MEMORANDUM

Agenda Item No. 7(E)(1)(A)

TO: Honorable Chairperson Barbara Carey Shuler, Ed. D. and Members, Board of County Commissioners

DATE: September 9, 2004

FROM: George M. Burgess
County Manager

SUBJECT: Resolution Adopting Investment Policy Public Funds

RECOMMENDATION

It is recommended that the Board of County Commissioners (Board) approve the attached resolution rescinding Resolution No. R-36-01 in its entirety and providing a new written investment policy which applies to all County funds in excess of the amounts needed to meet current expenses.

BACKGROUND

The current Investment Policy was adopted on January 23, 2001 by Resolution No. R-36-01. The attached resolution rescinds Resolution No. R-36-01 in its entirety and approves a new written Investment Policy amending the current one in the form attached as Exhibit "A" to the resolution, and authorizes the implementation of such new Investment Policy. Modifications to the current Investment Policy are as follows:

- Defines Investment Strategy as adherence to a buy and hold strategy thereby eliminating the potential for risky trading.
- Enables the Security Lending Program as an authorized investment tool. This program enhances the overall portfolio strategy by providing an additional source of incremental income by the temporary lending of securities to a broker/dealer in return for collateral/cash equal to or exceeding the market value of the security.
- Changes the maturity limitations for investments from three years to five years.
- Changes the required annual investment reporting to the Board from 90 days to 180 days after fiscal year end.

The new Investment Policy follows the current investment procedures and incorporates investment instruments authorized by Florida Statutes §218.415 and Miami-Dade County Ordinance No. 84-47. The investment objectives of safety, liquidity of funds and the maximization of investment income are stressed. Safety of principal and liquidity of funds are given priority consideration, while investment income is accorded a secondary consideration. The policy defines the "prudent person" standard and the portfolio composition.

The new Investment Policy also amends its reporting provisions to require monthly performance reports to be presented to the Clerk and to the Finance Director, and quarterly performance reports to be submitted to the Investment Advisory Committee.

The Investment Advisory Committee, at its meeting of March 4, 2004, reviewed the attached Investment Policy and approved its presentation to the Board.

Assistant County Manager

MEMORANDUM
(Revised)

TO: Hon. Chairperson Barbara Carey-Shuler, Ed.D. and Members, Board of County Commissioners

DATE: September 9, 2004

FROM: Robert A. Ginsburg
County Attorney

SUBJECT: Agenda Item No. 7(E)(1)(A)

Please note any items checked.

_____ **"4-Day Rule" ("3-Day Rule" for committees) applicable if raised**

_____ **6 weeks required between first reading and public hearing**

_____ **4 weeks notification to municipal officials required prior to public hearing**

_____ **Decreases revenues or increases expenditures without balancing budget**

_____ **Budget required**

_____ **Statement of fiscal impact required**

_____ **Bid waiver requiring County Manager's written recommendation**

_____ **Ordinance creating a new board requires detailed County Manager's report for public hearing**

_____ **Housekeeping item (no policy decision required)**

_____ **No committee review**

Approved _____ Mayor

Veto _____

Override _____

Agenda Item No. 7(E)(1)(A)

9-9-04

RESOLUTION NO. _____

RESOLUTION RESCINDING RESOLUTION NO. R-36-01 IN ITS ENTIRETY AND APPROVING A NEW INVESTMENT POLICY FOR PUBLIC FUNDS AND ITS IMPLEMENTATION

WHEREAS, this Board desires to accomplish the purposes outlined in the accompanying memorandum, a copy of which is incorporated herein by reference,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF MIAMI-DADE COUNTY, FLORIDA, that this Board rescinds Resolution No. R-36-01 in its entirety, and authorizes the implementation of a new written investment policy (Attachment "A" to the resolution) pursuant to Florida Statutes §218.415, an act relating to investment of public funds, and Miami-Dade County Ordinance No. 84-47.

The foregoing resolution was offered by Commissioner

, who moved its adoption. The motion was seconded by Commissioner , and upon being put to a vote, the vote was as follows:

Dr. Barbara Carey-Shuler, Chairperson
Katy Sorenson, Vice-Chairperson

Bruno A. Barreiro	Jose "Pepe" Diaz
Betty T. Ferguson	Sally A. Heyman
Joe A. Martinez	Jimmy L. Morales
Dennis C. Moss	Dorrin D. Rolle
Natacha Seijas	Rebeca Sosa
Sen. Javier D. Souto	

The Chairperson thereupon declared the resolution duly passed and adopted this 9th day of September, 2004. This resolution shall become effective ten (10) days after the date of its adoption unless vetoed by the Mayor, and if vetoed, shall become effective only upon an override by this Board.

MIAMI-DADE COUNTY, FLORIDA
BY ITS BOARD OF COUNTY
COMMISSIONERS

HARVEY RUVIN, CLERK

Approved by County Attorney as
to form and legal sufficiency.

By:_____
Deputy Clerk

Gerald T. Heffernan

ATTACHMENT "A"

MIAMI-DADE COUNTY

INVESTMENT POLICY

Effective: _____, 2004

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SCOPE

The purpose of this investment policy is to outline responsibilities, set investment goals, establish strategies to achieve stated objectives, establish internal controls and operational procedures and prepare method of performance measurement.

The investment policy applies to all funds held by or for the benefit of the Miami-Dade County Board of County Commissioners (Board) in excess of those required to meet short-term expenses. These funds include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Trust & Agency Funds, Miami-Dade Water & Sewer Funds, Aviation Funds, Miami-Dade County Housing Funds, the Clerk's Funds and any other fund created by the County unless specifically exempted by Board Ordinance or Resolution.

INVESTMENT OBJECTIVES

The County's overall investment objectives are, in order of priority, the safety of capital, liquidity of funds, and investment income. The following investment objectives shall be applied in the management of the County's funds.

(A) THE SAFETY OF PRINCIPAL:

The County's investment strategy will ensure the preservation of principal in the overall portfolio. Each investment transaction shall seek to avoid losses in the form of investment risk.

Investment risk may be in the form of default risk, market risk or operating risk. Default risk is controlled by purchasing securities issued by entities of high credit quality. Market risk is controlled by maintaining a sufficient level of liquidity thereby limiting the necessity of selling instruments at a loss. Operating risk is controlled by strict adherence to sound operating procedures.

(B) THE LIQUIDITY OF FUNDS:

The County investment strategy shall provide sufficient liquidity to meet the County's operating payroll and other requirements. This liquidity is in the form of investments, which are readily convertible to cash with no loss of principal. The policy of Miami-Dade County is to meet liquidity requirements and to place remaining funds in yield investments.

(C) THE MAXIMIZATION OF INVESTMENT INCOME:

When investing public funds, the County shall strive to maximize return on the portfolio but this shall be secondary to the requirements for safety and liquidity. The County will act responsibly as custodians of the public trust.

INVESTMENT STRATEGIES

As a rule, the County will seek to adhere to a buy-and-hold strategy. This means that the County intends to hold all purchased securities until their final maturity date. There may be occasional exceptions, including but not limited to the need to sell securities to meet unexpected liquidity needs as well as sales relating to swap transactions, which are described below. In no instance shall the County enter into a security "short sale", whereby a security which is not owned by the County is sold with the intent to purchase that security at a lower price prior to settlement. In addition, the County shall not seek to purchase any security with the intent to sell the security later to generate a capital gain.

The following strategies may be used to maximize return on investments:

(1) Matching Maturities to Known Cash Needs

The maturities of investments will be matched to known cash needs and anticipated net cash outflow requirements.

(2) Maturity Extension

A positive sloping or "normal" yield curve rewards longer-term investments. All purchase decisions that do not involve matching of known cash needs will be based on an analysis of the relative yield benefit to lengthening the maturity.

(3) Determination of an Investment's Relative Value

By following historical spread relationships between different security types and issuers, it is possible to determine the securities that offer the best yield value on any given day. The County will seek to invest funds in the highest yielding investment security within known cash flow constrains and established policy guidelines.

(4) Market Opportunities

Although money markets are generally efficient, there are opportunities for yield enhancement by selling securities that become unusually "expensive" or high in price, and purchasing similar securities that are considered "cheap" or low in price. These "swap" opportunities often occur as the spreads between different types of securities narrow or widen.

(5) Anticipating Market Changes

Although it is not possible to consistently predict market trends, an understanding of the factors that affect the market is important when determining an optimal maturity for the portfolio. Trading is not to be made solely on the basis of interest

rate forecasts, but specific decisions involving maturity dates should consider short-term market expectations.

PERFORMANCE MEASUREMENT

The investment performance of Miami-Dade County shall be evaluated quarterly by comparison to established benchmarks. The selection of the benchmarks will be based upon the investment strategy and length of the investment portfolio and shall be approved by the Finance Director and the Investment Advisory Committee. One of the selected benchmarks will be the Local Government Funds Trust Fund. This index is considered a benchmark for riskless investment transactions and therefore comprises a standard for short-term investment of public funds.

PRUDENCE AND ETHICAL STANDARDS

The "prudent person" standard shall be used by investment officials in the management of the overall investment portfolio.

The "prudent person" standard is understood to mean the following: investments shall be made with judgement 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.

Employees involved in the investment program shall refrain from personal business activities that could conflict with proper execution of the investment decisions. Employees and investment officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

AUTHORIZED INVESTMENTS

The County's investment authority is derived from Florida Statutes §218.415 and by County Ordinance. Time Deposits made in banks and savings and loan associations must be made with qualified public depositories in accordance with Chapter 280, Florida Statutes. The County shall purchase or sell investment securities at prevailing market rates.

Investments not listed in this section are strictly prohibited. Authorized instruments are as follows.

Investments Authorized by Florida Statutes §218.415:

A. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;

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, pursuant to Florida Statutes §280.02, which are defined as banks, savings bank, or savings association organized under the laws of the United States with an office in this state that is authorized to receive deposits, and has deposit insurance under the provisions of the Federal Deposit Insurance Act;

D. Direct obligations of the United States Treasury;

E. Federal agencies and instrumentalities;

F. 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, provided that the portfolio is limited to the 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;

Investments Authorized by County Ordinance:

G. Commercial paper of prime quality with a stated maturity of 270 days or less from the date of its issuance, which has the highest letter and numerical rating as provided for by at least one nationally recognized rating service;

H. Bankers Acceptances which have a stated maturity of 180 days or less from the date of its issuance, and have the highest letter and numerical rating as provided for by at least one nationally recognized rating service, and are drawn on and accepted by commercial banks and which are eligible for purchase by the Federal Reserve Bank;

I. Investments in Repurchase Agreements ("Repos") collateralized by securities authorized by this policy.

J. Securities Lending - Securities or investments purchased or held under the provisions of this section may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of the securities loaned upon initiation of the transaction.

PORTFOLIO COMPOSITION

The following are the guidelines for investments and limits on security issues, issuers and maturities as established by the County. The County shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Purchases of investments based on bond covenant requirements shall not be included in the portfolio's composition calculations.

A. The Local Government Surplus Fund Trust Fund.

1. Portfolio Composition

A maximum of 50% of the portfolio may be invested in the Local Government Surplus Fund Trust Fund, however, bond proceeds may be temporarily deposited in the Local Government Surplus Fund Trust Fund until alternative investments have been purchased.

B. Securities and Exchange Commission registered money market funds.

1. Portfolio Composition

A maximum of 30% of the portfolio may be invested in SEC-registered money market funds; however, at no time shall more than 10% of the portfolio be invested in any single money market fund.

C. Interest-bearing time deposits or savings accounts.

1. Portfolio Composition

A maximum of 20% of the portfolio may be invested in non-negotiable interest bearing time certificates of deposit or savings accounts.

2. Limits on individual Issuers

A maximum of 5% of the portfolio may be deposited with any one issuer. Interest must be paid at least quarterly.

3. The maximum Maturity on any certificate shall be no greater than one (1) year from the time of purchase.

D. Direct obligations of the United States Treasury

1. Portfolio Composition

No Limit.

2. Maturity Limitations

The maximum length of maturity of any direct investment in government securities is five (5) years, except for the underlying securities of repurchase agreements.

E. Federal Agencies and Instrumentalities.

1. Portfolio Composition

   A maximum of 75% of the total portfolio may be invested in Federal Agencies and Instrumentalities.

2. Limits on Individual Issuers

   No Limit.

3. Maturity Limitations

   The maximum length to Maturity for an investment in any Federal Agency or Instrumentality is five (5) years.

4. Limitations on Callable Agencies

   Investment in Agencies containing call options shall be limited to a maximum of 25% of the total portfolio.

F. 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,

1. Portfolio Composition

   A maximum of 5% of the portfolio may be invested in open-end or closed-end funds.

G. Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.

1. Portfolio Composition

   A maximum of 50% of the portfolio may be directly invested in prime commercial paper.

2. Limits on Individual Issuers

   A maximum of 5% of the portfolio may be invested with any one issuer.

3. Maturity Limitations

   The maximum length of maturity for prime commercial paper shall be 270 days.

H. Bankers Acceptances drawn on and accepted by Commercial banks and which are eligible for purchase by the Federal Reserve Bank.

1. Portfolio Composition

   A maximum of 25% of the portfolio may be directly invested in bankers acceptance. The combined percentage invested in both Commercial Paper and Bankers Acceptances shall not exceed 60% of the total portfolio.

2. Limits on Individual Issuers

   A maximum of 10% of the portfolio may be invested with any one issuer.

3. Maturity Limitations

   The maturity of the Bankers Acceptance must be 180 days or less.

I. Investments in Repurchase Agreements fully collateralized with securities authorized by this Resolution.

1. Portfolio Composition

   A maximum of 20% of the portfolio may be invested in repurchase agreements with the exception of one (1) business day agreements.

2. Limits on Individual Counter-Parties

   A maximum of 10% of the portfolio may be invested with any one institution or dealer with the exception of one (1) business day agreements.

3. Limits on Maturities

   The maximum length to maturity of any repurchase agreement is 14 days from the date of purchase. The collateral shall be marked-to-market daily.

The above portfolio composition guidelines do not apply to the investment of bond proceeds in Flexible Repurchase Agreements.

J. Investment in Derivative Products shall be prohibited by Miami-Dade County. For purposes of this investment policy, callable agency securities are excluded from the definition of derivative products.

MATURITY AND LIQUIDITY REQUIREMENT

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Current operating funds shall maintain a

weighted-average maturity of no longer than twelve (12) months. Investments for bond reserves, construction funds, and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants. No single investment maturity in the portfolio may exceed five (5) years.

DIVERSIFICATION AND RISK

The County will set procedures to control risks and diversify investments regarding specific security types, maturities, issuers and financial institutions. Investment risk can result from issuer defaults, market fluctuations or other technical complications leading to temporary illiquidity.

Portfolio diversification is employed to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which these instruments are bought and sold. Prudence shall be exercised in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of default of a specific issuer, the investment officer shall review, and if appropriate, proceed to liquidate securities that have comparable credit risk.

To control market risk, volatile investment instruments shall be avoided.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Securities may be purchased only through financial institutions that are state-certified qualified public depositories that provide the services of a securities dealer or a broker/dealer who is a member of the National Association of Securities Dealers (NASD) and who meets the capital adequacy standard established by the Federal Reserve Bank of New York. Equity should equal at least 120 percent of risk based assets.

Repurchase agreement may be negotiated with:

A. A primary securities dealer.

B. Financial institutions that are qualified public depositories under state law, or

C. Commercial banks, insurance companies, or investment banking firms, including the holding companies of these institutions, whose rating on long-term debt is in the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation.

THIRD-PARTY CUSTODIAL AGREEMENTS

The County will execute a Custodial Safekeeping Agreement with a commercial bank. All securities purchased and/or collateral obtained by the County shall be property designated as an asset of the County and held in safekeeping and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by authorized County staff.

Security 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" (DVP) basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

All securities purchased by the County must be held for the credit of the County by a qualified public depository and must be kept by the depository in an account separate and apart from the assets of the financial institution.

MASTER REPURCHASE AGREEMENT

The County will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the Master Repurchase Agreement.

COMPETITIVE BIDDING

The County's staff will determine the approximate maturity date of an investment based upon cash-flow needs and market conditions, analyze and select one or more optimal types of investments, and competitively bid the selected security to assure the best execution to the County. When bidding an investment, a minimum of three (3) banks and/or dealers must be contacted and asked to provide bids on the securities in question. In instances in which competing dealers are not able to present a bid on the exact security in question, a security that is similar in terms of product type, structure and maturity is acceptable. Bids will be held in confidence until awarded and the bid deemed to best meet the investment objectives of this policy must be selected.

INTERNAL CONTROLS AND OPERATIONAL PROCEDURES

The Director of Cash Management Division shall establish and monitor a set of written internal controls designed to protect the County's funds and ensure proper accounting and reporting of securities transactions. 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 County employees. Such internal controls shall include, but not be limited to, the following:

A. All securities purchased or sold will be transferred only under the D.V.P. method to insure that funds or securities are not released until all criteria relating to the specific transaction are met unless the parties otherwise agree prior to the transfer of fund.

B. The County is authorized to accept, on behalf of and in the name of Miami-Dade County, bank trust receipts or safekeeping confirmations as evidence of actual delivery of the obligations or securities in return for investment of funds.

C. Trust receipts or safekeeping confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Miami-Dade County.

D. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued, may be held by the custodial bank and/or institution or a designated correspondent bank which has a correspondent relation to the County custodian.

E. Other internal controls are:

1. Written documentation of telephone transactions.
2. Adequate separation of duties.
3. Custodial safekeeping.
4. Supervisory control of employee action and operation review.
5. Portfolio statistics and reporting on a monthly basis.

F. All daily investment activity reviewed by the Director of Cash Management Division. The Cash Management Division is under the direct authority of the Finance Director.

The Finance Director shall designate qualified staff to initiate financial transactions on behalf of the County.

The County's independent auditors shall review the system of internal controls as part of the County's annual financial audit. The audit shall also include a report on the County's compliance by the County with Florida Statutes §218.415.

INVESTMENT REPORTING

Monthly, a portfolio report shall be provided to the Clerk of the Circuit and County Courts, and to the Finance Director. Quarterly, the Finance Department's Director of the Cash Management Division shall report the portfolio performance to the Investment Advisory Committee. The report shall include a breakdown of the portfolio by class or type, book value, income earned, and market value, as well as its overall statistical performance during that period.

Annually, a portfolio performance report shall be presented to the Board within 180 days of fiscal year end.

INVESTMENT TRAINING

The County officials responsible for making investment decisions must annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.