



YieldAdvantage

Bringing Efficiency to GFOA Members

By Sofia Anastopoulos

The process of investing funds can be time-consuming and labor intensive. GFOA's newest service, an Internet based auction platform called YieldAdvantage, streamlines the investment process and drives up yields.

As a member-driven association, GFOA supports state and local government finance officers in the professional financial management of the governments they serve. GFOA accomplishes this by identifying best practices in public financial management and promoting these practices through a variety of programs and services. These programs and services include books and periodicals, training seminars and conferences, consulting services, technical inquiry services, and technical recognition.

In keeping with this central mission, GFOA offers its newest service to members – GFOA YieldAdvantage, an Internet-based auction platform for investing in money market instruments. Tapping the power of technology and the Internet, YieldAdvantage automates the steps involved in creating, holding, and awarding investment solicitations.

WHY YIELDADVANTAGE?

The process of investing public funds can be time consuming and labor intensive, often taking longer than half a day. Typically, the investment manager contacts a number of financial institutions via fax or telephone. These may include banks, broker-dealers, or other financial institutions that are on a government's pre-approved bidder list. Oftentimes, state laws as well as individual investment policies specify a minimum number of required bids, which are received by fax or telephone. The government spends

time evaluating and ranking the bids, fielding questions, confirming participation, and, possibly, seeking bid improvements from the bidders. When the bid collection and evaluation process is complete, settlement instructions are exchanged and settlement occurs. Records of the entire process are created and archived for auditing purposes.

In contrast, YieldAdvantage automates these steps, saving time and streamlining the entire investment process. Governments can use YieldAdvantage for investing both operating and bond funds. Through the automation, a larger number of financial institutions can participate in the bidding process, thus increasing competition. As a result, YieldAdvantage improves both the investment process and investment performance.

As a Web-based platform, YieldAdvantage does not impose additional software or hardware requirements on either the government investor or the financial institutions. All that is needed is access to the Internet. Both large and small governments have taken advantage of this new tool.

BECOMING A USER

Davenport Community School District, the third largest school district in the state of Iowa, recently began using YieldAdvantage. Like many school districts across the country, Davenport works hard to meet increased student achievement expectations counterbalanced by

funding pressures. A lean staff of highly trained professionals runs the finance department, providing support to the school district in the areas of finance, accounting, budgeting, payroll, purchasing, and school buildings and services. Historically, the finance department has turned to technology to expedite a range of processing functions, reduce paperwork, and save time and money for higher value-added activities. Within the constraints of the school district budget, the latest technologies have been embraced to enhance operations, cut costs, and enhance operational efficiency.

Automating the investment process seemed a natural step, given the school district's past use of technology. The associate director of finance characterizes the historical process of soliciting, negotiating, and finalizing bids as a protracted process that could take the better part of a day. Resources that could have been spent refining cash flow projections, identifying liquidity requirements, finding value in investments, and crafting investment strategies were spent on the routine tasks of contacting, collecting, and comparing bids. While such activities need to be completed, they lend themselves more readily to automation. The school district wanted to try something different, but did not know what.

Against this backdrop, the district learned of YieldAdvantage from GFOA literature. Intrigued by the prospect of a tool that addressed many of its concerns, the district sought to learn more about YieldAdvantage. The associate director of finance contacted GFOA staff and scheduled an online demonstration.

Using a log-in ID and password provided by GFOA, she gained access to the demo site, <http://demo.gfoayieldadvantage.com>.

GFOA staff walked her through the steps involved in creating a solicitation – from the selection of the terms to the awarding of the bids. As in a real solicitation, it was her decision to accept or reject the bids. She chose to accept the bids and went through the exercise of exchanging settlement instructions. As a final element of the demonstration, the results archive was reviewed. YieldAdvantage users have access to an archive of all the solicitations they have created. For any given auction date, this record includes the solicitations held, the bids submitted (name of bidder, amount, interest rate), the bid awarded, and settlement instructions for the winning bidder. Users find this to be a useful feature, especially for auditing purposes.

The district was impressed by the ease of use of YieldAdvantage and decided to use the service to invest operating funds. To begin using YieldAdvantage, the district notified its financial institutions of its intention to use the online auction site. At the same time, the district provided GFOA with the names of approved financial institutions for its approved bidder list. By providing this list, the district ensures that only approved financial institutions will be invited to participate in the district's auctions and that the bidders are registered and trained in the use of the auction platform.

The district scheduled its first auction for April 20, 2005. Bids for certificates of deposit for two maturities were solicited – the first for 71 days and \$10,000,000 and the second for 100 days and \$5,000,000. Over the course of the 30-minute auction, the district received a total of nine bids for each maturity. When it was all over, the district was very pleased. "I appreciated the time savings that YieldAdvantage made possible," said the associate director of finance.

"It made our process of going out for bids on investments much more efficient, and we received more competitive interest rates than we would have otherwise."

MORE COMPETITION, HIGHER YIELDS

Public entities from school districts like Davenport Community School District to large city governments can benefit from YieldAdvantage. Basic office operating efficiencies are inherent in this platform. For example, the time saved by not having to collect and evaluate bids can be shifted to higher value activities, such as cash-flow projections and investment strategy. The auction platform also reduces the costs associated with paperwork and telephone and fax charges.

YieldAdvantage provides a practicable method of increasing competition for a government's investment dollars. It is this increased competition that drives yields higher. Manual contact of a government's bidders often depresses the number of financial institutions contacted for a given solicitation. The automation of the investment process through YieldAdvantage lifts this artificial limit on the number of bidders. Expanding the pool of bidders increases competition and results in higher interest earnings for the government.

Finally, YieldAdvantage promotes transparency of the investment process. All financial institutions are contacted simultaneously. Each has equal opportunity to submit and improve its bid during the auction period. The electronic audit trail highlights this transparency. ■

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