

1 **MINUTES OF THE INVESTMENT POLICY WORKSHOP** of the City Council of the City of
2 Orange City, Florida, held on Tuesday, April 8, 2008 at 6:00 p.m. in Council Chambers, 201 N. Holly
3 Avenue, Orange City.

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5 **CALL TO ORDER** The Meeting was called to order at 6:00 p.m. by Mayor Strickland and roll call was
6 taken.

7
8 **ROLL CALL**

9
10 PRESENT: Mayor Harley Strickland; Vice Mayor Jeff Allebach; Council Members; Tom Laputka,
11 Tom Abraham, Don Sherrill, Donald Sandford Jim Mahoney Amended 5/27/08; City Attorney
12 William Reischmann; City Manager John McCue, City Clerk Deborah Renner

13
14 ABSENT: Council Member Abraham

15
16 **1 DISCUSS THE CITY'S INVESTMENT PLAN**

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18 Mr. McCue advised that the purpose of this workshop is to request the Council's feedback on the
19 proposed investment policy. He said that the revisions are based on the Florida Government Officers
20 Association (FGOA) standards. Mr. McCue told Council that once the draft policy is finalized staff
21 would prepare a spreadsheet of city's investment options and that the city's financial advisor would
22 come before Council to answer questions.

23
24 Christine Davis, Finance Director, came forward. She said that the city's current investment policy was
25 adopted in 1998 and had never been revised. She stated that the proposed policy was modeled from the
26 FGOA sample investment plan and that the descriptions have been expanded. Ms. Davis said that the
27 draft policy had been submitted to the investment advisor for his review and that staff is requesting
28 Council input.

29
30 Council Member Mahoney questioned the language in the last sentence of Sec. 2-182. General
31 Objective, (1) B "...limiting the maximum duration of the portfolio to 3 years. He suggested the section
32 be revised to say "...limiting the maximum term to maturity of all securities in the portfolio to 3 years."
33 Council Member Mahoney felt that if the language is talking about individual investments it should be
34 more specific. There was a lengthy discussion about the revision. Mr. McCue said that changing the
35 verbiage could be misinterpreted but that it could be changed. Council Member Sandford confirmed
36 that every investment would be no longer than three years. Mr. McCue responded in the affirmative.

37
38 Mayor Strickland questioned if the securities would be staggered. Ms. Davis said they would. Mr.
39 McCue agreed noting that there may be short term investments with a shorter maturity date. He
40 reiterated his concern that the change recommended by Council Member Mahoney could be interpreted
41 differently than intended. Council Member Mahoney said that his previous suggestion was an attempt
42 to define "duration" in that section.

43
44 Referencing page 3, Sec. 2-184 (3) Council Member Mahoney asked for a definition of Delivery vs.
45 Payment. Mr. McCue commented that this section talks about the procedures of delivery versus
46 payments of security transactions. He said that would provide more specific information. Council
47 Member Mahoney questioned subsection H Repurchase Agreements on page 4. He recommended that
48 the verbiage limits the city's participation to that of a lender and not the borrower. Next, he addressed

1 the first sentence in subparagraph H, “Securities referred to in paragraph A or B....” and asked if the
2 city should include only the securities in A. Mr. McCue agreed and said that it could be eliminated.

3
4 In response to a question from Council Member Sandford, Mr. McCue said that staff will propose to
5 eliminate “B” from that subsection but the investment advisor may recommend not eliminating it.

6
7 Referencing subparagraph C on page 5, Council Member Mahoney asked if the city would only
8 purchase securities that are graded by all three firms. Vice Mayor Allebach expressed concerns that that
9 would not be a good limitation on the investment strategy. Mr. McCue agreed. He said that not all
10 securities would be rated by all three firms. He said that he would investigate. In response to a query
11 from Mayor Strickland, Mr. McCue said that this issue has to do with agencies such as Standard &
12 Poor’s Moody. He explained that these agencies review initial investments and give a rating on how the
13 performance of the investment. He said a triple “A” rating means that investment’s security is highly
14 rated. Mr. McCue said that not all three firms rate each security but that he would find out if it could be
15 removed.

16
17 Next, Council Member Mahoney questioned Sec. 2-187 Reporting 1. Methods on page 6, he said that
18 the purchase and maturity dates of the securities, as well the assets included in the investment report.
19 Ms. Davis said that could be done. Council Member Mahoney felt that the quarterly reports discussed
20 in section 3. Marking to Market on page 6 is redundant. He said that quarterly reports are mentioned in
21 subsection “1”. Mr. McCue said that the report discussed in this section could be required by regulatory
22 agencies, etc. He said that he would clarify it with the investment advisor.

23
24 Council Member Sandford asked how staff would record an investment that yields annually. Mr.
25 McCue said if interest is earned annually, the interest earning would not be reported until it was due.
26 Staff would not estimate the yield. Council Member Sandford further questioned how that would appear
27 in the report. Mr. McCue stated that it is unlikely that the city would invest in pool that is not earning
28 interest monthly. Council Member Mahoney stated, “Just because you don’t receive it as income
29 doesn’t mean you don’t recognize it as income.” Mr. McCue agreed. He said that that he does not want
30 staff in a position of having to report what is believed to be the interest earnings.

31
32 Referencing page 6, Sec. 2-185, H. Overall Portfolio Interest Rate Risk Council Member Mahoney
33 noted that section appears to be related to page one Sec. 2-182. General Objectives, (1) B. He
34 commented that the last statement on page 6 mentions “the governing body” of the city yet the Reports
35 and Methods paragraphs above talks about the “city council.” He suggested that it should be consistent.
36 Mr. McCue advised that “governing board” would be changed to “city council” throughout the policy.

37
38 Mayor Strickland pointed out that there is a typographical error on page 7, Sec. 2-188 3. Continuing
39 Education, line 3, “manager of designee” should read “manager or designee.” Mr. McCue noted that it
40 should say, “manager and designee.” He advised that on May 17th staff would be attending their first
41 training.

42
43 Mayor Strickland asked for clarification of the statement “must be fully redeemable” in Sec. 2-185 (3)
44 subsection F. Money Market Mutual Funds on page 6. He said that mutual funds have the lowest
45 interest rate available. Ms. Davis responded that currently our money market funds are accessible any
46 day and are redeemable every day at the current rate FED rate plus two bases points. She said that
47 participants are allowed three withdrawals a month and that a penalty is accessed if that limit is
48 exceeded. Mr. McCue noted it is a liquidity issue noting that this section provides access to funds

1 within 24 hour notice. He reminded Council that when there were problems with the SBA the city was
2 able to move money out of pool 'A' within 24 hour notice. He remarked that is what this section
3 accomplishes. A lengthy discussion ensued. Council Member Mahoney commented that the treasury
4 is fully guaranteed and asked if there is some risk with the money market securities. Mr. McCue
5 responded in the affirmative. Ms. Davis said that Orange City's mutual funds are with a qualified public
6 depositor and is fully categorized. Mr. McCue remarked that is the balancing act of an investment
7 portfolio; how much risk are you going to take for the interest you are going to get on the return on your
8 investment?

9
10 Council Member Mahoney asked treasury strips. Ms. Davis said that in the investment advisor's
11 opinion, treasury strips are for 20-30 years but that she would convey that question to him. Mr. McCue
12 stated that he would recommend against strips. Mr. McCue told the Council about Brevard County
13 Commissioners who were arrested for investing in treasury strips through their mortgages in 1988. He
14 said that he would research it and send the council the laws that applied.

15
16 Mayor Strickland asked for clarification of the specific diversification guidelines mentioned on page 6,
17 Sec. 2-185, (4) Diversification Limits. Mr. McCue said that is an overstatement. He said it based on
18 what the market is doing. In response to a question from Council Member Sandford, Mr. McCue said
19 that the city's cash needs would determine its diversification limits. He commented that is why liquidity
20 in the money markets accounts is important. However, that would not be the single criterion to make
21 that determination. Mayor Strickland suggested replacing the word guidelines with strategy.

22
23 Referencing internal control issues discussed on page 6, Mayor Strickland asked if there is a control
24 policy currently in place. Ms. Davis said that there is a draft policy, it is a management document. She
25 said it is reviewed by the auditor every year. Mr. McCue noted that document is the city manager's
26 direction to the finance director. Mayor Strickland questioned if it details directives on spending limits
27 and things of that nature. Mr. McCue responded in the negative. Ms. Davis pointed out that
28 information is part of the Purchasing Ordinance. Ms. Davis advised Council the management policy is a
29 one page document and that she would email it to Council. Discussion ensued about the signatories for
30 the city. Mr. McCue said there are four signatories on record and that two are required to complete a
31 transaction. He listed the signatories, noting that this is standard practice in every local government.

32
33 Vice Mayor Allebach commented that the policy had been requested by Council Member Abraham and
34 was emailed to entire Council. He said that it is a good control policy because there is not a lot of
35 opportunity for "creative" bookkeeping. Mr. McCue pointed out that if there were not sufficient internal
36 controls in Orange City's accounting processes that would have been a red flag on the city audit. He
37 said the city has this type of control in every aspect of City finances. There are internal controls on such
38 things as cash handling, whereby the person collecting the money is not the person making the deposit.
39 He remarked, "Those are givens, those are reality checks."

40
41 Council Member Mahoney recalled that there were previous discussions about the City being a "small
42 fish in a big pond." He remarked that if the approach has changed to and that analogy becomes "the big
43 fish in a big pond with a seat at the table" than that pond isn't going to be very big. Mr. McCue noted
44 that was when there was an attempt to put together local government investment pool and the city was
45 invited to participate. Council Member Mahoney felt that if it is going to be a "smaller pond" than we
46 must insist on better guarantees at the expense of yield because it would not be diversified. Mr. McCue
47 agreed. He said that he would not recommend that the city participate. He explained that there are a
48 number of local government investment pools. The new pool proposed last year had a level of

1 excitement because municipalities would be able to sit on the board of directors and control the
2 investments of the entire portfolio. He remarked that is where cities felt they were cut out from the SBA
3 pool. Mr. McCue noted that the SBA has become very transparent. He said the Blackstone Group, L.P.
4 firm has done a tremendous job of recouping and getting the pool back on track. The panic is over and
5 that many people are rejoining that pool. It now has a triple "A" rating and remarked that is a huge
6 accomplishment. He said the Orange City still has \$400,000 in pool B and felt that the city may not lose
7 anything out of that pool. Mr. McCue felt that diversification should be the direction of the city's
8 investment portfolio.

9
10 Council Member Mahoney said that he was expressing a concern about security. He felt that a
11 government policy that preserves principal is not appropriate. Instead the principal should be fully
12 guaranteed and there should be no risk of the loss and that the result of the approach would be a
13 reduction in the portfolio yield. Mr. McCue agreed. Council Member Mahoney stated I accept the
14 credit risk associated with the federal government. Referring to Sec. 2-185 (3) A. Council Member
15 Mahoney said that the credit risk, lost of principal is zero. Mr. McCue disagreed. He said that it is not
16 likely to have a failure of the Federal Government's process but it is not a zero risk. If we were to look
17 at using our cash and only going to invest in security or portfolio that had 100% guarantee of no loss of
18 the principal, it would not be worth the effort. He said the City has liquidity issues and cannot afford to
19 money in a three term investment. Council Member Mahoney suggested that there is an infusion of cash
20 early in the fiscal year. He said it would have to be timed. Mr. McCue said that the only infusion of
21 funds is the ad valorem property taxes. He told Council Member Mahoney the cash flow that he was
22 referring to is not very big for the City for the first three months. He said there may be a little bit o
23 money but that becomes operating expenses immediately thereafter.

24
25 In response to a question from Council Member Mahoney, Mr. McCue said the SBA Investment Pool B
26 is the longest term investment the City has. Council Member Mahoney clarified that he was asking if
27 there are any bonds that mature in three years. Ms. Davis said "no." She advised that the city has the
28 SBA and a money market account. McCue noted that the city has not had to enter into any long term
29 investments. He cautioned Council that complicated investment strategies would be costly. If security
30 is the Council's goal then US Treasury securities are best. He stated, even though I do not agree, that it
31 is 100% secure, "I just don't think it's likely we are going to see a collapse of the Federal Reserve."
32 However, it would not be generating high interest. He noted that last year the city earned \$300,000 plus
33 in the City's investment strategy.

34
35 For us to go to such a conservative point where it doesn't make any return, knowing that there is risk.

36
37 Vice Mayor Allebach said that the City Council is the stewards of Orange City revenues. He expressed
38 concerns that participation in the US Treasury securities may be too conservative. Council Member
39 Mahoney said that he never wanted to be put in the position of explaining to the city residents that the
40 tax must be increased because we lost tax money previously collected.

41
42 Mr. McCue said that Jeff Larson, the city's investment advisor is very articulate on the safety and
43 security of investments. He advised Council that a conservative investment strategy that is 100%
44 guaranteed would mean that the City would not earn anything more than just a bank interest rate on its
45 investment. He stated, "It is a larger decision than just the safety of protecting your principal, it is
46 literally how we are going to have cash flow when we need it" and traditionally the City's has always
47 had access to its funds the next day.

48

1 Council Member Laputka asked when this policy would come back before Council. Mr. McCue
2 responded before the end of June.

3
4 As requested by Mayor Strickland, Ms. Davis said that the City is required to file a financial report
5 annually and that now that report must be completed online. She said that she and Mayor Strickland
6 electronically signed and filed the AFRA this afternoon. Ms. Davis said that it is a huge database of
7 every city, county and special district, and that it details what they have reported in their annual
8 financial reports. She said it is a huge data base at Chief Financial Officer Singh's website and with a
9 simple query you could see how the city compares to its neighbors. CFO Singh's web site.

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11 Meeting adjourned at 6:46 p.m.

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13
14 RESPECTFULLY SUBMITTED:

APPROVED ON:

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17
18
19 Gloria Williams
20 Deputy City Clerk
