

## Investment Policy

These investment policies apply to all financial assets of Sarasota County, which are under the direct control of the Board of County Commissioners of Sarasota County. These policies do not include any financial assets under the direct control of any of the Constitutional Officers of Sarasota County or the Sarasota Manatee Airport Authority. At such time as the funds under their direct control pass to Sarasota County, these policies will become applicable.

### I. INVESTMENT RESPONSIBILITIES

#### A. LEGAL REQUIREMENTS

Investments of Sarasota County are subject to Florida Statutes Chapter 218.415. These investment policies are established to supplement the existing statutory authority.

1. Investment Authority of Sarasota County Investments of Sarasota County must conform to the provisions of Florida Statutes 218.415, as amended from time to time. The Board of County Commissioners shall establish the overall investment policies and the implementation is delegated to the Clerk of the Court, acting in her capacity as the Clerk, and the Chief Financial Officer to the Board. The Clerk is herewith delegated the responsibility of establishing detailed investment and accounting procedures to govern the day to day investment activities necessary to carry out these investment policies.

2. Authorized Investments Sarasota County is authorized under Florida Statutes Chapter 218.415 to purchase the following authorized investments:

- a) The Local Government Surplus Funds Trust Fund
- b) Direct obligations of the U.S. Government, such as, U.S. Treasury obligations.
- c) Obligations guaranteed by the U.S. Government as to principal and interest.
- d) Time deposits and savings accounts in banks and savings and loan associations, organized under the laws of Florida or the United States, doing business in and situated in this state. All such deposits shall be collateralized as provided for by Florida Statutes Chapter 280.
- e) Obligations of the:
  - Federal Farm Credit Banks (FFCB)
  - Federal Home Loan Mortgage Corporation (FHLMC) (participation certificates)
  - Federal Home Loan Bank (FHLB) or its banks
  - Government National Mortgage Association (GNMA)
  - Federal National Mortgage Association (FNMA)



- Student Loan Marketing Association (SLMA)
- Tennessee Valley Authority (TVA)
- Resolution Funding Corporation (REFCORP)
- Financing Corporation (FICO)



Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, collateralized mortgage obligations, adjustable rate securities and adjustable rate mortgages. The County doesn't restrict the percentage of total investments to any single issuer.



In addition, Sarasota County is authorized to invest in the following securities:



f) Commercial Paper of U.S. Corporations having a rating of at least two of the following three ratings: A-1, P-1 and F-1, as rated by Standard & Poors, Moody's, and Fitch Investors Service rating services.

g) Bankers' Acceptances that are eligible for purchase by the Federal Reserve Banks and have a Letter of Credit rating of A or better.



h) Tax-exempt obligations, rated A+ or better, of the State of Florida and its various local governments, including Sarasota County.

i) Florida Local Government Investment Trust (FLGIT) Administered by Florida Association of Court Clerks and Comptrollers Service Corporation.

j) Fixed or floating rate instruments of corporate and bank issuers rated at least A2 by Moody's Investors Service, Inc. ("Moody's"), or A by Standard & Poor's Corporation ("S&P") or A by Fitch. Such minimum ratings shall exist by at least two or three NRSO's.

k) Asset-backed securities having a minimum rating, at the time of purchase, of at least A-1+ by S&P or P-1 by Moody's or F-1+ by Fitch if the final maturity is 13 months or less AAA by S&P of Aaa by Moody's or AAA by Fitch for longer maturities. Such minimum ratings shall exist by at least two of the three NRSRO's (*Nationally Recognized Statistical Rating Organizations*).

l) The Florida Municipal Investment Trust (FMIVT) fixed income portfolios with a modified duration of less than five (5.0) years, administered by the Florida League of Cities.

m) The Florida Municipal Pension Trust Fund (FMPTF), administered by the Florida League of Cities, only applicable for Other Post Employment Benefit (OPEB) plan assets.



### **Securities Lending:**

Securities or investments purchased or held under the provisions of this section may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having an initial market value of at least 102 percent of the market value of the securities loaned, and maintained at a market value of at least 101% of the securities loaned.



Sarasota County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in Section I, A, 2, (b), (c), and (e) of this Policy.



Sarasota County is herewith authorized to borrow from other funds of the County (as investments), provided all necessary legal and accounting requirements have been complied with.



### **Collateral Requirements**

#### **General:**

Sarasota County is required by the provisions in Florida Statutes Chapter 280 to place its deposits only in a "qualified public depository", as that term is defined in the Florida Statutes. Any deposit placed in a qualified public depository is deemed to be adequately collateralized by Florida Statutes. Subsequent failure by a qualified public depository to timely return public deposits to Sarasota County will be governed by Chapter 280, as amended. In the event of a repeal of Chapter 280, the County shall adopt alternative collateralization policies.



#### **Repurchase Agreements:**

The County is herewith required to seek collateral for any Repurchase Agreement, not covered under Chapter 280. Collateral placed for any repurchase agreement will be governed by the Master Repurchase Agreements executed between Sarasota County and the various security brokers/dealers, including banks and savings and loan associations. The terms for collateral will be based on economic and financial conditions existing at the time of the repurchase agreement and credit risk of the particular broker/dealer or financial institution which enters into the repurchase agreement with Sarasota County.

### **B. COUNTY FUNDS AND BOND ORDINANCE REQUIREMENTS**

All County funds under the direct control of the Board of County Commissioners are herewith covered by these Investment Policies.

Certain funds are invested in accordance with specific investment policies contained within bond resolutions and official statements. Those policies were adopted using Florida

Statutes Chapter 125.31 and 218.415, and are not in conflict with these Investment Policies.

## II. INVESTMENT OBJECTIVES

### A. SAFETY OF CAPITAL

Safety of capital is regarded as the highest priority in the handling of investments for Sarasota County. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value.

From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these type transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- The yield has been increased, or
- The maturity has been reduced, or
- The quality of the investment has been improved.


### B. MAINTENANCE OF ADEQUATE LIQUIDITY

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due. Specific policies describing the manner in which adequate liquidity is maintained are described in Section III. B of these Policies.


### C. RETURN ON INVESTMENTS

The County seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio shall be designed with the annual objective of exceeding the average return on the corresponding treasury maturity (yearly rolling average), based on the portfolio's average duration.

### D. PRUDENCE AND ETHICAL STANDARDS




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, or persons performing the investment functions, acting in accordance with written policies and procedures, 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 appropriate action is taken to control adverse developments.

The "prudent person" standard is herewith understood to mean 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."



### III. INVESTMENT POLICIES

#### A. SPECIFIC POLICIES TO ENSURE SAFETY OF PRINCIPAL



The following specific policies are set forth below to provide additional guidance in implementing the first investment objective of safety of capital.

##### 1. Reducing Credit Risk

###### a) Acceptable Investments:

Legally authorized investments were set forth above in Section I. A. The following is an expansion of that list.

###### i. **U.S. Treasury Obligations:**

U.S. Treasury Obligations consist of U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds.

###### ii. **Obligations guaranteed by the U.S. Government, as to principal and interest:**

Export Import Bank

Farmers Home Administration

General Services Administration



Government National Mortgage Association (GNMA)

Penn Central Transportation Certificates

Ship Financing Bonds Title 13



Small Business Administration

Washington Metropolitan Transit Authority Bonds



**iii. Time Deposits and Savings Deposits of banks and savings and loans organized under the laws of Florida or the U.S. Government and operating in Florida:**

Savings Accounts

Money Market Accounts (NOW)

Certificates of Deposits (non-negotiable type)



**iv. Specific obligations of the following:**

Federal Farm Credit Banks (FFCB)

Federal Home Loan Mortgage Corporation (FHLMC) participation certificates or debentures

Federal Home Loan Bank (FHLB) or its banks

Government National Mortgage Association (GNMA); also see above under U.S. Government guaranteed.

Federal National Mortgage Association (FNMA)

Student Loan Marketing Association (SLMA)

Tennessee Valley Authority (TVA)

Resolution Funding Corporation (REFCORP)

Financing Corporation (FICO)

Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, collateralized mortgage obligations, adjustable



rate securities and adjustable rate mortgages. The County doesn't restrict the percentage of total investments to any single issuer.



**v. Commercial Paper:**

Commercial Paper of U.S. Corporations having a rating of at least two of the following three ratings: A-1, P-1 and F-1, as rated by Standard & Poors, Moody's, and Fitch Investors Service rating services.



**vi. Bankers' Acceptances:**

Bankers' Acceptances that are eligible for purchase by the Federal Reserve Banks and have a Letter of Credit rating of A or better.



**vii. Tax-Exempt Obligations:**

Tax-exempt obligations, rated A+ or better, of the State of Florida and its various local governments, including Sarasota County.



Sarasota County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized in Section III, A, 1, a, 2, and 4 of this Policy.

**viii. Corporate/Asset-backed Securities:**

Fixed or floating rate instruments of corporate and bank issuers rated at least A2 by Moody's Investors Service, Inc. ("Moody's"), or A by Standard & Poor's Corporation ("S&P") or A by Fitch.

Such minimum ratings shall exist by at least two of the three NRSO's.

Asset-backed securities having a minimum rating, at the time of purchase, of at least A-1+ by S&P or P-1 by Moody's or F-1+ by Fitch if the final maturity is 13 months or less AAA by S&P or Aaa by Moody's or AAA by Fitch for longer maturities. Such minimum ratings shall exist by at least two of the three NRSO's.

**Securities Lending:**

Securities or investments purchased or held under the provisions of this section may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having an initial market value of at least 102 percent of the market value of the securities loaned, and maintained at a market value of at least 101% of the securities loaned.

#### b) Approved Broker/Dealers

It is the policy of Sarasota County to purchase securities from those broker/dealer or banks who have been approved by the Clerk of Circuit Court. The approved list will be developed in accordance with the following guidelines.

Banks and savings and loan associations must be Qualified Public Depositories, as determined by the State of Florida and as published in the Florida Administrative Weekly. Other financial institutions may be approved if they have a shareholder's equity of at least \$250 million. For a wholly-owned subsidiary, statements of the parent holding company may be accepted to satisfy the equity requirement.

Brokers and dealers must be primary government securities dealers as indicated on the Federal Reserve Bank of New York's list. Additionally, those broker/dealers who have a contractual relationship or previous or current satisfactory fiduciary responsibility with the County in some other capacity.

Repurchase Agreements will be conducted only with principals and not through third party brokers acting as agents. Repurchase Agreements will be in the form specified in Section III, A, 1, h of this Policy.

#### c) Safekeeping of Securities

To protect against potential fraud and embezzlement, the investment securities of the County shall be secured through third-party custody and safekeeping procedures. Investments held in custody and safekeeping by the Federal Reserve Bank of Jacksonville or any other Reserve Bank will qualify as thirdparty safekeeping. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank, and the total assets of the bank are in excess of \$4 billion.

Certificates of deposits and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes.

Prior to any transfer of securities to a third-party custodian bank, a custodian/safekeeping agreement will be executed by the custodian bank and the Clerk on behalf of the County and filed for record.

#### d) Delivery vs. Payment

Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to insure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

Delivery in or out of safekeeping with a Federal Reserve Bank will not be done simultaneous.

e) Collateralization

Collateral for public deposits is controlled by the State of Florida through Chapter 280 of the Florida Statutes. The County shall not be under any obligation to secure additional collateral beyond the provisions set forth in Chapter 280, except in the case of Repurchase Agreements.

Collateral requirements for Repurchase and Agreements will be contained in the Master Repurchase Agreement, executed between the Clerk on behalf of the County and the broker/dealer or bank. The actual collateral requirements will be based on economic and financial conditions existing at the time of execution, as well as the credit risk of the particular broker/dealer or financial institution which enters into the repurchase agreement with the County.

At no time will the collateral (margin ratios) be less than the following provisions:

Margin Ratios. For purposes of calculating the margin amount, the following ratios shall be applied to the market value of the purchased securities, depending on their maturity:

	United States
Maturity of	Treasury Securities
<u>Purchased Securities</u>	<u>and Agencies</u>
Under 1 Year	101%
Over 1 Year	102%

Market Value. In determining market value, dealers' bid prices shall be used, as quoted daily in the Wall Street Journal, or other acceptable media, and accrued interest shall be included.

f) Bidding Process



All investments, except the daily open repurchase agreement with the depository bank as it relates to the overall banking agreement, will be purchased through a competitive bidding process, using the dealers and banks on the approved list. The County is under no obligation to secure competitive bids from all the dealers or banks on the approved list. Rather a decision will be made by the Investment officials as to the

institutions that have been the most competitive over the last few weeks, and these will be contacted for a bid. Documentation will be retained for all bids, with the winning bid clearly identified. If for any reason, the highest interest rate bid was not selected, then the reasons leading to that decision will be clearly indicated on the bidding forms.

The competitive bidding policy may be waived for a potential purchase or sale of certain securities due to market availability (supply and demand). Under these circumstances, the Clerk of Court or Director of Finance must approve the transaction.

From time to time, various government agencies announce the issuance of new securities to the financial markets. Since all new issues are sold at par, the County would not realize any benefit by purchasing these securities through the competitive bid process. If the new issue, or "To Be Announced" (TBA) security falls within the portfolio diversification and maturity requirements of one of the various funds of the County, the Treasury Management Officer shall at his discretion place the investment with the bank or broker who initiated the contact on the investment opportunity.

g) Diversification of Portfolio

Prudent investing necessitates that the portfolio be diversified as to instruments and dealers. The following maximum limits are guidelines established for diversification by instrument. These guidelines may be revised by the Clerk of Circuit Court for specific circumstances:

Repurchase Agreements	50%
Certificates of Deposit	40%
U.S. Treasury Bills/Note	100%
Other U.S. Government Agencies	65%
State Investment Pool /FLGIT/FMIvT	75%
Commercial Paper	25%
Bankers' Acceptances	25%
Corporate/Asset-backed	20%



To allow efficient and effective placement of proceeds from bond sales, the limit on repurchase agreements may be exceeded for a maximum of five business days following the receipt of bond proceeds, on the direction of the Clerk of Circuit Court.

Money Market Funds may be used by Trustees, Paying Agents, Safekeeping Agents, etc., as a temporary investment for bond proceeds or payouts.

No more than 25% of the entire portfolio may be placed with any one security dealer or bank.

#### h) Written Repurchase Agreements

All repurchase agreements must be in written form using the Public Securities Association (PSA) Master Repurchase Agreement as a guide. Annex 1 of this guide shall materially conform to the recommendations by the Government Finance Officers Association. Agreements not substantially conforming to this Master and Annex 1 are unacceptable.

## 2. Reducing Interest Rate Risk

Generally, the longer the maturity of a particular investment, the greater its price volatility. Accordingly, the County seeks to limit its risk by maintaining an investment portfolio with limited volatility. Guidelines are established below.

### Pooled Cash and Investment (no restrictions):

No security shall have an estimated average return of principal exceeding 5 years. The weighted average duration of principal return for the portfolio shall be less than two years. These restrictions shall be modified for adjustable rate securities, whose maturities could be as much as 30 years. The total adjustable rate securities purchased shall not be more than 35% of the total portfolio.

### Restricted Accounts:

Securities will have a maximum maturity consistent with the nature of the restricted accounts.

## B. POLICIES TO ENSURE ADEQUATE LIQUIDITY

### 1. Maintenance of Liquidity Base

A liquidity base of approximately two months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include the State Investment Pool, Repurchase Agreements and U.S. Treasury Obligations.

## 2. Maximum Maturity on Repurchase Agreement

The maximum maturity for any single Repurchase Agreement, except for the daily repurchase agreement with the concentration bank, will be one (1) year.

## 3. Purchase Securities with Active Secondary Market

Many securities are legally authorized but are not very desirable from a liquidity standpoint. Accordingly, although investments may be on the authorized list, only those securities with an active secondary market may be purchased.

## C. POLICIES TO ACHIEVE INVESTMENT RETURN OBJECTIVES

### 1. Active Portfolio Management

It is the policy of the County to actively manage the investment portfolio within the constraints outlined in these investment policies. In recognition that specific investments and markets are dynamic, that relative values can change over time, and by regularly re-assessing their analysis and projected performance and making timely re-allocations of investments, it is the policy to review and pursue those opportunities that are consistent with long term optimization (active management). Outside consulting managers may be used to direct a portion of the portfolio using approved investments to enhance returns, subject to approval by the Clerk of the Court.

### 2. Portfolio Maturity Management

When structuring the maturity composition of the portfolio, it is the policy of the County to evaluate current and expected interest rate yields, by evaluating the general economic conditions. Whenever interest rates are expected to increase in the near future, actions will be taken by the County Finance Director on the portfolio to shorten the maturities. Accordingly, whenever interest rates are expected to decrease, the maturities of the portfolio will be lengthened, as appropriate. Specific procedures for evaluating the general economic conditions are to be incorporated into the Investment Procedures.

### 3. Bond Swaps

It shall be the policy of the County to pursue bond swaps as they may present themselves over the term of any investment. The following categories of bond swaps are considered appropriate for the County:

## a) Swaps to Increase Yield:

Market aberrations are often caused by supply and demand conditions for particular securities. For example, if a short supply exists for a particular maturity range, then it may be advantageous to swap out of the security in a short supply and into another similar security in a different maturity range.

## b) Swaps to Reduce Maturity:

Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by switching from the longer maturity security to the shorter maturity with little or no interest rate penalty.

## c) Swaps to Increase Portfolio Quality:

Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by switching from the higher risk security to a lower risk security without any interest rate penalty.

Temporary accounting losses on swaps can be incurred, provided the loss is more than offset by the higher yield. Procedures for evaluating and recording bond swaps will be developed by the Investment officials.

## D. POLICIES TO ENSURE ETHICAL AND PRUDENT ACTION

### 1. Establishment of Internal Controls

It is the policy of the County to establish a system of internal controls, which shall be in writing. The internal controls shall address the following points:

## a) Control of collusion:

Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

## b) Separation of functions:

By separating key functions and having different people perform each function, each person can perform a "check and balance" review of the other people in the same area.

## c) Separation of transaction authority from accounting and record keeping:

By separating the person who authorizes or performs the transaction, from the people who record or otherwise account for the transaction, controls are enhanced.

d) Custodial safekeeping:

Securities purchased from any bank or dealer, including appropriate collateral, should be placed into a third party bank for custodial safekeeping.

e) Avoidance of bearer-form securities:

Bearer-form of securities are much easier to convert to personal use, than securities that are registered in the name of Sarasota County.

f) Avoidance of physical delivery securities:

Book entry securities are much easier to transfer and account for, since actual delivery is never taken. Physical delivery securities must be properly safeguarded as are any valuable documents. The potential for fraud and loss increases with physical delivery securities.

g) Clear delegation of authority to subordinate staff members:

Subordinate staff members must have a clear understanding of their authority and responsibilities, to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

h) Specific limitations regarding securities losses and remedial action:

Securities losses may be necessary to implement this Investment Policy. These losses should be restricted to specified purposes and proper documentation and required approval should be clearly defined for each staff person.

i) 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.

j) Documentation of transactions and strategies:

All transactions and the strategies that may have been used to develop the transactions should be documented in writing and approved by the appropriate person.

k) Development of a wire transfer agreement with the depository bank as it relates to the overall banking agreement:

This agreement should outline the various controls and security provisions for making and receiving wire transfers.





2. Reporting at least annually of the investment portfolio as to type, book, value, market value and earned income will be made available to the public.

### 3. Training and Education

It is the policy of the County to provide periodic training in investments for the investment officials through courses and seminars offered by the Government Finance Officers

Association and other organizations. The Treasury Officer (or other officials responsible for making investment decisions) shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products, pursuant to Section 218.415 (14), Florida Statutes.

