

**CITY OF MIAMI BEACH
INVESTMENT POLICY
AND PROCEDURE**

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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 by Resolution 95-21726 on September 27 1995. Due to the amendment of City Code Section 18A-1, these policies have 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 five years. Those funds placed in cash management investments include all daily operating funds, capital projects funds, debt service funds and various deposits. The second category is "long term city investments". Long term city investments are investments whose terms are five or more than one years. The policy governing long term city investments is set forth below after the description of cash management investment policy.

III. Cash Management Investment Policy

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 an overnight funds sweep 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 \$40250,000 per institution. FDIC insurance covers demand deposits up to \$40250,000 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.

A. Investment Objectives

The City of Miami Beach's investment objectives are set forth below in order of importance:

1. Safety of capital
2. ~~Return on~~Liquidity of capital
3. ~~Liquidity of~~Return on capital

Investment returns are important and can make a significant contribution to the City's operations and capital projects. Therefore, every effort is made to select the most advantageous investment vehicle and term of investment to maximize earnings. However, safety and liquidity, in that order, take precedence over the return. In this regard, the City has delineated, through ordinance, certain permissible types of investments, with a view to meeting the criteria set out above.

B. Investment Ethics

The City of Miami Beach selects all investments by means of a bidding process. In no case does the City invest funds or place idle funds in financial institutions as compensating or courtesy balances. The standard of prudence to be applied by the investment officer shall be the "prudent person" rule, which states: "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 probable safety of their capital as well as the probable income derived." The "prudent person" rule shall be applied in the context of managing the overall portfolio.

The investment officer and staff, acting in accordance with the written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

C. Investment Process

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

1. ~~M~~Maintain a bid list of approximately five 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 Dade County, Florida.

Brokerage houses must maintain an office in 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.

The purpose of this process is to ~~should~~ 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.

D. Authorized Investments

The City has established a list of authorized types of investments. The authorized cash management investments are described in Chapter 18A of the City Code and are further limited as follows:

1.	Time Deposits	
	Duration	N/A
	Maximum % of Portfolio	100%
	Maximum per Issuer	25%
	Maximum % of Combined Asset Group	100%
2.	Certificates of Deposit	
	Duration	1-3 yrs
	Maximum % of Portfolio	100%
	Maximum per Issuer	25%
	Maximum % of combined Asset Group	100%

3.	U. S. Treasury Bills		
	Duration		N/A
	Maximum % of Portfolio		100%
	Maximum % of Combined Asset Group		100%
4.	U. S. Treasury Notes		
	Duration		0-7 yrs
	Maximum % of Portfolio		100%
	Maximum % of Combined Asset Group		100%
5.	U.S. Government Agency and Instrumentality Securities		
	Duration		0-7 yrs
	Maximum % of Portfolio		50%
	Maximum % of Combined Asset Group		50%
	Maximum per Issuer		40%
6.	<u>Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.</u>		
	<u>Duration</u>		<u>0-7 yrs</u>
	<u>Maximum % of Portfolio</u>		<u>5%</u>
	<u>Maximum per Issuer</u>		<u>5%</u>
67.	Obligations issued by any state or territory of the United States, which are fully insured or rated in one of the two highest rating categories by both Moody's Investors Service, Inc. and Standard and Poor's Corporation or their successors.		
	Duration		7-10 yrs
	Maximum % of Portfolio		50%
	Maximum per Issuer		10%
	Maximum % of Combined Asset Group		50%
78.	Fixed Term Repurchase Agreements		
	Duration		0-3 yrs
	Maximum % of Portfolio		20%
	Maximum per Issuer		25%
	Maximum % of Combined Asset Group		100%
98.	Overnight Repurchase Agreements		
	Duration		N/A
	Maximum % of Portfolio		100%
	Maximum per Issuer		25%
	Maximum % of Combined Asset Group		N/A

109. Bankers Acceptances

Duration	N/A
Maximum % of Portfolio	20%
Maximum per Issuer	20%
Maximum % of Combined Asset Group	30%

110. Commercial Paper with a rating of A-1 or P-1 only, rated by Moody's or Standard & Poor's

Duration	N/A
Maximum % of Portfolio	20%
Maximum per Issuer	10%
Maximum % of Combined Asset Group	30%

124. Corporate notes, corporate bonds, medium term notes, ~~Yankee notes, and Yankee bonds~~, with terms of one year or less rated by 2 of 3 designated rating agencies in ~~one of the two highest rating categories~~ as follows:

Maturity	0- 2 1% yrs
Maximum % of Portfolio	20%
Maximum per Issuer	5%
Maximum % of Combined Asset Group	30%
a. Moody's	- AA3 higher
b. Standard & Poor's	- AA- or higher
c. Fitch	- AA- or higher

123. Corporate notes, corporate bonds, medium ~~term~~ term notes, ~~Yankee notes, and Yankee bonds~~, with terms of ~~in excess of one year~~ with a maximum of 5.0 years rated by 2 of 3 designated rating agencies ~~in one of the two highest rating categories~~ as follows:

Duration	3- 7 1-5 yrs
Maximum % of Portfolio	20%
Maximum per Issuer	5%
Maximum % of combined Asset Group	30%
a. Moody's	- AA3 higher
b. Standard & Poor's	- AA- or higher
c. Fitch	- AA- or higher

143. Money market mutual/trust funds which substantially conform with this policy as follows:

Duration	N/A
Maximum % of Portfolio	100%

Maximum per Issuer 50%

~~Maximum % of combined Asset Group~~ 100%

- a. State of Florida Local Government Surplus Funds Trust Fund
- b. Mutual/trust funds sponsored by the Florida League of Cities
- c. Private money market mutual funds backed entirely by "Full Faith and Credit" U.S. Government Securities not to exceed 25%
- d. Intergovernmental investment pools rated "AAAm" authorized pursuant to Florida State Statute s. 163.01, F.S.

145. Fixed income mutual funds sponsored by the Florida League of Cities which substantially conform with this policy as follows:

Duration N/A

Maximum % of Portfolio 25%

Maximum per Issuer 25%

~~Maximum % of combined Asset Group~~ 25%

156. Mortgage-backed securities collateralized by first mortgages (or deeds of trust) and asset-backed securities collateralized by consumer or business receivables with a maximum duration of 3.0 years at time of purchase and structured as either collateralized mortgage obligations or unstructured pass-through securities and rated by 2 of 3 designated rating agencies as follows:

Maturity 3 -- 5 yrs

Maximum % of Portfolio 15%

Maximum per Issuer 20%

~~Maximum % of combined Asset Group~~ 50%

- a. Moody's - AAA3 higher
- b. Standard & Poor's - AA- or higher
- c. Fitch - AA- or higher

167. Externally managed funds requiring specific approval by Commission with investments limited to City policy and rating criteria.

Duration 13-7 yrs

Maximum % of Portfolio 10020%

~~Maximum % of combined Asset Group~~ 20%

178. Interest rate Swap agreements between the City and a counter party to pay/receive a fixed interest rate payment in exchange for a variable rate payment over a specified term with the requirement that all "Swap" agreements be approved by City Commission prior to execution.

Duration	N/A
Maximum % of Portfolio	10%
Maximum % of combined Asset Group	20%

All repurchase agreements are fully collateralized and the collateral is held in the City's name by a third party custodian. Repurchase agreements must be collateralized at minimum mark-to-market value of 102% in U.S. Government securities.

Derivatives (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 of asset values) shall be utilized only if specifically authorized as part of the investment plan and the ~~Finance Director~~Chief Financial Officer or his 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 ~~Capital Improvements~~Finance and Citywide Projects Committee and the City commission for approval. Repurchase Agreements (an agreement between an investor and a security dealer whereby dealer agrees to buy back the security at a specified price in the future) 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.

E. Prohibited Investments

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

Common Stock	Private Placements
Preferred Stock	Unregistered or Restricted Stock
Convertible Bonds	Margin Trading
Venture Capital	Limited Partnerships
Options and Futures	Oil and Gas Wells
Warrants	IO or PO strips or inverse floater mortgage backed securities
Commodities	Foreign Exchange
Short Selling	Any Inverse Floating Rate Securities
Real Estate	

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

F. Maturity and Liquidity Requirements

The City selects investments whose terms compliment the need to make the majority expenditures set forth below.

1. Biweekly Payrolls
2. Periodic Debt Service Payments
3. Capital Project Needs

For each expenditure event, investments are selected whose maturities occur at a date close to the date that funds will be needed. Investments also are selected based on the highest yield for the particular type of investment. In the case of capital projects, in which the exact date that expenditures will need to be made is unknown, the City selects several investments with varying maturities so that monies are available each month to cover all capital expenditures. Any unused capital investment funds are then placed in investments of one year or more to maximize return potential.

~~As mentioned earlier, the City maintains an overnight investment program of approximately \$9,000,000, which provides funds needed to cover daily operating expenses, excluding items #'s 1-3 above. Interest yields on these investments are competitive though somewhat lower than longer term instruments.~~

G. Portfolio Composition

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.

H. Custodial Account

All City investments, except for swap agreements, must be held in an independent custodial account within the trust department of a major financial institution with a branch located in Miami-Dade County, Florida. The custodian will not be utilized to buy or sell investments for

the City. All City investments must be registered in the City's name in book entry form evidenced by transaction tickets maintained by the custodian with a copy provided to the City. Physical possession of securities by the City should be avoided. The investment held by the custodian must be reconciled monthly to the City's general ledger. The City will carry investments at cost but will maintain a record of portfolio market value each month. However, investments are recorded at fair value in the annual financial statements in accordance with GASB Statement #31.

I. **Treasury Management Services Master Repurchase Agreement**

A "Treasury Management Services Master Repurchase 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.

J. **Investment Transaction Authority**

The ~~Finance Director~~Chief Financial Officer has designated the Treasury Manager as the individual responsible for managing the City's investments. The Treasury Manager discusses investments with upcoming maturities with the Assistant Finance Director and the ~~Finance Director~~Chief Financial Officer if there is a question as to new maturity target dates or type of investment vehicle to be used. Based on these discussions, the Treasury Manager 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.

K. **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 Assistant Finance Director or Chief Financial Officer.
4. A monthly report titled ~~"Investments by Banks/Funds"~~ is prepared by the ~~Assistant Finance Director~~ Investment Advisor and distributed to the ~~Finance Director~~ Treasury Manager early in the subsequent month for review. In addition a Financial Analyst in the Finance Department receives a copy of this report and reconciles these investments with the City's general ledger on a monthly basis.
5. ~~An Account Clerk IIA~~ Financial Analyst III in 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 ~~Assistant Finance Director~~ Financial Analyst III and the Treasury Manager 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.

L. Investment Committee Advisor

The City engages the services of an investment advisor with regard 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 circumstances shall the advisor take custody of any City funds or securities.

~~An investment committee will be established to exercise oversight responsibility concerning types of investments and maturity of investments. The Committee will consist of the following individuals:~~

- ~~Finance Director or his/her designee~~
- ~~Chairman of the Capital Improvements/Finance Committee~~
- ~~City Manager of his/her Designee~~
- ~~City's Financial Advisor~~
- ~~Five members of the local banking/investment community~~

~~The committee will meet at least quarterly to discuss investment objectives, terms and choice of investment alternatives for the upcoming quarter. The Committee will assist in establishing timelines for expenditure of capital project funds and for investment of any extraordinary receipt of funds and will review portfolio performance for the previous quarter and composition of the investment portfolio.~~

M. Investment Reporting

As discussed previously, the Finance Department maintains several types of information and reports on investments. The records relating to investments are as follows:

1. Investment Transaction Report – A recording/approval form for each investment transaction, regarding both active and matured investments. This form also indicates all bids obtained where applicable.
2. Investment bid sheet, where applicable, for each investment
3. Investment Log-Monthly Statement – a document listing, in chronological maturity order, pertinent information on each investment.
4. ~~Investments by Banks/Funds report generated monthly and reconciled with the City's general ledger~~Investment monthly statement is reconciled with the City's general ledger
5. Annual summary of average investment returns (which are included in the monthly Investments Statements) which is subjected to external audit for reasonableness of average stated yield for the fiscal year.

N. Recordkeeping and Performance Measurement

Comprehensive records of each investment transaction are maintained in the Finance Department. These records include bid sheets where applicable, investment transaction reports, investment bank advices, the ~~annual~~ monthly investment ~~log~~ statements, and a quarterly compilation of total returns ~~for the~~ for the preceding fiscal quarter by City fund type (e.g., General Fund, Capital Projects, Enterprise, Internal Service). Annually, the City's external auditors review the calculation of investment yields prepared by the Finance Department for comparison to indices and comparative data maintained by the external auditors. They then determine the reasonableness of the average yield calculated by the Finance Department. If no problem is indicated, the Finance Department then compares its average annual yield to yields of surrounding local governments when such information becomes available.

While yield is not the primary concern of the City's investment manager, it should be noted that the City has consistently enjoyed an average yield competitive with other major local governmental entities while assuming lower risk.

O. Pension Investments

The City does not manage the cash or investments of the City's ~~four~~ two pension systems. 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.

P. Bond Funds

Notwithstanding anything to the contrary contained in City Code Chapter 18A 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.

