

# City of South Daytona

Office of the City Manager / Department of Finance

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## MEMORANDUM

**To:** James L. Gillis, Jr., City Manager

**From:** Jason E. Oliva, Deputy Finance Director

**Re:** Resolution No. 2022-17, Updating the City's Investment Policy

**Date:** August 22, 2022

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As noted in the Fiscal Year 2020 Independent Auditor's Management Letter, the City's investment policy had not been updated since 1995. To ensure compliance with state statutes the investment policy was updated by Resolution No. 2021-26 with a boiler plate investment policy. During this fiscal year, staff contacted the Florida Short Term Asset Reserve (FLSTAR) investment pool to invest excess cash on hand. During this process, Hilltop Securities updated the revised policy to better meet the City's specific investment needs. Attached is a resolution approving the FLSTAR Interlocal Agreement and authorizing participation in FLSTAR.

Now that the City has funds in excess of those required to meet current expenses, City staff has revised the investment policy in order to participate in the FLSTAR government pool.

FLSTAR is a local government investment pool program that meets the City's investment objectives of preservation of principal, daily liquidity, and competitive yield. FLSTAR is a conservatively managed investment pool providing daily liquidity & competitive yields. It was created by local governments for local governments in full compliance with state statutes and rated AAAM by Standard & Poor's. The pool offers same day availability of funds with late day transactions deadline until 5:00 p.m. EST. FLSTAR also had a higher current, and 7-day Net Yield rate than other investment pools. FLSTAR current rate is 2.1944% compared to the .40% the City is currently earning with Wells Fargo.

J.P. Morgan Asset Management and Hilltop Securities serve as Co-Administrators for FLSTAR. Bryant Miller Olive serves as legal counsel for FLSTAR. PricewaterhouseCoopers provides independent auditing services to FLSTAR.

The changes to the investment policy and enrollment in FLSTAR have been reviewed by the City's auditor James Moore & Co. Staff recommends approval of Resolution No. 2022-17 as written which amends the City's investment policy to yield a higher return.

## RESOLUTION NO. 2022-17

### **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOUTH DAYTONA AMENDING THE CITY OF SOUTH DAYTONA'S INVESTMENT POLICY FOR MUNICIPAL FUNDS; AND PROVIDING FOR CONFLICTS, SEVERABILITY, AND AN EFFECTIVE DATE.**

**WHEREAS**, Section 2-8 of the City of South Daytona Code of Ordinances governs the investment of municipal funds; and

**WHEREAS**, Section 218.415, Florida Statutes (2021) prohibits municipal investments in certain investment vehicles unless the municipality has adopted a written investment policy containing specific provisions as set forth in Section 218.415; and

**WHEREAS**, the City Council adopted a written investment policy in Resolution No. 95-12 and Resolution No. 2021-26 and finds that it is appropriate to update that investment policy; and

**WHEREAS**, this Resolution is intended to provide a detailed investment policy for the City of South Daytona, Florida (the "City") in accordance with Section 2-8 of City of South Daytona Code of Ordinances and Section 218.415, Florida Statutes; and

**WHEREAS**, the City's investment policy may require amendment from time to time as warranted by prevailing conditions and circumstance, necessitating the flexibility of action by resolution; and

**WHEREAS**, for purposes of this Resolution words with underlined (underlined) type shall constitute additions to the original text and words with strikethrough (~~strikethrough~~) type shall constitute deletions from the original text.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOUTH DAYTONA, FLORIDA THAT:**

**Section 1. Action.** The City Council of the City of South Daytona hereby amends the City of South Daytona Investment Policies to read as follows:

#### **City of South Daytona Investment Policies**

##### **I. PURPOSE**

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the City of South Daytona, Florida (hereinafter "City"). These policies are designed to ensure the prudent management of public funds, the availability of

operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

## **II. SCOPE**

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all funds under the control of the City in excess of those required to meet current expenses, with the exception of Pension Funds and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

## **III. INVESTMENT OBJECTIVES**

### **Safety of Principal**

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

### **Maintenance of Liquidity**

The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

### **Return of Investment**

Investment portfolios 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 of investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

## **IV. PRUDENCE**

The level of prudence and ethical standards to be used by investment officials shall be the “Prudent Person” standard and shall be applied in the context of managing the overall investment program. The “Prudent Person” rule states the following:

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.

## **V. ETHICS AND CONFLICTS OF INTEREST**

Employees 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. Also, employees involved in the investment process shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment program.

## **VI. PERFORMANCE MEASUREMENT**

In order to assist in the evaluation of the portfolios' performance, the City will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the City to measure its returns against other investors in the same markets.

Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return the S&P Rated GIP Index Government 30 - Day Yield and/or the average 90-day Treasury bill yield during the period. Investments of current operating funds should have maturities of no longer than twenty-four (24) months.

## **VII. MATURITY AND LIQUIDITY REQUIREMENTS**

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months. Investments of bond reserves, construction funds, and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years.

## **VIII. RISK AND DIVERSIFICATION**

It is the policy of the City of South Daytona to diversify its investment portfolio. Assets held shall be diversified to control the risk of loss resulting from overconcentration of assets in a specific maturity duration, issuer, instrument, class of instruments, dealer, or bank through which financial instruments are bought and sold.

## **IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Authorized City staff shall only purchase securities from financial institutions which are qualified as public depositories (QPDs) by the Treasurer of the State of Florida, institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York, or approved non-primary securities dealers.

All approved non-primary securities dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) must provide the following information prior to executing investment trades with the City:

1. Annual financial statement, as well as most recent quarterly statement.
2. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the Financial Industry Regulatory Authority (FINRA) for securities firms.

All brokers, dealers and other financial institutions seeking to do business with the City shall be provided with current copies of the City's Investment Policy and in turn shall provide written acknowledgment of receipt.

## **X. THIRD PARTY CUSTODIAL AGREEMENTS**

All securities purchased by, and all collateral obtained by, the City under this section shall be properly designated as an asset of the City of South Daytona and held in safekeeping by a third-party custodial bank or other third-party custodial institution, chartered by the United States Government or the State of Florida. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Finance Director as authorized herein, or by his designee, who shall be a staff member of the City of South Daytona.

An exception to this method of control will be non-negotiable bank certificates of deposit which require physical delivery without systematic handling found commonly with book entry securities.

Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities shall 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.

The City will execute third-party custodial agreements with its bank(s) and depository institution(s). Such agreements will include letters of authority from the City that details the responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

## **XI. INTERNAL CONTROLS**

The Finance Director or his designee under the direction of the City Manager shall establish and monitor internal and procedural controls that are in writing and made a part of the City's operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer

agreements, banking service contracts, collateral/depository agreements, and “delivery vs. payment” procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit for the City shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

Such internal control procedures shall include details of delivery vs. payment procedures and trust receipt documentation.

All securities purchased will be transferred, when possible, only under the "delivery versus payment" (D.V.P.) method to ensure that funds for securities are not released until all criteria relating to the specific transactions are met. Only after advising the City Manager, the Finance Director or his designee shall be the responsible official authorized to deliver securities free of payment.

The Finance Director or his designee is authorized to accept, on the behalf of and in the name of the City of South Daytona, bank trust receipts or confirmations from a third-party custodian (which must be the trust department of the bank) in return for investment of temporarily idle funds as evidence of actual delivery of the obligations or securities. Any such trust receipt or confirmation shall fully describe the various obligations or securities held, together with the specific number of each obligation or security held, and that they are held for the City. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued may be held by a bank/depository chartered by the United States Government or the State of Florida.

### **XIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

After the Finance Director 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) Authorized Financial Institutions must be contacted to provide bids/offers. 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, securities 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. Bloomberg Information Systems

B. Wall Street Journal online, Bloomberg online or a comparable nationally recognized online service providing continually updated market pricing

C. U.S. Department of Treasury website; data section

Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Finance Director, competitive bidding would inhibit the selection process

Examples of when the City may use this method include:

1. When time constraints due to unusual circumstances preclude the use of the competitive bidding process
2. When no active market exists for the issue being traded due to the age or depth of the issue
3. When a security is unique to a single dealer,
4. When the transaction involves new issues or issues in the “when issued” market

Overnight investments or repurchase agreements with a cash management sweep program with the City’s depository bank are not subject to competitive bidding.

**XIV. CONTINUING EDUCATION**

The Finance Director or appropriate staff responsible for making investment decisions shall annually complete a minimum 8 hours of continuing education in subjects or courses of study related to investment practices and products.

**XV. REPORTING**

The Finance Director shall provide the City Manager with a “Quarterly Investment Report” that summarizes but not limited to the following:

- A. Recent market conditions, economic developments and anticipated investment conditions.
- B. The investment strategies employed in the most recent quarter.
- C. A description of all securities held in investment portfolios at quarter-end. Descriptions shall include security type, issuer, coupon rate, trade and maturity date, book value, income earned, and market value as of the report date.
- D. The average yield at cost for the quarter and versus appropriate benchmarks.
- E. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31.

On an annual basis, the Finance Director shall submit to the City Council a written report on all invested funds. The annual report shall provide all, but not limited to, the information above :

In addition, the annual report will show income earned during the just completed fiscal year and expected earnings for the upcoming fiscal year. All investments shall be reported at fair value per GASB Statement 31. Investment reports shall be available to the public.

## **XVI. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION**

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Finance Director or designee may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the City's custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the City. The Finance Director or designee shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this policy are prohibited.

The allocation limits and security types do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument.

- A. Local Government Surplus Funds Trust Fund (Florida PRIME) and other AAAM-rated Florida local government investment pools subject to formal resolution by the City Council

The maximum percentage allowable in Florida Prime is 75% of the total portfolio; the maximum allowable for any other investment pool is 25%; 100% of available funds may be held in AAA-rated investment pools.

- B. Direct obligations of the United States Treasury, other obligations backed by the full-faith-and-credit of the U.S. Treasury or insured by the Federal Deposit Insurance Corporation (FDIC), as well as obligations of government sponsored enterprises, including debt obligations of the Federal Home Loan Bank (FHLB), the Federal Farm Credit bank (FFCB), the Federal Agricultural Mortgage Corporation ("Farmer Mac"), the Federal National Mortgage Association ("Fannie Mae" or FNMA) and the Federal Home Loan Mortgage Corporation ("Freddie Mac" or FHLMC).

100% of available funds may be held in Treasury obligations or FDIC-insured debt obligations; 50% of available funds may be held in government sponsored enterprises. The maximum maturity of any government security shall not exceed three years.



C. Interest-Bearing Time Deposit (Certificate of Deposit or “CD”) or Savings Accounts in qualified public depositories as defined in Section 280.02, Florida Statutes

No more than 25% of available funds may be invested in Bank CDs: a maximum of 15% of available funds may be deposited with any single institution; the maximum maturity of any CD is limited to one (1) year.

In addition, up to 20% may be held in fully liquid saving accounts with QPDs.

D. Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided such funds are SEC-registered money market mutual funds subject to 2a-7 requirements and rated AA+ by S&P or the equivalent rating of another Nationally Recognized Statistical Rating Organization (“NRSRO The underlying fund portfolio\_\_is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

A maximum of 50% of available funds may be invested in mutual funds excluding one (1) business day overnight sweep agreements; a maximum of 25% of available funds may be invested with any one mutual fund.

## **XI. POLICY AMENDMENT**

This policy may be amended from time to time by City Council upon recommendation of the Finance Director (or his designee) through the City Manager.

**Section 2. Repeal.** All prior resolutions, if any, which conflict with this Resolution are hereby repealed.

**Section 3. Severability.** If any section, subsection, sentence, clause, phrase or portion of this Resolution, or application thereof, is for any reason held invalid or unconstitutional by any Court, such portion or application shall be deemed a separate, distinct and independent provision, and such holding shall not affect the validity of the remaining portions or application thereof.

**Section 4. Effective Date.** This resolution shall become effective immediately upon its adoption.

**APPROVED AND ADOPTED** at a meeting of the City Council of the City of South Daytona, Florida, on the 12<sup>th</sup> day of September, 2022.

**SIGNED:**

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WILLIAM C. HALL  
Mayor

**ATTEST:**

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JAMES L. GILLIS, JR.  
City Manager as Appointed City Clerk

**APPROVED AS TO FORM:**

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WADE C. VOSE  
City Attorney