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TO: Board of County Commissioners

FROM: Elissa Nagy, Finance Director

THRU: Jeffrey R. Smith, Clerk of the Circuit Court and Comptroller

DATE: December 4, 2020

SUBJECT: Changes to Cash and Surplus Investment Policy

BACKGROUND

During the Investment Advisory Committee meeting on December 3, 2020, some minor changes were recommended to the Cash and Surplus Funds Investment Policy.

We are requesting the following changes to the Cash and Surplus Funds Investment Policy:

OLD:

1. Page 3, Section V – Authorized Investments
Items #1-8 are authorized investments and Items #9-10 are prohibited investments.

NEW:

2. Page 3, Section V – Portfolio Investments(new section title)
List Items# 1-8 under a subsection of “Authorized Investments” and then list Items #9-10 under a new subsection titled “Prohibited Investments”

OLD:

1. Page 4, Section VIII – Portfolio Composition, Risk and Diversification
No more than 10% of the portfolio may be placed in any one Qualified Public Depository (and collateralized in accordance with State requirements). In addition, no more than \$6.5 million of the portfolio, including accrued interest, may be placed in certificates of deposit with any one financial institution.

NEW:

2. Page 4, Section VIII – Portfolio Composition, Risk and Diversification
No more than 10% of the portfolio may be placed in any one Qualified Public Depository (QPD), and collateralized in accordance with State requirements. In addition, no more than \$6.5 million of the portfolio, including accrued interest, may be placed in certificates of deposit with any one financial institution. The 10% requirement per QPD includes all accounts held and certificates of deposits.

OLD:

1. Page 4, Section IX – Authorized Investment Institutions and Dealers
B. Proof of Financial Industry Regulatory Authority certification

NEW:

2. Page 4, Section IX – Authorized Investment Institutions and Dealers
B. Proof of Financial Industry Regulatory Authority certification, unless the broker falls under the classification of a “bank dealer”, and then must provide a company letter stating such.

OLD:

1. Page 5, Section XII – Bid requirements
A minimum of three (3) bids will be obtained.

NEW:

2. Page 5, Section XII – Bid requirements
A minimum of three (3) bids will be obtained. A broker’s response that they are unable to bid on the investment can be counted as one of the required bids.

RECOMMENDATION

Staff recommends that the Board of County Commissioners accept the Cash and Surplus Investment Policy changes. Attached is a complete policy with the recommended changes.

INDIAN RIVER COUNTY, FLORIDA
Board of County Commissioners

***CASH AND SURPLUS FUNDS
INVESTMENT POLICY***



Prepared by the
Clerk of the Circuit Court and Comptroller

As amended by the
Board of County Commissioners
Revised December 15, 2020

INDIAN RIVER COUNTY, FLORIDA
CASH AND SURPLUS FUNDS INVESTMENT POLICY

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I. **OVERVIEW AND PURPOSE**

This policy applies to all cash and surplus funds of Indian River County except 1) debt proceeds and 2) monetary assets held by other entities on behalf of the County.

Indian River County often has funds available in excess of those required to meet short-term expenses (surplus funds). It is in the best interest of the citizens of Indian River County that an investment policy be established to provide guidelines for the investment of those surplus funds in such a manner as to preserve the safety and liquidity of those funds and to provide a competitive return on investments consistent with proper safeguards for the handling of government funds. The investment policy must comply with all applicable State laws regarding investment of public monies. The purpose of this document is to provide the Clerk of the Circuit Court, who is responsible for the investment of County surplus funds, a set of procedures and guidelines for investment selection and monitoring of invested funds. 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 agreements, bid requirements, internal controls, reporting and continuing education will be established by this investment policy and serve as the framework for all investment activities.

II. **OBJECTIVES**

The primary objectives of investment activities carried out by the Clerk shall be the following in order of importance:

1. To preserve capital in the overall portfolio and to maintain the safety of principal;
2. To remain sufficiently liquid to meet disbursement requirements that might be reasonably anticipated; and
3. To manage the investment portfolio to provide a competitive return consistent with objectives in Items 1 and 2 and other risk limitations described in this policy.

The highest priority of all investment activities shall be the safety of principal and liquidity of funds. The optimization of investment returns shall be secondary to the requirements for safety and liquidity.

III. *DELEGATION OF AUTHORITY AND OVERSIGHT PROCEDURES*

1. The responsibility for conducting investment transactions rests with the Clerk of the Circuit Court. The Clerk may delegate the responsibility for day-to-day investment decisions to deputy clerks. The Finance Director will provide investment information to the Clerk concerning investment decisions made by deputy clerks managing the investments.
2. An Investment Advisory Committee consisting of the County Administrator or his designee and at least two citizens selected by the Clerk shall meet regularly (at least quarterly) to evaluate investment performance of the County's investment portfolio, to evaluate current and future liquidity needs and investment strategy, and to prepare reports for the Board of County Commissioners. The Committee will recommend appropriate investment policies and procedures for all investment activities carried out by the Clerk. The Committee will perform an annual review of those investment policies and procedures.
3. The Clerk may use professional money management to assist in the investment of County surplus funds consistent with this policy. If such management is employed they shall act in a co-fiduciary relationship with the Clerk to insure that ample liquidity is maintained to meet County cash flow requirements. Money managers are required to provide investment strategy reviews to the Investment Advisory Committee quarterly or more frequently if requested. Money managers shall provide portfolio valuations monthly or more frequently if requested. An outside consultant may be utilized to evaluate investment performance of outside money managers. Performance figures will be calculated net of all fees and commissions. The consultant will provide comparative performance analysis on money managers to the Investment Advisory Committee quarterly. Money managers' performance, calculated in accordance with the Chartered Financial Analysts (CFA) Institute's performance presentation standards, will be compared to standard benchmarks.

IV. *PRUDENCE*

The standard of prudence to be applied by the Clerk shall be the "Prudent Person Rule" which states, "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." The Prudent Person Rule shall be applied in the context of managing the overall portfolio.

The Clerk, in accordance with Section 218.415 of the Florida Statutes and County procedures, will exercise due diligence. The Clerk will follow these policies and procedures. He will work with the Finance Director who will report to him any individual security's credit risk or market price change and recommend appropriate action be taken to control adverse developments.

V. ***AUTHORIZED PORTFOLIO INVESTMENTS***

AUTHORIZED INVESTMENTS

Authorized surplus funds shall be subject to restrictions as may be imposed by law (Section 218.415 of Florida Statutes). Funds will only be invested in the following securities:

1. Direct obligations of the United States Treasury;
2. Any intergovernmental investment pool, with the exception of SBA pools, authorized pursuant to the Florida Interlocal Cooperation Act as provided in FS 163.01.
3. Florida Local Government Investment Trust Fund (FLGIT);
4. Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes;
5. Federal agencies and instrumentalities;
6. 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 that the portfolio of such investment company or investment trust 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;
7. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; or
8. Repurchase agreements with a term of one (1) year or less collateralized by direct obligations of the United States Government which have maturities of three (3) years or less and a market value of 103% or more of the repurchase amount;

PROHIBITED INVESTMENTS

9. Derivatives (defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values), reverse repurchase agreements, or similar forms of leverage are **prohibited**;
10. Premiums will not be paid for any investments. All investments will be purchased at par or at a discount.

VI. ***MATURITY AND LIQUIDITY***

County investments shall be managed to maintain liquidity for meeting the County's need for cash and to limit potential market risks. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

VII. **PERFORMANCE MEASURES**

The yield of the one-year Treasury at a constant, fixed maturity is established as the benchmark for investment of County funds. The actual performance of the portfolio may vary depending on changes in interest rates.

VIII. **PORTFOLIO COMPOSITION, RISK AND DIVERSIFICATION**

The following are the guidelines for investments and limits on security issues, issuers and maturities as established by the County. The Investment Advisory Committee shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Purchases of investments based on bond covenant requirements shall not be included in the portfolio composition calculation. With the exception of United States Treasury Obligations, no more than 20% of the entire portfolio shall be invested in any one federal agency. No more than 10% of the portfolio may be placed in any one Qualified Public Depository (and collateralized in accordance with State requirements). In addition, no more than \$6.5 million of the portfolio, including accrued interest, may be placed in certificates of deposit with any one financial institution. **The 10% requirement per QPD includes all accounts held and certificates of deposit.** No more than 10% of the portfolio may be placed in any one money market fund, mutual fund, or intergovernmental investment pool.

All investments must have stated maturities of ten (10) years or less and no more than 25% of the portfolio shall be invested in instruments with stated final maturities greater than five (5) years. The portfolio shall have securities with varying maturities and at least 10% of the portfolio shall be invested in readily available funds.

IX. **AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Purchases and sales of authorized investments will only be made through financial institutions that are qualified as public depositories by the Chief Financial Officer of the State of Florida or are “primary dealers” as designated by the Federal Reserve Bank of New York or are broker/dealers that qualify under Securities and Exchange Commission Rule 15C3 (Uniform Net Capital Rule).

The Investment Advisory Committee must approve all brokers and dealers who desire to transact trades with the County. All brokers and dealers who desire to transact trades with the County must provide the Finance Director with the following:

- A. Audited financial statements,
- B. Proof of Financial Industry Regulatory Authority certification, **unless the broker falls under the classification of a “bank dealer”, and then must provide a company letter stating such,**
- C. Proof of state registration, when required, and
- D. Certification of having read the County Investment Policy.

Brokers and dealers who have been approved by the Investment Advisory Committee must provide annual audited financial statements to the Finance Director. The Investment Advisory Committee will annually review the list of approved institutions and brokers.

X. ***SAFEKEEPING AND CUSTODY***

All securities purchased by the Clerk shall be properly designated as an asset of the County and held in safekeeping by a third party custodial bank, chartered by the United States Government or the State of Florida, and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Finance Director or his designee.

The Clerk will execute third party custodial agreements with banks. Such agreements will include details as to the responsibilities of each party, the costs to be borne by each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction costs, and procedures in case of unforeseen mishaps.

XI. ***AGREEMENTS***

The Clerk will execute bank and investment agreements. Such agreements will include details as to the responsibilities of each party, costs to be borne by each party, notification of wire transfers, and transaction costs.

XII. ***BID REQUIREMENTS***

After the Finance Director has determined the approximate maturity date based on the cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three qualified brokers and/or dealers will be contacted and asked to provide bids on the securities in question.

In most situations the competitive bid process shall be utilized, except when securities are purchased as an initial offering. The Finance Director will choose the appropriate brokers or dealers from among those on the approved broker/dealer list based on expertise, competitiveness and the ability to execute the transaction and deliver the securities on a timely basis. A minimum of three (3) bids will be obtained. **A broker's response that they are unable to bid on the investment can be counted as one of the required bids.**

1. Bids will be held in confidence until the best bid is determined and awarded,
2. Documentation will be retained for all bids, with the winning bid clearly identified,
3. If for any reason the highest bid (on sales of investments) or the lowest bid (on purchases of investments) is not selected, then the reasons leading to that decision will be clearly documented,
4. If the maturing investment is a certificate of deposit, the present holder of the funds will be one of the contacts made, subject to the portfolio diversification requirements in this policy and the institutions' ability to maintain collateral.

XIII. INTERNAL CONTROLS

The Clerk shall adopt a written set of internal controls and operational procedures to be implemented by the Finance Director, which said controls are designed to protect the County's funds and ensure proper accounting and reporting of securities transactions. Such internal controls shall consist, at a minimum, of the following:

1. All securities purchased or sold will be transferred only under the "delivery versus payment" (DVP) method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met;
2. The Clerk is authorized to accept, on behalf of and in the name of Indian River County, bank trust receipts or confirmations as evidence of actual delivery of the obligations or securities in return for investment of funds; and
3. Trust receipts or confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Indian River County.
4. The written system of internal controls and operational procedures shall be approved by the Investment Advisory Committee and shall be subject to review by the external auditors as part of the annual financial audit.

XIV. REPORTING

Quarterly reports will be prepared disclosing current investments, the book value of all investments, earnings for the quarter, market values for all investments, purchases, sales, and maturities of investments and such other information as may be requested. Quarterly and annual reports concerning the investment activities, investment portfolio and performance will be submitted to the Investment Advisory Committee and placed on the consent agenda of the Board of County Commissioners.

XV. CONTINUING EDUCATION

Given the often complex and diverse nature of investments, and the importance of balancing the safety and liquidity of investments against the desire to maximize interest earnings, deputy clerks responsible for making investment decisions must annually complete sufficient continuing education as required by State law in subjects or courses of study related to investment practices and products.