RESOLUTION NO. 2018-____________

**A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, ACCEPTING THE RECOMMENDATION OF THE FINANCE AND CITYWIDE PROJECTS COMMITTEE AT ITS MEETING ON OCTOBER 26, 2018, AND AMENDING THE CITY'S INVESTMENT POLICY AND PROCEDURE ("POLICY"), AS ADOPTED BY RESOLUTION NO. 95-21726, AND AS AMENDED BY RESOLUTION NOS. 97-22315, 2007-26602, 2012-27816, AND 2018-30482, BY UPDATING PERCENTAGES AND MATURITY LIMITS PER ISSUER, ADDING NEW TYPES OF INVESTMENTS, UPDATING THE TERMINOLOGY TO CONFORM THE POLICY TO CURRENT GOVERNMENT INDUSTRY BEST PRACTICES, AND PROVIDING THAT THE INVESTMENT PROGRAM BE REVIEWED AND RATED BY THE ASSOCIATION OF PUBLIC TREASURERS (APT) AND STANDARD AND POOR'S.**

**WHEREAS,** the City's Investment Policy and Procedure was officially adopted in writing on September 27, 1995 with the passage of Resolution No. 95-21726, as a result of the adoption of Section 218.415 in the Florida Statutes by the Florida Legislature, which required the adoption of a formal investment policy by local governments; and

**WHEREAS,** on March 5, 1997, the Mayor and City Commission passed and adopted Resolution No. 97-22315, which increased the number of authorized investment options and added the percentages of the City's funds which may be invested in said additional categories; and

**WHEREAS,** on July 11, 2007, the Mayor and City Commission passed and adopted Resolution No. 2007-26602, which incorporated in the City's Investment Policy and Procedure the "Florida's "Protecting Florida's Investment Act," which prohibited the investment of public funds managed by the City in any "Scrutinized Companies" with active business operations in Sudan or Iran, or as listed by the State Board of Administration (SBA) on a quarterly basis; and

**WHEREAS,** on January 11, 2012, the Mayor and City Commission passed and adopted Resolution No. 2012-27816, which added bonds issued by the State of Israel as an authorized investment, added a maximum percentage per issuer, and replaced the Investment Committee with the Investment advisor; and

**WHEREAS,** on September 12, 2018, the City passed and adopted Resolution No. 2018-30482, which prohibited the investment of the public funds managed by the City in any securities, stocks, or bonds issued by the government of Venezuela or by any company that is majority-owned by the government of Venezuela; or by any institutions or companies doing business in or with the government of Venezuela, or any of its agencies or instrumentalities, in violation of Federal law; and, further, provided that the City Commission my waive the aforestasted prohibitions if the existing regime in Venezuela collapses and there is a need for immediate aid to Venezuela for humanitarian reasons; and

**WHEREAS,** the proposed amendments to the City's Investment Policy and Procedure was heard at the Finance and Citywide Projects Committee (FCWPC) on October 26, 2018, and the Committee recommended updating percentages and maturity limits per issuer and adding new types of investments, as set forth in the attached Exhibit A. The proposed amended Investment Policy and Procedure would allow the City to continue to maintain a high quality, diversified portfolio, as well as update the language and terminology to conform the Policy to current government industry best practices; and

**WHEREAS,** the FCWPC further recommended that the City's Investment Program be reviewed and rated by the Association of Public Treasurers (APT) and Standard and Poor's to verify that proper safety, liquidity, and diversification objectives are being adhered to.

**NOW, THEREFORE, BE IT DULY RESOLVED BY THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA,** that the Mayor and City Commission hereby accept the recommendation of the Finance and Citywide Projects Committee at its meeting on October 26, 2018 and, as set forth in the attached Exhibit A, hereby amends the City's Investment Policy and Procedure, as adopted by Resolution No. 95-21726, and as amended by Resolution Nos. 97-22315, 2007-26602, 2012-27816, and 2018-30482, by updating percentages and maturity limits per issuer, adding new types of investments, updating the terminology to conform the Policy to current government industry best practices, and providing that the Investment Program be reviewed and rated by the Association of Public Treasurer (APT) and Standard and Poor's.

**PASSED AND ADOPTED** this ________ day of __________, 2018.

**ATTEST:**

_________________________
Dan Gelber, Mayor

_________________________
Rafael E. Granado, City Clerk

APPROVED AS TO
FORM & LANGUAGE
& FOR EXECUTION

City Attorney 12/11/18
Date

# EXHIBIT A

# CITY OF MIAMI BEACH
# INVESTMENT POLICY
# AND PROCEDURE

Approved and Amended
as of December 12, 2018

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## I. BACKGROUND

The Florida Legislature passed CS/SB 2090 (CS/HB 1795) on May 4, 1995. Among other provisions of this legislation each local government entities required to create, adopt and maintain comprehensive investment policies, incorporating fourteen required elements.

The City has operated under investment guidelines adopted in 1985 and subsequent Ordinance No. 87-2588 and 92-2793 which authorized additional investment alternatives for the City. Due to the adoption of Chapter 218.415 of the Florida Statue, which governs investment policies for local governments, the Mayor and City Commission adopted Resolution No. 95-21726 on September 27, 1995. The City Code Section 18A-1 (reflecting the City's prior adopted investment policies) was repealed. The City's Investment Policy and Procedure has been amended accordingly.

## II. GENERAL OVERVIEW

The City of Miami Beach has established policies relating to the investment of excess funds. Excess funds are defined as funds not required to meet short term expenditures of the City. Excess funds are placed in two general categories of investments. The first category is "cash management investments." Cash management investments are defined as investments whose terms are less than one year. Those funds placed in cash management investments include all daily operating funds, debt service funds and various deposits. The second category is "long term city investments." Long term city investments are investments whose terms are more than one year.

## III. CASH MANAGEMENT

Short term expenditures are defined as all daily operating expenditures excluding payroll and debt service which are invested based on their payment cycle. For short term expenditures, the City maintains a continuous investment program, a Municipal NOW account, collateralized by full faith and credit instruments of the U.S. Government and its Agencies, held by the State of Florida, with the City designated as collateral beneficiary. The City complies with the State of Florida "Public Deposits Law" Chapter 280 Florida Statutes. Chapter 280 insures the City against investment principal loss on certificates of deposits and demand deposits in excess of $250,000 per institution. FDIC insurance covers demand deposits up to $250,000 per institution. The City will utilize only financial institutions qualified under Chapter 280, a listing of which is received by the City and reviewed on a quarterly basis. The City also complies with Chapter 280 by filing all required reports annually with the State.

## IV. SCOPE

This Investment Policy ("Policy") applies to all transactions involving the financial assets held or controlled by the City of Miami Beach ("City") and its blended component units, not otherwise classified as restricted assets requiring separate investing, in accordance with the requirements of Section 218.415, Florida Statutes.

This Policy shall not apply to discrete component units and pension funds, including those funds under chapters 175 and 185, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds or assets held by third parties (custodians or money managers) under Bond Trust Indenture Agreements. Each pension system has elected or appointed members to its pension Board of Trustees who exercise oversight over money managers engaged to manage pension fund investments in accordance with policies and guidelines established by each pension system. The Boards, therefore, have oversight authority over investments for pension systems and the City does not actively participate in this process.

Cash and investment balances as defined in this Section are entirely known as "Available Funds."

## V. BOND FUNDS

Notwithstanding anything to the contrary contained in the bond documents or these investment guidelines the provisions pertaining to investment of monies under all ordinances, resolutions, trust indentures and agreements adopted or entered into by the City in connection with bonds issued by the City or other dept incurred by the City will control and supersede the provisions herein contained with respect to the investment of such monies.

## VI. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety of capital, liquidity of funds and then return on investment.

*Safety of Capital*

Safety of capital is the primary objective of the investment program. Accordingly, the overall investment portfolio shall be managed to ensure capital (principal) losses are avoided by mitigating credit risk and interest rate risk.

*Credit Risk*

Credit risk is the risk of loss due to the failure of the security issuer or supporter. Credit risk is mitigated by:

- Limiting investments to the safest types of securities.
- Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business.
- Diversifying the investment portfolio to minimize potential losses on individual securities.
- Monitoring investments to anticipate and respond appropriately to changing market conditions.

*Interest Rate Risk*

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring portfolio maturities to match cashflow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

- Investing operating funds primarily in shorter-term securities.

*Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating, payroll, and capital requirements that may be reasonably anticipated. The portfolio should always encompass the ability for quick conversion to cash without loss of principal to meet cashflow requirements.

*Return on Investment*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the adviser utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, a portfolio manager may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the portfolio.

## VII. PRUDENCE AND ETHICAL STANDARDS

Investments shall 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 safety of capital, liquidity needs, and the expected income to be derived from the investment.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the State Statutes and other laws, proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.
While the standard of prudence to be used by the City's staff is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert." The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of

their capital.

## VIII. AUTHORITY AND RESPONSIBILITY

The Chief Financial Officer (CFO) is designated as the investment officer of the City and is responsible for the oversight of the management of the investment portfolio and to establish and maintain internal controls over the investment process consistent with this Policy, under the direction of the City Manager.

The CFO has designated the Deputy Finance Director and Treasury Manager as the individual responsible for managing the City's investments. The Investment Advisor discusses investments with upcoming maturities with the CFO or designee if there is a question as to new maturity target dates or type of investment vehicle to be used. Based on these discussions, the Investment Advisor executes the transaction and completes an "Investment Transaction Report" for each investment transaction. Funds related to each investment are transferred according to authorized funds transfer procedures and limits established under the provisions of the City's contract with its main depository bank.

In accordance with Resolution No. 2012-27816, the City is required to have an investment advisor with regards to the management of its investment program. Investment advisors shall be registered with the Securities Exchange Commission under the Investment Advisors Act of 1940. Advisors shall be selected using the City's authorized purchasing procedures for selection of professional services and shall be subject to the provisions of this Investment Policy. Under no circumstance shall the advisor take custody of any City funds or securities.

The City maintains employee dishonesty insurance and bonding for all employees and officials with signatory authority.

## IX. MATURITY AND LIQUIDITY REQUIREMENTS

Each year a cash flow analysis will be completed to determine the acceptable allocation and balances for each of the following funds. The Deputy Finance Director or Treasury Manager will be responsible for the cash flow analysis, which will be presented to the CFO for review.

<u>*Operating Funds*</u>

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Individual investments of current operating funds shall have maturities of no longer than twenty-four (24) months ("Short-Term Portfolio").

<u>*Core Funds*</u>

Investments of reserves, capital funds, and other non-operating funds ("Long- Term Portfolio") shall have a term appropriate to the need for funds, but in no event shall the maturity of any individual security exceed seven (7) years and the average duration of the portfolio may not exceed three (3) years.

## X. SUITABLE AND AUTHORIZED INVESTMENTS

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the CFO or designee may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the City's custodian.

The table on the following page summarize the investment instrument parameters and allocation limits on security types, issuers, and maturities, as established by the City. For complying with allocation limits, the term "Available Funds" is defined as Section I of this Policy and not including balances invested in the overnight sweep investment. The CFO or designee shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocation requirements for investment types and issuers are calculated based on the market value of each investment at the time of purchase. Investments not listed in this Policy are prohibited.

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## Summary of Composition and Diversification

| | Security Type | Minimum Rating Requirement | Maturity Limits | Maximum Allocation Limit | Maximum Issuer Limit |
|---|---|---|---|---|---|
| A | Florida PRIME Fund | AAAm | N/A | 25% | N/A |
| B | United States Government Securities | N/A | 7 Years | 100% | N/A |
| C | United States Government Agencies (full faith and credit of the United States | N/A | 7 Years | 50% | 25% |
| D | Federal Instrumentalities (United States Government Sponsored Enterprises ("GSE") which are non-full faith and credit).* | N/A | 7 Years | 80% | 40% |
| E | Mortgage-Backed Securities (MBS) * | N/A | 5 Years | 15% | 15% |
| F | Interest Bearing Time Certificates of Deposit or | N/A | 3 Years | 25% | 15% |
| G | Repurchase Agreements | N/A | 90 Days | 25% | 25% |
| H | Commercial Paper | P-1/A-1 | 270 Days | 25% | 5% |
| I | Corporate Notes | AA rating category by any two NRSROs*** | 5 Years | 40% | 5% |
| J | Asset-Backed Securities (ABS)** | AA rating category by any two NRSROs*** | 5 Years | 15% | 5% |
| K | Bankers' Acceptances | P-1/A-1 | 180 Days | 20% | 5% |
| L | State and/or Local Government Taxable and/or Tax-Exempt Debt | A rating category by two NRSROs*** | 5 Years | 20% | 10% |
| M | Money Market Mutual Funds | AAAm | N/A | 100% | 50% |
| N | State of Israel Bonds** | A rating category by S&P or another NRSROs*** | 3 years | 5%** | N/A |
| O | Intergovernmental Investment Pool | AAAm | N/A | 100% | 50% |
| P | Florida League of Cities, Inc. Mutual Funds | N/A | N/A | 25% | 10% |

* The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.

** 5% of operating funds. Bond proceeds not permitted.

*** National Recognized Statistical Rating Organization (NRSRO).

*PORTFOLIO COMPOSITION AND DIVERSIFICATION*

Diversity of investment types is highly desirable. To promote diversity, no security or individual cusip shall exceed 5% of the City funds. Such diversity is necessary in cases where securities are traded frequently and not held to maturity and where volatile securities are traded.

A. The Florida PRIME Fund.

1. Investment Authorization

   Invest in the Florida PRIME Fund.

2. Portfolio Composition

   A maximum of 25% of Available Funds may be invested in the Florida PRIME Fund.

3. Rating Requirements

   The money market funds shall be rated "AAAm" by Standard & Poor's or the equivalent by another Nationally Recognized Statistical Ratings Organization (NRSRO).

4. Due Diligence Requirements

   A thorough review of any money market fund is required prior to investing, and on a continual basis. The questionnaire provided in Appendix E must be completed prior to investing.

B. United States Government Securities

1. Purchase Authorization

   Invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

   Cash Management Bills
   Treasury Securities – State and Local Government
   Series ("SLGS") Treasury Bills
   Treasury Notes Treasury
   Bonds Treasury Strips

2. Portfolio Composition

   A maximum of 100% of Available Funds may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is seven (7) years from the date of purchase.

C. United States Government Agencies (full faith and credit of the United States Government)

1. Purchase Authorization

Invest in bonds, mortgage instruments, debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by the United States Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

Government National Mortgage Association (GNMA)
- GNMA guaranteed mortgage-backed bonds
- GNMA guaranteed pass-through obligations

United States Export – Import Bank
- Direct obligations or fully guaranteed certificates of beneficial ownership

Farmer Home Administration
- Certificates of beneficial ownership

Federal Financing Bank
- Discount notes, notes and bonds

Federal Housing Administration Debentures

General Services Administration

United States Maritime Administration Guaranteed Title XI Financing

New Communities Debentures
- United States Government guaranteed debentures

United States Public Housing Notes and Bonds
- United States Government guaranteed public housing notes and bonds

United States Department of Housing and Urban Development
- Project notes and local authority bonds

2. Portfolio Composition

A maximum of 50% of Available Funds may be invested in United States Government Agencies.

3. Limits on Individual Issuers

A maximum of 25% of available funds may be invested in individual United States Government Agencies.

4. Maturity Limitations

   The maximum length to maturity for an investment in any United States Government Agency security is seven (7) years from the date of purchase.

D. Federal Instrumentalities (United States Government Sponsored Enterprises ("GSE") which are non-full faith and credit).

1. Purchase Authorization

   Invest in bonds, mortgage instruments debentures or notes which may be subject to call, issued or guaranteed as to principal and interest by Federal Instrumentalities (United States Government Sponsored Enterprises), which are non- full faith and credit agencies including the following:

   Federal Farm Credit Bank (FFCB)
   Federal Home Loan Banks (FHLB)
   Federal National Mortgage Association (FNMA)
   Federal Home Loan Mortgage Corporation (Freddie- Mac) including Federal-Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

   A maximum of 80% of Available Funds may be invested in Federal Instrumentalities. Callable securities are limited to 20% of Available Funds. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.

3. Limits on Individual Issuers

   A maximum of 40% of Available Funds may be invested in individual Federal Instrumentalities.

4. Maturity Limitations

   The maximum length to maturity for an investment in any Federal Instrumentality security is seven (7) years from the date of purchase.

E. Mortgage-Backed Securities (MBS)

1. Purchase Authorization

   Invest in mortgage-backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.

2. Portfolio Composition

   A maximum of 15% of available funds may be invested in MBS. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.

3. Limits of Individual Issuers

   A maximum of 15% of available funds may be invested with any one issuer.

4. Maturity Limitations

   A maximum length to maturity for an investment in any MBS is five (5) years from the date of purchase.

   The maturity of mortgage securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

F. Interest Bearing Time Certificates of Deposit or Saving Accounts

1. Purchase Authorization

   Invest in non-negotiable interest-bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes

2. Portfolio Composition

   A maximum of 25% of Available Funds may be invested in non-negotiable interest-bearing time certificates of deposit or savings accounts.

3. Limits on Individual Issuers

   A maximum of 15% of Available Funds may be deposited with any one issuer.

4. Maturity Limitations

   The maximum maturity on any certificate of deposit shall be greater than three (3) years from the date of purchase.

G. Repurchase Agreements

1. Purchase Authorization

   a. Invest in repurchase agreements composed of only those investments based on the requirements set forth by the City's Master Repurchase Agreement. All firms are required to sign the Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

   b. A third-party custodian with whom the City has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the CFO and retained.

   c. Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the CFO or Deputy Finance Director.

   d. Repurchase Agreements will be limited to transactions in which the proceeds will be used to provide liquidity. Any investment which is not issued in "Book Entry Only" form is physically held by the City in a secure vaulted area and surrendered only when invested funds and earnings are received by the City at maturity.

2. Portfolio Composition

   A maximum of 25% of Available Funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

   A maximum of 25% of Available Funds may be invested with any one institution excluding one (1) business day agreements and overnight sweep agreements.

4. Limits on Maturities

   The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

5. Performance Calculation

   Overnight sweep investments for calculating investment performance and asset allocation requirements will be excluded from the calculations.

H. Commercial Paper

1. Purchase Authorization

   Invest in commercial paper of any company operating in the United States that is rated, at the time of purchase, at a minimum "Prime-1" by Moody's or better and "A-1" by Standard & Poor's or better (prime commercial paper) or the equivalent by two NRSROs at the time of purchase.

2. Portfolio Composition

   A maximum of 25% of Available Funds may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

   A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

I. Corporate Notes

1. Purchase Authorization

   Invest in corporate notes issued by corporations operating within the United States or by depository institutions licensed by the United States that have a long-term debt rating with a minimum "AA" rating category, or better, by any two NRSROs at the time of purchase.

2. Portfolio Composition

   A maximum of 40% of Available Funds may be directly invested in corporate notes.

3. Limits on Individual Issuers

   A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   The maximum length to maturity for corporate notes shall be five (5) years from the date of purchase.

J. Asset-Backed Securities (ABS)

1. Purchase Authorization

   The City may invest in asset-backed securities (ABS) which are bonds or notes backed by financial assets with a minimum "AA" rating category, or better, by any two NRSROs at the time of purchase.

2. Portfolio Composition

   A maximum of 15% of available funds may be invested in ABS.

3. Limits of Individual Issuers

   A maximum of 5% of available funds may be invested with any one ABS.

4. Maturity Limitations

   A maximum length to maturity for an investment in any ABS is five (5) years from the date of purchase.

   The maturity of asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

K. Bankers' Acceptances

1. Purchase Authorization

   Invest in Bankers' Acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services or better and "A-1" Standard & Poor's or better, or the equivalent by another NRSROs.

2. Portfolio Composition

   A maximum of 20% of Available Funds may be directly invested in Bankers' Acceptances.

3. Limits on Individual Issuers

   A maximum of 5% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   The maximum length to maturity for Bankers' Acceptances shall be 180 days from the date of purchase.

L. State and/or Local Government Taxable and/or Tax-Exempt Debt

1. Purchase Authorization

   Invest in state and/or local government taxable and/or tax- exempt debt, general obligation and/or revenue bonds, rated, at the time of purchased, at a minimum single "A" category by any two NRSROs, or rated at a minimum "VMIG2" by Moody's or better and "A-2" by Standard & Poor's or better for short-term debt or the equivalent by another NRSRO.

2. Portfolio Composition

   A maximum of 20% of Available Funds may be invested in taxable and tax-exempt debts.

3. Limits on Individual Issuers

   A maximum of 10% of Available Funds may be invested with any one issuer.

4. Maturity Limitations

   A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of purchase.

M. Money Market Mutual Funds

1. Purchase Authorization

   Invest in shares in open-end and no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market mutual funds must have an average weighted maturity of 60 days or less. The money market mutual funds shall be rated, at a minimum, "AAAm" by Standard & Poor's or the equivalent by another NRSRO. The prospectus of such funds must indicate that the share value shall not fluctuate.

2. Portfolio Composition

   A maximum of 100% of Available Funds may be invested in money market mutual funds.

3. Limits of Individual Issuers

   A maximum of 50% of Available Funds may be invested with any one money market mutual fund.

4. Due Diligence Requirements

   A thorough investigation of any money market mutual fund is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix E must be completed prior to investing. A current prospectus must be obtained prior to investing.

N. State of Israel Bonds

1. Investment Authorization

   Invest in Israel bonds, notes or instruments and backed by the full faith and credit of the government of Israel with a minimum Single "A" rating, or better, by Standard & Poor's or the equivalent by another NRSRO at the time of purchase

2. Portfolio Composition

   A maximum of 5% of Available operating Funds may be invested in Israel Bonds. No Bond Proceeds shall be invested in Israel Bonds.

3. Limits of Individual Issuers

   Not Applicable.

4. Maturity Limitations

   The maximum length to maturity for State of Israel Bonds shall be 3 years from the date of purchase.

O. Intergovernmental Investment Pool

1. Investment Authorization

   Intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes and have a rating of "AAAm" by Standard & Poor's, or the equivalent by another NRSRO.

2. Portfolio Composition

   A maximum of 100% of Available Funds may be invested in intergovernmental investment pools.

3. Limits of Individual Issuers

   A maximum of 50% of Available Funds may be invested with any one intergovernmental investment pool.

4. Due Diligence Requirements

   A thorough investigation of any pool fund is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix E must be completed prior to investing. A current prospectus must be obtained prior to investing.

P. Florida League of Cities, Inc. Short Term Fixed Income Mutual Funds

1. Investment Authorization

   Florida League of Cities, Inc. Short Term Fixed Income Mutual Funds

2. Portfolio Composition

   A maximum of 25% of Available Funds may be invested in the Short Term Fixed Income Mutual Funds

3. Limits of Individual Issuers

   A maximum of 10% of Available Funds may be invested with any one Florida League of Cities, Inc. Short Term Fixed Income Mutual Fund.

4. Due Diligence Requirements

   A thorough investigation of the Funds is required prior to investing and on a quarterly basis. The questionnaire provided in Appendix E must be completed prior to investing. A current prospectus must be obtained prior to investing.

## XI. DERIVATIVES

Derivatives shall be utilized only if specifically authorized as part of the investment plan and the CFO or designee has sufficient understanding/expertise to invest in derivatives. All proposed derivative investments (including "SWAPS") will be analyzed by the City's Financial Advisor and will be presented to the Finance and Citywide Projects Committee and the City commission for approval.

## XII. PROHIBITED INVESTMENTS

Funds to be invested in cash management investments may not be invested in the following:

| | | |
|---|---|---|
| Common Stock | Private Placements | Preferred Stock |
| Convertible Bonds | Margin Trading | Venture Capital |
| Options and Futures | Oil and Gas Wells | Warrants |
| Foreign Exchange | Short Selling | Real Estate |
| Limited Partnerships | Commodities | Any Inverse Floating Rate Securities |
| Unregistered or Restricted Stock | IO or PO Strips or Inverse Floater Mortgage Backed Securities | |

In addition to the above prohibited investments, funds should not be invested in:

a) any scrutinized companies with active business operations in Sudan or Iran as listed by the State Board of Administration (SBA) on a quarterly basis, which is outlined in the Protecting Florida's Investment Act (F.S. 215.442 and 215.473).
b) any securities, stocks, or bonds issued by the Government of Venezuela or by any Company that is majority-owned by the Government of Venezuela or securities, stocks, or bonds issued by any institutions or companies doing business in or with the Government of Venezuela or any of its agencies or instrumentalities, in violation of Federal Law. The City Commission may waive the prohibitions in the subsection E (b) if the regime existing in Venezuela as of July 25, 2018 collapses and there is an need for immediate aid to Venezuela for Humanitarian reason.

## XIII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The City shall only purchase securities from financial institutions, which are qualified as public depositories by the CFO of the State of Florida or from primary dealers (or their agents) as designated by the Federal Reserve Bank of New York and regional dealers who meet the following qualifications and criteria:

*Qualified Financial Institutions and Securities Dealers*

A list of qualified financial institutions and securities dealers authorized to provide investment services will be maintained by the Investment Advisor. This list will include approved primary and non-primary dealers. All financial institutions and securities dealers who desire to conduct business with the City must supply the following as appropriate:

1. Most recent audited financial statements (must be provided annually).
2. Proof of State Registration.
3. Certification attesting that the individuals responsible for the City's account have reviewed the City's Investment Policy, that they agree to comply with the Policy, that they agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds, and that they will disclose potential conflicts or risks that may arise out of business transactions between the City and their organization. However, if the City's investment advisor is responsible for the investment transaction, the City will allow the investment advisor to use their professional judgment for the selection of the appropriate qualified financial institutions and securities dealers.
4. Executed repurchase agreements, wire transfer agreements, collateral/depository agreements, and other banking services contracts as appropriate.

*Selection Criteria*

The selection will be accomplished through an objective rating system which rates financial institutions and securities dealers on both product and performance measures. The selection of firms by the City includes the following evaluation criteria:

1. Financial strength and security of the financial institution or dealer.
2. Institutional and dealer qualifications as they relate to both general and specific product knowledge.
3. Technical support capabilities as well as the operational efficiency of the organization.
4. Ability to provide value-added services.
5. Pricing competitiveness based on the ability to support both the "bid" and "ask" side of various securities market instruments.

An annual review of the financial condition, registration, certification, and contracts of qualified financial institutions and securities dealers will be conducted by the investment advisor.

The purpose of this process is to prevent influence being experienced by either City personnel or the financial institution in the selection of the institution chosen for the purchase of City investments.

## XIV. THIRD-PARTY CUSTODIAL AGREEMENTS

All securities purchased by the City under this section shall be properly designated as an asset of the City and held in safekeeping by a third-party custodial bank or other third-party custodial institution, chartered by the United States Government or the State of Florida and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the CFO or designee as authorized herein. In addition, it may be found to be appropriate to accept confirmation from the trust company affiliated with the other party of the transaction if the structure of this affiliation is such that the two entities are fully independent of each other, that controls are adequate, and that the City's security interest in the assets is not lost.

Exceptions to this method of control will be the safekeeping of non-negotiable bank certificates of deposit, the Florida State Board of Administration, and various mutual funds which would require physical delivery without systematic handling found commonly with book entry securities.

The City will execute third-party custodial agreements with a qualifying institution. Such agreements will include designation of authority from the City, details as to responsibilities of each party, notification of security purchases, sales, delivery, and wire transfers, safekeeping and transaction costs, procedures in case of wire failure, or other unforeseen conditions including liability of each party.

*Delivery vs. Payment*

All trades, where applicable, will be executed by delivery vs. payment (DVP) to ensure securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## XV. TREASURY MANAGEMENT SERVICES MASTER AGREEMENT

A "Treasury Management Services Master Agreement" has been developed, reviewed and accepted by the City and is part of the contract established with the City's main depository bank. This agreement is a standard Public Securities Association ("PSA") form agreement offering all recommended protection to the City. This agreement is scheduled to be in effect for the duration of the contract with the City's main depository.

## XVI. BID REQUIREMENTS

Where feasible and appropriate, purchases and sales of securities initiated by the City or the Investment Advisor should generally be accompanied by price quotes from three (3) separate brokers/dealers to ensure the acquisition of market-based prices. Documentation will be retained for all bids, with the winning bid clearly identified. Competitive bids are not applicable in instances where the City has executed a cash management agreement with an approved institution which addresses the considerations described in the third-party agreement section above.

In certain circumstances where an institution or dealer informs the City or the Investment Advisor that a potential purchase or sale must be completed within minutes of notification, the competitive bidding Policy may be waived, providing the Coro designee specifically approves such individual transactions prior to execution. Periodically, various government agencies announced the issue of new securities to the financial markets. Since all new issues are generally sold at par, the City would not realize any benefit by purchasing these securities through the competitive bid process. In the case of such new issues of "to be announced" (TBA) securities, the competitive bidding process need not apply.

The formal bidding process for investment instruments consists of the following procedures (Steps #1 through #4 are performed by Investment Advisor):

1. Maintain a bid list of approximately three (3) major financial institutions qualified under Chapter 280 and two major brokerage firms. This bid list is adjusted periodically to delete bidders who are non-responsive or non-competitive over a period of time, replacing such institution(s) with other qualified institutions which have expressed an interest to bid on City funds. Qualified institutions are defined as financial institutions governed by Chapter 280 of the Florida Statutes with a branch location in Miami-Dade County, Florida.

   Brokerage houses must maintain an office in Miami-Dade County, Florida and are selected based on the amount of equity in the firm, number of years the firm has been in operation and reputation.

2. Place telephone calls requesting a bid from each institution on the bid list either on the day of the transaction or the afternoon immediately preceding the transaction date.
3. Receive and note all bids on a standard form designated for this purpose and retain on file for each transaction.
4. Select the highest winning bid
5. Transfer funds in exchange for evidentiary receipt from winning bidder.

## XVII. INTERNAL CONTROLS

The City has established a number of internal controls to prevent loss of funds by fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City. The internal controls are as follows:

1. Investment transactions authority is limited to specific persons within the Finance Department.
2. Wire transfer of funds authority is restricted to specific individuals with specific dollar limits within the Finance Department. All non-repeat type wire transfers require confirmation authorization by a second individual specified in wire authority documents executed with the City's main depository.
3. All investment transactions require the approval of the Treasury Manager in consultation with the Deputy Finance Director or CFO.
4. A monthly report is prepared by the Investment Advisor and distributed to the Treasury Manager early in the subsequent month for review. In addition, the Finance Department receives a copy of this report and reconciles these investments with the City's general ledger on a monthly basis.
5. The Finance Department reconciles the City's general depository account on a monthly basis by comparing the City's general ledger with the applicable bank account statements. The reconciliation of the general depository account would reveal any difference in investment transaction recording and the actual movement of funds.
6. Each month, the Finance Department reconciles investments reflected in the custodial statements with the City's records.
7. Each year both internal auditors and the City's external auditors review existing internal controls as well as investment transactions by examining data on a random basis.

## XVIII. CONTINUING EDUCATION

The CFO and any designees shall annually complete eight (8) hours of continuing education in subjects or courses related to investment practices and products.

## XIX. REPORTING

The CFO or designee shall prepare a quarterly investment report, which includes a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This report will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Policy.

The report will include the following:

- A listing of individual securities held at the end of the reporting period indicating type, transactions which occurred during the period, paramount (as well as adjusted cost basis), stated yield, maturity date, posted collateral, and actual investment earnings in dollars.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one-year duration that are not intended to be held under maturity.
- Average weighted yield to maturity of the overall portfolio on investments as compared to applicable benchmarks.
- The percentage of the total portfolio which each type of investment represents.
- The Investment Advisor will provide a statement in the City's quarterly reports as to the whether the City's investments are in compliance with the Policy.

*Marking-to-Market*

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Marking-to- Market Practices for State and Local Government Investment Portfolios and Investment Pools (see appendix).

## XX. SECURITIES

Every security held on behalf of the City must be properly earmarked and:

- If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the City's interest in the security;
- If in book entry form, must be held for the credit of the governing body 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 as defined in Florida Statutes, Section 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and exercise trusts and which is doing business in the State of

Florida, and must be kept in the depository in an account separate and apart from the assets of the financial institution; or

- 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.

The City may also receive bank trust receipts in return for investment of surplus funds in securities. Any trust receipts received must enumerate the various securities held, together with the specific number of each security held. The actual securities on which the trust receipts are issued may be held by any bank depository chartered by the Federal Government, the State of Florida, or any other state as defined in Section 658.12, Florida State Statutes, 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.

## XXI. SALE OF SECURITIES

When invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, the CFO or designee may sell such investments at the then-prevailing market price and place the proceeds into the proper account or fund.

## XXII. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolios' performance, the City will use nationally recognized performance measurements ("benchmarks") for the Short-Term and Long-Term portfolios. The use of benchmarks will allow the City to measure its returns against other investors in the same markets. Performance calculations will not include any balances invested in the overnight sweep accounts and savings accounts.

Annually, the CFO will review the performance measurements to ascertain their continued relevance based on the composition of the City's portfolio.

A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the S&P Rated GIP Index Government 30 Day Yield. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.

B. Investment performance of the Long-Term Portfolio ("Core") will be compared to the BofA Merrill Lynch's 1–3 Year United States Treasury Index or an equivalent index comprised of U. S. Treasury or Government securities. The appropriate index will have a duration and asset mix that approximates the portfolio and will be utilized as a benchmark to be compared to the portfolio's total rate of return.

## XXIII. INVESTMENT COMMITTEE

The City may have an Investment Committee that meets on a quarterly basis to discuss the performance of the City's investment portfolios, the compliance of the portfolio with regard to the Policy, and items such as economic and market conditions.

The Investment Committee will be made up of members selected by the CFO or designee.

## XXIV. EXEMPTIONS

Any investment held that does not meet the guidelines of this Policy, at the time the Policy is adopted, shall be exempt from the requirements of this Policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this Policy.

## XXV. AMENDMENTS

This Policy shall be reviewed by the CFO or designee on an annual basis. Any changes must be approved by the CFO or designee, the City Manager, and the City Commission, as well as the individual(s) charged with maintaining internal controls.

## XXVI. HISTORY OF AMENDMENTS

| | |
|---|---|
| November 18, 1987 | Ordinance No. 87-2588 |
| September 16, 1992 | Ordinance No. 92-2793 |
| March 15, 1997 | Ordinance No. 97-3074 |
| September 27, 1995 | Resolution No. 95-21726 |
| March 5, 1997 | Resolution No. 97-22315 |
| July 11, 2007 | Resolution No. 2007-26602 |
| January 11, 2012 | Resolution No. 2012-27816 |
| September 12, 2018 | Resolution No. 2018-30482 |

APPROVED AND ADOPTED BY THE MAYOR AND CITY COMMISSION ON ____________________.

RESOLUTION NO. ______________________.

# Appendix A:

# Section 218.415, Florida Statutes

Select Year: 2018 ▼ Go

# The 2018 Florida Statutes

| Title XIV TAXATION AND FINANCE | Chapter 218 FINANCIAL MATTERS PERTAINING TO POLITICAL SUBDIVISIONS | View Entire Chapter |
|---|---|---|

**218.415 Local government investment policies.**—Investment activity by a unit of local government must be consistent with a written investment plan adopted by the governing body, or in the absence of the existence of a governing body, the respective principal officer of the unit of local government and maintained by the unit of local government or, in the alternative, such activity must be conducted in accordance with subsection (17). Any such unit of local government shall have an investment policy for any public funds in excess of the amounts needed to meet current expenses as provided in subsections (1)-(16), or shall meet the alternative investment guidelines contained in subsection (17). Such policies shall be structured to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment returns shall be secondary to the requirements for safety and liquidity. Each unit of local government shall adopt policies that are commensurate with the nature and size of the public funds within its custody.

(1) SCOPE.—The investment policy shall apply to funds under the control of the unit of local government in excess of those required to meet current expenses. The investment policy shall not apply to pension funds, including those funds in chapters 175 and 185, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

(2) INVESTMENT OBJECTIVES.—The investment policy shall describe the investment objectives of the unit of local government. Investment objectives shall include safety of capital, liquidity of funds, and investment income, in that order.

(3) PERFORMANCE MEASUREMENT.—The investment policy shall specify performance measures as are appropriate for the nature and size of the public funds within the custody of the unit of local government.

(4) PRUDENCE AND ETHICAL STANDARDS.—The investment policy shall describe the level of prudence and ethical standards to be followed by the unit of local government in carrying out its investment activities with respect to funds described in this section. The unit of local government shall adopt 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."

(5) LISTING OF AUTHORIZED INVESTMENTS.—The investment policy shall list investments authorized by the governing body of the unit of local government, subject to the provisions of subsection (16). Investments not listed in the investment policy are prohibited. If the policy authorizes investments in derivative products, the policy must require that the unit of local government's officials responsible for making investment decisions or chief financial officer have developed sufficient understanding of the derivative products and have the expertise to manage them. For purposes of this subsection, a "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values. If the policy authorizes investments in reverse repurchase agreements or other forms of leverage, the policy must limit the investments to transactions in which the proceeds are intended to provide liquidity and for which the unit of local government has sufficient resources and expertise.

(6) MATURITY AND LIQUIDITY REQUIREMENTS.—The investment policy shall require that the investment portfolio is structured in such manner as to provide sufficient liquidity to pay obligations as they come due. To that end, the investment policy should direct that, to the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

(7) PORTFOLIO COMPOSITION.—The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities. Such guidelines shall be commensurate with the nature and size of the public funds within the custody of the unit of local government.

(8) RISK AND DIVERSIFICATION.—The investment policy shall provide for appropriate diversification of the investment portfolio. Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the appropriate management staff.

(9) AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS.—The investment policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities.

(10) THIRD-PARTY CUSTODIAL AGREEMENTS.—The investment policy shall provide appropriate arrangements for the holding of assets of the unit of local government. Securities should be held with a third party; and all securities purchased by, and all collateral obtained by, the unit of local government should be properly designated as an asset of the unit of local government. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by an authorized staff member of the unit of local government. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

(11) MASTER REPURCHASE AGREEMENT.—The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

(12) BID REQUIREMENT.—The investment policy shall require that the unit of local government's staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in subsection (2) must be selected.

(13) INTERNAL CONTROLS.—The investment policy shall provide for a system of internal controls and operational procedures. The unit of local government's officials responsible for making investment decisions or chief financial officer shall establish a system of internal controls which shall be in writing and made a part of the governmental entity's operational procedures. The investment policy shall provide for review of such controls by independent auditors as part of any financial audit periodically required of the unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the unit of local government.

(14) CONTINUING EDUCATION.—The investment policy shall provide for the continuing education of the unit of local government's officials responsible for making investment decisions or chief financial officer. Such officials must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

(15) REPORTING.—The investment policy shall provide for appropriate annual or more frequent reporting of investment activities. To that end, the governmental entity's officials responsible for making investment decisions or chief financial officer shall prepare periodic reports for submission to the legislative and governing body of the unit of local government, which shall include securities in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

(16) AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES.—Those units of local government electing to adopt a written investment policy as provided in subsections (1)-(15) may by resolution invest and reinvest any surplus public funds in their control or possession in:

(a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.

(b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

(c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.

(d) Direct obligations of the United States Treasury.

(e) Federal agencies and instrumentalities.

(f) Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.

(g) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

(h) Other investments authorized by law or by ordinance for a county or a municipality.

(i) Other investments authorized by law or by resolution for a school district or a special district.

(17) AUTHORIZED INVESTMENTS; NO WRITTEN INVESTMENT POLICY.—Those units of local government electing not to adopt a written investment policy in accordance with investment policies developed as provided in subsections (1)-(15) may invest or reinvest any surplus public funds in their control or possession in:

(a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01.

(b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

(c) Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in s. 280.02.

(d) Direct obligations of the U.S. Treasury.

The securities listed in paragraphs (c) and (d) shall be invested to provide sufficient liquidity to pay obligations as they come due.

(18) SECURITIES; DISPOSITION.—

(a) Every security purchased under this section on behalf of the governing body of a unit of local government must be properly earmarked and:

1. If registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the governing body's interest in the security;

2. If in book entry form, must be held for the credit of the governing body by a depository chartered by the Federal Government, the state, or any other state or territory of the United States which has a branch or principal place of business in this state as defined in s. 658.12, 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 this state, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or

3. 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.

(b) The unit of local government's governing body may also receive bank trust receipts in return for investment of surplus funds in securities. Any trust receipts received must enumerate the various securities held, together with the specific number of each security held. The actual securities on which the trust receipts are issued may be held by any bank depository chartered by the Federal Government, this state, or any other state or territory of the United States which has a branch or principal place of business in this state as defined in s. 658.12, 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 this state.

(19) SALE OF SECURITIES.—When the invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, the unit of local government's governing body may sell such investments at the then-prevailing market price and place the proceeds into the proper account or fund of the unit of local government.

(20) PREEXISTING CONTRACT.—Any public funds subject to a contract or agreement existing on October 1, 2000, may not be invested contrary to such contract or agreement.

(21) PREEMPTION.—Any provision of any special act, municipal charter, or other law which prohibits or restricts a local governmental entity from complying with this section or any rules adopted under this section is void to the extent of the conflict.

(22) AUDITS.—Certified public accountants conducting audits of units of local government pursuant to s. 218.39 shall report, as part of the audit, whether or not the unit of local government has complied with this section.

(23) AUTHORIZED DEPOSITS.—In addition to the investments authorized for local governments in subsections (16) and (17) and notwithstanding any other provisions of law, a unit of local government may deposit any portion of surplus public funds in its control or possession in accordance with the following conditions:

(a) The funds are initially deposited in a qualified public depository, as defined in s. 280.02, selected by the unit of local government.

(b) The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or savings and loan associations, wherever located, for the account of the unit of local government.

(c) The full amount of the principal and accrued interest of each financial deposit instrument is insured by the Federal Deposit Insurance Corporation.

(d) The selected depository acts as custodian for the unit of local government with respect to each financial deposit instrument issued for its account.

**History.**—s. 1, ch. 95-194; s. 2, ch. 97-9; s. 3, ch. 2000-264; ss. 66, 141, ch. 2001-266; s. 2, ch. 2005-126; s. 1, ch. 2007-89; s. 42, ch. 2008-4; s. 2, ch. 2009-140.

# Appendix B:

# GFOA Recommended Practices

Government Finance Officers Association

BEST PRACTICE

# Establishing a Policy for Repurchase Agreements

**BACKGROUND:**

Where permitted by statute and investment policy, governmental entities often enter into Repurchase Agreements (repos) to invest funds on a short-term basis primarily to fund liquidity needs. Repos are contractual financial transactions in which an investor (e.g. governmental entity) purchases securities from a bank or dealer with a simultaneous contractual agreement by both parties to reverse the transaction at the same price (plus interest) at some mutually agreed-upon future date. The parties to the agreement (governmental entity and bank/dealer) are commonly referred to as counterparties. Repos are an integral part of an investment program of state and local governments and provide an alternative or supplement to local government investment pools, money market mutual funds and other money market instruments. However, like all investments, there are associated risks with repos, one in particular is the counterparty's credit risk. Such risk can be mitigated by the utilizing proper securitization practices.

**Common Types of Repos:**

- **Overnight Repo**: refers to a repo that goes from one business day to the next business day. These repos have a negotiated fixed interest rate.
- **Term Repo**: refers to a repo agreement with a specified maturity of several days to several weeks. Term repos can be established for up to several years when the investment policy permits. The interest rate for the period is usually fixed.
- **Open Repo**: typically, has no maturity date, and renews daily until terminated by either one of the counterparties. The interest rate adjusts daily to the overnight rate and is averaged for the period of the repo.
- **Flex Repo (flexible repurchase agreements)**: are often used for the reinvestment of bond proceeds used for capital projects. These repos are often for multi-year periods associated with a specific capital program. The flexible portion of the agreement permits multiple cash draw-downs to fund the expenditure requirement. Governments should ensure that these investments meet the liquidity requirements of the project and adhere to any bond covenants.
- **Tri-Party Repo**: occurs when a custodian (a.k.a. the tri-party agent) participates as an intermediary between the two parties (investor and lender) of the repo. The custodian administers and ensures the transaction occurs simultaneously and that necessary safeguards are in place to protect the underlying securities during term of the repo.

**Benefits of Repos:**

- Repos are safe when properly established and monitored;
- At times, provide higher yields than other money market alternatives;
- Provide diversification to other money market investments; and

- Provides flexibility.

**Risks Associated with Repos:**

- The repurchase agreement with an entity's counterparty is not properly established;
- The financial strength of the counterparties and value of the collateral are not properly monitored;
- The bank or dealer cannot buy securities back when repo is closed by governmental entity.
- The collateral for the repo is not liquid or easily marketable; and
- The value of the repo is not sufficient to cover the funds invested and interest earned.

**Mitigating the Risk:**

- Execute a SIFMA *Master Repurchase Agreement* including additional provisions specific to the governmental agency that is signed by a duly authorized officer with each counterparty;
- Establish financial strength criteria for counterparties and review financial statements at inception of relationship and at least annually. Some entities will limit counterparties to primary dealers;
- Allow only highly marketable, easily priced collateral priced at a minimum of 102% and monitoring their value at least weekly; and
- Have collateral settled delivery-versus-payment (DVP) at the entity's custodian or trustee for third-party safekeeping.

**Master Repurchase Agreement**. A Master Repurchase Agreement is the contractual agreement a governmental entity enters into with a bank or counterparty. A form of the agreement, also known as a blanket agreement may be obtained from the website of the Securities Industry and Financial Markets Association (SIFMA) formerly known as The Bond Market Association (TBMA). However, governmental entities may wish to amend SIFMA's form of the Master Repurchase Agreement to suit the specificities of their respective transactions.

A master repurchase agreement governs the repurchase transaction. An agreement should reflect the following characteristics:

- Defines and provides detail as to the nature of the transaction;
- Identifies the relationship of the parties to the agreement;
- Establishes the parameters concerning the ownership and custody of the collateral securities for the term of the agreement;
- May include right to substitute collateral during the term of the agreement; and
- Provides for remedies in the event of default by either party.

SIFMA has also published an optional substitution/termination provision to its *Master Repurchase Agreement* that allows the repo seller (bank or dealer) to retain effective control over the purchased securities, or the repo seller could elect to terminate the transaction prior to maturity on short notice to the repo buyer (government entity).

**Securitization Provisions.**

**Safekeeping**: In order to protect public funds, governmental entities should ensure proper securitization practices when utilizing repurchase agreements for investments. Safekeeping should be performed by an independent or third-party custodian. Duties of the custodian (direct or tri-party) should be outlined in a written safekeeping agreement.

**Collateral**: The underlying security of a repurchase agreement is collateral. Collateral arrangements for repurchase agreements are short-term and liquid in nature. Typical collateral instruments are U.S. Treasuries (e.g. U.S. Treasury bills) and governmental agency securities (e.g. Farm Credit Banks, Home Loan Banks bonds). Governmental entities should be aware of the risk factors of the underlying collateral instrument for the repo and refer to their respective investment policies to verify if such collateral instruments are permissible to utilize for the repurchase transaction. The purchased securities (collateral) to collateralize the repurchase agreement should maintain a market value in excess of the value of the repurchase agreement (called margin, "haircut," or over securitization).

Although governmental entities are not bound by the Financial Accounting Standards Board (FASB), FASB Statement No.140 affects the counterparties to repurchase transactions with governments. FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," generally provides that if the repo buyer (i.e., government entity) has the right to sell or substitute the securities, then the repo seller (i.e., bank or dealer) does not have the right to substitute the securities or terminate the contract on short notice. The repo buyer will be obligated to record both the securities, together with any obligation to return the securities. The repo seller will be required to reclassify the securities from a securities inventory or investment account to a securities collateral account on its balance sheet. Accordingly, the nature of the underlying repurchase agreement may change from a buy-sell transaction to a collateralized loan. **This change of treating repurchase agreements as collateralized loans would make them illegal for local governments in many states.**

**RECOMMENDATION:**

GFOA recommends that state and local government finance officers develop policies and procedures to ensure the safety of repos.

The following actions are recommended:

1. Government entities and investment officers should exercise special caution in selecting and evaluating the creditworthiness of counterparties with whom they will conduct repurchase transactions and be able to identify the parties acting as principals to the transaction.
2. Master repurchase agreements should be employed, subject to appropriate legal and technical review. Governments using the prototype agreement developed by SIFMA should include appropriate supplemental provisions regarding the types of securities, delivery, substitution, margin maintenance, margin amounts, seller representations, and governing law as contained in the GFOA-developed *Considerations for Governments in Developing a Master Repurchase Agreement.*
3. Government entities' legal department should review SIFMA's optional substitution/termination provision in its master agreement to assure no loss has incurred (e.g. in event of a default). In jurisdictions where substitution of securities is permitted, a loss provision is provided that is intended to place the repo buyer in the same position it would have been had the repo seller not exercised the substitution/termination right. However, in jurisdictions where substitution is restricted, the effect of FASB Statement No.140 may be troublesome depending on the relationship established with the bank or dealer; the jurisdiction's position with respect to the change in accounting treatment of the transaction; and whether the government has the ability to avoid the restriction on substitution of purchased securities.
4. Proper securitization practices are necessary to protect the public funds invested in repurchase agreements. Safekeeping duties should be performed by a third-party custodian in accordance with an executed agreement. The purchased securities (collateral) to collateralize the repurchase agreement should maintain a market value in excess of the value of the repurchase agreement (called margin, "haircut," or over securitization). Routine market valuing of the purchased securities during the term of the repurchase agreement should be a mandatory practice in order to ensure the purchased securities maintain sufficient market value to cover any default. A typical margin requirement for a short-term repo using US Treasuries or US agency securities as collateral is at least 102% and higher (typically 105%) for other securities.

5. Consideration should be given to restricting the allowable securities that are used for collateral. Entities may prefer to only allow for security maturity and security types that are allowable for direct investment under their policy. If there is a default of the counterparty, the securities held as collateral of the repo will be owned by the entity, supporting the need to restrict the maturity and type of security to what is allowable under policy.

**References:**


- "Do You Know Your Repurchase Agreements as Well as You Think?" GFOA's *Treasury Management Newsletter*, October 3, 2009, Volume 27, Number 10.
- *An Introduction to Broker-Dealers for State and Local Governments, Second Edition*, Sofia Anastopoulos, GFOA, 2008.
- "GFOA Best Practice, Securities Lending Programs" (1995, 2002, 2008).
- *An Introduction to Collateralizing Public Deposits for State and Local Governments, Second Edition*, M. Corinne Larson, GFOA, 2006.
- GFOA Best Practice, Frequency of Purchased Securities Valuation in Repurchase Agreements (1999, 2003, 2006, 2008).
- *Investing Public Funds, Second Edition*, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- "GFOA Best Practice, Securities Lending Programs" (1995, 2002, 2008).
- Sample Custodial Trust Agreement, GFOA.
- FASB Statement 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," http://www.fasb.org/pdf/fas140.pdf.
- The Securities Industry and Financial Markets Association (SIFMA) http://www.sifma.org


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Government Finance Officers Association

BEST PRACTICE

# Collateralizing Public Deposits

**BACKGROUND:**

The safety of public funds should be the foremost objective in public fund management. Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e. surety bonds or letters of credit) by depositories is an important safeguard for such deposits. The amount of pledged collateral is determined by a governmental entity's deposit level and the policy or legal required collateral margin. Some states have established programs for the pooling of collateral for deposit of public funds.

Federal law imposes certain limitations on collateral agreements between financial institutions and public entities in order to secure governmental entity deposits. Under certain circumstances, as are discussed in recommendations below, the Federal Deposit Insurance Corporation (FDIC) may void an otherwise perfected security interest and leave the governmental depositor. with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution for the amount of deposits that exceed the FDIC coverage. Separate governmental 'corporations' such as economic development corporations or water supply corporations, etc., do not fulfill the FDIC's definition of 'public unit'[1] and therefore even accurately completed collateral definition may not be honored by the FDIC on a bankruptcy.

**RECOMMENDATION:**

GFOA recommends the use of a written agreement with pledging requirements as protection for state or local government's deposits. GFOA encourages governmental entities to establish adequate and efficient administrative systems to monitor such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, GFOA recommends the following:

1. Governmental entities should implement programs of prudent risk control. Such programs could include a formal depository risk policy, credit analysis, and use of fully secured investments. In the absence of a state program for pooling collateral, public entities should establish and implement collateralization procedures, including procedures to monitor their collateral positions. Monitoring informs a public entity of undercollateralization, which may threaten the safety of an entity's deposits, and overcollateralization, which may increase the cost of banking services. Governmental entities however can not and should not accept the liability for maintaining collateral levels which liability must fall to the financial institution.

2. Governmental entities/depositors should take all possible actions to comply with state and federal requirements in order to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution. Federal law provides that a depositor's security agreement, which tends to diminish or defeat the interest of the FDIC in an asset

acquired by it as receiver of an insured depository, shall not be valid against the FDIC unless the agreement:

- is in writing;
- was approved by the board of directors of the depository or its loan committee and[2]
- has been, continuously, from the time of its execution, an official record of the depository institution.[3]

3. Governmental entities should have all pledged collateral held at an independent third-party institution outside the holding company of their bank, and evidenced by a written agreement in an effort to satisfy the Uniform Commercial Code (UCC) requirement for control. The UCC states that the depositor does not have a perfected interest in a security unless the depositor controls it. Control means that swaps, sales, and transfers cannot occur without the depositor's written approval.

- The value of the pledged collateral should be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Some state statutes do dictate a minimum margin level for collateral based on deposit levels (e.g., Georgia and Minnesota statutes require 110 percent). If not, the margin levels should be at least 102 percent, depending on the liquidity and volatility of the collateral pledged. State statutes also govern whether minimum margin levels apply to principal only or to accrued interest as well. On a sale, accrued interest would be received. Governmental entities should review applicable state statutes and confirm compliance.
- Substitutions of collateral should meet the requirements of the collateral agreement, be approved, by the entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received.
- The public entity should require reporting directly from the custodian. The custodian should warrant and be signatory to the agreement
- Reporting by the third party institution should at a minimum be monthly.

4. The pledge of collateral should comply with the investment policy or state statute, whichever is more restrictive. Governmental entities should know and understand securities pledged as collateral.

5. Governmental entities that use surety bonds in lieu of collateral should limit the insurers to those of the highest credit quality as determined by a nationally recognized insurance rating agency. A thorough review of the terms of the bond is required.

6. The governmental entity should thoroughly review the terms and conditions of any letters of credit, including those issued by a federal agency or government sponsored enterprise.

7. The governmental entity should establish and follow procedures for on-going review of collateral.

**Note:** As a result of the court case North Arkansas Medical Center v. Barrett, 963 F.2d 780 (8th Cir. 1992), the FDIC issued a policy statement in March 1993 indicating that it would not seek to void a security interest of a federal, state, or local public unit solely because the security agreement did not comply with the contemporaneous execution requirement set forth in Section 13(e) of the Federal Deposit Insurance Act 12 U.S.C.1823(e). The policy statement was officially enacted by Section 317 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325).

**Notes:**

[1] For deposit insurance purposes, the term "public unit" includes a state, county, municipality, or "political subdivision" thereof. Governments should review Section 330.15 of the FDIC's regulations (12 C.F.R. 330.15) to identify if they fall within the FDIC's definition of "public unit" and to determine

whether they are public entity qualifying for collateral protection under the definition. This information can be found at http://www.fdic.gov/deposit/deposits/FactSheet.html

[2] The FDIC does not require every transaction to be reviewed by the board of directors. The board may fulfill this function by setting parameters and authorizing a particular officer to carry out its wishes. The officer would be performing ministerial acts on behalf of the board. (FDIC Interpretive Letters)

[3] Corporate resolutions that list specific officers who are authorized by the board of directors to execute agreements securing public deposits will meet this requirement.

**References:**


- GFOA Sample Security Agreement (long and short versions), www.gfoa.org, 2009.
- GFOA Sample Custodial Trust Agreement, www.gfoa.org, 2006.
- An Introduction to Collateralizing Public Deposits for State and Local Governments, Second Edition, M. Corinne Larson, GFOA, 2006.
- *Investing Public Funds, Second Edition*, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- FDIC Act (12 U.S.C. 1811 et seq. and 12 C.F.R. Part 330.330.15 Public Unit Accounts (www.FDIC.gov)


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Government Finance Officers Association

BEST PRACTICE

# Using Mutual Funds for Cash Management Purposes

**BACKGROUND:**

State and local government cash managers may benefit from investing public monies through mutual funds. Mutual funds are SEC-regulated investment instruments that pool and jointly invest monies of multiple investors. Mutual funds are available for both fixed income and equity investments.

Short-term liquid fixed income mutual funds that maintain a weighted average maturity of 60 days or less and have a stated aim to maintain investor shares with a constant one dollar ($1) Net Asset Value (NAV) are called money market mutual funds. While these funds seek to maintain a constant or stable NAV, this is not guaranteed and investors of public monies should be aware of this risk. Other non-money market fixed income mutual funds generally have a longer-term weighted average maturity and also have a fluctuating price or NAV.

The Government Finance Officers Association (GFOA) has endorsed the use of money market mutual funds by public cash managers in the past. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles; however, liquidity may be impaired by the floating NAV.

**RECOMMENDATION:**

The GFOA recommends that state and local governments restrict their use of mutual funds for cash management purposes exclusively to: (1) money market mutual funds that are invested in Treasury, federal government agency, or first tier categories and possess the highest ratings available from at least one nationally-recognized ratings agency and (2) short-term bond funds that receive the highest credit quality ratings and the lowest risk ratings available.

**Risk Assessment.** When analyzing risk, the following should be taken into consideration:

1. **Local Investment Policy.** State and local government cash managers should exercise prudence and caution when investing in short-term bond funds. Public cash managers should also check applicable statutes to determine if the use of money market mutual funds and/or short- term bond funds is permitted within their jurisdictions.
2. **Fund Prospectus.** Before investing, governments should review and understand a fund's prospectus and statement of additional information to determine:
    1. Portfolio composition;
    2. Risk characteristics;
    3. The duration and weighted average maturity of the mutual fund;
    4. The reputation and experience of the investment company;
    5. The performance history relative to appropriate benchmarks;

   6. Total expense ratio;
   7. Philosophy, strategies, and portfolio policies;
   8. If the fund is rated by a nationally recognized rating agency; and
   9. Whether the fund can meet the compliance requirements of the government's approved investment policy.

   Cash managers should continue to monitor these characteristics as they may change over time.

3. **Restriction on Redemptions (Gates).** Prior to investing in a money market mutual fund, cash managers should familiarize themselves with any restriction gates assessed against the fund which could impair the ability of an entity to withdraw monies from the fund on a timely basis in order to meet current liquidity requirements.
4. **Fees.** During extremely low interest rate environments, mutual fund expenses may exceed yield. While fees are included in all mutual funds, these fees should be considered when investing in mutual funds. Investors should assess the risk that the net yield (gross yield minus expenses) will be less than zero – in some cases it may be more beneficial to own the underlying securities directly.
5. **Duration.** Bond funds investing in shorterm instruments, with a varying NAV, may be legal and appropriate investments in some jurisdictions when monies are not needed for near-term disbursement. However, mutual funds of an intermediate or long-term duration should be avoided by investors if short-term liquidity is a concern.
6. **Holdings.** Investors should review the specific holdings of their mutual fund at least monthly to know what underlying securities the fund owns. Prime money market funds that are AAA rated and hold A1+ paper may have foreign debt exposure that is not obvious. In addition, Investors should review the NAV at least monthly. If the NAV varies below $0.995 (known as "breaking the buck"), investors should reevaluate their investments in these funds. Governments should consider investing in money market funds that invest in US government securities, which have a higher level of safety and will not be subject to the floating NAV.

**References:**


- GFOA Best Practice – *Managing Market Risk in Investment Portfolios*
- An Introduction to Investment Advisers for State and Local Governments, Second Edition, Sofia Anastopoulos, GFOA, 2007.
- A Public Investor's Guide to Money Market Instruments, Second Edition, edited by M. Corinne Larson, GFOA, 1994.
- Investing Public Funds, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.


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Government Finance Officers Association

BEST PRACTICE

# Government Relationships with Securities Dealers

**BACKGROUND:**

Finance officers, treasurers and investment officers (hereafter referred to as government investors) who manage and invest public funds place billions of dollars in the fixed-income and money markets on a daily basis. They have a fiduciary responsibility to protect public funds, to always act in the best interest of their entity, to maintain safety and an appropriate level of liquidity and to attain a competitive return on their portfolio.

Generally, access to the securities markets is made through securities dealers who are registered broker/dealers and through financial institutions (banks) with broker/dealer subsidiaries. The fiduciary responsibilities of a government investor include ensuring that:

- reasonable comparisons are made to judge the appropriateness of all investments;
- securities meet the criteria established in the investment policy, including liquidity, diversity and risk of investments;
- security transactions are made on a best execution basis through a competitive process;
- the counterparty to the transaction will fulfill all of its obligations; and,
- the securities are properly safe-kept at a qualified custodial agent in a segregated account.

It is important to note that brokers/firms may have unique strengths that may provide exceptional value within a specific category of investments, provided that you understand the security that you are purchasing, it dovetails with your investment policy, and you are aware of the risks associated with the transaction. A unique strength may compliment the skills and abilities of other approved brokers/firms.

Communication with broker/dealers for the purposes of discussing market conditions, reviewing investment strategies and transacting a trade often occurs by phone, e-mail, or fax. Regardless of the method of communicating with a broker, a government investor needs to perform due diligence on all securities dealers prior to adding them to their list of approved brokers/dealers for transacting trades.

**RECOMMENDATION:**

GFOA makes the following specific recommendations to government investors in selecting securities dealers for their approved vendor list, managing the relationships with the broker/dealers, and conducting investment transactions with them:

1. All securities are held in a third party bank separate from the broker/dealer that is transacting business.

2. Use a defined internal process to select, qualify, renew, or terminate brokers and dealers.
    1. Use a questionnaire, conduct an interview, and/or conduct peer references to help determine that the broker understands the public entity's needs/objectives.
    2. Determine that the broker is actively involved in the market sectors utilized by the government entity.
    3. Select a number of brokers suitable to the entity, allowing for appropriate competition/service on all transactions, while limiting it to a manageable number.
    4. Require security brokers and dealers to comply with the Federal Reserve Bank of New York's capital adequacy guidelines or SEC Net Capital Rule as a condition of doing business. Obtain annual financial reports of the securities firm.
    5. Require that brokers provide written acknowledgement or certification of their review and understanding of the government entity's investment policy to assure compliance with its objectives, portfolio risk constraints, and investment trading requirements.
    6. Record and retain pertinent information on the firm and the individual broker including an annual review of the Central Registration Depository (CRD®) information for both maintained by the Financial Industry Regulation Authority (FINRA). Violations or sanctions imposed by a regulatory agency or government should be carefully reviewed for termination of relationship.
    7. Establish parameters that guide periodic review and potential termination of a broker dealer relationship.
    8. Do not select or approve more broker/dealers than will be reasonably used. It is better to develop good relationships with a small number of approved dealers than to have a long list of firms who transact little or no business with the investing entity.
3. Due diligence on broker/dealers should include obtaining information on:
    1. a security dealer's experience and knowledge of public funds investing;
    2. all contact information for the primary contact, backup and operations staff;
    3. a broker's manager and supervisor;
    4. the financial strength of the firm;
    5. areas of expertise and trading activity;
    6. registration with FINRA and any citations;
    7. the names and contact information for references similar to the entity; and
    8. potential conflicts of interest.
4. Establish a competitive procedure for attaining reasonable market rates on investment transactions:
    1. Require that all security sales be made through a competitive bid process. If possible, use a competitive offer process on purchases as well.
    2. Securities sold through a selling group at a set price (usually par) or available for specific bidding should be compared to comparable maturity securities as part of the competitive process to determine the best relative value.
5. Require that all security transactions be settled on a delivery versus payment basis at the entity's custodian bank to perfect ownership under a written custodial agreement.
6. Retain complete transaction documentation for audit trail purposes including trade tickets, confirmations and safekeeping receipts.
7. Electronic trading platforms, such as Bloomberg and Tradeweb, are becoming another alternative to competitive pricing. These platforms can provide improved transparency over competitive bids and should be considered if cost effective for the government. It is still important to have a broker assigned to the account on the electronic platforms so that contact can be made if necessary. The same due diligence should be completed with all broker dealers on the electronic platforms.
8. Follow all state and entity ethics policies when dealing with all broker/dealers and investment vendors.

**References:**

- *Introduction to Broker-Dealers for State and Local Governments*, Second Edition, Sofia Anastopoulos, GFOA, 2008.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- Federal Reserve Bank of New York, www.frb.ny.gov, http://www.newyorkfed.org/markets/pridealers_listing.html.
- WWW.FINRA.GOV; http://www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&nodeId=370.
- Securities and Exchange Commission, www.sec.gov, VI. Financial Responsibility of Broker Dealers, A. Net Capital Rule 15c3-1 (17 CFR 240.15c3-1) http://www.sec.gov/divisions/marketreg/bdguide.htm#VI.


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# Appendix C:

# Investment Firm Certification Form

## INVESTMENT FIRM CERTIFICATION FORM

As an authorized representative of the undersigned firm, I hereby certify that the firm has in place reasonable procedures to monitor the activities of this firm engaged in transactions between our firm and the City of Miami Beach. All sales personnel of this firm dealing with the City of Miami Beach have been informed and will be routinely informed of the City's investment objectives, policies, risk constraints and other pertinent factors, whenever we are so informed. This firm further pledges due diligence in informing the City of foreseeable risks associated with financial transactions connected with this firm.

______________________________
(Firm)

**Authorized Representative**

______________________________ ______________________________
(Signature) (Title)

______________________________ ______________________________
(Name - Printed) (Date)

As account representative for the City on behalf of the above referenced firm I ______________________________ hereby certify that I have personally read and understand that investment policies of the City, in such form as the policies were provided to me. I agree to use my best efforts to comply with the City's written policies and will not knowingly enter into any transaction with the City, which appears to be in violation of the City's written policies.

**Account Representative**

______________________________ ______________________________
(Signature) (Title)

______________________________ ______________________________
(Name - Printed) (Date)

# Appendix D:

# Master Repurchase Agreement

# Appendix E:

# Investment Pool/Fund Questionnaire

## Investment Pool/Fund Questionnaire

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

# Appendix F:

# Glossary of Cash and Investment Management Terms

The following is a glossary of key investing terms, many of which appear in the City's investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada's Model Investment Policy.

**Accrued Interest.** Interest earned but which has not yet been paid or received.

**Agency.** See "Federal Agency Securities."

**Ask Price.** Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

**Asset Backed Securities (ABS).** A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

**Average Life.** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Bankers' Acceptance (BA's).** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Point.** One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

**Bearer Security.** A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

**Benchmark Bills:** In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

**Benchmark Notes/Bonds:** Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of $4 billion, 30-year new issues having a minimum size of $1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Benchmark.** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

**Bid Price.** Price at which a broker/dealer offers to purchase a security from an investor.

**Bond.** Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash-flows, including periodic interest payments and a principal repayment.

**Book Entry Securities.** Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate- free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

**Book Value.** The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

**Broker/Dealer.** A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

**Bullet Notes/Bonds.** Notes or bonds that have a single maturity date and are non-callable.

**Call Date.** Date at which a call option may be or is exercised.

**Call Option.** The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are at par but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

**Callable Bonds/Notes.** Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

**Certificate of Deposit (CD).** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

**Collateral.** Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

**Collateralization.** Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

**Collateralized Mortgage Obligation (CMO).** A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

**Commercial Paper.** Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

**Convexity.** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Corporate Note.** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Counterparty.** The other party in a two-party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

**Coupon Rate.** Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

**Current Yield.** Annual rate of return on a bond based on its price. Calculated as (coupon rate / price) but does not accurately reflect a bond's true yield level.

**Custody.** Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

**Dealer.** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

**Delivery Versus Payment (DVP).** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC).** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

**Derivatives.** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions. All Collateralized Mortgage Obligations (CMOs) are derivatives.

**Derivative Security.** Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Designated Bond.** FFCB's regularly issued, liquid, non-callable securities that generally have a 2- or 3-year original maturity. New issues of Designated Bonds are $1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of $100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Discount Notes.** Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

**Discount Rate.** Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

**Discount Securities.** Non-interest-bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances, and Commercial Paper.

**Discount.** The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

**Diversification.** Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

**Dollar Price.** A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of $955 per $1,000 of face value.

**Duff & Phelps.** One of several NRSROs that provide credit ratings on corporate and bank debt issues.

**Duration.** The weighted average maturity of a security's or portfolio's cash- flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

**Fannie Mae.** See "Federal National Mortgage Association."

**Fed Money Wire.** A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

**Fed Securities Wire.** A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

**Fed.** See "Federal Reserve System."

**Federal Agency Security.** A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency.** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

**Federal Deposit Insurance Corporation (FDIC).** Federal agency that insures deposits at commercial banks, currently to a limit of $250,000 per depositor per bank.

**Federal Farm Credit Bank (FFCB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also, issues notes under its "designated note" program.

**Federal Funds (Fed Funds).** Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

**Federal Funds Rate (Fed Funds Rate).** The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

**Federal Home Loan Bank System (FHLB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also, issues notes under its "reference note" program.

**Federal National Mortgage Association (FNMA or "Fannie Mae").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also, issues notes under its "benchmark note" program.

**Federal Reserve Bank.** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed).** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

**Financial Industry Regulatory Authority, Inc. (FINRA).** A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

**Fiscal Agent/Paying Agent.** A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

**Fitch Investors Service, Inc.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**Floating Rate Security (FRN or "floater").** A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable- rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

**Freddie Mac.** See "Federal Home Loan Mortgage Corporation."

**Ginnie Mae.** See "Government National Mortgage Association."

**Global Notes:** Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

**Government National Mortgage Association (GNMA or "Ginnie Mae").** One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

**Government Securities.** An obligation of the U.S. government backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

**Government Sponsored Enterprise (GSE).** Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

**Government Sponsored Enterprise Security.** A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

**Index.** A compilation of statistical data that tracks changes in the economy or in financial markets.

**Interest-Only (IO) STRIP.** A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

**Internal Controls.** An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. **Separation of transaction authority from accounting and record keeping** - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**Inverse Floater.** A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

**Investment Advisor.** A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

**Investment Adviser Act of 1940.** Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**Investment Grade.** Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody's, BBB- by Standard
& Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

**Liquidity.** Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

**Local Government Investment Pool (LGIP).** An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Florida State Board of Administration's Florida Prime Fund).

**Long-Term Core Investment Program.** Funds that are not needed within a one-year period.

**Market Value.** The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

**Mark-to-market.** Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

**Master Repurchase Agreement.** A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

**Maturity Date.** Date on which principal payment of a financial obligation is to be paid.

**Medium Term Notes (MTN's).** Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

**Money Market.** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

**Money Market Mutual Fund (MMF).** A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of
$1.00. Many MMFs carry ratings by a NRSRO.

**Moody's Investors Service.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**Mortgage Backed Securities (MBS).** Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

**Mortgage Pass-Through Securities.** A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

**Municipal Note/Bond.** A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

**Mutual Fund.** Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

**Negotiable Certificate of Deposit (Negotiable CD).** Large denomination CDs ($100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

**Net Asset Value.** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

[(Total assets) - (Liabilities)]/(Number of shares outstanding)

**NRSRO.** A "Nationally Recognized Statistical Rating Organization" (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch, and Duff & Phelps.

**Offered Price.** See also "Ask Price."

**Open Market Operations.** A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

**Par Value.** The face value, stated value, or maturity value of a security.

**Physical Delivery.** Delivery of readily available underlying assets at contract maturity.

**Portfolio.** Collection of securities and investments held by an investor.

**Premium.** The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

**Primary Dealer.** A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

**Prime Paper.** Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

**Principal.** Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

**Prudent Expert Rule.** Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

**Prudent Investor Standard.** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

**Qualified Public Depository** - Per Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.

2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.

3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.

4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.

5. Meets all requirements of Chapter 280, F.S.

6. Has been designated by the Chief Financial Officer as a qualified public depository.

**Range Note.** A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

**Rate of Return.** Amount of income received from an investment, expressed as a percentage of the amount invested.

**Realized Gains (Losses).** The difference between the sale price of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See "Unrealized Gains (Losses)."

**Reference Bills:** FHLMC's short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes ($1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC's Reference Bills are unsecured general corporate obligations. This program supplements the corporation's existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

**Reference Notes:** FHLMC's intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from $2 - $6 billion with re-openings ranging $1 - $4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Repurchase Agreement (Repo).** A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral can be DVP, where securities are delivered to the investor's custodial bank, or "tri-party" where the securities are delivered to a third-party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

**Reverse Repurchase Agreement (Reverse Repo).** A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

**Safekeeping.** Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

**Secondary Market.** Markets for the purchase and sale of any previously issued financial instrument.

**Securities Industry and Financial Markets Association (SIFMA).** The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

**Securities Lending.** An arrangement between and investor and a custody bank that allows the custody bank to "loan" the investors investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

**Sinking Fund.** A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

**Spread.** The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

**Standard & Poor's.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**STRIPS (Separate Trading of Registered Interest and Principal of Securities).** Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g., FNMA strips).

**Structured Notes.** Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

**Swap.** Trading one asset for another.

**TAP Notes:** Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

**Tennessee Valley Authority (TVA).** One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to $30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to $150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

**Total Return.** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

**Treasuries.** Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also, a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

**Treasury Bills (T-Bills).** Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T-Bills.

**Treasury Bonds.** Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

**Treasury Notes.** Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year, and 10-year Treasury Notes.

**Trustee.** A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

**Uniform Net Capital Rule.** SEC Rule 15c3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

**Unrealized Gains (Losses).** The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

**Variable-Rate Security.** A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also "Floating Rate Note."

**Weighted Average Maturity (or just "Average Maturity").** The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

**Weighted Average Maturity to Call.** The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

**Yield Curve.** A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

**Yield to Call (YTC).** Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.

**Yield to Maturity (YTM).** Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

**Yield.** There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call," and "Yield to Maturity."