

# Wakulla County

## 10th Annual Investment Report

For

Fiscal Year Ended September 30, 2019

Prepared by the Wakulla County Clerk of Court, Finance Department



Board of County Commissioners,

As your Clerk of Court, it is my constitutional duty to keep you informed of Wakulla County's (the County) investments and to provide an independent check and balance on County finances to ensure your tax dollars are safe and being used in a sound financial manner.

The Clerk's Office is tasked with the responsibility of being the clerk and accountant to the Board of County Commissioners and custodian of County funds, among many other duties, as outlined in Florida Constitution Article VIII 1(d) and Florida Statute 125.17.

As part of being the custodian of County funds, we have the responsibility to invest the County's excess or surplus funds. Surplus funds are those funds that are on hand at any point in time that are above and beyond the funds needed to pay current obligations of the County. For example, the County collects most of its ad valorem taxes in the months of December – February, but most of these funds will not be needed until July – September. All things being equal, some years have less surplus funds than others due to the number of or size of the capital projects ongoing during the fiscal year. These surplus funds are invested until they are needed. Wakulla County uses Section 218.415, Florida Statutes, entitled "Investment of Local Government Surplus Funds" as its Investment Policy.

In accordance with transparency, proper governance, and fiscal accountability, I provide you and the citizens of Wakulla County with an annual investment activity report. This report is written in such a manner that non-financial readers may have a better understanding of the County's investment policy, activity and how its investments impact the overall health of the County's finances and vice versa. The report that follows is for the fiscal year ended September 30, 2019.

Our office is charged with three primary responsibilities related to the investment of the County's surplus funds – safety, liquidity and competitive returns with a minimum of risks. The optimization of investment income will always be last to safety and liquidity. As the accountant to the BOCC, I am glad to report that the County's surplus funds were safe, liquid and investment income increased this fiscal year. While investment income is not the top priority of our investment activity, it is an important component to the budget each year. Investment income is a "passive income" that allows the County to reduce the need for imposing additional taxes.

As always, I am honored to serve as your Clerk of Court. I remain dedicated to promoting transparency and accountability in reporting the financial activities of our County in the investment of your taxpayer dollars. If you have any questions concerning the contents of this or any other report of our office, please contact me or my staff.

In your service,

Brent X. Thurmond, C.P.A.  
Wakulla County Clerk of Courts



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## SUMMARY OF INVESTMENT POLICY

The County does not have a stand-alone investment policy. Instead, Section 218.415, Florida Statutes serves as the County's investment policy. The following summarizes the investment policy of Section 218.415, Florida Statutes.

### Scope

This policy applies to all cash in all funds, restricted or unrestricted, that are under the control of the Board of County Commissioners (BOCC) that are deemed "surplus" funds based on the current cash flow needs of the County. A list of the County's surplus funds as of September 30, 2019 will be provided later in this report.

The investment policy does not apply to any funds or accounts that may be in the County's possession which are required a) to meet the current obligations of the County and b) to be held in a separate account pursuant to a legally binding agreement such as debt sinking funds, grant funds, or other funds legally set aside. A list of the County's funds not available for investment as of September 30, 2019 will be provided later in this report.

### Investment Objectives

There are three (3) investment objectives of the County, listed in order of importance: safety, liquidity, and return on investment. The order of these objectives is intended to minimize the risks inherent to any investment of funds.

The risks to the safety of County funds are minimized by a) limiting the types of investment instruments to those approved by F.S. 218.415(17) and only using qualified public depositories (QPD's) as defined in Chapter 280, Florida Statutes and b) by diversifying the County's funds across a number of investment options. The risks to the liquidity of County funds are minimized by measuring the County's short-term cash needed to meet its obligations and monitoring the weighted average maturity of its investments. The risks to the return on investment of County funds are managed by monitoring market and economic conditions (i.e. fixed versus variable rates and length of maturity) on a routine basis.

There are five (5) components of investment risk: custodian credit risk, interest rate risk, credit risk, concentration risk and foreign currency risk. The Clerk's Office limits the County's exposure to these risks by following the sound investment policies established in F.S. 218.415. More information on these investment risks are discussed in the County's Annual Financial Report.

The safety and liquidity of principle is more important than interest income. With these objectives in this order, the County has met its objectives if 1) no principle is ever lost, 2) surplus funds are available when needed to meet current obligations, and 3) if the County's surplus funds earned a reasonable and prudent level of interest income.

The Clerk's Office monitors the cash balances of the County's funds on a daily basis. The County's liquidity requirements to meet current obligations are based on recent historical averages, current capital project activity and routine conversations with the County Administrator and Budget Officer. The Clerk's Office ensures that the County's investment portfolio does not have an average maturity level that exceeds these current liquidity needs. The maturity of investments can affect the liquidity of the funds invested. As of September 30, 2019, all of the County's funds were held in instruments that were 100% liquid with all balances available on a daily or next day basis. As such, there is no weighted average maturity of investments as of September 30, 2019. This is important to note when comparing the interest rates the County is getting with the interest rates of other optional investment instruments that would require the surplus funds to be unavailable for a period of time.

As of September 30, 2019, the County complied with the investment objectives outlined above. No principal was lost during the fiscal year, all current obligations were met on time and investment income grew over the prior fiscal year.

### Prudence, Ethical Standards & Continuing Education

The Clerk's Office has adopted the "Prudent Person Rule" which states that "Investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

There are a number of ethical standards and codes of conduct which must be adhered to by the employees of the Clerk's Office. Those include but may not be limited to:

- Part III of Chapter 112, Florida Statutes – The Code of Ethics for Public Officers and Employees
- Article II, Section 8, Florida Constitution – The “Sunshine Amendment”
- Section 1.4 of Wakulla Ordinance 2015-2 – “Procurement Policy Ethics”

The Clerk's Office ensures that those employees responsible for making investment decisions complete annual continuing education in subjects or courses of study related to investment practices and products. As of September 30, 2019, the Clerk's Office complied with these standards.

### **List Of Authorized Deposits & Investments**

The County is authorized to deposit funds in any bank that meets the criteria of a “qualified public depository” (QPD) pursuant to Chapter 280, Florida Statutes. While not legally required, the Clerk's Office prefers to maintain deposits in QPD banks that have a local presence within the County for a number of reasons.

Since the County has not adopted an official investment policy, Section 218.415(17) requires the County to restrict its investments to the following:

- The Local Government Surplus Funds Trust Fund (commonly referred to as SBA or Florida Prime)
- Any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act of 1969 as provided in Section 163.01, Florida Statutes
- Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency
- Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes
- Direct obligations of the U.S. Treasury
- Financial deposit instruments that are insured by the Federal Deposit Insurance Corporation (FDIC) in federally insured banks or savings and loan associations

As of September 30, 2019, the County's deposits and investments were limited to these type of authorized investments. The County funds were invested in intergovernmental investment pools, money market funds and QPD's.

### **Portfolio Composition, Risk & Diversification**

The Clerk's Office routinely monitors the composition of the County's investment portfolio to ensure surplus funds are properly diversified in order to reduce “concentration risk”. Since the County does not have a written investment policy and the risk to the safety and liquidity of County funds is minimized due to the investment restrictions listed above, there are no specific percentages or parameters that must be met in its portfolio composition.

While no exact portfolio composition was required as of September 30, 2019, the Clerk's Office ensured throughout the year that the County's investment portfolio was well diversified across several banking institutions and investment pools.

### **Safekeeping & Third-Party Custodial Agreements**

Every security purchased by the County shall be properly earmarked and:

- If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the County's interest in the security.
- If in book entry form, must be held for the credit of the County by a depository chartered by the Federal Government, the State of Florida or any other state or territory of the United States which has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida and must be kept by the depository in an account separate and apart from the assets of the financial institution.
- If physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. Securities should be held by a third-party and all securities purchased by the County and all collateral obtained by the County should be properly designated as an asset of the County.

As of September 30, 2019, the County's investments in intergovernmental investment pools were approved by the BOCC and an inter-local agreement or indenture of trust and an instrument of adoption was signed with each investment pool which outlines the safekeeping and custodial agreements with the County.

### **Acquisition & Bid Requirements**

The Clerk's Office routinely monitors the availability of new or additional authorized investment options for the County's surplus funds. The Clerk's Office shall, upon approval of the Board, open new or additional investment accounts as it deems prudent in fulfilling the investment objectives and goals of the County. Due to the limited investment options, formal competitive bids are not required for the investment of surplus funds.

Investments in any intergovernmental investment pool, money market fund, time deposit or savings account or U.S. Treasuries should be determined by its liquidity (maturity) and by the current interest rate being offered at the time of consideration – both of which are publicly advertised for all of these investment options so no bidding is required.

As of September 30, 2019, all deposit accounts had been opened in accordance with the County's procurement policy and the investment accounts that were opened were compared to other investment options and remain the most favorable (safety, liquidity and interest rates) to meet the County's investment objectives.

### **Internal Controls**

The Clerk's Office shall maintain written operational procedures as part of an overall system of internal controls which outlines how investment transactions are recorded, who must authorize and sign for these transactions, and who is authorized to deposit, withdraw and transfer investment funds. These internal controls should be designed to prevent losses of funds from fraud, employee error, misrepresentation by third-parties or imprudent actions by employees. These internal controls should be reviewed annually and audited by the independent audit firm of the County. As of September 30, 2019 the Clerk's Office had complied with all written operational procedures.

### **Reporting & Auditing**

The Clerk's Office shall prepare and submit to the BOCC an annual investment report which outlines and highlights the investment activities of the fiscal year by investment class or type, book value (and market value if different), and income earned. The County's independent audit firm who conducts the annual audit pursuant to Section 218.39, Florida Statutes, shall report, as part of the audit, whether or not the Clerk's Office has complied with Section 218.415, Florida Statutes.

This report is the annual investment report for September 30, 2019 for the County and the assurance that the Clerk's Office complied with Section 218.415, Florida Statutes is found in the County's Annual Financial Report.

### **Sale & Disposition**

Authorized personnel of the Clerk's Office may sell, in whole or in part, any portion of the County's investments if needed for operating purposes or for more optimal investments. All sale proceeds must be immediately placed into the proper account or fund of the County. For FY18/19, no investments were sold prematurely to meet any current financial obligations of the County. Numerous transfers between operating accounts and investment accounts were made throughout the fiscal year as needed and all transfers were recorded in accordance with procedures.

# FY 2018/19 INVESTMENT REPORT

As of September 30, 2019 (Unaudited)

## Total Comparative Cash & Investment Balances

Cash deposits and investments held by the County as of September 30, 2019 consisted of twenty (20) bank and investment accounts. These included six (6) investment accounts, four (4) restricted savings accounts, three (3) debt service accounts, five (5) operating/trust accounts and two (2) payroll/clearing accounts. At September 30, 2019, cash and investments amounted to \$15,686,797 compared to \$15,324,853 at September 30, 2018, an increase of \$361,944. This increase is primarily the result of re-invested interest income investments.

<b>Comparative Cash &amp; Investment Balances</b>			
	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>Change</b>
<b>Portfolio Balance</b>	15,686,797	15,324,853	361,944
<b>Portfolio Blended Avg. Yield</b>	0.82%	0.53%	0.29%
<b>Fiscal Year Interest Income</b>	305,217	162,248	142,969

There is a distinction between the cash balances at fiscal year-end (shown in chart above) and average daily cash balances throughout the year. For example, the average daily cash balance available for all of FY18/19 was \$18,720,154 as compared to \$15,900,668 in FY17/18 but the year-end cash balances as of September 30 for FY18/19 totaled \$15,686,797 as compared to \$15,324,853 in FY17/18. So, the County averaged \$936,008 more in excess cash available for investment throughout the year and the County ended the year with \$361,944 more in cash than the previous fiscal year.

The County's cash balances typically are at their highest in December and January of the fiscal year after most of the County's ad valorem taxes are collected with the highest balance reaching \$21,913,257 in January of 2019 (last year the highest was \$19,060,685 in February 2018). The County's cash balances are typically at their lowest in October and November of the fiscal year just before the collection of these taxes with the lowest balance reaching \$13,550,077 in November of 2019 (last year the lowest was \$9,610,252 in November 2018).

The composition of the County's cash and investment portfolio changes over the course of the fiscal year. The composition of funds in FY18/19 as compared to the prior fiscal year is:

<b>Comparative Distribution of Portfolio By Instrument Type</b>						
<b>Account / Investment Type</b>	<b>FY 18/19</b>		<b>FY 17/18</b>		<b>Increase / (Decrease) over Prior Year</b>	
Investment Accounts	70.78%	11,103,686	57.96%	8,883,210	12.82%	2,220,476
Restricted Savings Accounts	5.16%	808,941	15.54%	2,381,520	-10.38%	(1,572,579)
Debt Service Accounts	1.63%	254,965	1.65%	252,095	-0.02%	2,870
Operating / Trust Accounts	22.33%	3,502,520	24.71%	3,786,097	-2.38%	(283,577)
Payroll / Clearing Accounts	0.10%	16,685	0.14%	21,932	-0.04%	(5,247)
<b>Total</b>	100.00%	15,686,797	100.00%	15,324,854	0.00	361,943

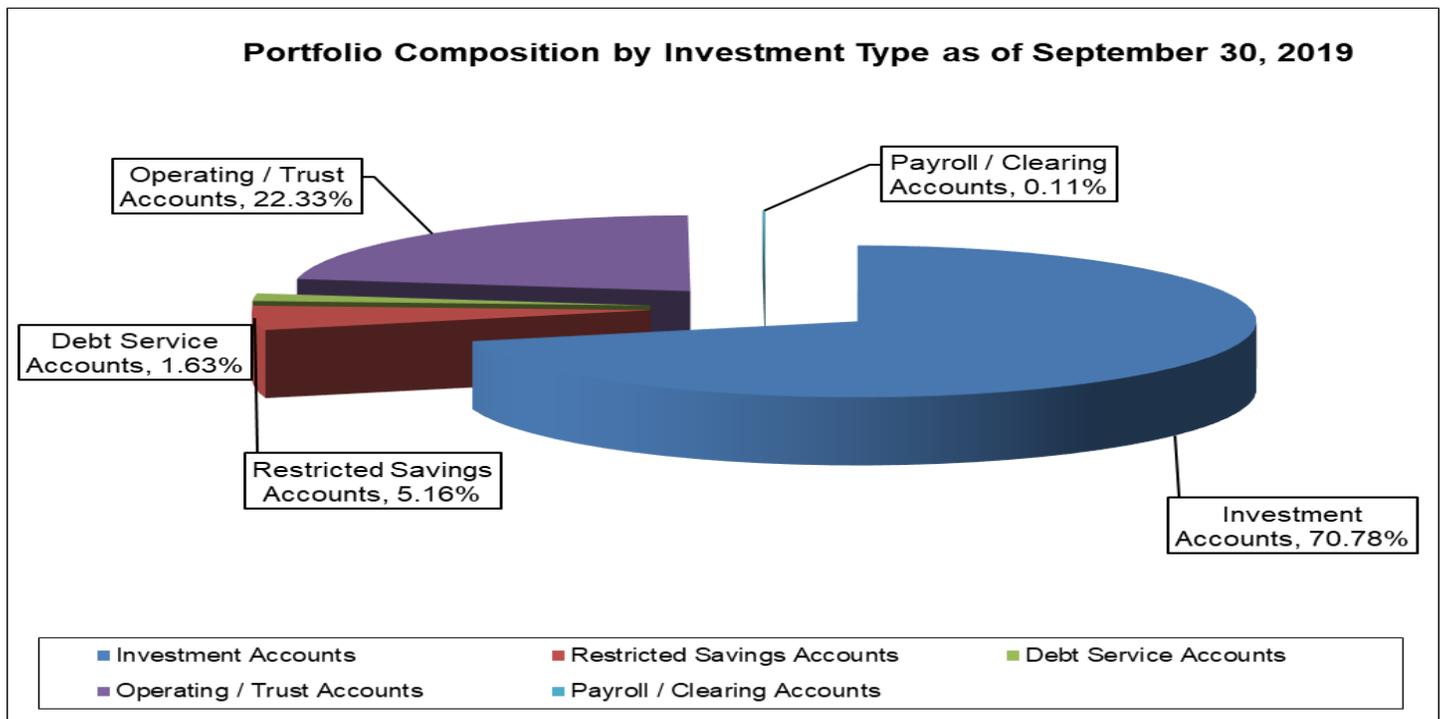
## Total Cash & Investment Balances By Instrument Type

Many of the accounts that the County has opened exist due to external requirements put upon the County by lenders and grant agencies or internal requirements established through resolution or ordinance of the BOCC. Many of these accounts either do not earn any interest (the trust accounts) or earn very minimal amounts of interest (operating, debt service and payroll/clearing accounts). As will be discussed later, this lowers the average or blended rate of return for the County. The Clerk's Office focuses more on the interest rates for the County's investment accounts as those surplus funds can be moved around to improve the overall interest income of the County. The following is a chart and graph of the County's

cash and investment balances by type of account and the annual blended rate of return for each account type as of September 30, 2019:

Portfolio Breakdown as of September 30, 2019				
Account / Investment Type	Number of Accounts	Book Value	Portfolio Composition	Blended Interest Rate
Investment Accounts	6	11,103,686	70.78%	1.72%
Restricted Savings Accounts	4	808,941	5.16%	0.57%
Debt Service Accounts	3	254,965	1.63%	0.76%
Operating / Trust Accounts	5	3,502,520	22.33%	0.31%
Payroll / Clearing Accounts	2	16,685	0.11%	0.48%
<b>Total</b>	<b>20</b>	<b>15,686,797</b>	<b>100.00%</b>	<b>0.82%</b>

\* The "Blended Interest Rate" is the average of all the interest rates of all the accounts held by the County over the course of the fiscal year.



### Total Comparative Portfolio Growth

The funds available for investment are directly related to a) the health of the County's fund balances and b) the number and size of capital projects in the year. As fund balance improves, more funds are available for investment. At the same time, funds held and built up for the purpose of capital projects, for the purchase of vehicles and various equipment, or for infrastructure improvements will deplete funds available for investment when they are spent. The following is a multi-year comparison of the County's cash and investment portfolio at the date indicated.

Type of Account:	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Ameris Bank NOW Account	\$ 951,826	\$ 2,859,245	\$ 2,912,556	\$ 6,286,928
Ameris Restricted Savings Accounts	808,941	2,381,520	1,536,991	1,137,162
Ameris Bank Debt Service Accounts	254,965	252,095	371,382	381,672
Ameris Bank Operating Accounts	1,962,537	1,931,700	2,584,394	1,531,798
Ameris Payroll / Clearing Accounts	5,881	8,898	9,819	-
Centennial Bank Operating Account	-	-	-	401,883
Prime Meridian Money Market Account	1,594,041	1,876,011	4,002,847	-
Prime Meridian Operating Account	1,539,983	1,854,397	454,824	-
Prime Meridian Payroll / Clearing Account	10,804	13,034	17,973	-
FL Local Govt Investment Pool	84,490	126,357	50,035	-
FL CLASS Investment Pool	3,197,668	2,011,786	-	-
FL FIT Investment Pool	5,275,661	2,009,810	-	-
<b>Total</b>	<b>\$ 15,686,797</b>	<b>\$ 15,324,853</b>	<b>\$ 11,940,821</b>	<b>\$ 9,739,443</b>

A brief description of these accounts follows:

- The Ameris Bank NOW account, the Prime Meridian Bank Money Market account, the Florida Local Government Investment Trust account (FLGIT), the Florida Cooperative Liquid Assets Securities System (FLCLASS), and the Florida Fixed Income Trust (FLFIT), of which there are two (2) represent the actual “surplus funds” available for investment. Housing Prisoner monies held for the Sheriff’s Office are in the Florida Fixed Income Trust (FLFIT).
- The Ameris Restricted Savings accounts represent the Landfill Escrow Account, the SHIP grant funds and a small savings account for the Clerk of Court. The Landfill Escrow and SHIP funds must be maintained in a separate account and cannot be invested as surplus funds.
- The Ameris Debt Service accounts represent monies held to pay the annual payments of the Courthouse loan, the Wastewater Treatment Plant (WWTP) loan and the Fire/EMS loan. These funds must be maintained in these accounts and cannot be invested as surplus funds.
- The Ameris Bank and Prime Meridian Bank operating/trust accounts are the accounts used to pay the daily bills of the County, Supervisor of Elections and Clerk of Court as well as fiduciary funds held by the Clerk of Court. As operating funds and trust funds, these funds cannot be considered surplus funds.
- Prime Meridian Bank Payroll / Clearing account is the account used to process payroll and other similar clearing accounts for the Board of County Commissioners, the Clerk of Court and the Supervisor of Elections. As operating funds and trust funds, these funds cannot be considered surplus funds.

**Total Comparative Investment Income**

From 2012 to 2014, despite increases in available funds for investment, the County’s total investment income declined due to the continual fall of short-term rates to historic lows of less than 1% and, for a good portion of the time, almost zero. In FY14/15, Wakulla’s interest income started to grow due to record highs in fund balance and better than average daily rates from our local banks. Investment income continued to increase in FY17/18, there was a \$74,766 increase, or an 85% increase, over the prior fiscal year. In the current fiscal year, FY18/19, interest income was \$305,864, an increase of \$143,616, or an 89% increase over the prior fiscal year.

<b>Investment Income Comparison</b>				
<b>Fiscal Year:</b>	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>
Investment Income:	\$ 305,217	\$ 162,248	\$ 87,482	\$ 67,134
One time SBA final payout of interest	-		\$ -	\$ -
	<b>\$ 305,217</b>	<b>\$ 162,248</b>	<b>\$ 87,482</b>	<b>\$ 67,134</b>
Increase (Decrease) over (under) prior year	\$ 142,969	\$ 74,766	\$ 20,347	

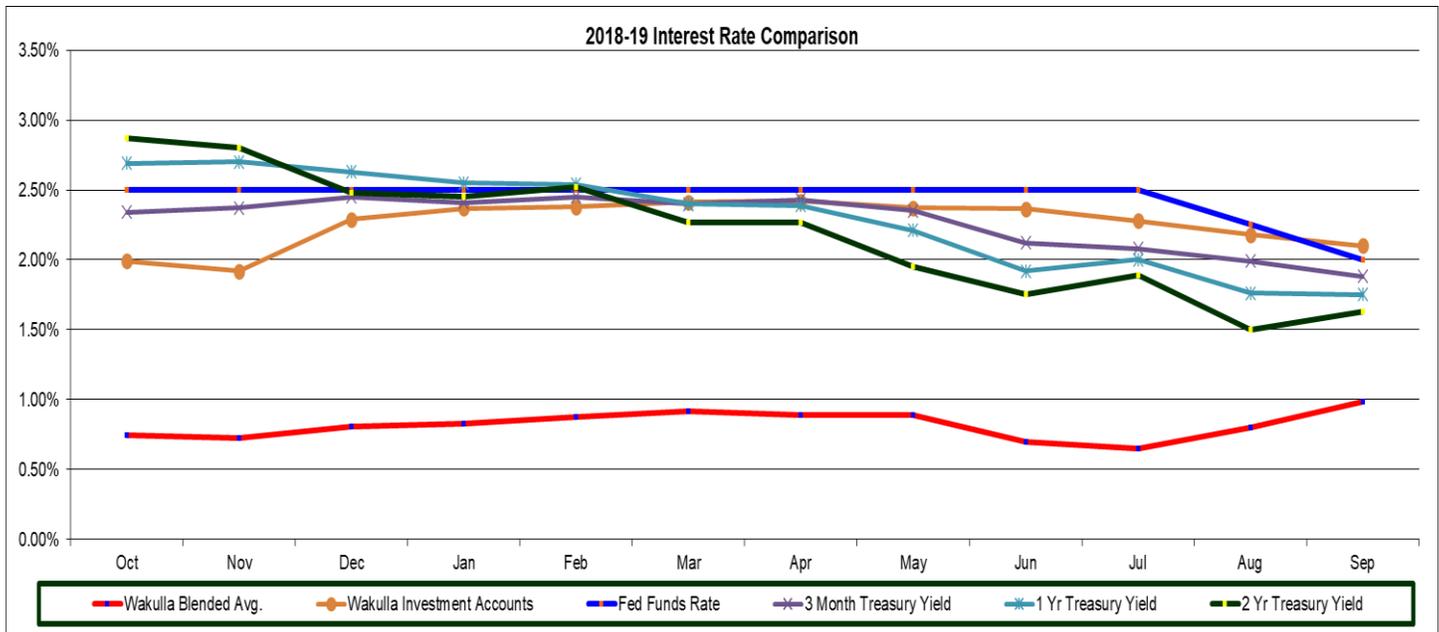
Since Wakulla’s fund balances are the strongest they have been in recent history, if not ever, liquidity or cash-flowing daily operations is no longer a serious challenge (as discussed on the first page, liquidity is always a concern). As such, investing the County’s “surplus” funds in longer term maturities in order to achieve a higher interest rate is now a viable option. The Clerk’s office routinely examines the market rates of 3 month, 6 month, 1 year and 2 year maturities, bank certificates of deposit (CD’s) and other intergovernmental investment pool options offered by various entities in the State of Florida. The current sentiment among management is to not lock up these funds for any amount of time and, instead, to make use of the many investment options that offer competitive interest rates with daily liquidity.

The chart below shows a comparison of the average monthly interest rates earned by the County as compared to some of the more secure rates on the open market. An analysis of the chart shows:

- Wakulla’s blended average interest rate (the red line) is no longer out-performing any of the rates as it has in years past. This is due to the numerous increases in the Fed Funds Rate while the County’s entire account portfolio contains numerous operating and payroll accounts that earn very little interest and, in the case of one account, earns nothing due to the restrictions placed on the funds.
- The County’s investment accounts (the orange line), while maintaining daily liquidity, under-performed all of the other rates for first two months of the year and was competitive with the Fed Funds Rate and 3 Mo. Treasury for

the remainder of the year. The Clerk’s Office moved restricted funds into approved intergovernmental investment pools during the month of February 2019.

- Both the 1 Year and 2 Year Treasuries out-performed the County’s investment accounts for the first half of the year, additionally the County is not willing to “tie up” cash for that length of time. In summary, Wakulla County has been able to obtain strong interest rates, resulting in higher investment income and has been able to do so with overnight deposits and daily liquidity.



Investment fees should also be taken into consideration. The County’s deposit and investment accounts incur two types of fees or costs – bank fees on the primary operating account of the County and investment fees on the intergovernmental investment pools. The County’s primary operating account does incur bank fees on a monthly basis based on the banking RFQ issued and approved by the County. The total cost in bank fees for the Ameris Bank operating account for FY18-19 was \$4,978 as compared to \$4,512 in FY17/18. These costs are offset by a 0.40% earning credit totaling \$6,427 in FY18-19 as compared to \$6,808 in FY17-18 resulting in net interest income of \$1,449 and \$2,296 for FY18/19 and FY17/18 respectively. The FLGIT, FLFIT and FLCLASS investment accounts all charge a fee that is expressed as a percentage which covers the pool’s management fee and portfolio expenses. The fees fluctuate, are calculated daily and netted against the daily gross interest earned. The investment income for these investments has already been reported net of these fees.

**Market, Economic & Investment Conditions**

- **Federal Funds Rate**  
The Federal Reserve’s Open Market Committee (FOMC), the rate setting body of the Federal Reserve, meets eight (8) times per year. It executes monetary policy for the Federal Reserve System, the central bank of the United States. Each time it meets, the FOMC reviews the economic conditions of the US and decides whether or not to use “expansionary” or “contractionary” monetary policy. The FOMC issues forecasts at 4 of the 8 meetings.

The FOMC had raised the Federal Reserve rate only four (4) times between 2008 and September 2017 - in December 2015 the rate was raised from .25% to .50%, in December 2016 the rate was increased from .50% to .75%, in March 2017, the rate was raised from .75% to 1.00% and in June 2017 the rate was raised from 1.00% to 1.25%. During FY 2017/18 the FOMC raised the rate four (4) times, every other meeting, in December 2017 the rate was raised from 1.25% to 1.50%, in March 2018 the rate was raised to 1.75%, in June 2018 the rate was raised to 2.0% and in September 2018 the rate was raised to 2.25%. During FY18/19, the FOMC adjusted the rate three (3) times, December 2018 the rate was raised to 2.50%, August 2019 the rate was decreased to 2.25%, and in September 2019 the rate was again decreased to 2.00%.

What is the “Federal Funds Rate”? Essentially, it is the interest rate at which banks lend money to one another overnight to meet loan reserve requirements. The federal funds rate is a tool used by the Federal Reserve to control the supply of available money and hence, inflation and other interest rates. Raising the rate makes it more expensive to borrow. That lowers the supply of available money, which helps keep inflation in check. Lowering the rate has the opposite effect. If the Fed Funds Rate is increased, you can expect slower economic growth (Contractionary monetary policy to slow inflation) and if they lower the rate, you can expect an increase in economic growth (Expansionary monetary policy to spur inflation).  
<https://www.federalreserve.gov/monetarypolicy/fomc.htm>

- **Future Rate Estimates**

As of the publish date of this report (May 2020), the Federal Funds Rate currently sits at 0.25%. For the current FY19/20, the FOMC lowered the rate three times, December 2019 the rate was decreased to 1.50%, March 2020 the rate was decreased to 1.00%, then again during March 2020 the rate was further decreased to 0.25% where it remains at close to zero. During the month of March 2020, the Federal Reserve’s Federal Open Market Committee (FOMC) lowered the target for the fed funds rate twice during the month in an emergency response to the global outbreak of the new coronavirus, COVID-19 dropping the rate by a total of 1.25 percentage points to virtually zero. The last and only other time the Fed was that aggressive was in December 2008.

Where will it be at the end of 2020, 2021, 2022? That depends on who you ask. The Federal Reserve indicated there would be four or five hikes in the rate in 2016 but in hindsight, there was only one (1). In 2017, the FOMC had indicated its goal was to hike the rate to 2.00% (their target rate for inflation) and the Fed Funds rate ended at 1.5% at the close of 2017. Their projection for the rate in 2018, 2019 and 2020 was 2.1-2.4%, 2.8-3.4%, and 3.1-3.6%, respectively. Their projection for 2018 was accurate as the rate was at 2.5% at the close of the calendar year, while their prediction for 2019 was off track by 1.3-1.65%. During the first three (3) months of 2020 the Fed Funds rate was deeply cut to .25% which is in direct contrast to their projection rate of 3.1-3.6% .which is a significant change from previous estimates.

- **Economic Conditions**

The key to understanding the changes (actual or proposed) in the Fed Funds Rate is recognizing the relationships of the variables that make up our economy. Throughout 2019 the FOMC highlighted three (3) key variables they were focused on: inflation, employment and monetary policy. The FOMC reaffirmed its goal of 2% inflation, spoke of “maximum employment” and “price stability” in its “balanced approach” to its monetary policy.

There are many variables in the U.S. economy and understanding their relationships and effect on each other can get complicated so this report only examines three (3): the inflation rate; the economic growth rate (GDP); and the unemployment rate. These economic variables, among others, are tracked by the Bureau of Economic Analysis <https://www.bea.gov/> and the Bureau of Labor Statistics <https://www.bls.gov/>.

- **Inflation Rate**

Congress has mandated that the Federal Reserve maintain the inflation rate at around 2%. Inflation is measured in several different rates or indexes. For example, most people look at the CPI, the Consumer Price Index, to get a picture of rising costs and prices. The FOMC measures inflation using the PCE, the Personal Consumption Expenditure Index. The PCE rate has remained below the targeted 2% for five (5) years in a row and is not expected to exceed 2% until 2021. The FOMC expected the PCE rate to decrease to 1.4-1.7% in 2019, increase to 1.7-2.1% in 2020, and 1.8-2.3% in 2021. The PCE rate was just under the target rate at 1.6% at the end of September 2019 but dropped 0.6% to 1.0% at the time of publication.

- **Economic Growth Rate**

Economic growth is also measured in a variety of ways but the GDP, the gross domestic product, is a good, broad indicator of our economy’s growth. There are many factors that affect GDP as well, such as domestic spending, net U.S. exports, the strength of the U.S. dollar, and the strength of foreign markets, just to name a few. The FOMC expected the GDP to fall to 2.1-2.4% in 2019, 1.7-2.3% in 2020 and 1.7-2.1% in 2021. Note the declining nature of this projection. The GDP was 2.1% at the end of September 2019 as compared to 3.3% at the end of September 2018 and has declined to -4.8% at the end of March 2020. The decline in the first

quarter of 2020 was, in part, due to the response to the spread of COVID-19, as governments issued “stay-at-home” orders in March.

- Unemployment Rate  
The FOMC expected the unemployment rate in 2019 to range between 3.6%-3.7%, in 2020 3.6-3.8%, and in 2021 3.6-3.9%, which, in market terms, is nearing “full or maximum employment”. An important aspect of analyzing the unemployment rate is looking at which markets or sectors of the economy have rising or falling unemployment. The unemployment rate was 3.7% at the end of September 2019 and has spiked to 14.7% at the end of April 2020 due to the coronavirus outbreak and the related business shutdowns.

- Economic Forecast

The economic forecast depends on who you ask. The following is an economic forecast summary from an article titled *US Economic Outlook for 2020 and Beyond* written by the website *The Balance.com*. It states in its overview, “U.S. GDP growth will slow to 2.0% in 2020 from 2.2 in 2019. It is expected to be 1.9% in 2021 and 1.8% in 2022”. That's according to the forecast released at the Federal Open Market Committee (FOMC) meeting on December 11, 2019.

Since the December 2019 FOMC meeting, the economic outlook drastically changed. The health crisis (COVID-19) has put severe pressure on economic activity, employment, and inflation and more than likely poses significant risks over the coming months and to the end of the year. The committee decided during the June 2020 meeting to keep the fed funds rate at 0%-.25% until they are confident that the economy is on track to gain employment and price stability.

- Re-Open Florida Taskforce Report

With the COVID-19 restrictions in place, Florida has been able to reduce the number of cases statewide thereby allowing Governor DeSantis to begin implementing a four-phase path for re-opening the state's economy. The highlights of phase one provides for the opening of restaurants, gyms and fitness centers, hair salons and retail businesses at 50% capacity.

Travel restrictions are lifted, bars and nightclubs can operate at 50% capacity, restaurants, gyms and fitness centers are able to increase their capacity to 75%, and vacation rentals may resume for in-state reservations only. Retail businesses may operate at 75% capacity as well as recreation centers for the phase two plan which we are in as of the date of this report.

Phase three plan will begin after the successful conclusion of phase two with some restrictions.

<https://www.flgov.com/wp-content/uploads/covid19/Taskforce%20Report.pdf>

### **Disclaimer, Disclosures & Notes**

1. The Public Depositor Annual Report to the Chief Financial Officer was provided to the Department of Financial Services for the period ending September 30, 2019 as required by Chapter 280, Florida Statutes. All of the County's bank accounts were either in qualified public depositories or in statutorily approved investment pools. For more information on what this means or to obtain this report, please contact the Finance Department of the Clerk of Court.

2. The information provided in this report is believed to be accurate and correct but this report has not been audited. Future outcomes are not based on historical results and none of the information provided herein should be used to make personal financial or investment decisions. Although, pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited, this report is intended solely for the use of Wakulla County, Florida's management and is not intended to be and should not be used by any other party.

3. Some of the information and data provided within this report may be found at these sites:

- Section 218.415, Florida Statutes – [http://www.leg.state.fl.us/STATUTES/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=0200-0299/0218/0218PARTIVContentsIndex.html](http://www.leg.state.fl.us/STATUTES/index.cfm?App_mode=Display_Statute&Search_String=&URL=0200-0299/0218/0218PARTIVContentsIndex.html)
- Chapter 280, Florida Statutes - <https://www.flsenate.gov/Laws/Statutes/2012/Chapter280>

- Florida Fixed Income Trust - <https://fl-fit.com/>
- Florida Cooperative Liquid Assets Securities System - <https://www.flclass.com/>
- Florida Local Government Investment Trust - <http://www.floridatrustonline.com/>
- Federal Reserve's Open Market Committee - <https://www.federalreserve.gov/monetarypolicy/fomc.htm>
- Federal Reserve Historical Interest Rates - <http://www.federalreserve.gov>
- Bureau of Economic Analysis <https://www.bea.gov/>
- Bureau of Labor Statistics <https://www.bls.gov/>.
- Plan for Florida's Recovery – <https://www.flgov.com/>

END OF REPORT