

12. **OLD BUSINESS**

- b. Review of City's investment policy (Councilman Ruane)

State Board of Administration (SBA)
Local Government Investment Pool (LGIP)
Time Line of Key Events

- November 29, 2007 - Trustees of SBA implement a temporary freeze on all assets of LGIP. SBA establishes advisory committee of pool participants. Also, they hire Black Rock, Inc. to provide advisory services for the pool for an interim 90-day period. Total assets in the pool are approximately \$14 billion.
- November 30, 2007 - Black Rock, Inc. provides recommendation to split assets into two pools: Plan A and Plan B. Plan A with AAA rated assets and Plan B to isolate all assets under stress (defaults, delinquencies, and bankruptcies).
- December 4, 2007 - Plan A to have 86 percent of funds (\$12 billion) and Plan B to have 14 percent (\$2 billion).
- February 12, 2008 - Appoint Federated Investments as permanent manager of pool assets because of lowest bid.
- March 3, 2008 - S & P (Standard & Poor's) rating service affirmed Pool A 'AAAAm' principal fund rating on the Florida Local Government Investment Pool A.
- March 4, 2008 - Florida CFO Sink unveils proposals to increase safeguards over investments at State Board of Administration.
- March 4, 2008 - Pool A additional \$1.846 billion is available for liquidity on May 14, 2008.
- March 5, 2008 - Two LGIP Pool B Holding KKR Funding were downgraded A-2 watch negative to C. They have also filed for bankruptcy protection and a restructuring plan is pending issuance from the bankruptcy court. Also, Security Name Axon Ltd, in Investment Pool B, has lost market value from \$175 million to \$101.5 million. (A 42 percent loss in value) Investment Pool B has over 61 percent in total value under great stress and a credit quality rating of C or lower.
- March 14, 2008 - Federated prepares overview for Florida Local Government Investment Advisory Committee.
- March 17, 2008 - Approximately \$210.6 million in liquid assets will become available to Plan Pool B participants as amounts will be transferred to Plan A.

This figure represents about 13 percent of Plan Pool B assets. \$200 million coming from maturity of Countrywide Bank CDs.

- March 21, 2008 - Anticipated liquidity restrictions be moved higher of 37 percent or \$4 million to 50 percent or \$9 million May 2008. Additional liquidity releases will probably not be available until September/October 2008.
- March 21,2008 On-line reports indicate approximately \$10.150 billion remaining in both pools. Investment Pool A balance is \$8.775 billion and Investment Pool B is \$1.374 billion.
- March 24, 2008 - Sanibel balances in Sanibel Pool A - \$31,823,979 and Pool B - \$2,655,012 with current available liquid balances from both pools of \$18,392,588.

Local Government Investment Pool - FUND A

Holdings Report

Data as of March 21, 2008

Security Name	Security Classification	ABCP	CUSIP	Coupon Rate	Discount Rate	Maturity Date	Reset Date	Fair Value	Cost	Yield	Amortized Cost	Market Value	SIP or Equivalent Rating
ALLSTATE LIFE GLOBAL FDG SEC D	CORPORATE VARIABLE RATE NOTES		02000UMBA1	3.11		09/04/2008	04/04/2008	\$250,000,000.00	\$249,993,075.97	3.12	\$249,993,075.97	\$249,615,750.00	AA
ALLSTATE LIFE GLOBAL FDG TR SR	CORPORATE VARIABLE RATE NOTES		02000GBK2	3.15		09/26/2008	03/22/2008	\$145,000,000.00	\$145,000,000.00	3.16	\$145,000,000.00	\$144,957,850.00	AA
AMERICAN EXPRESS CENTURION BK	CORPORATE VARIABLE RATE NOTES		02561FYF0	3.07		09/17/2008	04/19/2008	\$45,000,000.00	\$45,000,000.00	3.07	\$45,000,000.00	\$44,998,470.00	A+
AMERICAN GEN FIN CORP MEDIUM T	CORPORATE VARIABLE RATE NOTES		02635PTM1	3.01		09/18/2008	06/18/2008	\$315,000,000.00	\$315,000,000.00	3.04	\$315,000,000.00	\$313,342,760.00	A+
BANKAMERICA CORP BNC	COMMERCIAL PAPER DISCOUNTED		06409QDU4	0.00		04/28/2008		\$19,700,000.00	\$19,583,438.45	3.04	\$19,583,438.45	\$19,388,284.35	A-1+
BANKAMERICA CORP DISC	COMMERCIAL PAPER DISCOUNTED		06409QES0	0.00		05/05/2008		\$75,000,000.00	\$74,741,874.84	0.00	\$74,741,874.84	\$74,750,067.00	A-1+
BEYERSCHE HYD-UNO INSTL C/D	MONEY MARKET VARIABLE RATE CERT OF DEP		0723WQZ2	3.09		05/12/2008	05/11/2008	\$100,000,000.00	\$100,000,649.14	3.09	\$100,000,649.14	\$100,039,400.00	A+
BEAR STEARNS COS INC BEAR	CORPORATE VARIABLE RATE NOTES		071902JH	4.40		12/15/2008	04/15/2008	\$278,000,000.00	\$277,964,623.16	4.43	\$277,964,623.16	\$283,781,382.00	A
BEAR STEARNS COS INC BEAR	CORPORATE VARIABLE RATE NOTES		073902H06	3.00		12/14/2008	04/14/2008	\$250,000,000.00	\$250,000,000.00	3.16	\$250,000,000.00	\$237,214,750.00	A
BI OF AMERICA TRI REPO	REPURCHASE AGREEMENTS		997AB5Z5	2.30		01/24/2008	01/24/2008	\$1,500,000,000.00	\$1,500,000,000.00	2.30	\$1,500,000,000.00	\$1,500,000,000.00	A-1+
CATERPILLAR FINL SVCS CORP MED	CORPORATE EXTENDABLE FLOATING RATE NOTE		14912LJ2	3.03		01/08/2009	04/08/2008	\$50,000,000.00	\$50,000,000.00	3.03	\$50,000,000.00	\$49,579,150.00	A
COMMERCEBANK AG NY INSTL C/D	MONEY MARKET VARIABLE RATE CERT OF DEP		20259XDH0	4.84		03/31/2008	03/31/2008	\$100,000,000.00	\$100,003,127.80	4.84	\$100,003,127.80	\$100,019,800.00	A
DAHSKE CORP DISC	COMMERCIAL PAPER DISCOUNTED		235JF6WH7	0.00		04/20/2008		\$147,811,000.00	\$147,341,576.85	0.00	\$147,341,576.85	\$147,316,029.06	A-1
DREYFUS GOVT CASH MGMT FUND	MUTUAL FUNDS		996886A09	7.74		04/20/2008	04/01/2008	\$0.00	\$0.00	2.74	\$0.00	\$0.00	AAA
FLORIDA HURRICANE CATASTROPHE	CORPORATE VARIABLE RATE NOTES		340746A27	3.03		12/12/2008	04/15/2008	\$452,500,000.00	\$452,466,713.82	3.03	\$452,466,713.82	\$452,500,000.00	AAA
GLENWORTH GLOBAL FDG TRS SEC D	CORPORATE VARIABLE RATE NOTES		372475AMA	4.24		09/15/2008	04/15/2008	\$290,000,000.00	\$290,000,000.00	4.25	\$290,000,000.00	\$289,169,150.00	AA-
HARRIS FIN FDG IN MT	COMMERCIAL PAPER VARIABLE RATE NOTE	ABCP	41385HAJ6	4.92		04/25/2008	03/25/2008	\$190,000,000.00	\$190,000,000.00	4.92	\$190,000,000.00	\$189,707,020.00	A-1+
HARTFORD LIFE GLOBAL FDG TRS	CORPORATE VARIABLE RATE NOTES		41659DF1	2.82		09/15/2008	04/15/2008	\$100,000,000.00	\$100,000,000.00	2.82	\$100,000,000.00	\$99,979,700.00	AA-
HSC FIN CORP EXTENDABLE MT	CORPORATE VARIABLE RATE NOTES		40429C049	3.09		10/06/2008	04/06/2008	\$150,000,000.00	\$150,000,000.00	3.10	\$150,000,000.00	\$149,728,500.00	AA-
HSC FIN CORP EXTENDABLE MT DT	CORPORATE VARIABLE RATE NOTES		40429C030	3.19		04/24/2008	03/24/2008	\$280,000,000.00	\$280,004,789.54	3.19	\$280,004,789.54	\$280,000,000.00	AA-
J F MORGAN CHASE DISC	COMMERCIAL PAPER DISCOUNTED		46621DE57	0.00		05/05/2008		\$279,000,000.00	\$274,037,500.16	0.00	\$274,037,500.16	\$274,083,579.00	A-1+
LEPMAN TRI FAMILY REPO	REPURCHASE AGREEMENTS		992A3JRD	2.29		03/24/2008	03/24/2008	\$1,354,400,000.00	\$1,354,400,000.00	2.29	\$1,354,400,000.00	\$1,354,400,000.00	A-1+
M B F MARSHALL & ISLEY BK	CORPORATE VARIABLE RATE CALLABLE NOTES		5319AEXY1	3.13		09/25/2009	03/25/2008	\$130,000,000.00	\$130,000,000.00	3.14	\$130,000,000.00	\$129,329,310.00	A*
MACQUARIE BANK LTD IB MT	COMMERCIAL PAPER VARIABLE RATE NOTE		55607NA17	4.90		08/08/2008	05/08/2008	\$125,000,000.00	\$125,000,000.00	4.91	\$125,000,000.00	\$124,784,500.00	A-1
MERRILL LYNCH & CO INC	CORPORATE VARIABLE RATE NOTES		59052CZ26	2.94		12/17/2008	04/17/2008	\$250,000,000.00	\$250,000,000.00	2.97	\$250,000,000.00	\$247,130,000.00	A+
MERRILL LYNCH & CO INC MED	CORPORATE VARIABLE RATE NOTES		59018Z8R8	2.96		12/12/2008	04/15/2008	\$100,000,000.00	\$100,000,000.00	3.00	\$100,000,000.00	\$98,628,900.00	A+
MERRILL LYNCH & CO INC MEDIUM	CORPORATE VARIABLE RATE NOTES		59018Z8R0	3.28		12/23/2008	03/24/2008	\$190,000,000.00	\$190,000,000.00	3.33	\$190,000,000.00	\$187,003,130.00	A+
MITSUBISHI TR & BK INSTL C/D	CERTIFICATE OF DEPOSIT VARIABLE RATE NOTE		60681PGQ1	4.34		04/14/2008	04/14/2008	\$100,000,000.00	\$100,000,000.00	4.35	\$100,000,000.00	\$100,000,000.00	A+
MORGAN STANLEY EXTENDIBLE	CORPORATE VARIABLE RATE NOTES		617446F17	2.94		12/15/2008	04/15/2008	\$463,750,000.00	\$463,746,849.07	2.96	\$463,746,849.07	\$463,057,780.00	AA-
MORGAN STANLEY UTILS	CORPORATE VARIABLE RATE NOTES		617446U16	3.27		12/03/2008	04/03/2008	\$321,750,000.00	\$321,724,594.21	3.28	\$321,724,594.21	\$320,906,049.25	AA+
NATIONAL RURAL UTILS COOP FIN	CORPORATE VARIABLE RATE NOTES		63743ZGJ3	3.12		10/04/2008	04/04/2008	\$210,000,000.00	\$210,000,000.00	3.23	\$210,000,000.00	\$209,468,410.00	A
NATIONAL RURAL UTILS COOP FIN	CORPORATE VARIABLE RATE NOTES		63743ZJ00	3.24		09/01/2008	05/01/2008	\$200,000,000.00	\$200,000,000.00	3.25	\$200,000,000.00	\$199,543,800.00	A
NATIONAL RURAL UTILS COOP FIN	CORPORATE VARIABLE RATE NOTES		63743ZDW2	3.13		10/01/2008	04/01/2008	\$211,000,000.00	\$211,000,000.00	3.15	\$211,000,000.00	\$209,463,920.00	A
SOUTHERN CO 2007R EXTENDIBLE	CORPORATE VARIABLE RATE NOTES		840287AH0	2.54		09/19/2008	06/20/2008	\$95,000,000.00	\$95,000,000.00	2.57	\$95,000,000.00	\$94,716,515.00	A
URS FIN DEL INC DISC	COMMERCIAL PAPER DISCOUNTED		90262CEED	0.00		05/14/2008		\$95,000,000.00	\$198,929,000.00	0.00	\$198,929,000.00	\$199,217,278.00	A-1+
WELLS FARGO & CO NEW MTN	CORPORATE EXTENDABLE FLOATING RATE NOTE		94974NCE8	3.95		01/16/2009		\$95,000,000.00	\$95,000,000.00	3.96	\$95,000,000.00	\$94,740,125.00	AA+
TOTALS FOR FUND A								\$8,775,911,000	\$8,775,937,811		\$8,775,937,811	\$8,731,356,459	

Local Government Investment Pool - Fund A
 Summary Report
 Data as of March 21, 2008

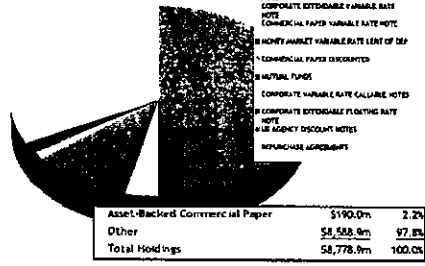
Top 10 Holdings	
BANKAMERICA CORP DISC	17.18
LEHMAN TRI PARTY REPO	15.51
NATIONAL RURAL UTILS COOP FIN	7.09
MORGAN STANLEY EXTENDIBLE	6.68
MERRILL LYNCH & CO INC	6.10
BEAR STEARNS COS INC BEAR	5.74
FLORIDA HURRICANE CATASTROPHE	5.18
HSBC FIN CORP EXTENDIBLE NT	4.92
ALLSTATE LIFE GLOBAL FDG SECD	4.52
GENWORTH GLOBAL FDG TR5 SECD	3.31
Total % of Portfolio:	76.22

Credit Quality Composition	
A-1+	68.14
A-1	31.86
Total % of Portfolio:	100.00

Portfolio Composition	
CORPORATE VARIABLE RATE NOTES	48.95
CERTIFICATE OF DEPOSIT VARIABLE RATE NOTE	1.14
CORPORATE EXTENDABLE VARIABLE RATE NOTE	0
COMMERCIAL PAPER VARIABLE RATE NOTE	3.59
MONEY MARKET VARIABLE RATE CERT OF DEP	2.28
COMMERCIAL PAPER DISCOUNTED	8.4
MUTUAL FUNDS	0
CORPORATE VARIABLE RATE CALLABLE NOTES	1.48
CORPORATE EXTENDABLE FLOATING RATE NOTE	1.65
US AGENCY DISCOUNT NOTES	0
REPURCHASE AGREEMENTS	32.51
Total % of Portfolio:	100.00

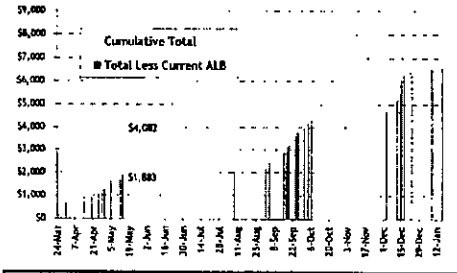
Effective Maturity Schedule	To Reset	To Final Maturity
1-7 days	0.00	0.00
8-30 days	47.22	11.11
31-90 days	44.44	22.22
91-180 days	5.56	8.33
181+ days	2.78	58.33
Total % of Portfolio:	100.00	100.00
Weighted Average Maturity	21.29 Days	122.82 Days

Portfolio Composition



Portfolio holdings are shown as of the date indicated. Since market conditions fluctuate suddenly and frequently, the portfolio holdings may change and this list is not indicative of future portfolio composition. These portfolio holdings are not intended to be and do not constitute recommendations that others buy, sell, or hold any of the securities listed.

Cumulative Maturities - \$ millions



Past performance is no guarantee of future results.

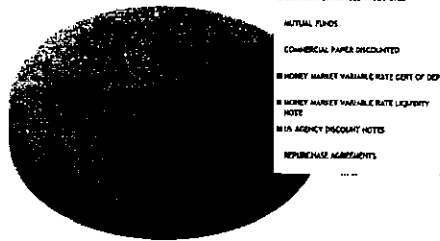
An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the view of such organizations at the time such ratings were given and Federated does not make any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price on the investments.

Local Government Investment Pool - Fund B
 Summary Report
 Date as of March 21, 2008

Holdings		Portfolio Composition	
CIT GROUP INC NEW SR NT	22.94	MONEY MARKET VARIABLE RATE COMMERCIAL PAPER	12.73
KKR PAC FDG ECN IB NT	18.50	CORPORATE VARIABLE RATE NOTES	21.10
KKR ATLANTIC FDG IB NT	12.94	MUTUAL FUNDS	0.00
COUNTRYWIDE BANK C/D	12.10	COMMERCIAL PAPER DISCOUNTED	0.00
ISSUER ENTITY LLC SEC LIQ NT (OTTIMO)	9.13	MONEY MARKET VARIABLE RATE CERT OF DEP	17.46
KKR PACIFIC FDG ECN IB NT	8.76	MONEY MARKET VARIABLE RATE LIQUIDITY NOTE	48.60
AXON FD LTD/LLC IB NT	8.24	US AGENCY DISCOUNT NOTES	0.00
WASHINGTON MUTUAL BK INSTL C/D	7.29	REPURCHASE AGREEMENTS	0.10
LEHMAN BANK REPO	0.11		
DREYPUS GOVT CASH MGMT FUND	0.00		
Total % of Portfolio:	100.00	Total % of Portfolio:	100.00

Credit Quality Composition ¹		Effective Maturity Schedule		
			To Reset	To Final Maturity
A-1+	0.09	1-7 days	0.00	0.00
A	21.10	8-30 days	36.36	9.09
A-	10.91	31-90 days	18.18	18.18
BBB+	6.55	91-180 days	0.00	18.18
C	36.02	181+ days	45.45	45.45
D	12.73	Under Negotiation/Other	0.00	9.09
NR	12.59			
Total % of Portfolio:	100.00	Total % of Portfolio:	100.00	100.00

Portfolio Composition



Portfolio holdings are shown as of the date indicated. Since market conditions fluctuate suddenly and frequently, the portfolio holdings may change and this list is not indicative of future portfolio composition. These portfolio holdings are not intended to be and do not constitute recommendations that others buy, sell, or hold any of the securities listed.

Past performance is no guarantee of future results.

¹An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the view of such organizations at the time such ratings were given and Federated does not make any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price on the investments.

State Board of Administration's Local Government Investment Pool

Advisory Committee

Recommendations

December 4, 2007

BACKGROUND

The Local Government Investment Pool (LGIP), as managed by the SBA, is an invaluable tool for local governments. As quoted from the website, it "was established to provide local governments a low cost, low risk, fully transparent investment option for their surplus funds." For many local governments, it is their main investment vehicle and is heavily relied upon to assure that all local dollars, not just surplus funds, are invested and readily available. Without this service, many local governments would not have access to low cost investment opportunities for their funds.

All local governments are required by Section 218.415, Florida Statutes, to adopt and follow an investment policy. As stated in the statute, "Such policies shall be structured to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment returns shall be secondary to the requirements for safety and liquidity." The holdings of the LGIP in recent months do not appear to meet the intent of the statute. Even though the LGIP has over the years saved taxpayers hundreds of millions of dollars through additional interest earnings, some finance officers, concerned about the safety and liquidity of the public funds entrusted to them, have reduced or liquidated their investment with the LGIP.

The primary objectives for the Trustees at this time should be: 1) the minimization of losses and 2) the continuation of the fund as the primary investment vehicle for local governments. It is important for the Trustees to focus on these objectives in seeking solutions. The assets held in the LGIP are taxpayer monies and any losses will be paid for by the taxpayer.

For 25 years, local government officials have trusted and relied with confidence on the LGIP to be able to return immediately 100% of the principal investment. The recent withdrawals from the pool were a result of the downgrading of certain investments and a concern by the participants that they may not receive their invested principal. To re-establish the trust and confidence of the local governments in the LGIP, the following actions should be taken immediately. These steps are necessary to maintain current deposits and to encourage other deposits. These deposits would provide additional liquidity while the investment portfolio is restructured and would allow current depositors to withdraw funds required to sustain current operations.

RECOMMENDATIONS

1. The State should provide a guarantee that participants will receive 100% of their assets back. This can be subject to reasonable withdrawal provisions to meet liquidity needs.
2. The State should continue to use an independent advisory firm for the following purposes; 1) to assist in the review of current holdings; 2) to establish an interim investment statement emphasizing safety and liquidity; and 3) to develop a plan to restructure the portfolio to reflect the new investment statement.
3. The Advisory Committee supports the BlackRock proposal of utilizing a "Fund A" and a "Fund B" structure, with Fund B holding questionable at risk securities only and Fund A securing and maintaining a AAA rating.
4. The Advisory Committee is strongly against redemption fees for withdrawal. The Advisory Committee supports implementing temporary withdrawal provisions for participants to meet immediate needs such as payroll, debt service, construction draws and operations. These provisions would last only until sufficient liquidity is restored. The Advisory Committee can assist in developing the provisions.
5. The State should promote renewed and enhanced communication between the SBA and the participants. Communications must include full disclosure and transparency of the pool's portfolio, current assets and liquidity potential. Reports should be prepared and distributed monthly, holdings updated daily online, and any significant changes immediately communicated to participants.
6. A permanent advisory committee should be established comprised of depositors (local government officials as well as finance officers that manage government funds) to work with the SBA staff and a permanent investment advisor to establish a new long-term investment policy. The policy should, in turn, include limits by type of security, sector and issuer. The primary goal of the policy should be to (1) assure safety of principal and (2) assure liquidity of funds, and lastly to provide an appropriate yield. The policy should also provide guidelines to prevent excessive withdrawals. The committee should meet at least quarterly to review reports and provide feedback to the SBA staff. The committee should perhaps also possess the authority to request additional oversight from another agency such as the auditor general to assure that the investment policy is being followed.
7. The state should recognize and assure that the statutory requirement for tax collectors to distribute collected revenue by December 31st to the taxing authorities is met.

If these recommendations are adopted, the Advisory Committee will actively work to reestablish trust and confidence in the fund and encourage participants to reinvest in, and provide needed liquidity, to the fund.

**Composition of SBA's Local Government Investment Pool Advisory
Committee**

Florida Association of Court Clerks and Comptrollers Designees

Karen Nicolai, Clerk and Comptroller of **Hernando County**
Ken Burke, Clerk and Comptroller of **Pinellas County**
Bob Inzer, Clerk and Comptroller of **Leon County**

Florida League of Cities Designees

Jeannie Garner, Director of Financial Services, Florida League of Cities
Thomas Bonfield, City Manager, City of **Pensacola**
Donald Nelson, Director of Finance, City of **Coral Gables**

Florida Association of Counties Designees

Eric Johnson, Director, **Hillsborough** County Office of Management and Budget
Davin Suggs, Director, **Gadsden** County Office of Management and Budget
Marie Gouin, Director, **St. Lucie** County Office of Management and Budget

Florida School Boards Association Designees

Tom Greer, **Osceola** County School Board
Bill Graham, **Palm Beach** County School Board
Dr. Jack R. Lamb, Chair, **Hillsborough** County School Board

Florida Association of District School Superintendents Designees

Dr. Margaret "Peg" A. Smith, Superintendent, **Volusia** County School District
Mrs. MaryEllen Elia, Superintendent **Hillsborough** County School District
Dr. David Gayler, Superintendent, **Charlotte** County School District

Citizens Property Insurance Corporation Designee

Sharon A. Binnun, Chief Financial Officer, Citizens Property Insurance

Florida Tax Collectors Association, Inc.

Patsy Heffner, **Osceola** County Tax Collector

CITY OF SANIBEL

RESOLUTION NO. 96- 85

A RESOLUTION ADOPTING AN INVESTMENT POLICY FOR THE CITY OF SANIBEL; AUTHORIZING THE CITY MANAGER AND FINANCE DIRECTOR TO ACT ON BEHALF OF THE CITY; AND PROVIDING AN EFFECTIVE DATE.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Sanibel, Lee County, Florida:

Section 1. The Investment Policies attached hereto and incorporated herein by this reference are hereby adopted.

Section 2. The City Manager/Clerk and Finance Director are hereby authorized and designated to act on behalf of the City with respect to the implementation and maintenance of the investment program established by these policies.

Section 3. Effective Date. This resolution shall take effect immediately upon adoption.

DULY PASSED AND ENACTED by the Council of the City of Sanibel, Lee County, Florida, this 16th day of April, 1996.

AUTHENTICATION: [Signature]
Mayor

[Signature]
City Clerk

APPROVED AS TO FORM: [Signature]
City Attorney

4/8/96
Date

Vote of Councilmembers:

Bailey aye
Davison aye

Janes aye
Kain aye

Westall aye

Date filed with City Clerk: APR 16 1996

CITY OF SANIBEL
INVESTMENT POLICIES

I. SCOPE

The purpose of this investment policy is to establish objectives and standards of care, to define safekeeping/custody controls, suitable/authorized investment instruments and investment parameters, and to describe reporting methods and standards for funds in excess of those required to meet short-term expenses. 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.

II. OBJECTIVES

The following are the primary objectives of investment activities in priority order:

A. SAFETY OF PRINCIPAL

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 risk and interest rate risk.

1. CREDIT RISK

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. INTEREST RATE RISK

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds primarily in shorter-term securities.

B. LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonable anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs 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).

C. **YIELD**

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 least importance compared to the safety and liquidity objectives described above. The core of 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:

- a) a declining credit security could be sold early to minimize loss of principal;
- b) a security swap would improve the quality, yield or target duration in the portfolio; or
- c) 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" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and 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 in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgement 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.

B. **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

C. **DELEGATION OF AUTHORITY**

Pursuant to Resolution No. 96- 85, authority to manage the City's investment program is granted to the City Manager and Finance Director. Responsibility for the operation of the investment program

is hereby delegated to the Finance Director, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager. The City Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. SAFEKEEPING AND CUSTODY

A. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

Financial institutions and broker/dealers who desire to become qualified for conducting investment transactions with the City may be requested to supply the following as appropriate:

- audited financial statements
- proof of National Association of Securities Dealers (NASD) certification
- proof of State of Florida registration

All financial institutions and broker/dealers with whom the City conducts investment transactions will be required to supply certification of having read this City of Sanibel Investment Policy.

An annual review of the financial condition and registration of qualified dealers will be conducted by the Finance Director.

B. INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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 judgements 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 fax if on letterhead and the safekeeping institution has a list of authorized signatures.

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.

C. 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.

V. SUITABLE AND AUTHORIZED INVESTMENTS

A. INVESTMENT TYPES

The following investments will be permitted by this policy:

1. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Florida Statutes.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Savings accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
4. Certificates of deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
5. Direct obligations of the U.S. Treasury.
6. Federal agencies and instrumentalities.
7. Repurchase agreements when evidenced by a master repurchase agreement including provisions for collateralization and marking-to-market.
8. Collateralized Mortgage Obligations when the purpose and objective of the security purchase is to hold such investment to maturity.
9. Regulated bond mutual funds.
10. Investment grade obligations of state and local governments and public authorities.

B. COLLATERALIZATION

Because the safety of public funds is the foremost objective in managing public funds, collateralization of public deposits through pledging of appropriate securities will be required for investments in certificates of deposit and repurchase agreements.

C. 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 repurchase agreements, 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.

VI. INVESTMENT PARAMETERS

A. DIVERSIFICATION

The City will diversify investments by security type and institution.

B. MAXIMUM MATURITIES

The City will, to the extent possible, match its investment terms with anticipated cash flow requirements. To that end, idle funds not needed for immediate operating purposes should limit their maximum final stated maturity to five (5) years unless specific authority is given to exceed that term. Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

VII. REPORTING

A. METHODS

The Finance Director shall prepare an investment report at least annually including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Manager and the City Council. The report will include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one year durations that are not intended to be held until maturity.
3. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
4. Listing of investment by maturity date.
5. The percentage of the total portfolio which each type of investment represents.

B. PERFORMANCE STANDARDS

The City's investment portfolio will be managed to strive to obtain a market average rate of return during a market/economic environment of stable interest rates and will be compared to appropriate benchmarks on a regular basis.

C. MARKING TO MARKET

A statement of the market value of the City's portfolio shall be issued at least annually. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Market values will be obtained from a reputable and independent source.

VIII. 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 periodically and any changes must be approved by the City Manager as well as the Finance Director who is charged with maintaining internal controls.