by Meeder as part of its monthly statement and then from the internal controls side that show the securities are the same. Meeder recognizes the importance of compliance monitoring with public entities which are subject to state audit. They utilize a system that ensures that the Village's investments comply with both state law and the Village's own policies.

Stanic advised that one component of the proposed Village policy is commercial paper, which is permissible under Ohio Revised Code (ORC). It is a short term note that is issued by corporations. Under Ohio law, it is limited to high quality issuers. Meeder takes this one step further by having an internal credit research team work independently of the rating agencies to ensure that the issuers can withstand adverse economic conditions and will continue to meet the high-quality rating requirements.

Stanic reported that the original Investment Policy was passed by ordinance in 1987 and needed to be updated. Stanic provided the Village with recommended changes. The Ohio Revised Code is very limited in what is permissible from the investment standpoint. This is the case because of issues that took place in the early 1990's that resulted in Senate Bill 81. Because State law is limited, Meeder thought it was prudent for its clients to have the ability to take advantage of all of the investment options that are permissible under ORC. The overriding objective of the proposed changes to the policy is to align them with what is permissible under ORC. Additionally, the purpose is to make sure that no ambiguous language has been created in the policy that could be misinterpreted by the State Auditor.

Stanic explained that first in the policy is a leading paragraph identifying the Village of South Russell and stating that the Village is adhering to ORC as far as the governing State law. Next, is an explanation of the investment authority and who is responsible. State law requires that anyone who is providing investment advice or executing investment transactions for a public entity sign off on the Investment Policy. This is meant to incorporate the requirements under ORC as well as remove the misinterpretation from the Auditor's standpoint as far as who all should be signing the policy.

Stanic reviewed the suggested policy changes to include authorized investments. The permissible investments under ORC are more extensive than those permitted by the Village's current investment policy. The changes also allow that amendments made to ORC are incorporated into the policy. There is no need to rewrite the policy each time ORC is changed. She advised that an expanded policy will ultimately benefit the Village by opening up additional investment opportunities that will provide diversification, which is a prudent management tool.

The Solicitor discussed changes she made to the document replacing "Treasurer" with "Fiscal Officer" to accurately reflect the Village's positions. She explained the Fiscal Officer's duties under the law, and Stanic explained the Fiscal Officer would be the Investment Authority. The Solicitor further explained that the Village used to have a Fiscal Auditor position that was mandatory and was filled. It is now permissive and not filled. She clarified that a permissible revision would be to replace Treasurer with Fiscal Officer and/or Fiscal Auditor if one is appointed. Stanic explained that although different municipalities have different titles, it is ultimately determined who statutorily within the entity is responsible for the investment function. That person in essence is the investment authority. This is important from a standpoint of Ohio law, which requires that whoever is the investment authority must complete continuing education hours as it relates to investments. The Solicitor asked if Fiscal Officer Romanowski would be signing off on the Investment Policy, and Stanic said that if she is the Investment Authority, then yes. The Solicitor clarified that this would be in addition to the depositories for the Village. Stanic said yes.

The process of adoption of the policy was discussed.

Stanic addressed the portfolio. She provided a hypothetical portfolio, which consisted of a recommended and alternative illustration. The recommended had more money invested than the

alternative, which was based on conversations with the former Fiscal Auditor about starting out slowly and eventually putting additional monies to work.

Stanic advised what works for many of their clients is an 80-20 model. 20% of the funds are kept in a combination of the local bank, in a checking account to make sure the Village has money to pay the bills and payroll, etc., as well as utilizing something like Star Ohio if the local bank is not paying a market rate on overnight money. The 20% is liquid cash. The 80% is invested in the Investment Portfolio which allows the clients to maximize their interest income while being cognizant of the necessary liquidity needs that are required for operating expenses. By having periodic conversations with the Investment Authority, cash flow status is determined, and decisions can be made based on whether there is a surplus or a necessity to take money out of the Investment Portfolio. It would be a fluid discussion.

Regarding the actual Investment Portfolio, Stanic stated it was funded in September 2022. \$600,000 of the \$1,608,000 was in Star Ohio. The securities are currently invested with a weighted maturity of 2.3 years yielding 3.85% which would be \$38,421 in interest. She added that the Village has benefited from a tiny standpoint from coming into the market when interest rates had risen. The current holdings on the asset allocation are all in the permissible investment types under the current policy. It is very concentrated in U.S. Treasury securities. The maturity distribution is across the entire maturity spectrum, with 33% maturing beyond three years. In this market environment it is prudent to maintain the 30% to mature beyond three years because while the Federal Reserve has been increasing rates, much of the movement going forward has been the short-term rates. The longer-term rates have actually started to fall as the market has started to price in some concern that the U.S. economy could go into a recession. Meeder feels it is prudent to lock in a portion of the investments to provide stability on the interest income for the Village over a longer period of time. 25% of the portfolio is maturing within one year which provides flexibility to be reinvesting funds as the short-term interest rates rise as well as if the 30% starts to get much lower from a percentage maturing beyond three years. Meeder then can look to place funds back on longer term. Any new funds placed in the Investment Portfolio would be overlaid with the existing securities with the same strategy. With the new policy, as they are investing, they will be able to diversify. Diversification is not just security types but also diversification across the maturity spectrum. A practice that Meeder implements is as they are investing funds, they make sure they have maturities on a regular basis. It provides the opportunity to invest as the market conditions change and to be able to shift the investment strategy if conditions warrant.

Stanic provided an economic update with what Meeder is seeing in the marketplace and how it plays into their outlook for interest rates in general. As mentioned, the Federal Reserve is on an interest hike cycle. The pace has been the highest since 1983. She explained that the Fed recognized that inflation was a force to be reckoned with and needed to get the interest rates up at a faster pace. There is an expectation that the rate will be upwards of 4.5% by December. They are levels that have not been seen in almost two decades. With time, it will become a shock to the economy because there is a whole generation of people who only have known lower interest rates. The inflation problem has been a global issue and most banks have been working

to get interest rates higher. From a Central Bank perspective, interest rates are the only tool available to combat inflation with impacting demand for goods and services. This should lower the economic activity and gross domestic product (GDP). The Federal Reserve is predicting that in 2023, the GDP will only advance at 1.2%. There is a higher likelihood of recession in 2023. Lower economic growth translates into reduced demand for employees. The tech and financial services industries are experiencing layoffs and hiring freezes. Ultimately when this trickles down to other sectors of the U.S. Economy, it can contribute to an increase in the unemployment rate. One of the first areas impacted will be the number of job openings. The ultimate goal is to stop the flow of inflation into the wages, which has experienced growth as a result of inflation. Stanic advised that the inflation conundrum may be here for an extended period of time, which may mean the Fed continues to raise rates into 2023, but then pausing and keeping the rates at those levels for longer.

Stanic addressed economic indicators and explained that the consistent trending down of the Leading Economic Indicators Index historically has meant a U.S. Recession will follow. Galicki asked if the Country was not already in a recession, and Stanic explained that a characteristic of recession is the increase in the unemployment rate, which has not yet occurred. She characterized the current economic condition as 'pre-recession.' The consumers continue to spend, which results in positive economic growth. A growth in credit card debt and delinquencies has occurred. This is a sign of overspending. Hopefully, there would be a change in behavior, but that would help to accelerate the movement into a full-blown recession.

Stanic discussed the U.S. Treasury Yield. She indicated that the market has become more volatile in this environment and discussed short-term and long-term interest rates as they relate to the investment strategy of maintaining a balance of long and short holdings.

King asked what about the fee the Village pays to Meeder, and Stanic said it is .10% of assets, but there is a minimum fee of \$5,000 per year. King said he has worked in the corporate world and had been involved in financial management and investments, but never for the government. The Fiscal Officer provided him with month end cash balances for 57 months. He performed some statistical calculations and said that if nothing changes, there is no feasible way the Village will run out of money if the Village continues to do the things it is doing. The Village is being prudent in how it is managing its finances, but there is a catch, which is inflation. The Village is earning 3% with its investments and inflation is 7%. For every year the Village sits on the cash, it is losing purchasing power. King was not suggesting the Village should go crazy, but there is a cost to the Village of just doing nothing. It is not serving the Village. Galicki noted that no one had a crystal ball who could say what the best return on the Village's investment would be given today's market. King agreed and said it made a ton of sense to him, but the Village is better taking some of the money and spending it on the infrastructure for the Village. He said they should not spend all of it, but this was his view. Galicki said that as Chair of the Finance Committee, he would say that South Russell is in a wonderful and sometimes unique fiscal situation with respect to its funds. His eyes had been opened in the past year as to how many municipalities throughout the State of Ohio of similar size are struggling. There are townships in Geauga County that have had to borrow money to support their annual road program. The

Village has been fiscally conservative, and he is reticent about spending down and then having to come back to the taxpayer to say all the money was spent and the Village needed more. That might be a fiscal model for some governmental organizations, school boards, etc., but he felt the Village would be shorting the public if the Village were to do that. King concurred. Galicki added that the Village has been judicious in its asks from the taxpayers, and there is merit in keeping that policy. He referred to the Meeder presentation about the value of diversification and supported implementing such strategies for the Village.

King explained his second point regarding the Village's receipts and expenditures by month. There are spikes in February and July for property tax receipts, and spikes in expenditures when they need to be made. The inflows are fairly predictable but the outflows are episodic. Given this, the Village must be careful because there are some months where the expenditures are greater than the input. Galicki asked the Fiscal Officer to explain the anomalies. The Fiscal Officer advised that the receipts are property taxes coming in for February and July. The biggest expenditures are the projects like the Road Program. In 2020, the Village did not pay the Road Program until December. The Road Programs are done any time between April and September, so the billing varies. This past September, the Village had the Road Program, the Central Retention Basin, and Manor Brook all in one month. It is hard to have the expenses on a schedule because there are always special projects causing the bumpy road. King recognized that there were some bad months, and the Village would always want to be able to write a check no matter what. The goal is to run the Village, not make money on the investments.

King presented a future scenario to illustrate his third point and start a discussion. He stressed it was not a recommendation. He presented the 'wish list' of things that the Village would like to have, excluding the Bell Road east project for \$1.5 million because if the Village does everything else on the wish list, it could not fund both. King explained his scenario was a stress test of how far the Village could go. Utilizing historical data, he demonstrated that the five 2023 wish list projects consisting of the salt dome, the culvert project, the traffic light, Service Department loader, and the road program, and the 2024 wish list projects consisting of the Service Building addition for \$800,000, the one-ton truck, etc. would still allow for a positive cash balance except for January 2025. He did not recommend that the Village do this, but he was trying to provide confidence to look at the inflation erosion of purchasing power and investing all of this money did not feel like a great trade and using some of it to do whatever the Village needs. This was a discussion starter.

He asked that Stanic include the duration of the different scenarios she presented. He wanted the board to think about risk in going into the future, specifically interest rate risk. If interest rates go up, the value of fixed income securities go down and vice versa. The farther the Village buys bonds into the future, the more interest rate risk. As interest rates rise, investments that are at five years in the future get hit harder than the short run. As the Village thinks dynamically about what it wants to spend and when, they should worry about adverse interest rate movements. What he liked about Meeder's approach is that liquidity was put ahead of yield.

In summary, King said he loved the Village's problems and felt good about the proposal. However, he suggested consideration be given to inflation and the erosion of purchasing power.

Secondly, receipts are predictable, and expenditures are bumpy, so build in a buffer. Always have a buffer. Thirdly, and he stated he did not recommend doing this, but if the Village got ambitious in making investments in the Village, they could pull it off.

Galicki added that King's point illustrated that the Village should not have paid off a zero-interest loan.

Stanic asked how the projects used by King were determined, and the Fiscal Officer explained that they were the things Council wanted in the budget for 2023. They will not all make it into the budget on the first swipe. Stanic asked about the revenue sources for the projects, i.e. does the Village seek grant funding. The Fiscal Officer explained that there were grants associated with the traffic light project and culvert project. The road program will have a small portion come from Permissive Tax and the rest is on the Village. The Mayor said this was like a kid's Christmas list. He had never seen a \$900,000 Road Program. Usually, it is \$350,000.

The Fiscal Officer explained that the Village had problems with the Tax Budget Commission because the balances were too high. Now it is as if the elected officials have taken it to the other extreme in asking for all these things. However, with the Village investing, she wants to be sure there will be access to the money to pay for the projects. Her other concern was that it would all be spent down and then the Village would not have anything when they are used to a \$3 million balance. She would not want to end up with a \$100,000 balance.

Stanic acknowledged King's scenario and said her take away is that the Village would want to stay shorter term with funds. The Fiscal Officer said that currently, the Village does a one-year budget but she is working on a 5-year budget project so the Village will know what is coming. The Village cannot invest if it does not know. Stanic concurred.

The Mayor referenced King's scenario and said that every February, the Village brings in a ton of money and asked if every March the Village should be sending funds to Meeder. King said it depends on what the Village wants. The Mayor said the Fiscal Officer described it perfectly that the Village has been tight and done a great job and now all of a sudden, they have this money and Christmas list and they do not want to get yelled at by the county and the attitude is that they should spend it all and it has gone too far the other way.

Stanic addressed the issue of an influx of cash. She and the Fiscal Officer can have a conversation about the various liquid options, and whether it makes sense to invest the additional funds short term or just keep them in the liquid option.

Galicki clarified that the next step would be the proposal from Meeder on the potential portfolio. Without this, he did not think the board was prepared to go forward to Council with a recommendation.

King reiterated that he was not recommending the Village spend all of its money. While Galicki appreciated all the work King put into his analysis, he was concerned that there are elements of Council that might use it to support spending all of the money. Galicki reiterated that the Village is in a unique position, and he would not want to be a sailor on payday and say, 'there is money in my wallet, let's spend it all!' King said he could not agree more. Galicki further illustrated

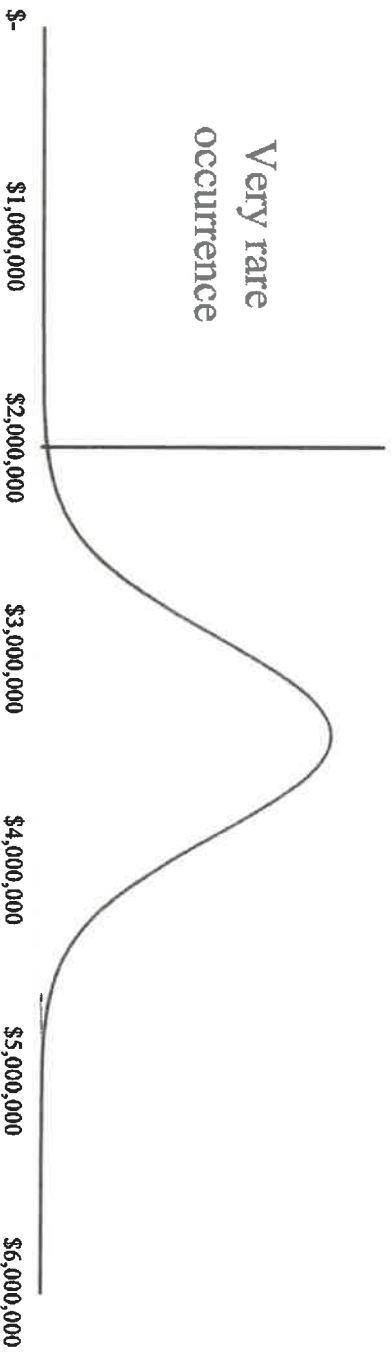
his concern about being prepared for the unexpected and thought it was important to be judicious in spending, particularly given Council's responsibility to the taxpayers. The Fiscal Officer offered that this demonstrates the need for a five-year plan and budget. She added that while Income Tax collections are up, if a recession hits, it will affect revenues. The Village needs a better plan other than spending all the money in one year. Galicki addressed the proposed \$900,000 Road Program. The Village would be investing all of this in one year, but then five years from now there will be planned obsolescence, and all those streets may need resurfacing again. Will those funds be available to take that on? Would it not be better to have a systematic approach over a couple of years. The Fiscal Officer stressed the need for a systematic approach. She referred to the problem with the Tax Budget Commission and Council's reaction in wanting to spend the money. What they need to understand is that it is okay to have balances as long as the Village can demonstrate a plan.

The Solicitor asked who on the board would be making the recommendation to Council on December 12th to update the investment policy. Galicki volunteered to introduce the legislation.

The board agreed to hold its next meeting on February 27, 2023, at 10:00 a.m.

The Fiscal Officer verified that once Council adopted the new policy, she would need to send it to the State. Stanic agreed and said it would be through the e-services account. She asked that the Fiscal Officer provide a copy to Meeder as well and they will provide their sign off on it.

Low risk of a zero cash balance (57 observations: Jan 2018 - Sep 2022)



Month	2018	2019	2020	2021	2022
January	2,507,812	2,598,110	2,938,166	3,126,848	3,464,486
February	2,710,164	2,955,108	3,121,187	3,623,594	3,712,276
March	2,769,144	3,088,614	3,383,446	3,539,893	3,890,190
April	2,744,414	3,043,705	3,234,292	3,504,115	3,889,326
May	2,774,471	3,215,714	3,167,292	3,380,760	3,765,734
June	2,796,963	3,166,173	3,070,682	3,255,369	3,508,346
July	3,197,511	3,698,929	3,476,375	4,104,714	4,284,799
August	3,303,010	3,487,802	3,707,453	4,157,126	4,241,984
September	2,900,526	3,096,681	3,681,189	4,179,959	3,306,732
October	2,833,567	3,145,220	3,865,067	4,151,628	
November	2,812,209	3,162,923	3,889,487	3,989,073	
December	2,678,332	3,039,616	3,265,795	3,596,836	

observations [n] 57
 arithmetic mean [x] \$ 3,354,402
 standard deviation [s] \$ 462,601
 coefficient of variation [s/x] 14%

Seasonal tax receipts

	Receipts	Expenditures	Inflow (outflow)
Jan-20	\$ 221,303	\$ 322,753	\$ (101,450)
Feb-20	439,047	256,026	183,021
Mar-20	518,399	256,140	262,259
Apr-20	118,531	267,686	(149,155)
May-20	181,815	248,815	(67,000)
Jun-20	246,041	342,651	(96,610)
Jul-20	678,264	272,571	405,693
Aug-20	474,225	243,147	231,078
Sep-20	244,542	270,806	(26,264)
Oct-20	437,548	253,670	183,878
Nov-20	279,440	255,021	24,419
Dec-20	359,381	983,073	(623,692)
Jan-21	229,354	368,300	(138,946)
Feb-21	799,317	302,571	496,746
Mar-21	246,419	330,120	(83,701)
Apr-21	225,503	261,281	(35,778)
May-21	251,121	374,476	(123,355)
Jun-21	159,808	285,200	(125,392)
Jul-21	1,074,248	224,903	849,345
Aug-21	322,118	269,706	52,412
Sep-21	294,612	271,779	22,833
Oct-21	212,695	241,026	(28,331)
Nov-21	209,593	372,148	(162,555)
Dec-21	145,608	537,845	(392,237)
Jan-22	260,974	393,325	(132,351)
Feb-22	584,869	337,079	247,790
Mar-22	489,130	311,216	177,914
Apr-22	302,151	303,015	(864)
May-22	354,378	477,970	(123,592)
Jun-22	270,559	527,947	(257,388)
Jul-22	1,068,099	291,647	776,452
Aug-22	246,505	289,320	(42,815)
Sep-22	290,857	1,226,109	(935,252)

	Beginning Balance	Receipts	Operating Expenditures	Provisional Ending Balance	Capital Expenditures	Ending Balance
Oct-22	\$ 3,306,732	\$ 325,122	\$ 247,348	\$ 3,384,505		\$ 3,384,505
Nov-22	3,384,505	244,517	313,585	3,315,437		3,315,437
Dec-22	3,315,437	252,495	760,459	2,807,473	179,333	2,807,473
Jan-23	2,807,473	237,210	361,459	2,683,224	179,333	2,503,890
Feb-23	2,503,890	607,744	298,559	2,813,076	179,333	2,633,743
Mar-23	2,633,743	417,983	299,159	2,752,567	179,333	2,573,233
Apr-23	2,573,233	215,395	367,087	2,511,301	179,333	2,331,968
May-23	2,331,968	262,438	367,087	2,227,319	179,333	2,047,985
Jun-23	2,047,985	225,469	385,266	1,888,189	179,333	1,708,855
Jul-23	1,708,855	940,204	263,040	2,386,019	179,333	2,206,685
Aug-23	2,206,685	347,616	267,391	2,286,910	179,333	2,107,577
Sep-23	2,107,577	276,670	256,231	2,128,016	179,333	1,948,683
Oct-23	1,948,683	325,122	247,348	2,026,456	179,333	1,847,123
Nov-23	1,847,123	244,517	313,585	1,778,055	179,333	1,598,721
Dec-23	1,598,721	232,495	760,459	1,090,757	87,500	911,424
Jan-24	911,424	237,210	361,459	787,175	87,500	699,675
Feb-24	699,675	607,744	298,559	1,008,860	87,500	921,360
Mar-24	921,360	417,983	299,159	1,040,184	87,500	952,684
Apr-24	952,684	215,395	277,327	890,752	87,500	803,252
May-24	803,252	262,438	367,087	698,603	87,500	611,103
Jun-24	611,103	225,469	385,266	451,306	87,500	363,806
Jul-24	363,806	940,204	263,040	1,040,970	87,500	953,470
Aug-24	953,470	347,616	267,391	1,033,695	87,500	946,195
Sep-24	946,195	276,670	256,231	966,634	87,500	879,134
Oct-24	879,134	325,122	247,348	956,907	87,500	869,407
Nov-24	869,407	244,517	313,585	800,339	87,500	712,839
Dec-24	712,839	232,495	760,459	204,875	87,500	117,375
Jan-25	117,375	237,210	361,459	(6,874)		(6,874)
Feb-25	(6,874)	607,744	298,559	302,311		302,311
Mar-25	302,311	417,983	299,159	421,135		421,135
Apr-25	421,135	215,395	277,327	359,203		359,203
May-25	359,203	262,438	367,087	254,554		254,554
Jun-25	254,554	225,469	385,266	94,757		94,757
Jul-25	94,757	940,204	263,040	771,921		771,921
Aug-25	771,921	347,616	267,391	852,146		852,146
Sep-25	852,146	276,670	256,231	872,585		872,585
Oct-25	872,585	325,122	247,348	950,358		950,358
Nov-25	950,358	244,517	313,585	881,290		881,290
Dec-25	881,290	252,495	760,459	373,326		373,326
Jan-26	373,326	237,210	361,459	249,077		249,077
Feb-26	249,077	607,744	298,559	558,262		558,262
Mar-26	558,262	417,983	299,159	677,086		677,086
Apr-26	677,086	215,395	277,327	615,154		615,154
May-26	615,154	262,438	367,087	510,505		510,505
Jun-26	510,505	225,469	385,266	350,708		350,708
Jul-26	350,708	940,204	263,040	1,027,872		1,027,872
Aug-26	1,027,872	347,616	267,391	1,108,097		1,108,097
Sep-26	1,108,097	276,670	256,231	1,128,536		1,128,536
Oct-26	1,128,536	325,122	247,348	1,206,309		1,206,309
Nov-26	1,206,309	244,517	313,585	1,137,241		1,137,241
Dec-26	1,137,241	252,495	760,459	629,277		629,277

Pro Forma 2023 Projects	
Salt Dome	\$ 425,000
Chalvert Project	414,000
Traffic Light	239,000
Service Department Loader	170,000
Road Program	904,000
	<u>\$ 2,152,000</u>

Pro Forma 2024 Projects	
Service Building addition	\$ 800,000
1-ton truck	100,000
Large truck	150,000
Bell Road East project	<u>\$ 1,050,000</u>

2024 Capital Expenditures per month \$ 87,500