

**MINUTES OF THE MEETING OF
THE CITY OF FORT LAUDERDALE INVESTMENT COMMITTEE
Thursday, December 6, 2007 – 2:00 P.M.**

Present:

Stephen Scott, Assistant City Manager
Allyson Love, Director of Office of Management & Budget
Betty Burrell, Director of Finance
Kirk Buffington, Director of Procurement Services
Bob Mays, City Treasurer

Steven Alexander, PFM Asset Management
Tom Tight, MBI Asset Management

Via Telephone Conference:

Ray Mannion
Jamie Traudt, Davenport & Associates

The meeting of the City of Fort Lauderdale Investment Committee was called to order at approximately 2:15 p.m. by Bob Mays, City Treasurer.

Approval of Minutes

Motion made by Ms. Burrell and seconded by Mr. Buffington to approve the minutes of the Investment Committee meeting of October 31, 2007 as amended.

Mr. Mays stated that in the last paragraph on page 3 it stated: "...FEC code..." and it should read "SEC..." and also in that same paragraph it states: "...defined at 287..." and it should read "...defined at 280-7..." Mr. Mays also added that the adjournment time was not 10:42 a.m., but closer to 11:42 a.m.

The minutes were approved as corrected unanimously.

Investment of SBA Proceeds

Bob Mays, City Treasurer, stated that information had been distributed to this Committee in order to bring everyone up to date as to what had occurred since the last meeting, and to discuss the next steps to be taken.

Mr. Mays continued stating that a special meeting of the City Commission had been held last Thursday, November 29, 2007. During that meeting the Commission voted to authorize this Committee to withdraw all monies from the State's Board of Administration, and to temporarily amend the City's investment policy to allow them to temporarily increase the amount of investments in the money market funds and removing the 20% cap. This Committee was also to report back to the Commission before the end of January as to what was going to be done with the City's investments.

Ms. Burrell stated that the Commission had also amended the policy regarding the amount.

Ms. Love asked what was the total amount of the withdrawal. Mr. Mays stated that the total amount withdrawn was slightly over \$259 Million. The City had three accounts with the SBA. One was the operating account that was used to transfer funds to the City's main checking account from which they paid bills and payroll. The second account was for bond proceeds for the 2006 water and sewer bonds, and the third and largest account was a trust account which was a combination of bond proceeds from other bond issues and a City pool of surplus funds from all City departments.

Mr. Mays explained that the monies had been withdrawn from the SBA immediately after the Commission meeting which was about 10:00 a.m. on Thursday. The monies were moved that day into a money market account at Wachovia Bank which is the institution where the City's main master checking account was located. The monies were then moved from that money market account into a money market mutual fund with a company called The Reserve, which is a US Treasury Fund.

Mr. Mays further stated that he provided a chart that showed the amount of the City's total cash investments from the period of October 1, 2005 through the present time. The bottom line showed the general fund cash balance. On the next page was part of the back-up for the chart which showed that on Thursday, November 29, 2007, the City moved \$259,366,602.43 from the SBA accounts to the Wachovia money market account. The following day the trust monies or bond proceeds were moved into The Reserve Money Market Fund. The third page showed some percentages such as the amount of the City's money invested in cash, SBA, money market accounts, or other investments. The right side showed some of the yields from those investments at this time.

Mr. Mays continued stating that regarding the investment policy on pages 13 and 14, Section L in Nos. 2 and 3 it covers Commission action and states: "a maximum of 20% available funds may be invested in money market funds," and No. 3 states: "a maximum of 10% available funds may be invested in any one money market funds." He further stated that the resolution approved by the Commission was also provided in the Committee's back-up materials which reads as follows:

"Whereas, a special meeting of the City Commission of the City of Fort Lauderdale on November 29, 2007, the City Commission authorized withdrawal of all City funds invested with the Florida State Board of Administration; and

"Whereas, investment of the funds previously invested with the Florida State Board of Administration in United States Government-Backed Money Market Mutual Funds requires an amendment of the City's investment policy; and

"Whereas, the City's investment policy was adopted via Resolution No. 00-115.

"NOW, THEREFORE, be it resolved by the City Commission of the City of Fort Lauderdale, Florida:

“Section I: The Finance Director is authorized to invest the balance of funds previously invested with the Florida State Board of Administration in United States Government-Backed Money Market Mutual Funds.

“Section II: Paragraphs 12 L, 2 and 3 of the City’s Investment Policy are hereby amended until February 28, 2008 to accomplish the investment provided for in Paragraph 1.”

“Section III: The City’s Investment Committee is directed to make a recommendation to the City Commission on or before January 31, 2008 regarding the funds described in Section I of this Resolution, and the Resolution shall become effective immediately upon its adoption.”

Ms. Burrell stated that when they were working with the City Attorney, it was brought to their attention that on page 16 of the Policy, it should state: “This Investment Policy shall be adopted by City Resolution,” and the official copy of the Policy does include that language.

Mr. Mays stated that the investment was made in The Reserve Fund upon recommendation of the City’s Money Manager, MBIA, and he wanted to ask Tom Tight to provide some further information regarding the reserve account.

Tom Tight, MBIA Asset Management, stated they have been managing funds for this City since 2005. They manage approximately \$70 Billion in fixed-income investments for public sector clients, along with insurance companies, corporations, and Taft-Hartley Plans. One of the money market families they use for their clients’ accounts was a money market family of funds known as The Reserves which has approximately over \$70 Billion in funds. They have been in business since 1970 and were well respected. MBIA has done due diligence on site at The Reserves’ Offices in New York City and were comfortable with their philosophy and what is occurring in their offices.

Mr. Tight stated that he had suggested two options which were that they consider at least a money market government only fund which would be only treasuries, agencies and instrumentalities who invest in such securities, or a US Treasury only money market fund. In this instance, it was decided that the Treasury Fund would be the best option for what the City wanted to accomplish.

Mr. Tight advised that currently the monies were in The Reserves US Treasury Fund and was invested solely in treasury discount notes and treasury bonds backed by the full faith and credit of the United States Government. He noted that sometimes there was the opportunity to invest in commercial paper. In a treasury fund, one could invest 90% in treasuries and have a small slice of commercial paper, and still call oneself a treasury fund technically. He assured the City that based on their due diligence, both the treasury and government funds were true treasury and government only funds, and there was no exposure to any type of commercial paper. He stated that Mr. Mays had a copy of The Reserve Fund Prospectus, and other information was available if desired.

Mr. Tight stated that the City would have direct access to The Reserve so balances could be checked on a daily basis.

Mr. Mays asked about the fees involved.

Mr. Tight explained that The Reserve Fund had share classes, and because of the size of the investment by the City of Fort Lauderdale, as well as due to their relationship with The Reserve Fund, the share class this City bought was The Institutional Share Class which was the lowest priced share class with a fee of 13 basis points. The yields quoted had the fee removed. He stated that MBI is not charging the City on the balances of The Reserve Fund, nor did they have any type of fee sharing arrangement with The Reserve Fund. They felt this was the right thing for the City, and they were not participating in any type of compensation. Obviously, they would continue to bill the City for the piece they were hired to manage.

Jamie Traudt, Davenport & Associates, stated that they had also done some research regarding The Reserve, and reviewed the prospectus. They also had obtained copies of the holdings and all of their managed funds. He confirmed what Mr. Tight had stated regarding the government fund and the treasury fund which was held exclusively in treasury bills.

Steven Alexander, PFM Asset Management, stated that the City had a strong portfolio with them, and there were no securities similar to those that the SBA had been holding. There were no asset-backed commercial paper either. They did have some commercial paper that was short term and high quality. The two holdings they now had were Clayton North American and UBS American Commercial Paper, both of which were rated A-1 plus. He further stated that they did not have anything that was related to the sub-prime mortgage structures either. The portfolio breaks down into several categories. The Federal Agencies, such as Fannie Mae, Freddie Mac, and Home Loan Notes were about 55% of the portfolio, and about 18% was US Treasury Notes and Bonds. At this point, corporate no-holdings were less than 13% between corporate notes, as well as commercial paper. The mortgage-back holdings were about 8% which were straight pass-thru mortgages and were issued by the agencies which did not issue sub-prime mortgages. Right now, the duration of those securities was about 1.6 years. This brings the total of the portfolio to \$34.8 Million, including accrued interest. These securities were AAA rated. The US Treasuries did not have a rating per se.

Mr. Traudt asked what was the primary purpose of this particular fund in the City's general investment scheme.

Mr. Alexander explained that in 1998 PFM did a cash-flow analysis for the City in order to ascertain the difference between short-term assets and long-term assets, and therefore, bifurcating the total dollars of the City.

Mr. Tight stated that he distributed copies of the monthly report for the end of November. He further stated they were going to track the deposit in The Reserve Fund and it would not weigh into the performance on the 1-3 year account they managed. He stated that a majority of the portfolio was in treasuries and instrumentalities and agencies. There was an allocation to corporate bonds and some asset-backed bonds. He proceeded to explain some of his report. He then proceeded to walk the Committee through line-by-line of the corporate holdings. He added that they did not hold any commercial paper or asset-backed commercial paper in the portfolio, nor had they. He stated that he felt one of the strengths that MBIA brought to the table was their risk management and credit analysis skills. He believed their allocation to corporates and asset-backs were slightly higher than PFM's. He proceeded to walk the Committee through each of the securities.

Mr. Buffington asked if there was a reason that Chase Manhattan did not have an SMP rating. Mr. Tight stated that when these types of issues came to market, due to their being of such high quality, they would not pay for an alternate rating. He added that they did not publish Fitz ratings in their report. The one-month return for the City's portfolio was 1.3% giving a year-to-date return from January to the end of November of 6.44% and a one-year return of about 6.61%. Even at its highest point, the SBA hit a 5.80%.

Ms. Burrell stated that if they decided they did not want any of the investments that were not insured, and they wanted to withdraw them and place them somewhere else, what kind of costs would be associated in doing that. Mr. Tight stated that there would be a bid for the securities, and it was hard to say the cost involved since the market now was experiencing price pressure across all segments of it. He continued stating that if they looked at the cost of the securities they had versus the market value, the corporate and asset-backs combined were to the positive, and there was a \$27,000 unrealized gain on the securities.

Mr. Mays stated that they now needed to decide where to go from here. He stated further that in the next month they would have the majority of the ad valorem tax revenue coming into the City from Broward County which would be in the range of about \$95 Million, and they need to think about where to place those funds. The City in late February would be issuing \$150 Million of water and sewer revenue bonds, and they need to consider where and how to invest those proceeds. The Commission mandated this Committee to report back to them by the end of January, 2008, and therefore, they would have to consider what to put in that report. He suggested that they study their cash flow needs and do an evaluation of investment options. Temporarily, the Commission modified the Investment Policy, but he would caution them making any permanent changes to the policy. If such changes were made, they would need to be able to justify those changes to the Commission and the citizens of this City.

Mr. Mays further stated that the Commission, during their meeting, raised the possibility of the City directly investing in treasuries. Their concern was the quality issue. They would have to determine if that was feasible or not, and how they would be able to accomplish that. He continued stating that they also had to continue monitoring what was happening with the SBA, and should monies at some point be moved back to the SBA, and if so, how much and when.

Ms. Burrell stated they needed to decide when the next meeting would be held because of the deadline of January regarding the report to the Commission.

Mr. Scott stated that this meeting was not the time to make binding decisions because there were still many questions out there, and they needed to come to an understanding. He asked what was the difference between a fund like The Reserve and investing in the treasuries themselves. He asked further if there was a difference in the level of security.

It was stated that if they were buying treasuries directly they would own them outright, and there would be no loss as far as market value unless the security was sold or there could be a gain. In a mutual fund, they would not be the owner of any treasury directly, but owned a share value within the fund. If they wanted to liquidate in a money market fund, they would get \$1 in and \$1 out, plus interest. There was a difference in flexibility. On the direct instruments, they would have a maturity date. There was also a cost

differential which was about 13 basis points. It was also stated that it depended on who was managing the portfolio also as to cost.

Mr. Traudt stated there were a number of clients who adopted the strategy where they invested a portion of their portfolio buying treasuries and agency securities as suggested on an asset liability match basis to fund specific non-liabilities for the future, such as debt service payments and payroll. Also at the same time they needed to maintain a substantial liquidity position so that they would find themselves in a normal market place which did not exist today, and they could pick up additional significant yield through that portion of the portfolio invested directly as opposed to what was in the money market fund. He explained that the average life of The Reserve's treasury fund to date was about 45 days. Therefore, it was a short-term yield and when it gets corrected and into an upward slope, they would find the money market fund would provide liquidity and convenience, but would be the lowest yielding asset. Depending when the funds were needed and what they understood about their cash flows, to significantly improve the overall yield on the portfolio they would need to combine the treasury and money market fund portfolios to provide such liquidity.

It was stated that the SBA was essentially the City's money market fund which was to operate 90 days and less which provided such liquidity. The other two portfolios were to take advantage of better returns on a long-term basis above the SBA.

Mr. Traudt asked what was the expectation when the monies from the major trust fund would actually be required, and asked further if there was an opportunity for some of those funds to be in something else other than a short-term vehicle without creating any liquidity issues.

Mr. Mays stated that was a major question to be answered in the next few weeks. He added that a motion had been passed at the last meeting to request the Commission to authorize an increase in the size of the long-term investments. They were going to move from \$75 Million of long-term investments to \$110 Million, which could be revisited when they reviewed the whole picture.

Mr. Mays asked what were everyone's ideas concerning the investment of the ad valorem tax revenues. He stated that money would be consumed on a level basis monthly.

It was recommended that the money be laddered-out for the next 12 months. If too much was put into the money market fund, they would be subject to the continual decline in interest rates. They might want to have some bi-weekly maturities every 12 months, and utilize the money market for the day-to-day items. It was further stated that they could build-out a laddered portfolio of treasuries and essentially eliminate the 13 basis points, which would also provide the opportunity to move some of the monies out of The Reserve.

Mr. Traudt stated that type of ladder in the money market and its level was a terrific strategy, and added that they avoid further concentration in the single money market.

It was asked if the Policy limited the amount that could be placed in the money market.

Mr. Mays stated the Policy limited them to 20% overall, and 10% for any one fund.

When the Policy was originally written, the intent was to make more use of the SBA.

Mr. Mannion stated that he recalled the Policy stated that the SBA had an unlimited amount. Mr. Mays stated there could be 100% in the SBA.

Due to the recent events with the SBA that could be reverted and more put towards the money market funds.

It was further stated that if they were allowed to invest up to 100% in a money market fund that did not mean they would take advantage of that, but it would help them to prevent going to the Commission under duress to get things done.

Mr. Mannion asked what did it cost to get out of the SBA.

It was stated that it was a prudent move because they determined that 14% of the assets in the SBA were impaired, and therefore, moved them and created a separate share class. Some of that 14% consisted of securities in default. It was stated that there would be a loss of principal for the investors.

Mr. Mannion further stated that they retrieved the principal, but the earnings that accrued were being retained by the SBA. It was stated that was a solution they were trying to come up with.

Mr. Mays stated they took out everything but the November interest.

It was stated further that they were probably going to keep the November interest and move it into the B Fund because their theory was that when the monies were pulled out there were some entities left in the fund when it was stopped. They were saying it was not fair that those folks were left holding the bag. They would then use that interest to offset some of the losses in Fund B for the people left in the pool.

Mr. Mays stated that they would be losing about \$850,000 in interest.

It was stated that if they had left the monies in, they would have automatically had 14% locked up which may or may not have outweighed the November interest.

Mr. Mannion further stated that the SBA's daily rate of return was about 5.3% versus The Reserve Fund which was less than 3.5%, a decline of about 2% totaling about \$5 Million in interest earnings given up as well.

It was stated that was a daily rate and SBA was paying 5.80% because the vast majority of the asset backs were tied to LIBOR. The SBA would continue going down.

Mr. Mannion stated that the gap in interest rates was about 3.5% at this time. It was stated there was about 100 basis points of spread between the treasuries and what was in the SBA at this point. The difference was that the items in The Reserve Fund were of a lot better quality and were safer, than what was in the SBA. Mr. Mannion said if the Commission asks what this cost the City, what was the answer. It sounded to him that it could be in the range of \$3 Million to \$4 Million.

Mr. Buffington stated that Mr. Mannion appears to be in the mind set that the Vice Mayor had been at the meeting, and he had voted against all this. He stated that he had made some good points during the meeting and were they jumping ahead too soon. At some point, the Committee would probably be asked that question.

The fundamentals of the City's Investment Policy state under "Investment Objectives," "1. Safety of Principal, 2. The Maintenance of Liquidity, and 3. The Return of Investments." The City followed these three directives, and therefore, they were in full compliance with the Investment Policy.

Mr. Mannion stated that in reading the Policy, there is actually only one principle which was preservation of principal. These were public funds and required additional scrutiny.

Mr. Mays stated that was the basic idea which guided them in their decision and recommendation.

Before any decision or recommendation could be made, they had to do a thorough analysis of their cash flow. They should not even think about returning to the SBA until the SBA figures out what they are going to do. The Executive Director quit and they were going to outsource the management.

Mr. Mannion stated that the timing appeared to be about March or April for that. Mr. Buffington stated that he agreed with that from what he read.

Ms. Burrell asked if the City had any opportunity to provide their opinion that if they returned to the SBA assurances had to be provided that such a melt down would never again occur. She believed this would be an important component in their decision making process.

Mr. Mays stated further that he heard that perhaps the SBA would seek to be a rated fund in the future.

It was stated that there was also potential legislation on a Federal level to require all governmental funds to come under the auspices of the SEC.

Mr. Buffington stated that the SBA should have had the same objective in their policy as the City's objective since all the investors had been local governments.

Ms. Love stated that as a corporate body they appeared to be comfortable with them and never sought out what they were experiencing at this point in time.

Mr. Mays stated that in essence they provided all the cities with an investment department.

SBA's policy did state the same objective, but they stated that when they bought some of the securities they were of a high quality. The problem the SBA got into was that the fund became so large and they did not have the depth of the resources to have a strong credit research team.

Mr. Mannion stated that he believed there was more to it than that, and that they got greedy with the higher rates and assured by the AAA ratings.

Mr. Mays advised that his department would do the cash flow analysis. Ms. Burrell explained that they had to have participation from some of the bigger spenders. Mr. Mays stated that their next meeting take place during the week of January 2-4, and then they could come back with the analysis of the cash flow.

It was stated that the Feds were meeting on December 11, 2007.

Mr. Mays advised that the Committee had made some recommendations regarding permanent changes to the Investment Policy which make good sense. He believed it would also make sense to incorporate the other recommendations being made.

Next Meeting Date

The next meeting would be scheduled for Thursday, January 3, 2008.

Ms. Burrell stated that the Commission's last meeting in January would be the 15th, and therefore, in order to be in compliance everything had to be in place by that date.

Mr. Buffington thanked Tom Tight for facilitating what had to be done in order to move the funds.

Ms. Love stated that the items to be placed on the Commission's agenda for the 15th would have to be submitted by January 10, 2008.

Mr. Mannion added that the biggest expense was pension expenses and whatever major projects Public Works had on board. Everything else fell into a standard pattern.

Motion made by Mr. Buffington and seconded by Ms. Burrell to adjourn the meeting. The Board voted unanimously to adjourn.

There being no other business to come before this Committee, the meeting was adjourned at approximately 3:20 p.m.

Respectfully submitted,

Margaret A. Muhl
Recording Secretary