11. **NEW BUSINESS**

a. Discussion regarding a draft ordinance to amend the City of Sanibel's Investment Policy

CITY OF SANIBEL
STATEMENT OF INVESTMENT POLICY
DRAFT

REVISED: FEBRUARY 16, 2010

I. **Objective**: To document the investment policy for the City of Sanibel (the City) operating funds, reserve funds, surplus funds and restricted funds.

II. **Scope**: The purpose of this investment policy is to establish objectives and standards of care and to define suitable/authorized investment instruments and investment guidelines for each investment program. This investment policy shall not apply to pension funds, trust funds or funds related to the issuance of debt where there are other existing policies or indentures in effect.

III. **Authority**: City Manager and Finance Director and Section 218.415 Florida Statute. To enhance the effectiveness of the City staff in managing these funds, outside investment managers may be hired and approved by separate City Council action.

IV. **Investment Objectives:**

A. Preservation of Principal and Safety- The foremost objective of this investment program is the preservation of the principal. The objective will be to manage credit risk and interest rate risk for each specific investment program.

B. Liquidity - The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. The portfolio has been broken down into four separate investment programs based on anticipated liquidity needs and each program will have specific guidelines to meet that program's liquidity needs.

C. Return on investment/ yield - All investments will be made striving to maximize portfolio return, consistent with the stated quality, safety and liquidity restrictions of each program. Yield shall be the primary source of investment returns. Investment returns shall be secondary to the requirements for quality, safety and liquidity.

V. **Authorized Investments:**

A. The Local Government Surplus Funds Trust Fund, as created by Section 218.405, Florida Statutes or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01. Florida Statutes;

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

C. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government at the then prevailing market price for such securities;

D. Savings accounts and certificates of deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes;

E. Obligations of the federal farm credit banks; the Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates; or the Federal Home Loan Bank or its district banks or obligations guaranteed by the Government National Mortgage Association. Collateralized mortgage obligations (CMOs) can be used if appropriate procedures are utilized to evaluate;

F. Deposits, federal funds or bankers acceptance of any domestic bank, including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposits or similar obligation is enforceable against the principal office or any branch of such bank, which:

    1. has an unsecured, uninsured and unguaranteed obligation rated in either of the two highest letter rating categories by a Rating Agency, and

    2. is the lead bank of a parent bank holding company with an unsecured, uninsured and unguaranteed obligation meeting the rating requirements in (1.) above;

G. Prime commercial paper of a United States corporation, finance company or banking institution if such commercial paper is rated at least "P-1" by Moody's or at least "A-1" by Standard & Poor's and if such commercial paper is stated to mature in not more than 270 days;

H. Bonds or other debt securities issued or guaranteed by a corporation organized under the laws of the United States or the District of Columbia, provided the corporation has an investment grade rating of "A" or better by Standard & Poor's or Moody's;

I. Regulated bond mutual funds;

J. Investment grade obligations of state and local governments and public authorities; and

K. Investment alternatives, other than securities, must have an established market. Investments should be made subject to the cash flow needs of the City. Such cash flows are subject to revisions as market conditions and City needs change. It is the intent of the City of Sanibel to avoid assets that require a significant time to liquidate.

VI. Repurchase Agreements:

Repurchase Agreements (repos) are the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date and are used to secure money market rates of interest. In order to protect the public funds invested in repos, any repo arrangement approved by the City must be evidenced by a Master Repurchase Agreement identifying the parties acting as principals to the transaction, providing collateralization through physical delivery of the underlying securities or through safekeeping with the purchaser's custodian, including appropriate supplemental provisions regarding delivery, substitution, margin maintenance, margin amounts, seller representations and governing law, and providing for marking-to-market practices for valuing securities.

VII. Specific Program Investment Objectives and Guidelines:

A. *Operating Account*: The main objectives for the Operating Account are safety of principal and immediate liquidity. These funds are designated for immediate City expenses. Therefore, the investments in the Operating Account will be limited to demand deposits, money market funds and other short term securities of the highest liquidity.

B. *Reserves Account*: The main objectives for the Reserves Account are safety of principal and liquidity. These funds are designated for emergency purposes, such as natural disasters. The liquidity needs of the Reserves Account are more unpredictable and, as such, investments will be limited to securities with maturities not to exceed 24 months. However the average maturity shall not exceed one (1) year. It is anticipated that the Reserves Account will have a laddered maturity structure allowing for significant liquidity each quarter. Up to ten (10) percent of the Reserves Account may be invested in corporate bonds with a minimum rating of "A" by Standard & Poor's. In addition, no more than two (2) percent of the Reserves Account will be invested with any one issuer.

C. *Surplus Account*: The main objectives for the Surplus Account are safety of principal and achieving higher yields than are typically available in money market instruments. These funds are not designated for any specific purpose and are intended to meet as yet undetermined needs of the City. As such, these funds need not be available for immediate demand and can take advantage of higher yields available with intermediate-term maturities. The Surplus Account can invest in securities with a maximum maturity of five (5) years. However, the overall Surplus Account will have an average maturity not to exceed three (3) years. Up to fifteen (15%) percent of the Surplus Account may be invested in corporate bonds with a minimum rating of "A" by Standard & Poor's. In addition, no more than two (2) percent of the Surplus Account will be invested with any one issuer.

D. *Restricted Account*: The main objectives of the Restricted Account are safety of principal and higher yields typically available in intermediate to longer-term securities. These funds are designated for known longer-term obligations related to debt payments of the City. The liquidity needs of the Restricted Account are more clearly defined and allow for the portfolio to take advantage of higher yields by being able to closely match projected cash flow needs to the maturity structure of the portfolio. Up to fifteen (15%) percent of the Restricted Account may be invested in corporate bonds with a minimum

rating of "A" by Standard & Poor's. In addition, no more than two (2) percent of the Restricted Account will be invested with any one issuer.

VIII. Risk and Diversification:

Adequate diversification of the portfolio will be necessary to minimize market volatility risk, liquidity risk and default risk. Diversification will come in the form of investing in different security types, and in different financial institutions. It is the policy of the City of Sanibel to diversify its investment portfolios so as to protect against issuer defaults, market price changes, technical complications leading to temporary lack of liquidity, or other risks resulting from an over concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. The following strategies will be reviewed periodically by the City of Sanibel or any committee so established by the City.

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust.

IX. Prudence:

A. *Prudence standard applied to the portfolio* - The standard of prudence shall be applied in the context of managing the portfolio. Those individuals acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. *Prudent expert standard* - While the standard of prudence to be used by individuals who are officers or employees 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 monies and in acquiring, retaining, managing, and disposing of investments of these funds, the individuals 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 of material losses, unless under the circumstances it is clearly prudent not to do so, and not in regard to speculation but in regard to the permanent disposition of similar funds, considering the probable income as well as the probable safety of their capital.

X. Ethics and Conflicts of Interest:

Employees under the direction of the City of Sanibel - Officers and employees involved in the investment process shall not engage in personal business activities (e.g. directing business to favored broker/dealers) that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Officers and employees (including members of any committee established by the City) shall immediately disclose to the

City Manager any material interest in any financial institution that conducts business with the City of Sanibel. For purposes of this paragraph, "material interest" shall have the same meaning as in section 112.312(15), Florida Statutes (1995).

XI. Internal Controls:

A. *System of Controls* – The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be 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.

Accordingly, the Finance Director shall establish a process for periodic independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall 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. By separating the person who authorized or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

3. Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by Florida Statute) 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 telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via letter, fax and/or email and must be from an authorized person.

7. Development of a wire transfer agreement with the lead bank or third party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

B. *Delivery vs. Payment* – All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that 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.

XII. Reporting:

Quarterly Report – The City of Sanibel directs or otherwise recommends that at least quarterly, the Finance Director shall provide a written report including but not limited to a summary of recent market conditions, economic developments and anticipated investment conditions; a summary of investment strategies employed in the most recent quarter; a description of the portfolio or in terms of investment securities, maturities, risk characteristics and other features; a report of the quarter's total investment return with a comparison of actual to planned, and an identification of any areas of policy concern and suggested or planned revision of investment strategies.

XIII. Performance Benchmarks:

Investment performance benchmarks should be consistent with the quality, safety and liquidity restrictions utilized to evaluate portfolio performance. These benchmarks will allow the City to compare to other investors in similar markets.

Based on the investment and maturity parameters for each investment program, the City shall establish specific performance benchmarks. These benchmarks are as follows:

Operating Account:	Merrill Lynch 0-3 Month Treasury Bill
Reserves Account:	Merrill Lynch US 0-1 Year Treasury Index
Surplus Account:	Merrill Lynch US 3-5 Year Treasury Index
Restricted Account:	Merrill Lynch US 10-15 Year Treasury Index

XIV. Authorized Institutions:

Banks

The City shall purchase certificates of deposit only through qualified public depositories of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida State Statutes. In addition, the City may purchase certificates of deposits through the CDARS program as long as the purchases are initiated through a qualified public depository of the State of Florida.

Brokers/Dealers

The City may utilize dealers designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York, for direct purchases and sales of securities. The City may also utilize non-

primary securities (regional) dealers doing business in the State of Florida. Both the firm and the dealer for non-primary dealers must have been engaged in the business of effecting transactions in U.S. Government and agency obligations for at least five (5) consecutive years. The firm must have capital of no less than $10,000,000. Both primary and non-primary dealers must qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The firms must provide the following information prior to executing investment trades with the City:

1. Audited annual financial statement.
2. Regulatory history, through either the Office of the Comptroller or the Currency for dealer banks, or the NASD (CR) for securities firms.
3. Statement of any pending lawsuits materially affecting the firm's business.
4. Proof of State of Florida registration.
5. Each Dealer's representative will be required to complete the City's Broker/Dealer Certification Form (Attachment "A") prior to the City conducting any business with the Dealer or its representative.

XV. Security Selection Process

After the Finance Director or the City's financial advisor has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on investments in question. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, investments may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. Telerate Information System
B. Bloomberg Information System
C. Wall Street Journal or a comparable nationally recognized financial publications providing daily market pricing.
D. Daily market pricing provided by the City's custodian or their correspondent institutions.

Examples of when this method may be used include:

A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process.
B. When no active market exists for the issue being traded due to the age or depth of the issue.
C. When a security is unique to a single dealer, for example, private placement.
D. When the transaction involves a new issues or issues in the "when issued" market.

Overnight sweep investments will not be bid, but may be placed with the City's depository bank relating to the demand account for which the repurchase agreement was purchased.

XVI. Investment Transaction Authority

The City Manager has designated the Finance Director as the individual responsible for managing the City's investments. For internally managed assets, the Finance Director discusses investments with upcoming maturities with the City's financial advisor if there is a question as to new maturity target dates, portfolio reallocation, or type of investment vehicle to be used. Based on these discussions, the Finance Director completes an "Investment Transaction Authorization" for each investment transaction. The City Manager then reviews and approves the Investment Transaction Authorization. The fully executed Investment Transaction Authorization contains all information pertinent to the investment and contains the approval signatures of the City Manager and the Finance Director. The authorized investment transaction is executed. Funds related to each investment are transferred according to authorized funds transfer procedures and limits established under the provisions of the City's agreement with its main depository bank.

XVII. External Investment Manager

Purpose

The purpose of this section is to set forth the policy and objectives governing the City's use of external investment managers. The outside investment manager for the City is required to adhere to all of the principals as set forth by the City Investment Policy concerning purpose, scope, objectives, prudence, internal controls, safekeeping and custody, debt service and bond covenants requirements, diversification, liquidity, credit risk, market risk and reporting requirements. Outside investment managers will be required to seek best execution on all trades.

Monitoring and Adjusting the Portfolio

The external investment manager will monitor the contents of the portfolio, the available markets and the relative values of competing securities and will adjust the portfolio accordingly. The external investment manager is required to provide the City with a confirmation of each transaction executed within 10 business days of the transaction. The confirmations should include all information necessary to allow the City to accurately monitor the activity of the external investment manager for compliance purposes.

XVIII. Safekeeping and Collateralization:

All cash, assets, and investment securities purchased by the City of Sanibel or held as collateral on investments shall be delivered versus the payment of funds and held in safekeeping by a qualified bank, or some other financial institution designated as custodian. The custodian will be selected by the City. The custodian will not be utilized to buy or sell investments for the City. All securities held as collateral will be held free and clear of any lien, and also shall be held by a third party custodian. The investments held by the custodian must be reconciled monthly to the City's general ledger.

All securities purchased by the City will be held by a third party custodian and no withdrawal of such securities may be made by anyone except the City Manager or the Finance Director.

The City Manager or Finance Director will execute all third party custodial agreements with the City's banks and public depositories. Such an agreement will include letters of authority from the City Manager or Finance Director as to the responsibilities of each party, notification of security purchases, sale, delivery, safekeeping and transaction agreements and wire transfers, safekeeping and transaction costs, and - procedures in the event of wire failure.

Any funds invested in a certificate of deposit from a qualified public depository may be collateralized by any of the securities listed in Sections 280.13 and 280.14 of the Florida Statutes. The list of qualified depositories, agreeing to the provisions in Chapter 136 of the Florida Statutes, is available upon request from the Department of Insurance and Treasurer of the State of Florida.

This section does not apply to the Local Government Surplus Funds Trust Fund.

XIX. Independent Audit:

The independent public accounting firm retained to conduct the annual audit of the City of Sanibel is directed to evaluate the system of controls relating to the investment of assets. Procedures should be performed by the accountants to provide reasonable assurance that investment officials have acted in accordance with the Investment Policy. The audit procedures shall include, but not be limited to, surprise audits of custodial and safekeeping systems. To the extent allowed by professional standards, the auditor may rely on work performed by other independent public accountants or internal auditors.

XX. Policy:

A. *Exemption* – Any investment held by the City on the date of adoption of this policy which does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be invested only as provided by this policy.

B. *Amendment* – This policy shall be reviewed at least annually by the City Manager and the Finance Director who may recommend any policy changes or revisions for adoption by City Council.

_____ _____

City Manager Date
City of Sanibel

_____ _____

Finance Director Date
City of Sanibel

Attachment "A"

CITY OF SANIBEL
800 DUNLOP ROAD
SANIBEL, FLORIDA 33957

Broker/Dealer Certification

The firm _____ is a registered securities dealer as defined and authorized by the National Association of Securities Dealers and the Securities Exchange Commission. The employees of the firm or financial institution offering securities or investments of the City of Sanibel, Florida are trained in the precautions appropriate to public-sector investments and are required to familiarize themselves with all the City's investment objectives, policies and constraints. I have reviewed and fully understand the terms and conditions set forth in The City of Sanibel Florida Investment Policy. I agree to undertake reasonable efforts to preclude imprudent transactions involving the city's funds. Furthermore, I agree to disclose any potential conflicts or risks to public funds that might arise out of business transactions between the firm and the City of Sanibel, Florida.

Firm _____

By _____

Title _____

Date _____