



VILLAGE OF KEY BISCAYNE

Office of the Village Manager

MEMORANDUM

Village Council
Robert L. Vernon, *Mayor*
Enrique Garcia, *Vice Mayor*
Michael W. Davey
Robert Gusman
Michael E. Kelly
Jorge E. Mendia
Thomas Thornton

DATE: October 26, 2010
TO: Honorable Mayor and Members of the Village Council
FROM: Genaro "Chip" Iglesias, Village Manager
RE: Investment Policy

A large, stylized handwritten signature in black ink, which appears to be "Genaro 'Chip' Iglesias", is written over the "FROM" line of the memorandum.

RECOMMENDATION

It is recommended that the Council approve the attached resolution which adopts an Investment Policy.

BACKGROUND

The attached Investment Policy complements the Village's operating procedures by establishing solid cash and investment management guidelines for the safe and effective generation of interest income. The Policy organizes the chain of command and delegates specific responsibility. The conservative management, outlined within the Policy, builds public trust that the Village appropriately controls investment risk and ensures funds availability for essential governmental programs.

State of Florida statutes controls the adoption of the Investment Policy. **Chapter 218.415 Local government investment policies** which states (paraphrased):

- Investment activity must be consistent with a written plan adopted by the governing body, or be restricted to limited investment options;
- Investment Policies shall include language addressing:
 - Scope
 - Investment Objectives
 - Performance Measurement
 - Prudence and Ethical Standards
 - Authorized Investments
 - Maturity and Liquidity Requirements
 - Portfolio Composition
 - Risk and Diversification
 - Authorized Investment Institutions and Dealers
 - Third-Party Custodial Agreements
 - Master Repurchase Agreement
 - Bid Requirement
 - Internal Controls

- Continuing Education
- Reporting
- Highest priority shall be placed on safety and liquidity;
- Optimization of returns shall be secondary to safety and liquidity; and
- Policies shall be commensurate with the nature and size of the government.

The proposed Investment Policy addresses the requirements of the Statute.

RESOLUTION NO. 2010 -

**A RESOLUTION OF THE VILLAGE COUNCIL OF THE
VILLAGE OF KEY BISCAYNE, FLORIDA, APPROVING
AN INVESTMENT POLICY AND PROVIDING AN
EFFECTIVE DATE.**

WHEREAS, the Village Council finds it prudent and appropriate to approve the Investment Policy substantially in the form attached hereto as Exhibit "A;" and

WHEREAS, the Village Council finds the Resolution in the best interest and welfare of the residents of the Village.

NOW, THEREFORE, BE IT RESOLVED BY THE VILLAGE COUNCIL OF THE VILLAGE OF KEY BISCAYNE, FLORIDA, AS FOLLOWS:

Section 1. Recitals Adopted. Each of the above stated recitals is hereby adopted and confirmed.

Section 2. Investment Policy. The Investment Policy substantially in the form attached hereto as Exhibit "A;" is hereby approved.

Section 3. Effective Date. That this Resolution shall be effective immediately upon adoption hereof.

PASSED AND ADOPTED this ____ day of _____, 2010

MAYOR ROBERT L. VERNON
ATTEST:

CONCHITA H. ALVAREZ, MMC, VILLAGE CLERK

APPROVED AS TO FORM AND LEGAL SUFFICIENCY:

VILLAGE ATTORNEY

Village of Key Biscayne, Florida

Investment Policy

It is the policy of the Village of Key Biscayne (the “Village”) that all available funds shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. An effective cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds. The Village’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and federal law.

Investments shall be made with the primary objectives in order of importance:

- Safety,
- Liquidity, and
- Risk-appropriate Yield.

To ensure these objectives are attained, the Village will pursue:

- Preservation of capital and protection of principal,
- Maintenance of sufficient liquidity to meet operating needs,
- Diversification of investments to avoid unreasonable or avoidable risks, and
- Optimization of interest earnings.

This Policy is to be authorized by the Village Council in accordance with Chapter 218.415 of the Florida Statutes.

Scope

This Policy shall govern the investment of all financial assets of the Village as accounted for in the Village’s Financial Statements, including but not limited to, general, special revenue, and capital project funds.

When possible, the Village will consolidate cash balances to enhance investment earnings. Investment income will be allocated, if necessary, to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This Policy shall apply to all transactions involving the financial assets and related activity of the Village. To the extent that Village assets include debt proceeds or related funds, any requirements stipulated in the debt covenants for these funds that are more restrictive than this Policy, shall supersede this Policy.

Delegation of Authority

The Village Finance Director is designated as the Investment Officer of the Village and is responsible for investment decisions and activities. The Investment Officer may delegate certain aspects of day-to-day administration of the cash management program as part of the written “Internal Controls.” In the absence of a Finance Director, the Village Manager shall assume all Investment Officer duties.

No person may engage in an investment transaction except as provided under the terms of this Policy. The Village may appoint an outside Investment Advisor to assist in the management of the Village’s investment portfolio. Such Advisor must be registered under the Investment Advisors Act of 1940.

Investment Objectives

The Village shall manage and invest its cash with three primary objectives, listed in order of priority: safety, liquidity, and yield, expressed as optimization of investment earnings. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and local law.

The Village shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and enhancing earnings on short-term investment of idle cash.

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- Credit Risk – The Village will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - Limiting investments to the safest types of issuers,
 - Pre-qualifying the financial institutions, pools, money market mutual funds, and broker/dealers with which the Village will do business, and
 - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized (where appropriate).

- Market Risk – the Village will minimize the risk that the portfolio will be forced to realize market gains or losses, by:

- Structuring investments to meet cash requirements and
- Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash needs, and maintaining a portion of the portfolio in cash equivalent investment options.

Yield (Optimization of Investment Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return 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 and liquidity objectives described above.

Performance Measurement

As required by State law, the Village will establish appropriate performance measures by selecting benchmarks that are appropriate for the prudent management of each of the fund types and monitoring the results on no less than a quarterly basis.

General Fund – Investment strategies for general funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium term investments that will complement each other in a ladder maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each investment. The performance of the general funds will be measured against the 3-month U.S. Treasury Bill index.

Special Revenue Funds – Investment strategies for special revenue funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium term investments that will complement each other in a ladder maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each investment. The performance of the special revenue funds will be measured against the 3-month U.S. Treasury Bill index.

Capital Project Funds – Investment strategies for capital project funds will have as their primary objectives to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in cash equivalent deposits or investments to allow for flexibility and unanticipated project outlays. The stated final maturity dates of investments held should not exceed the estimated project completion date. Funds shall be managed and invested with the objectives of safety, liquidity and yield (listed in order of priority). The performance of the capital project funds will be measured against the performance of the U.S. Treasury Bill index that represents a comparable maturity range.

Prudence and Ethical Standards

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 to be derived from the investment.

This “prudent person” standard shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviation from expectations are reported in a timely fashion to the Village Manager.

In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the investment of all funds over which the Investment Officer had responsibility, rather than the prudence of a single investment, and whether the investment decision was consistent with the Investment Policy, shall be considered.

All participants in the Village’s investment process shall seek to act responsibly as custodians of the public trust. The Investment Officer shall avoid any transaction that might impair public confidence in the Village’s ability to govern effectively. Additionally, the Investment Officer will adhere to the Village’s Code of Ethics.

Investment Officers involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions, and should disclose any material personal interests that could be construed as conflicts to the Village Manager.

Authorized Investments

The Village is empowered by State law and this Investment Policy to invest in the following:

1. Direct obligations of the U.S. Government, its Agencies or Instrumentalities;
2. Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency;
3. Insured or fully collateralized financial institution deposits that are in qualified public depositories of the State as determined by the State Chief Financial Officer, in accordance with Chapter 280.02 of the State Statutes;
4. Financial institution deposits that are in qualified public depositories of the State in accordance with Chapter 280.02, where the selected depository arranges for the deposit of the funds in certificates of deposit in one or more federally insured financial institutions, wherever located, for the account of the Village in amounts that ensure that each certificate of deposit is insured by the Federal Deposit Insurance Corporation, and meet the requirements of Chapter 218.415 (23);
5. Intergovernmental investment pools authorized pursuant to the Florida Interlocal Cooperation Act functioning as a money market mutual fund with the highest credit quality rating from a nationally recognized rating agency; and
6. Repurchase agreements secured by direct obligations of the U.S. Government, its Agencies or Instrumentalities, pledged with an independent third party approved by the Village, and having a market value of not less than 102% of investment balance plus accrued interest. All repurchase agreement transactions shall be governed in accordance with a master repurchase agreement executed in compliance with State law.

Maturity Limitations

In order to ensure adequate liquidity to meet financial obligations, the Village will attempt to match investment maturities with known cash needs and anticipated cash flow requirements. Investment maturities for general and special revenue funds shall not exceed two years and capital project funds shall not exceed the lesser of the anticipated expenditure schedule or five years.

Diversification Statement

Diversification of the portfolio remains as the most effective means of protecting the portfolio from overexposure to liquidity, credit, and market risks. To avoid unnecessary risk, the portfolio will be diversified by issuer, maturity, and sector (where appropriate).

Authorized Financial Institutions and Broker/Dealers

Depository

In compliance with statutory requirements, a primary depository may be selected through the Village's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a primary depository will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with State law.
- The ability to provide requested information or financial statements.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items in the banking RFP.
- "Best value" net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

All primary and non-primary depository deposits shall be insured or collateralized in compliance with applicable State law. The Village reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits.

Broker/Dealers

The Village shall maintain a list of broker/dealers that are approved for investment security transactions. Only firms meeting the following requirements shall be eligible to serve:

1. Qualify under Securities and Exchange Commission Rule 15 C3-1 (uniform net capital rule);
2. Registered as a dealer under the Securities Exchange Act of 1934;
3. Member of the Financial Industry Regulatory Authority (FINRA); and
4. Registered to sell securities in Florida.

Third Party Custodians

The Village shall contract with a bank or banks for the safekeeping or custody of securities owned by the Village as part of its investment portfolio.

Securities owned by the Village shall be held in the Village's name as evidenced by safekeeping receipts of the institution holding the securities. Safekeeping institutions shall be independent from the parties involved in the investment transaction.

All security transactions shall utilize the "Delivery Versus Payment" procedure for settlement.

Subject to Audit

All deposits, documents, and collateral shall be subject to inspection and audit by the Village's designated financial officer or the Village's independent auditors.

Competitive Environment

It is the policy of the Village to create a competitive environment for all investment activities. To achieve that objective, multiple investment sources and products will be considered, with the Investment Officer selecting the best value determined by an appropriate risk/rerun analysis.

Rather than relying solely on yield, investment in money market mutual funds and intergovernmental investment pools shall be based on criteria determined by the Investment Officer to demonstrate reasonable and prudent investment strategies of the fund/pool.

Internal Controls

The Finance Director shall establish written internal controls and operations procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, error, misrepresentation, or imprudent actions. No person may engage in an investment transaction except as authorized under the terms of this Policy.

The controls and procedures shall address the following points:

- Control of collusion,
- Separation of transactions authority from accounting and record-keeping,
- Third-party custody and safekeeping,
- Clear delegation of authority to subordinate staff members,
- Written confirmation of all transactions for investments and wire transfers, and
- Adherence to all ethics and investment policies.

Continuing Education

The Investment Officer(s) and any other staff responsible for investment-related activities shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices or products.

Reporting

The Investment Officer shall provide a quarterly investment report including the listing of holdings in the portfolio at cost and market value to the Village Manager. Such reports shall include:

- Individual investment descriptions,
- Coupon/Discount rate and yield to maturity,
- Final maturity and call dates,
- Credit Ratings,
- Book value and market value, and
- Quarterly interest earnings.

Sale of Securities

When invested funds are needed prior to maturity of a security, or when more optimal investment positions are available and a swap would be deemed to be effective and prudent, the Village may sell a security at the then-prevailing market price.

In the event that an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the Village is not required to liquidate investments that were authorized at the time of purchase.

Audits

As part of its annual audit, the external auditing firm shall review adherence to the Investment Policy and compliance with State investment law. Additionally, the auditors shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

Investment Policy Review

The Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the Village. The Village Council shall review the Policy on a periodic basis and

adopt a resolution stating that it has reviewed the Policy and approves any changes or modifications.