

# Finance Committee Meeting

October 11, 2018

# Items of Discussion This Evening

## Discussion:

- Investment Update
  - Review of new investment alternative
  - Annual Fee
- 2017-2018 Results of Operations
  - Budget Variances
  - Distribution of Ending Fund Balance
- Use of Amazon for Purchasing

# Cash Management Update

June 30, 2018

Malcolm L. Cowen II  
*President*

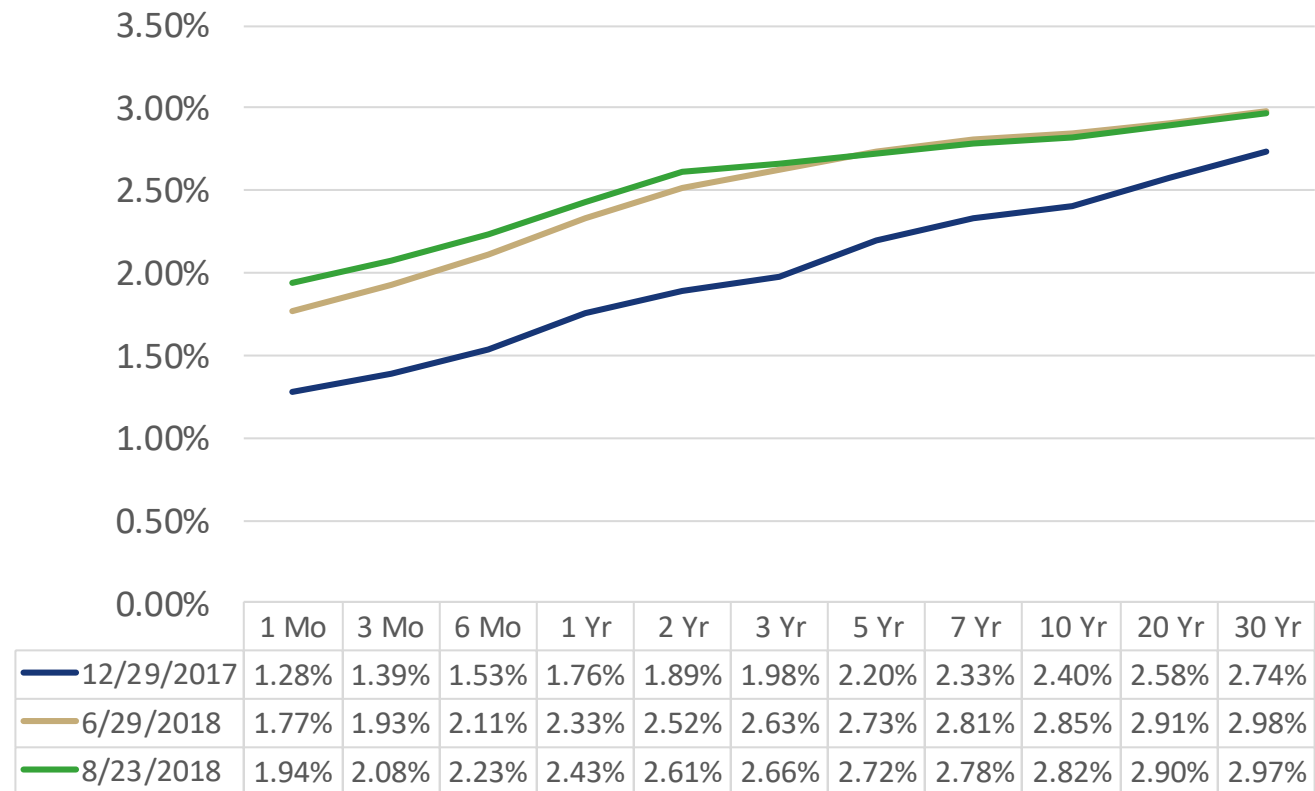
Kevin Karpuk, CFA  
*Chief Investment Officer*



74 W. Broad Street, Suite 340, Bethlehem, PA 18018

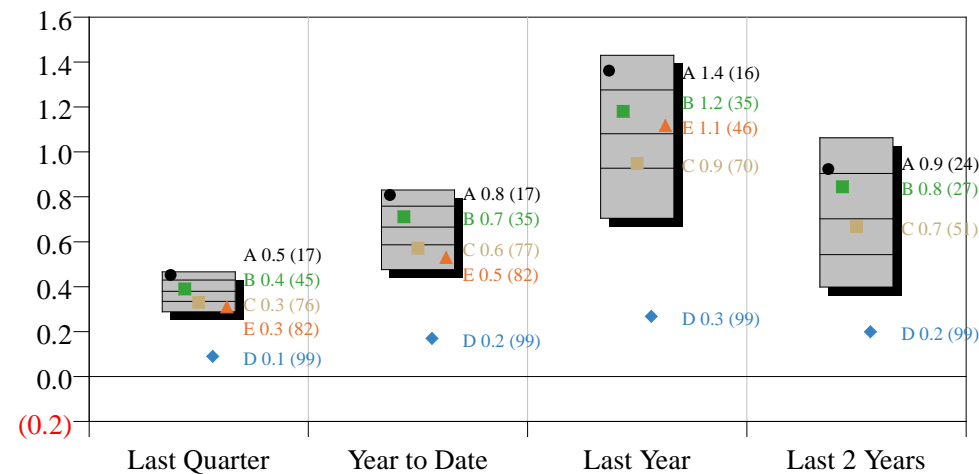
# Fixed Income Review

## Treasury Yield Curve



# Quarterly Performance (as of 06/30/2018)

Net of Fee Returns for Various Periods  
 Callan Money Market Funds  
 3 Month T-Bill

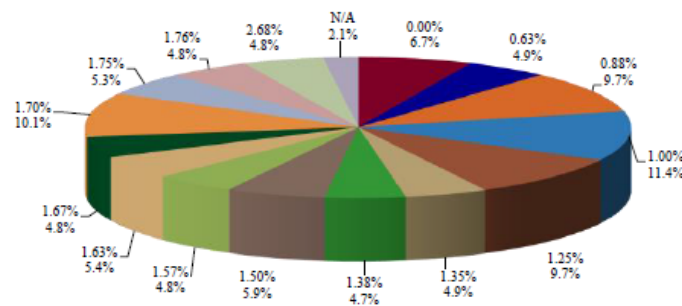


Median	0.38	0.67	1.08	0.70
3 Month T-Bill	0.45	0.81	1.36	0.92
PLGIT Portfolio	0.39	0.71	1.18	0.85
TD Portfolio	0.33	0.57	0.95	0.67
FNBN Portfolio	0.09	0.17	0.27	0.20
Wilmington Trust Portfolio	0.31	0.53	1.12	--

# Wilmington Investment Summary (as of 06/30/2018)

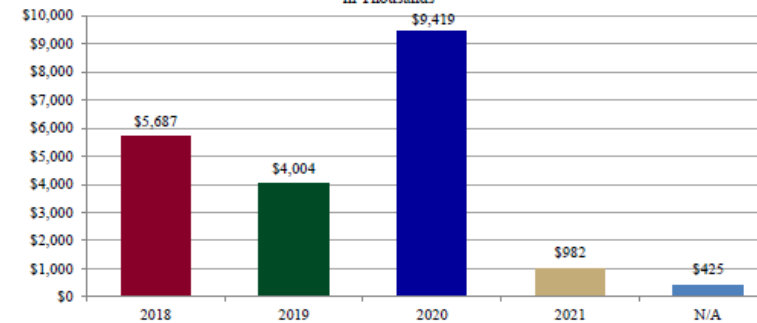
## Council Rock School District Investment Summary - Coupon & Maturity

Holdings by Coupon



Coupon	Market Value	% of Portfolio
0.00%	\$1,382,172	6.7%
0.63%	\$1,003,125	4.9%
0.88%	\$1,985,023	9.7%
1.00%	\$2,336,016	11.4%
1.25%	\$1,985,462	9.7%
1.35%	\$1,000,320	4.9%
1.38%	\$971,979	4.7%
1.50%	\$1,200,377	5.9%
1.57%	\$988,365	4.8%
1.63%	\$1,101,479	5.4%
1.67%	\$993,163	4.8%
1.70%	\$2,075,751	10.1%
1.75%	\$1,097,266	5.3%
1.76%	\$989,710	4.8%
2.68%	\$981,694	4.8%
N/A	\$425,442	2.1%
	<b>\$20,517,345</b>	<b>100%</b>

Holdings by Maturity Date  
in Thousands



Maturity Year	Market Value	% of Portfolio
2018	\$5,687,466	27.7%
2019	\$4,003,725	19.5%
2020	\$9,419,017	45.9%
2021	\$981,694	4.8%
N/A	\$425,442	2.1%
	<b>\$20,517,345</b>	<b>100.0%</b>

# Wilmington Trust Holdings (as of 08/24/2018)

Asset Description	Qty	Cost	Market Value	Market Value + Accrued Income
U.S. TREASURY NOTES 1.000% 9/15/18	1,000,000	\$997,855	\$999,420	\$1,003,822
FNMA Z-CPN 9/24/18	380,000	\$379,213	\$379,369	\$379,369
FHLB Z-CPN 9/28/18	900,000	\$895,798	\$898,308	\$898,308
FHLB Z-CPN 10/04/18	1,040,000	\$1,029,571	\$1,037,629	\$1,037,629
U.S. TREASURY NOTES 0.875% 10/15/18	1,000,000	\$995,199	\$998,380	\$1,001,512
FFCB Z-CPN 11/02/18	250,000	\$246,765	\$248,990	\$248,990
FFCB Z-CPN 11/06/18	100,000	\$98,686	\$99,572	\$99,572
U.S. TREASURY NOTES 1.250% 12/31/18	1,000,000	\$1,000,316	\$996,750	\$998,618
FHLMC 1.350% 1/25/19	1,000,000	\$999,400	\$996,490	\$997,578
FFCB Z-CPN 3/19/19	500,000	\$492,128	\$493,590	\$493,590
U.S. TREASURY NOTES 0.875% 6/15/19	1,000,000	\$990,316	\$988,160	\$989,834
U.S. TREASURY NOTES 1.000% 9/30/19	1,050,000	\$1,041,267	\$1,033,431	\$1,037,620
FHLMC MTN 1.625% 12/27/19	1,000,000	\$999,250	\$987,310	\$989,883
FNMA 1.700% 1/27/20	1,000,000	\$998,412	\$987,260	\$988,535
FFCB 1.570% 2/14/20	1,000,000	\$999,691	\$985,250	\$985,686
U.S. TREASURY NOTES 1.250% 2/29/20	1,000,000	\$993,050	\$980,430	\$986,442
FFCB 1.760% 3/13/20	1,000,000	\$999,500	\$987,080	\$994,951
FHLMC MTN 1.625% 3/27/20	120,000	\$119,974	\$118,177	\$118,973
FFCB 1.670% 4/03/20	1,005,000	\$1,004,246	\$989,955	\$996,529
U.S. TREASURY NOTES 1.500% 8/15/20	1,220,000	\$1,197,749	\$1,193,929	\$1,194,376
FHLMC MTN 1.700% 9/29/20	1,100,000	\$1,097,800	\$1,078,539	\$1,086,071
FHLB 1.375% 10/13/20	1,000,000	\$978,870	\$970,380	\$975,383
U.S. TREASURY NOTES 1.750% 12/31/20	1,110,000	\$1,099,988	\$1,087,622	\$1,090,526
FHLB 2.680% 4/26/21	980,000	\$978,040	\$975,953	\$984,561
Wilmington US Treasury Money Mkt Sel	5,124	\$5,124	\$5,124	\$5,167
<b>Total</b>		<b>\$20,638,207</b>	<b>\$20,517,098</b>	<b>\$20,583,525</b>

# PLGIT Holdings (as of 12/31/2017)

Issuer	PLGIT Portfolio	PLGIT/PRIME Portfolio	PLGIT/ARM Portfolio	PLGIT/TERM Series DEC 18
Bank of Montreal Chicago	-	<5%	-	5.50%
Bank of Tokyo Mitsubishi UFJ	-	<5%	-	6.82%
BNP Paribas (NY)	-	<5%	-	7.12%
BOFI Federal Bank <sup>(2)</sup>	11.34%	9.52%	10.45%	-
Credit Agricole Corporate & Investment Bank (NY)	-	<5%	-	6.42%
Credit Suisse (NY)	-	<5%	-	8.86%
Customers Bank <sup>(2)</sup>	5.49%	-	5.23%	-
Federal Farm Credit Bank Notes	9.83%	-	9.71%	-
Federal Home Loan Banks	36.03%	-	30.48%	-
Freddie Mac	<5%	-	5.78%	-
Goldman Sachs & Co. <sup>(1)</sup>	<5%	6.38%	5.71%	-
ING (US) Funding LLC	-	<5%	-	7.37%
JP Morgan Securities LLC	-	<5%	-	7.84%
Metlife Short Term Funding	-	<5%	-	5.67%
Toronto Dominion Bank (NY)	-	<5%	-	9.53%
U.S. Treasury	21.33%	<5%	23.29%	-

*(1) This issuer is also counterparty to repurchase agreements entered into by the PLGIT, PLGIT/PRIME and PLGIT/ARM Portfolios.  
 These repurchase agreements are collateralized by the federal agency obligations.*

*(2) Guaranteed by Federal Home Loan Bank letters of credit.*

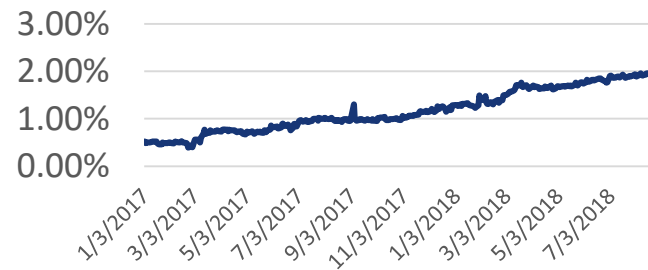
# TD Collateral (as of 07/31/2018)

Issuer	Maturity Date	Original Amount	Par Value	7/31/2018 Market Value
Capital One Multi-Asset Execut	01/15/25	350,000,000.00	350,000,000.00	340,136,265.00
Citibank Credit Card Issuance Trust	01/23/23	400,000,000.00	400,000,000.00	398,379,880.00
Citibank Credit Card Issuance Trust	01/23/23	90,000,000.00	90,000,000.00	89,635,473.00
Citibank Credit Card Issuance Trust	08/08/22	200,000,000.00	200,000,000.00	195,543,910.00
DISCOVER CARD EXECUTION NOTE T	10/15/26	200,000,000.00	200,000,000.00	191,875,720.00
SLM Student Loan Trust	05/26/55	140,000,000.00	129,473,353.52	129,939,651.80
SLC Student Loan Trust	11/25/42	250,000,000.00	72,698,962.50	73,445,035.60
Brazos Higher Education Author	02/25/30	147,480,000.00	50,735,015.26	51,016,630.11
Navient Student Loan Trust	10/26/76	750,900,000.00	699,885,373.81	698,809,999.93
DISCOVER CARD EXECUTION NOTE T	02/15/23	355,000,000.00	355,000,000.00	347,387,167.00
Bank of America Credit Card Trust	01/17/23	275,000,000.00	275,000,000.00	268,620,880.00
		<u>3,158,380,000.00</u>	<u>2,822,792,705.09</u>	<u>2,784,790,612.45</u>

# FICA Product Due Diligence

# Treasury Yield Curve

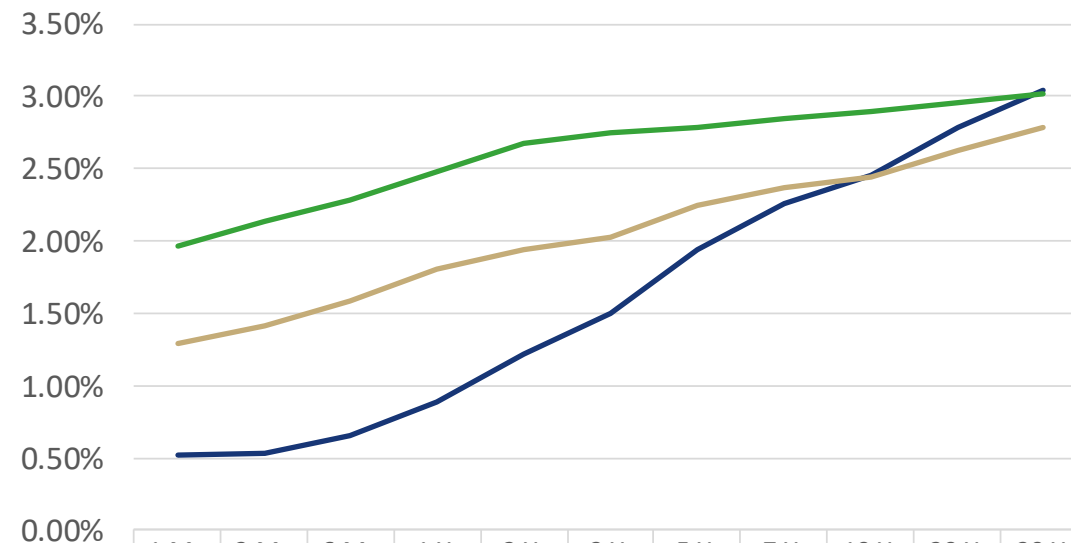
## 1 Month Treasury Bill Yield



As the Federal Reserve continues to increase short-term interest rates, it is important to invest in cash products that are highly responsive to these changes.

If expectations were for Fed policy to lower interest rates, an investor would want “non-responsive” assets – i.e. longer-term fixed rates.

## Treasury Yield Curve



	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
1/3/2017	0.52%	0.53%	0.65%	0.89%	1.22%	1.50%	1.94%	2.26%	2.45%	2.78%	3.04%
1/3/2018	1.29%	1.41%	1.59%	1.81%	1.94%	2.02%	2.25%	2.37%	2.44%	2.62%	2.78%
8/29/2018	1.97%	2.13%	2.28%	2.48%	2.67%	2.75%	2.78%	2.85%	2.89%	2.96%	3.02%

# Recommendation

**Currently Utilized Products:** TD Bank, PLGIT, Wilmington Trust

**Recommended Addition:** StoneCastle's FICA product

Cornerstone recommends that the Board approve StoneCastle's FICA product as a vendor for cash management services. This will further diversify the District's cash holdings in the following ways:

**Safety** – All investments are FDIC insured

**Liquidity** – Daily liquidity

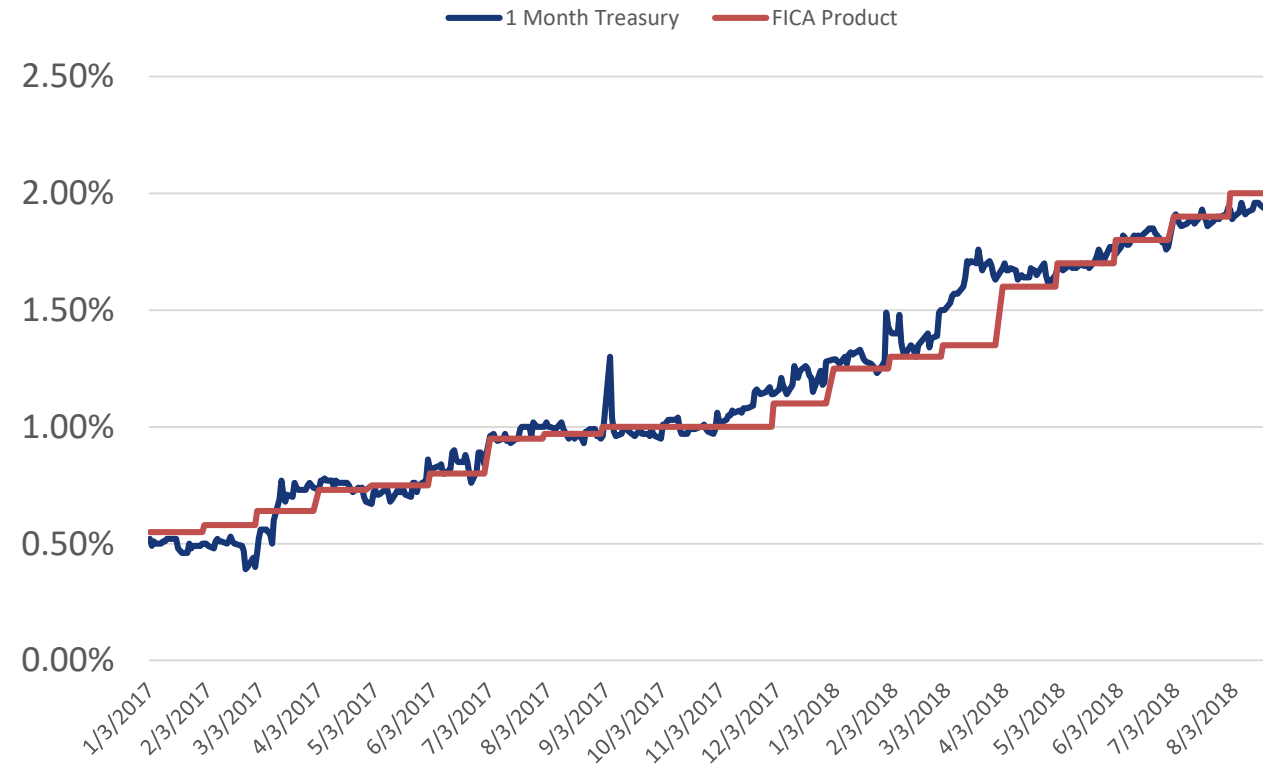
**Yield** – Competitive cash rates that are positively correlated to short-term rates

# Who is StoneCastle?

- Headquarters: New York, NY
- Founded: 2003 – product established in 2009
- Assets under Management: \$12 billion (\$5.4 billion in Cash Management) as of 12/31/17
  - \$900 mm of state or municipal government entities
- Rated AAAs by Kroll Bond Rating Agency
- Product Dynamics:
  - Investments are split up among a network of banks to always be below FDIC limits
    - (in the District's case, TD would be disallowed as a program bank to prevent FDIC breach)
  - Rates are set monthly and are net of fees
    - Cornerstone receives no compensation from this program
  - Limited to \$25 mm investment
    - More can be allocated to the program; however, yield suffers above \$25 mm
  - Daily liquidity – would be a complement/replacement for PLGIT I

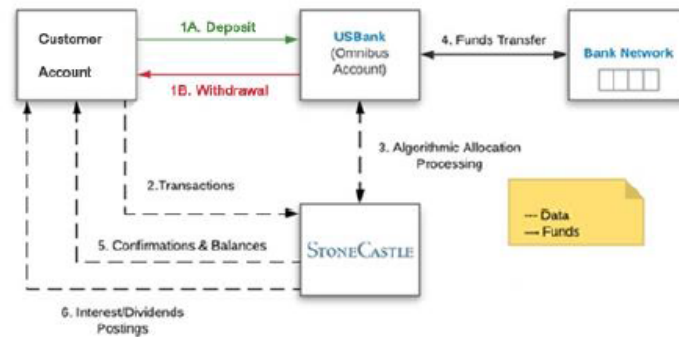
# Historical Performance

## Yield Comparison



# STONECASTLE

## FICA® For Advisors Process Flow of Deposits and Withdrawals



Customer Creates a custody account at US Bank via the FICA® For Advisors online application through their financial advisor's firm or via editable PDF application.

### 1A. Deposit into US Bank Omnibus Account

- Wire is sent into the customer's account at US Bank
  - If the deposit is made after the 3pm ET cut-off time, they will be held overnight in a US Bank Bankruptcy Remote Entity (BRE) \*and deposited into the Bank Network at start of business the next day.
  - If the deposit is made before the 3pm ET cut off time, it will be sent into StoneCastle's Bank Network
    - (2) RIA/Financial intermediary communicates a deposit order to StoneCastle
    - (3) StoneCastle runs its Algorithmic Allocation Process and provides instruction to US Bank as to how to allocate the deposits into/across the Bank Network; and
    - (4) US Bank executes the allocation of deposits into/across the Bank Network
    - (5)(6) StoneCastle confirms balance/transaction and posts any necessary interest at month-end (NOTE: while the postings are interest postings, some firms' systems refer to the postings as "Dividends" to accommodate system architectures)

The purpose of the BRE is to ensure there would be no disruption of service to custody accounts and no possibility of loss of assets as a result of the bankruptcy. Therefore, in a bankruptcy proceeding, client assets are 100% segregated from both the bank's assets and other customers so there is never a question as to who owns the deposits.

# STONECASTLE

## 1B. Withdrawals out of FICA® For Advisors

Withdrawal instructions are/must be established at account opening with client signature via regular application or client certification via the online application. Changes to the standing withdrawal instructions require a client signature/verification, which must be obtained through the FICA® Bank Wire Instructions Form.

Any change in wiring instructions will generate notifications to several parties:

- StoneCastle's Operations and Technology team: Once notified will provide US Bank with the instruction to send the wire to the new/updated destination account
- US Bank will execute the wire
- The client/account holder will receive an email notification of the withdrawal order

- (2) RIA/Financial intermediary communicates a withdrawal order to StoneCastle
- (3) StoneCastle instructs US Bank to pull deposits from the Bank Network to satisfy the withdrawal order
- (4) US Bank executes the withdrawal order, receives the withdrawal funds from the Bank Network; and wires the funds to the customer's account based on client specific wiring instructions (bank account, brokerage account, etc.)
- (5)(6) StoneCastle confirms balance/transaction and posts any necessary interest at month-end (NOTE: while the postings are interest postings, some firms' systems refer to the postings as "Dividends" to accommodate the system)

*Note: For all transactions, StoneCastle does not take possession of client deposits at any time rather it instructs US Bank as to how to allocate/withdraw the deposits as the program administrator.*

# Advisor Alpha

# Alpha vs. Beta

- In Layman's Terms:
  - **Beta** is the expected return of a portfolio based on market performance.
  - **Alpha** is the return of a portfolio in excess of its expected return for the amount of risk undertaken.
- In other words, as interest rates increase, one would expect the yield of the cash investments to also increase. The difference between the expected yield and current yield can be considered ***advisor alpha***.
- Concepts not captured in following calculations:
  - Advisor fiduciary standing while working for District
  - Investment Policy Guidelines development and monitoring
  - Manager search and ongoing monitoring
  - "Institutional Knowledge" advantage

# Alpha and Beta

- Cornerstone's addition to beta:
  - Negotiations with TD Bank resulted in ~\$350K of extra earnings between 2016 & 2017
  - Ongoing monitoring helpful in maintaining TD's responsiveness to Federal Reserve actions.
- Cornerstone's addition to alpha:
  - Addition of Wilmington Trust has added ~\$250K of extra returns per year over maintaining TD deposits.
    - This includes "core" portfolio as well as "bulleted" investments
- Cornerstone's addition to future alpha:
  - A \$25mm allocation to StoneCastle could yield the District an extra \$40,000 - \$65,000 this year.

# Disclosures

*Securities offered through M Holdings Securities, Inc., MEMBER FINRA/SIPC*

*Investment Advisory Services offered through Cornerstone Advisors Asset Management, LLC and/or Cornerstone Institutional Investors, LLC, which are independently owned and operated.*

*Performance quoted is past performance and is no guarantee of future results.*

*Unless otherwise noted, data obtained from Callan Associates.*

*All indices are unmanaged and not available for direct investment.*

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# Preliminary Results of Operations – June 30, 2018<sup>1</sup>

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent of Variance</b>
<b>Revenues:</b>	\$ 229,132,916	\$ 232,377,209	\$ 3,244,293	1.42%
<b>Expenditures:</b>	233,333,635	232,071,265	(1,262,370)	-0.54%
Revenues in Excess ( Under) of Expenditures	(4,200,719)	305,944	4,506,663	
<b>Less:</b>				
Operating Transfer to Capital Reserve	-	(3,000,000)	(3,000,000)	
Revenues in Excess ( Under) of Expenditures and Operating Transfers	(4,200,719)	(2,694,056)	1,506,663	
Beginning Fund Balance	24,086,668	24,086,668	-	
Ending Fund Balance	\$ 19,885,949	\$ 21,392,612	\$ 1,506,663	

**1 Unaudited – Subject to Change**

# What has Changed Since September Meeting?

	September	October	Increase (Decrease)
Revenues	\$ 232,376,959	\$ 232,377,209	\$ 250
Expenditures	232,041,195	232,071,265	30,070

**Analysis of Variance**

**Revenues**

ACCESS Increased	\$ 250
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**Expenditures**

Intermediate Unit Reconciliation	\$ 18,356
Additional Propane Fuel Billing	11,714
	<u>\$ 30,070</u>

# Preliminary Results of Operations – June 30, 2018<sup>1</sup>

## Analysis of Major Revenue Variances

<b>Revenues:</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent of Variance</b>
Real Estate Taxes	\$ 144,510,096	\$ 146,022,920	\$ 1,512,824	1.05%
Earned Income Taxes	16,500,000	17,845,729	1,345,729	8.16%
PlanCon Rental Reimbursement	900,000	1,346,042	446,042	49.56%
State Retirement	17,659,661	17,872,045	212,384	1.20%
Basic Education Subsidy	14,300,000	14,444,756	144,756	1.01%
Special Education Subsidy	6,475,000	6,569,813	94,813	1.46%
State Tuition Reimbursement	30,000	84,963	54,963	183.21%
Delinquent Tax Collections	2,550,000	2,236,913	(313,087)	-12.28%
Interim Real Estate Taxes	1,200,000	797,270	(402,730)	-33.56%
	<u>\$ 204,124,757</u>	<u>\$ 207,220,451</u>	<u>\$ 3,095,694</u>	

# Preliminary Results of Operations – June 30, 2018<sup>1</sup>

	Budget	Actual	Favorable (Unfavorable)	%
<b>Salaries and Wages</b>	\$ 108,021,236	\$ 109,581,908	\$ (1,560,672)	-1.44%
<b>Employee Benefits:</b>				
Healthcare	22,977,777	22,397,064	580,713	2.53%
Dental	1,570,225	1,586,763	(16,538)	-1.05%
Life Insurance	161,590	142,136	19,454	12.04%
Disability	130,425	127,554	2,871	2.20%
Vision	109,277	108,353	924	0.85%
Social Security	7,901,345	8,044,337	(142,992)	-1.81%
Retirement	35,115,210	35,588,886	(473,676)	-1.35%
Tuition Reimbursement	100,000	110,382	(10,382)	-10.38%
Unemployment	269,956	7,198	262,758	97.33%
Workmen's Compensation	540,061	510,697	29,364	5.44%
Other Benefits	238,000	474,180	(236,180)	-99.24%
<b>Total Employee Benefits</b>	69,113,866	69,097,550	16,316	0.02%
<b>Total Wages and Benefits</b>	177,135,102	178,679,458	(1,544,356)	-0.87%
300-900 Objects	56,198,533	53,391,807	2,806,726	4.99%
<b>Total Expenditures</b>	\$233,333,635	\$232,071,265	\$1,262,370	0.54%

<sup>1</sup> Unaudited – Subject to Change

# Analysis of Wage Variance

	<b>Budget</b>	<b>Actual</b>	<b>(Favorable) Unfavorable</b>	<b>% Variance</b>
Admin.	\$ 6,187,754	\$ 6,083,086	\$ (104,668)	-1.69%
CREA	81,270,428	83,055,825	1,785,397	
Column Movement	500,000		(500,000)	
	81,770,428	83,055,825	1,285,397	1.57%
CRESPA	16,551,514	16,432,991	(118,523)	-0.72%
Other	4,011,540	4,010,005	(1,535)	
	(500,000)		500,000	
	3,511,540	4,010,005	498,465	14.20%
	<u>\$ 108,521,236</u>	<u>\$ 109,581,907</u>	<u>\$ 1,560,671</u>	1.44%

# Analysis of CREA Variances

The accompanying explanations provide detail to the negative budget to actual variances in the CREA salaries. This was based on a detailed analysis of the 2017-2018 Budget calculations and actual payroll transactions.

I must emphasize the first two items on incorrect budget calculations. **The actual payroll payments are correct.**

## Calculation of the Blending of Top Step

Number of Calculations	318
Per Item Cost	\$ 805
	<u>\$ 255,990</u>

## Adding of Step in Schedule

Number of Calculations	243
Per Item Cost	\$ 2,500
	<u>\$ 607,500</u>

## Column Movement

Number of Calculations	160
	<u>\$ 635,243</u>
	<u>\$ 1,498,733</u>

# Preliminary Results of Operations – June 30, 2018<sup>1</sup>

## Selected Appropriation Program Areas – 300-900 Objects

	<b>Budget</b>	<b>Actual</b>	<b>(Favorable) Unfavorable</b>	<b>%</b>
Buildings and Grounds	\$ 8,501,474	\$ 7,341,980	\$ (1,159,494)	-13.64%
Special Services - Contracted	4,123,885	3,357,468	(766,417)	-18.58%
Student Transportation	10,806,916	10,354,953	(451,963)	-4.18%
Building Budgets	1,997,815	1,653,247	(344,568)	-17.25%
Debt Service	17,966,401	17,871,014	(95,387)	-0.53%
Fund Transfers	-	3,255,553	3,255,553	N/A
	<u>\$ 43,396,491</u>	<u>\$ 43,834,215</u>	<u>\$ 437,724</u>	<u>1.01%</u>

# Distribution of Fund Balance

## Non Spendable:

Funds Not Available for Appropriation

Inventories

## Committed to:

Employer Retirement Stabilization

Educational Priorities

Self-Insured Health Insurance

Balance Budget:

## Assigned:

Outstanding Encumbrances

## Unassigned

## Total Fund Balance

June 30, 2017

\$ 25,828

1,609,074

2,695,365

3,889,000

4,200,719

-

11,666,682

\$ 24,086,668

June 30, 2018

\$ 31,336

-

2,630,018

3,889,000

4,091,477

-

10,750,781

\$ 21,392,612

Net Educational Priority Expenditures

\$ 65,347

2018-2019 Appropriations

\$ 240,679,101

5.00%

\$ 12,033,955

Actual % of 2018-2019 Appropriations

4.47%

# Distribution of Fund Balance

- Is the Board in agreement to maintain the fund balance distribution as stated?
  - The Educational Priorities Committed Fund Balance is reduced by the Net 2017-2018 expenditures of \$65,347.
  - Unassigned Fund Balance will be stated at 4.47% of 2018-2019 Appropriations.
  - Maintain Self-Insured Health Insurance Committed Fund Balance at \$3,889,000.

# The evolving use of Amazon as a vendor

- Over the past few years the district has been utilizing Amazon to purchase, books and miscellaneous supplies:

Year	Purchase Orders	
	Issued	Amount Paid
2014-2015	255 \$	52,479
2015-2016	279	48,867
2016-2017	306	55,106
2017-2018	344	74,610
1st Quarter 2018-2019	132	18,017

- These items have been purchased outside of any bidding requirements. Although I do not have a deep concern for this, as Amazon continues to gain more market share it is better practice to procure these items in compliance with bidding procedures.
- Much like our use of COSTARs and PEPPM, Amazon has been awarded a bid contract through the US Communities

# The evolving use of Amazon as a vendor

- I would like to establish an Amazon Business account to take advantage of this bid.
- Additional benefits:
  - Exclusive pricing of more than 10 million items.
  - Free two day shipping of orders \$49 or more.
  - Qualifying orders greater than \$35 (\$25 for books) but does not meet the threshold for Free Two-Day Shipping receive regular shipping (5-8 days) free.