Investment Solutions for Debt Service Reserve Funds

As a public or institutional investor, you are responsible for managing your balance sheet so that a variety of liabilities can be met and, in doing so, are often held to complex requirements. If you have recently issued a bond or have bonds outstanding, you understand that debt service reserve funds are an integral part of your financing plan, as the income generated from reserve fund investments helps to pay construction costs and support debt service payments. Additionally, in funding your debt service reserve fund, there are a number of factors to consider, including arbitrage rebate requirements, bond covenant restrictions, bond call dates, and the method and timing of investment valuations.

Today's low-interest-rate environment and limited market for investment agreements have made it even more challenging to invest debt service reserve funds. PFM's asset management business has the specialized knowledge, experience, and tools to assist issuers with developing and implementing debt service reserve fund investment strategies. Our investment professionals share their collective expertise in portfolio management, arbitrage rebate compliance, and the capital markets to construct customized portfolios for the unique requirements of debt service reserve funds. We analyze each debt service reserve fund to determine its expected valuation requirements and take into account current and projected market conditions in order to develop forward-thinking investment strategies.

Our Philosophy

When developing an investment strategy specifically for a debt service reserve fund, our professionals seek to:

- Preserve principal
- Provide adequate liquidity
- Mitigate exposure to market value volatility
- Comply with the issuer's investment policy and bond documents
- Earn a rate of return over the life of the bonds that will reduce or eliminate negative arbitrage

Our Process

We create a detailed work plan for each debt service reserve fund, fully evaluating the key factors that contribute to debt service reserve fund performance. By accounting for arbitrage rebate implications and examining permitted investments, we assist clients in constructing prudent investment portfolios for their debt service reserve funds, with the aim of generating competitive returns through high-quality investments.

Considerations for Debt Service Reserve Funds

- Bond Covenants
- Arbitrage Rebate Considerations
- Bond Structure
- "Break-even" Investment Rates
- Market Environment
- Security Selection
- Cash Flow Requirements
- Investment Horizon

INVESTMENT STRATEGY

As an independent advisor, we seek to avoid all conflicts of interest. We do not hold a portfolio or inventory of securities, and our transparent fee structure and fiduciary commitment help ensure that clients' interests come first.

Why PFM?

PFM is a leading provider of independent investment management services to governments, government agencies, not-for-profit organizations, higher education and healthcare institutions, and other institutional investors. Our professionals have worked with debt service reserve funds for over 30 years and currently manage over $11.5 billion in bond proceeds, including more than $1 billion of debt service reserve fund assets.

There are numerous factors that should be considered when managing debt service reserve funds. PFM is committed to helping clients like you design and implement optimal investment strategies for your debt service reserve funds. We invite you to call us and find out how we can help you enhance your financing program.

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