

CITY OF TALLAHASSEE

SINKING FUND COMMISSION AGENDA ITEM

ACTION REQUESTED ON:	May 27, 2009
SUBJECT/TITLE:	Amendment of City Commission Policy 234, Non-Pension Investment Policy
TARGET ISSUE:	N/A

STATEMENT OF ISSUE

The City Commission has an established Investment Policy (City Commission Policy 234) for non-pension investments. This policy provides guidance for the investment of City funds not associated with the City's pension plan.

Because of liquidity concerns, the Treasurer-Clerk removed all City funds from Florida's State Board of Administration (SBA) Local Government Investment Pool in late 2007. Since that time, we worked to develop an alternative short-term investment option to replace SBA. The Treasurer-Clerk staff has evaluated options for investment of operating funds that require immediate liquidity. The Treasurer-Clerk recommends that the Investment Policy be expanded to allow an option for investment of funds in an enhanced cash fund that would be managed specifically for the City and would follow criteria similar to those for money market funds as specified by the Securities and Exchange Commission's Rule 2a-7.

The proposed investment policy provides certain other additions and updates including investment guidelines for securities lending.

RECOMMENDED ACTION

- 1) Approve the proposed amendment to City Commission Policy 234, Non-Pension Investment Policy.

FISCAL IMPACT

There is no fiscal impact associated with this item.

James O. Cooke, IV
Deputy Treasurer-Clerk

Gary Herndon
City Treasurer-Clerk

For information, please contact: Jim Cooke, Treasurer-Clerk's Office, 891-8146.

ITEM TITLE: AMENDMENT OF COMMISSION POLICY 234, NON-PENSION INVESTMENT POLICY

SUPPLEMENTAL MATERIAL/ISSUE ANALYSIS

HISTORY/FACTS & ISSUES

The City Commission has an established Investment Policy (City Commission Policy 234) for non-pension investments. This policy provides guidance for the investment of City funds not associated with the City's pension plan.

Because of liquidity concerns, the Treasurer-Clerk removed all City funds from Florida's State Board of Administration (SBA) Local Government Investment Pool in late 2007, prior to the decision by SBA to freeze deposits. Since that time, we worked to develop an alternative short-term investment option to replace SBA. The Treasurer-Clerk staff has evaluated options available to the City for investment of operating funds that require immediate liquidity. Available options under the current provisions of the City's Non-Pension Investment Policy (City Commission Policy number 234) include investment in money market funds. The Treasurer-Clerk recommends that the policy be expanded to also allow an option for investment of funds in an enhanced cash fund. Such a fund would be managed specifically for the City and would follow criteria similar to those for money market funds as specified by the Securities and Exchange Commission's Rule 2a-7.

Rule 2a-7 consists of a number of highly technical provisions, which include limits on the length of maturity and minimum standards for the credit quality of the securities a money market fund may purchase. In general, to qualify for purchase by a money market fund, a debt security must be rated in one of the two highest rating categories (i.e., "AA" or "AAA" or the equivalent categories for short-term ratings) by two rating agencies.

An enhanced cash fund would be "2a-7-like;" by following 2a-7 rules with limited differences. The City will maintain a conservative profile with an opportunity for enhanced performance. Rule 2a-7 act restricts investments in money market funds by quality, maturity and diversity. Eligible money market securities include commercial paper, repurchase agreements, short-term bonds or other money funds. Money market securities must be highly liquid and have a stable value. Requirements are numerous, but key factors for 2a-7 investments include:

- Weighted average maturity of 60 days or less;
- Maximum maturity for Government securities of 2 years;
- Maximum maturity for non-Government securities of 397 days; and
- Not invest more than 5% in any one issuer or 25% in any one industry.

ITEM TITLE: AMENDMENT OF COMMISSION POLICY 234, NON-PENSION INVESTMENT POLICY

The proposed changes to the non-pension investment policy provide detailed guidance for investment in enhanced cash products. Variations from 2a-7 criteria include:

- Weighted average maturity of 90 days or less;
- Maximum maturity for Government securities of 3 years; and
- Maximum maturity for non-Government securities of 2 years.

By investing in a separate account, the City will also insulate itself from certain risks. For instance, money market funds are designed to maintain a net asset value of \$1.00, but there were two instances in 2008 of money market funds “breaking the buck.” Similarly, local governments in the State of Florida were concerned in late 2007 about their ability to withdraw 100% of principal from the SBA’s Local Government Investment Pool (LGIP); a separate account alleviates such concerns for the City.

The proposed investment policy provides investment criteria for enhanced cash accounts managed for the City. It also makes other changes as outlined below:

- Provides investment guidelines for securities lending. The City has participated in securities lending for many years. Investments in the securities lending program have been subject to requirements of the non-pension investment policy, but the proposed guidelines identify (more limited) criteria specific to securities lending;
- Clarifies/reiterates that overall policy objectives are safety, liquidity, and return – in that order;
- Establishes separate requirements for investments in corporate securities and investments in municipal securities; these categories are currently combined in one category; and
- Responds to issues arising from the SBA LGIP by deleting the word “guaranteed” to reflect the reality that the SBA’s LGIP and similar pools are no longer backed by a guarantee and by expanding certain criteria to allow options other than the SBA LGIP.

The proposed changes have been approved by the City’s Investment Advisory Committee.

CHARITABLE CONTRIBUTIONS

N/A

OPTIONS

- 1) Approve the proposed amendments to Commission Policy 234, Non-Pension Investment Policy.
- 2) Do not approve the proposed amendment to Commission Policy 234, Non-Pension Investment Policy.

ATTACHMENTS/REFERENCES

Commission Policy 234, Non-Pension Investment Policy.