Memorandum

MIAMI-DADE COUNTY

Date: January 25, 2007

To: Honorable Chairman Bruno A. Barreiro, and Members, Board of County Commissioners

From: George M. Burgess, County Manager

Subject: Fiscal Year 2006 Year-End Portfolio Performance Report

Agenda Item No. 12(B)5

The following is a report on the performance of the County's investment portfolio performance as per Resolution R-1074-04, which requires that a report be submitted to the Board within 120 days of the fiscal year ending. Below is the annual report on the performance of the County's investment portfolio.

BACKGROUND

The investment portfolio consists of funds in excess of those required to meet short term expenses. These funds are invested in U.S. Obligations, Commercial Paper instruments as well as other investment type opportunities allowed by the Investment Policy adopted by the Board.

The adjusted book value of the portfolio as of September 30, 2006 was $3,874,600,000 and the market value was $3,876,600,000. The County pools its excess funds into two portfolios, one known as the Treasurer's Fund and the other known as the Bond Fund. The Treasurer's Fund is primarily dedicated to County operations while the Bond Fund generally include bond funds and longer term capital project funds. These two funds comprise 58 percent of the funds invested. The balance of invested funds consist of Aviation, Water & Sewer, Housing Agency and Clerk of the Courts funds.

The investment objective for the County's portfolio incorporates three important principles: Safety of Principal, Liquidity of Funds, and the Prudent Person standard. The Prudent Person standard calls for investments to be made in a fashion similar to that of a prudent investor who uses discretion and intelligence in managing their financial affairs, and who does not speculate.

PORTFOLIO INVESTMENTS

The below illustrates the breakdown of the County's portfolio by type of investment:

Holding	% of Portfolio
U.S. Federal Agencies	51.0
Commercial Paper rated A1 or P1	38.0
State of Florida's SBA Trust Fund	8.00
U.S. Government Treasuries	2.00
Time Deposits	0.99
Repurchase Agreements	0.01
Total	100%

The portfolio is invested in instruments that have various maturities. The portfolio's average number of days to maturity was 156 days. Securities with shorter maturities consisted of investments in Commercial Paper and U.S. Federal Agencies Discount Notes, while those with longer maturities consisted of investments in U.S. Federal Agency Coupons and Bullets. A total of 13 percent of the portfolio is in these longer maturity instruments, which have a strong secondary market. The County's policy is to have a weighted-average maturity of no longer than 12 months with no single investment maturity in the portfolio greater than five years.

During the fiscal year, net earnings on all County investments were $174,735,000. The Finance Department tracks the performance of the portfolio, which compares to the return of its two primary benchmarks: the State of Florida Local Government Surplus Fund Trust Funds (SBA Pool) and 180-day U.S. Government Treasuries. The following table compares the rates of return for the years ending September 30, 2006 and September 30, 2005:

Portfolio	% Return 2006	% Return 2005
County Portfolio	4.40	2.63
SBA Pool	4.67	2.71
180-day U.S. Government Treasuries	4.45	2.61

In June 2004, the Federal Reserve began a policy of monetary tightening after four years of generally low interest rates, with 17 consecutive rate hikes of 25 basis points each, for a total of 425 basis points. These increases resulted in a Federal Funds rate of 5.25 percent as of September 30, 2006. At the last two meetings (August and September 2006) of the Federal Reserve's Open Market Committee (FOMC), the decision was made not to change rates. Given that the County's Portfolio is predominately invested in shorter term interest-yielding securities, increases in the Federal Funds rate result in an increased average rate of return for the County's portfolio.

The County employs a consistent and conservative strategy that over time will outperform the County's benchmarks; however, the recent environment of continuously increasing interest rates have not allowed the County to keep pace with the rapid changes in the interest rates. The SBA, as of September 30, 2006, had a weighted average maturity of 32 days, compared to the County's weighted average maturity of 156 days. As investments mature, the SBA is able to reinvest the proceeds at the higher prevailing rates

The Federal Reserve officials have signaled that future rate changes will be dependent on inflation and growth data.

The following is a recap of the Federal Reserve's monetary tightening:

Date	Basis Point Increase	Fed Funds Rate	Date	Basis Point Increase	Fed Funds Rate
06/30/2004	0.25	1.25%	09/20/2005	0.25	3.75%
08/10/2004	0.25	1.50%	11/01/2005	0.25	4.00%
09/21/2004	0.25	1.75%	12/13/2005	0.25	4.25%
11/10/2004	0.25	2.00%	01/31/2006	0.25	4.50%
12/14/2004	0.25	2.25%	03/28/2006	0.25	4.75%
02/02/2005	0.25	2.50%	05/10/2006	0.25	5.00%
03/22/2005	0.25	2.75%	06/29/2006	0.25	5.25%
05/03/2005	0.25	3.00%	08/08/2006	0	5.25%
06/30/2005	0.25	3.25%	09/20/2006	0	5.25%
08/09/2005	0.25	3.50%			

During the third quarter of the fiscal year, the County conducted a survey of other counties and cities focusing on their policies regarding investments. There were 27 municipalities selected for the survey, including several large counties in Florida. Twenty-four responses were received resulting in an 89 percent response rate.

Some highlights of the survey are as follows:

ACTIVITY	RESPONDENTS SURVEY RESULTS	MIAMI-DADE COUNTY PERFORMANCE
Manage all or a portion of their portfolio	100% manage all or a portion of their portfolio; 21% use an external investment manager for a portion of their portfolio.	Miami-Dade County manages it's own portfolio and does not use an external investment manager.
Pool their operating and/or capital funds	100% pool their operating and/or capital funds; 50% combine both funds into 1 investment pool; 36% pool only capital funds.	Miami-Dade County pools both operating and capital funds into 2 separate funds.
Distribute interest to participating funds	95% distribute interest to participating funds based on their equity in the pool.	Miami-Dade County distributes interest to all participants of the pools based on their equity in the Pool.
Charge interest expense	45% charge interest expense to participating funds with a negative balance.	Miami-Dade County does not charge interest to funds with negative cash balances.
Listed the maximum maturity allowed by policy	59% listed the maximum maturity allowed by policy at 5 years.	Miami-Dade County has a maximum maturity allowed by the investment policy of 5 years.
Listed the weighted average maturity	75% listed the weighted average maturity of the portfolio at 1 yr or less.	Miami-Dade County's weighted average maturity at the survey date was169 days.
Investment Advisory Boards	71% have Investment Advisory Boards	Miami-Dade County does have an Investment Advisory Board.
Investment Vehicles	50% or more respondents use the following investment vehicles: Bankers Acceptances; Commercial Paper; Gov't Agencies; Gov't Treasury; Money Market Funds and Time Deposits.	Miami-Dade County investments include all those listed by the participants; however, Miami-Dade County at this time has no investments in Money Market Funds.

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