



# **Highlights of Eligible Investments for County Treasurers Chapter 135.35 Ohio Revised Code**

County Treasurers Association of Ohio  
Fall Conference 2012

Presented by:

Productive Capital Management, Inc. and  
United American Capital Corporation (UACC)

# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

135.35(A) The investing authority shall deposit or invest any part or all of the county's inactive moneys ...**The following classifications of securities and obligations are eligible for such deposit or investment:**

- (1) United States treasury bills, notes, bonds, or any other obligation or security issued by the United States treasury, any other obligation guaranteed as to principal or interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

135.35 A(2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to,

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Government National Mortgage Association (GNMA)
- and Student Loan Marketing Association (SLMA)

All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

### 135.35 A(4)

Political subdivision debt, including the State of Ohio.

- Eligible investments include bonds and other obligations of this state or the political subdivisions of this state.
- Examples may include (not cited in the Code):
  - Issuances of the State of Ohio (general obligations, Ohio Public Facilities Commission, Ohio Housing Finance Agency, Ohio Water Development Authority, Ohio Building Authority).
  - Issuances of counties, municipalities, school districts, townships, or debt obligations issued by any other entity defined as an Ohio political subdivision.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

### 135.35 12(C)

- Except as provided in division (D) of this section, any investment made pursuant to this section must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the county or to a specific obligation or debt of a political subdivision of this state, and the investment is specifically approved by the investment advisory committee.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

### An Interpretative View of 135.35(C):

Obligations or debt of political subdivisions with maturities beyond five years may be purchased under the following conditions:

If the investment (made by the County Treasurer) is matched to a specific obligation or debt of the county . . .

- Example: The County Treasurer buys an obligation of its own County, maturing in ten years. The maturity of the obligation = the maturity of the investment made by the County Treasurer.

If the investment (made by the County Treasurer) is matched to a specific obligation or debt of a political subdivision of this state . . .

- Example: The County Treasurer buys an obligation of a municipality, maturing in ten years, located within the County or within any other County of Ohio. The maturity of the obligation of the municipality = the maturity of the investment made by the County Treasurer.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

### What the statute does not address under 135.35(C):

- Minimum rating(s) criteria of local political subdivision debt.
- Limitation as a percentage of the total outstanding debt of a given political subdivision.
- Limitation of political subdivision debt as a percentage of the County's total average portfolio.
- Limitation regarding final maturity (simply permits maturities beyond five years).
- Limitation regarding the percentage of long maturities as a percentage of total investments of the County's portfolio.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

- 135.35 A(5) No-load money market mutual funds consisting exclusively of obligations described in division (A)(1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.32 of the Revised Code;
- 135.35 A(6) The Ohio subdivision's fund as provided in section 135.45 of the Revised Code;





# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

135.35 A(8) Up to twenty-five per cent of the county's total average portfolio in either of the following investments:

- (a) Commercial paper notes issued by an entity that is defined in division (D) of section 1705.01 of the Revised Code and that has assets exceeding five hundred million dollars, to which notes all of the following apply:
  - (i) The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
  - (ii) The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation.
  - (iii) The notes mature not later than two hundred seventy days after purchase.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

135.35 A(8) continued

(b) Bankers acceptances of banks that are insured by the federal deposit insurance corporation and to which both of the following apply:

- (i) The obligations are eligible for purchase by the federal reserve system.
- (ii) The obligations mature not later than one hundred eighty days after purchase.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

135.35 A(9) Up to fifteen per cent of the county's total average portfolio in notes issued by corporations that are incorporated under the laws of the United States and that are operating within the United States, or by depository institutions that are doing business under authority granted by the United States or any state and that are operating within the United States, provided both of the following apply:

(a) The notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase; (b) The notes mature not later than two years after purchase.



# Highlights of Eligible Investments

## 135.35 Ohio Revised Code - County Treasurers

### 135.35 A(11)

Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds. The investments made under division (A)(11) of this section shall not exceed in the aggregate one per cent of a county's total average portfolio.

. . . Other restrictions apply such as a ratings criteria, no prior history of default, maturity limit of five years (review this section of the statute for further restrictions).



# Highlights of Eligible Investments

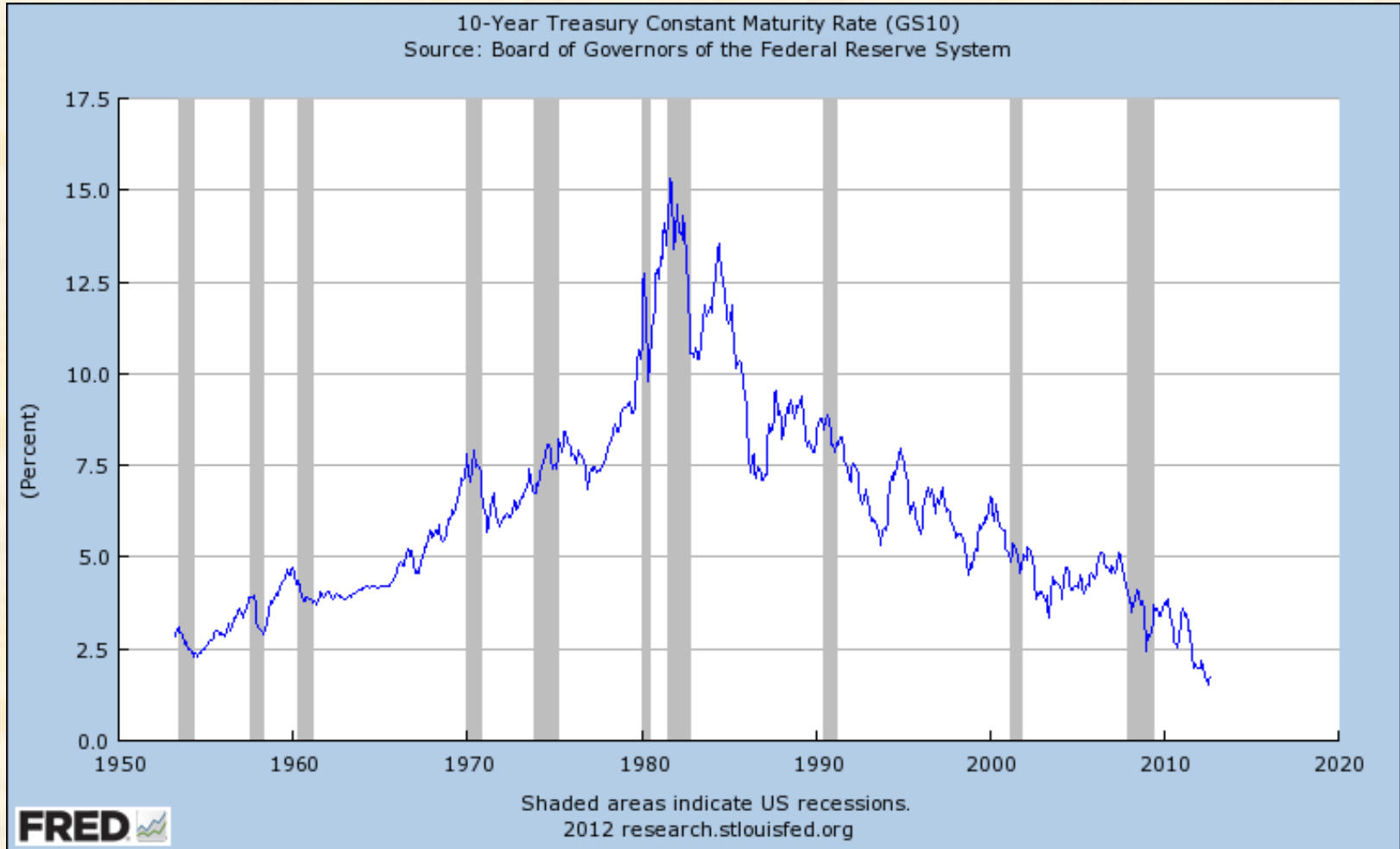
## 135.35 Ohio Revised Code - County Treasurers

### 135.35 A(E)

No investing authority shall make an investment under this section, unless the investing authority, at the time of making the investment, reasonably expects that the investment can be held until its maturity. The investing authority's written investment policy shall specify the conditions under which an investment may be redeemed or sold prior to maturity.



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# Sample 10-year UST Price Decline

- Purchase \$1,000,000 par value USTN, 1.625%, 11/15/22 @ 99-28+ on 11/15/12 to yield 1.637%
  - Principal \$998,906.25
  - Accrued 0.00
  - Total \$998,906.25
- 3 years later if we return to the approximate levels of Dec. 2007, and sell at 85.624 on 11/15/15 to yield 4.00%
  - Principal \$856,238.30
  - Accrued 0.00
  - Total \$856,238.30
- Potential realized principal loss of **\$142,667.95**



# Sample 30-year UST Price Decline

- Purchase \$1,000,000 par value UST, 2.75%, 11/15/42 @ 99-14+ on 11/15/12 to yield 2.777%
  - Principal \$994,531.25
  - Accrued 0.00
  - Total \$994,531.25
- 3 years later if we return to approximate levels of Dec. 2007 and sell @ 73.439 on 11/15/15 to yield 4.45%
  - Principal \$734,391.33
  - Accrued 0.00
  - Total \$734,391.33
- Potential realized principal loss of **\$260,139.92**





# Eligible Investments for County Treasurers Chapter 135.35 Ohio Revised Code

It is the position of the Auditor of State that Ohio Rev. Code 135.03 & 135.32 prohibit purchasing certificates of deposit (negotiable or otherwise) from a bank unless the CD is subject to inspection by the Ohio Superintendent of Financial Institutions. Ohio is part of a nationwide cooperative agreement for examining multi-state banks in which these states agreed to recognize each other's supervisory authority for banks headquartered in another state but **doing business in theirs**. Therefore, it is reasonable to conclude that a multi-state bank in a state subject to this agreement is subject to inspection by Ohio's Superintendent of Financial Institutions. **Multi-state banks are eligible to become a public depository for Ohio's governmental entities, subject to sections 135.01 and 135.21 of the Ohio Rev. Code. The bank should be registered with the Ohio Secretary of State to be an eligible public depository in Ohio. A government cannot purchase negotiable or nonnegotiable CDs unless the governing body has designated the bank as eligible to hold interim or inactive deposits. See ADAM 2002-05. (Ohio Rev. Code 135.144 provides an exception to this general rule regarding out-of-state CDs. See description of 135.144 requirements in this step.)**

