

City of Temple Terrace Investment Policy

April 7, 2009

I. Scope

The investment policy shall apply to funds under the control of the City of Temple Terrace in excess of those required to meet current expenses. This investment policy shall not apply to pension funds, including those funds in Florida Statutes chapters 175 and 185. Nor shall this investment policy apply to funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds, however, absent such other controlling documents this policy shall apply to such funds. The Finance Director or duly authorized personnel will consolidate, where practicable and allowable, for the purposes of investment, cash balances and investments from all funds covered by this policy to maximize investment earnings and reduce risks. The investment of funds shall comply with all controlling state statutes, ordinances and covenants covering the City of Temple Terrace's investments.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

A. *Safety* – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks the preservation of capital in the overall portfolio. The objective will be to limit credit risk and interest rate risk to a level commensurate with the risks associated with prudent investment practices and performance benchmarks, if applicable.

1. *Credit Risk* – The City of Temple Terrace will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying the investment portfolio so that potential losses on individual securities will be minimized and by limiting investments to specified credit ratings.

2. *Interest Rate Risk* – The City of Temple Terrace will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by limiting the maximum duration of the overall portfolio to five years.

B. *Liquidity* – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The portfolio may be placed in local government investment pools or money market mutual funds that offer same-day liquidity for short-term funds.

C. *Transparency* – The City of Temple Terrace shall operate its portfolio in a transparent manner, making its periodic reports both available for public inspection and

designed in a manner which communicates clearly and fully information about the portfolio, including market pricing, adjusted book value, yields, and CUSIPs of various securities.

D. Yield – The investment portfolio shall be designed with the objective of attaining a market rate of return, as measured by specified benchmarks, throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety, liquidity, and transparency objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap that would improve the quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

A. Prudence – The standard of prudence to be used by investment officials shall be the Prudent Person Rule and shall be applied in the context of managing an overall portfolio. City of Temple Terrace personnel, acting in accordance with this investment policy 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 to the City Manager in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The City Manager has the discretion to report any material events to the City Council. The annual audit report shall be presented to the City Council. The Prudent Person Rule 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."

B. Ethics and Conflicts of Interest – The Finance Director and other authorized personnel shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. These investment officials shall disclose to the City Manager annually, in a written statement, any material interests in financial institutions with which they conduct business with the City of Temple Terrace. They shall further disclose any personal financial/investment positions that could be related to the performance of the City's investment portfolio. They shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City of Temple Terrace.

C. *Delegation of Authority* – Authority to manage the investment program is granted to the Finance Director and other authorized personnel. Additional authorized personnel include Assistant Finance Director and any other person or position approved by the City Manager. The City of Temple Terrace may seek professional advice and therefore may contract with a federally registered investment advisory firm that specializes in public funds fixed income management. This engagement would be set forth in a separate Investment Advisory Agreement approved by the Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

D. *Bid Process* – The Finance Director or designee will determine the approximate maturity date and optimal types of investment based on the cash flow needs and market conditions, and solicit bids from a minimum of three qualified institutions as determined under Section III 3 and Section IV. Bids shall be held in confidence until the investment objective is determined and the bid has been awarded. Additional guidance is provided in the Florida Statutes. With the exception of new issues, this process is used for securities purchased or sold. In the event that three bids are not available, the Finance Director or designee may select a security based upon a documented comparison of similar securities.

IV. Broker Dealers, Safekeeping and Custody

A. *Authorized Financial Dealers and Institutions* – The City shall maintain a list of qualified financial institutions as follows:

1. Qualified public depositories in accordance with Chapter 280, Florida Statutes.
2. A primary or regional broker dealer that qualifies under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule) with a minimum net capital of \$10 million (\$10,000,000); and Securities Investors Protection Corporation (SIPC).

Both lists shall be reviewed and updated by the Finance Director or designee at least annually.

B. *Annual Review* – An annual review of the qualified financial institutions and broker/dealers will be conducted by the Finance Director or designee. The distribution of trading among the approved broker/dealers of securities which at the time of purchase had maturities greater than 7 days, shall be reported annually to the City Manager, who may at his or her discretion report to City Council.

C. *Delivery vs. Payment* – Securities transactions between a broker-dealer and the safekeeping agent or 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.

D. *Safekeeping, Custody & Perfection of Interest* – Securities shall 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 or custody, except by an authorized staff member of the unit of local government. The Finance Director may execute a Third-Party Custodial Safekeeping Agreement that includes letters of authority from the City, details of each party’s responsibilities, notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safe-keeping and transaction costs, procedures in case of wire failure, or other unforeseen mishaps including liability of each party.

V. *Suitable and Authorized Investments*

This investment policy shall be authorized by the City Council. Investments not listed in the investment policy are prohibited.

The investment portfolio shall be 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.

Prior to conducting transactions as authorized by this policy the Finance Director shall 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 shall be selected.

Consistent with the Florida Statutes the following investments will be permitted by this policy:

A. *Authorized Issuers* – The criteria for authorized investments is broken down into four sections. Each investment must comply with the provisions of each section. These sections address who can issue authorized investments, what minimum credit ratings these investments must have, what maturity or other limitations apply concerning interest rate risk, and how much of any security may be held. Subject to additional restrictions in this Part V, securities may be held that are issued by:

1. *The United States Treasury and Agency Securities* – Securities that are issued by the United States Treasury or those for which the full faith and credit of the United States government guarantees fully all principal and interests payments.

2. *Government Sponsored Enterprises (GSE)* – Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), or the Federal Agricultural Mortgage Corporation. Any other GSE shall be considered as corporate debt for the purposes of this Policy and shall be authorized under the criteria set forth in D, Corporations.

3. ***State & Local Governments*** – General or revenue obligation of any state of the United States, the District of Columbia, or any territorial possession of the United States, or, of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities.
4. ***Corporations*** – United States dollar denominated debt instruments issued by a corporation or bank which is organized and operated within the United States.
5. ***Certificates of Deposit*** – Non-negotiable interest-bearing time certificates of deposit or savings account in banks or savings associations organized under the laws of the state and/or national banks or savings associations organized under the laws of the United States, provided the deposits are secured by the Florida Security of Public Deposits Act, Chapter 280, Florida Statutes, and provided that the institution is not recognized on a credit watch information service list.
6. ***Local Government Investment Pools*** – Shares in local government investment pools organized under Chapter 163, Part I, Florida Statutes.
7. ***The State Board of Administration pool (SBA)*** – Shares in the SBA pool organized under Chapter 218, Part IV, Florida Statutes.
8. ***Money Market Mutual Funds*** – Shares of any money market fund that is registered as an investment company under the federal "Investment Company Act of 1940", as amended, which stipulates that a money market fund must have an average weighted maturity of 90 days or less.
9. ***Repurchase Agreements*** – Securities referred to in paragraph A or B of this Section 1 and that can otherwise be purchased under this Policy may be subject to a Repurchase Agreement. Such securities subject to this agreement must have a coupon rate that is fixed from the time of settlement until its maturity date, and must be marketable. Such securities must be delivered to the City or to a third-party custodian or third-party trustee for safekeeping on behalf of the City of Temple Terrace. The collateral securities of any repurchase agreement must be collateralized at no less than 102% and marked to market no less frequently than weekly. All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master

No City of Temple Terrace funds shall be invested in any security issued by entities authorized in this Section I on which the coupon rate (or a schedule of stepped fixed coupon rates) is not fixed from the time the security is settled until its maturity date, other than shares in qualified money market mutual funds or local government investment pool, unless the coupon rate is: (I) Established by reference to the rate on a United States treasury security with a maturity of one year or less, or to the United States dollar London Interbank Offered Rate (LIBOR) of one year or less maturity, or to the cost of funds index or the prime rate as published by the federal reserve; and (II) Expressed as a positive value of the referenced index plus or minus a fixed number of basis points. (b) A municipal index may be used for the investment of bond or note accounts from issues with

coupons linked to the same index. (c) For purposes of this section, "maturity date" means the last possible date, barring default, that principal can be repaid to the purchaser.

B. *Credit Ratings* – Securities may be purchased if at the time of purchase the securities meet the following credit quality criteria:

1. *United States Treasury and Agency securities* – Ratings are not required for U.S. Treasury securities. Agencies backed by the full faith and credit of the United States government, such as Government National Mortgage Association (GNMA).

2. *Government Sponsored Enterprises (GSE)* – Authorization of the listed GSE in paragraph B of Section 1 is predicated upon these institutions maintaining at least two AAA/Aaa/AAA long-term credit ratings from Standard & Poor's, Moody's or Fitch respectively.

3. *State & Local Governments* – At the time of purchase, such securities must carry at least two long-term credit ratings of AAA/Aaa/AAA from Standard & Poor's, Moody's, or Fitch respectively and neither Standard & Poor's, Moody's, or Fitch may rate this security below AAA/Aaa/AAA respectively. If the AAA/Aaa/AAA credit rating was achieved via some form of third party credit enhancement, then the underlying issuer must have two long-term credit ratings none of which may be below AA-/Aa3/AA- from Standard & Poor's, Moody's, or Fitch respectively. This criterion will not apply to the purchase of the outstanding debt of the City.

4. *Corporations* – At the time of purchase, all non-money market instruments must carry at least two long-term credit ratings of Standard & Poor's, Moody's or Fitch with minimum ratings of AA-/Aa3/AA- respectively and neither Standard & Poor's, Moody's, or Fitch may rate this security below AA-/Aa3/AA- respectively. For commercial paper, such securities must carry at least two short-term credit ratings of A1+ from Standard & Poor's, P1 from Moody's, or F1+ from Fitch.

Should a security's credit rating drop below these standards after purchase, the City's authorized personnel shall act as Prudent Persons, in managing the risks associated with this security, and shall immediately notify the City of Temple Terrace's governing board of such an event.

5. *Banks Deposit or Certificate of Deposit* – At the time of purchase, the qualified public depositories (QPD) must comply with Chapter 280.16 Florida Statutes. Such deposits in QPDs must be collateralized according to the statutory requirements.

6. *Local Government Investment Pools* – At the time of purchase, local government investment pool must carry a AAAM rating from Standard & Poor's, AAA from Moody's or AAA from Fitch.

7. ***The State Board of Administration pool (SBA)*** – At the time of purchase, the state pool must carry a AAAM rating from Standard & Poor’s, AAA from Moody’s or AAA from Fitch.

8. ***Money Market Mutual Funds*** – At the time of purchase, money market fund must carry a AAAM rating from Standard & Poor’s, AAA from Moody’s or AAA from Fitch.

9. ***Repurchase Agreements*** – At the time of purchase the counter-party to any such agreements must carry short-term credit ratings which conform to those required by paragraph D of this section 2.

10. ***Deposits in Qualified Public Depositories (QPD)*** – Banks deposits for the City of Temple Terrace must comply with Chapter 280.16 Florida Statutes. Such deposits in QPD must be collateralized according to the statutory requirements.

C. ***Interest Rate Risk Restrictions*** – Securities may be purchased if at the time of purchase the securities meet the following credit quality criteria:

1. ***The United States Treasury and Agency securities backed by the full faith and credit of the United States government*** – At the time of purchase, securities should generally have a maturity no greater than of five years from the date of settlement to the maximum expected final maturity date based on a reasonable prepayment assumption at the time of settlement. The forward delivery period on such securities may not exceed 60 days unless the overall portfolio maturity is within the parameters established. The average life of agencies and mortgage backed securities, such as GNMA, shall be 15 years or less with a state maturity being within the normal range of pass-thru securities. They may only be five years with no extension risk beyond ten years.

2. ***Government Sponsored Enterprises [G.S.E.]*** – At the time of purchase, securities must have a maturity no greater than of five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

3. ***State & Local Governments*** – At the time of purchase, such securities must have a maturity no greater than of five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days. This criterion will not apply to the purchase of the outstanding debt of the City.

4. ***Corporations*** – At the time of purchase, such securities must have a maturity no greater than three years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

5. ***Banks Deposit or Certificate of Deposit*** – At the time of purchase, such securities must have a maturity no greater than one year from the date of settlement to the maximum possible maturity date.

6. Local Government Investment Pools – At the time of purchase, shares in the local government investment pool must be fully redeemable on the next business day.

7. The State Board of Administration pools (SBA) – At the time of purchase, shares in the SBA pool must be fully redeemable on the next business day.

8. Money Market Mutual Funds – At the time of purchase, shares in the money market fund must be fully redeemable on the next business day.

9. Repurchase Agreements – For repurchase agreements, at the time of purchase such agreements must have a maturity no greater than one year from the date of settlement. The forward delivery period on such securities may not exceed 60 days.

10. Overall Portfolio Interest Rate Risk – At no time may the City of Temple Terrace purchase any security that would cause the portfolio of the City to have a duration greater than five years. At least 25% of the portfolio must provide daily liquidity.

D. Diversification Limits – Chapter 281.415 (8) Florida Statutes states that the investment policy shall provide for appropriate diversification of the investment portfolio. The specific diversification guidelines for the City of Temple Terrace will be determined based on the individual requirements of the City of Temple Terrace. The Finance Director or designee shall have the option to further restrict or increase investment percentages from time-to-time based on market conditions. Any changes to the following percentage schedule compared to the total portfolio must be in writing:

<u>Type of Instrument</u>	<u>Maximum (%)</u>	<u>Individual Issue (%)</u>
1. United States Treasury	100	5
1a. United States Agency	100	5
2. Government Sponsored Enterprises (GSE)	75	5
3. State & Local Government	30	5
4. Corporations	30	5
5. Bank Deposit	50	50
5a. Certificate of Deposit	30	5
6. Local Government Investment Pools	50	25
7. The State Board of Administration pool (SBA)	50	25
8. Money Market Mutual Funds	50	25
9. Repurchase Agreements	50	25

VI. Internal Controls

The Finance Director shall establish and monitor a system of internal controls which shall be in writing and made a part of the City'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 City of Temple Terrace.

Internal controls shall include, but not be limited to: insure all securities are transferred only under the “delivery versus payment” method, accept receipts and confirmations of obligations in the name of the City of Temple Terrace, accept receipts and confirmations that fully described the obligation and state that the investment is held in the name of the City of Temple Terrace, provide for safekeeping with a third party custodian, and maintain adequate separation of duties for the process including written documentation of transactions, custodial safekeeping, supervisory control of employee actions and operations review, and performance evaluations and interim reporting.

VII. Reporting

A. *Methods* – The Finance Director shall provide the City Manager an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City of Temple Terrace to ascertain whether investment activities during the reporting period have conformed to the investment policy. This investment report shall include a list of 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.

B. *Performance Standards* – The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The benchmark for the portfolio shall be the 90-Day Treasury Bill. The two-year treasury note can be used for the total investment portfolio.

C. *Portfolio Pricing* – The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

D. *Auditing* – The annual audit of the City’s financial records shall include a review of all investment activity for the year for compliance with investment policy and procedures, and a review of internal controls related to investment of City funds.

VIII. Policy Considerations & Implementation

A. *Exemption* – Any investment currently held that 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 reinvested only as provided by this policy.

B. *Continuing Education* – Chapter 281.415 (14) Florida Statutes states that the investment policy shall provide for the local government’s officials responsible for making investment decisions. The Finance Director or designee responsible for making investment decisions must annually complete eight hours of continuing education in subjects or courses of study related to investment practices and products.

C. *Indemnification* – The Finance Director and other employees authorized to invest City funds shall be personally indemnified in the event of investment loss provided investments are made in full compliance with these policies.

D. *Amendments* – This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council.