

MEMORANDUM

TO: Mayor Strickland and Council Members

FROM: Christine C. Davis, Finance Director



DATE: June 30, 2008

RE: Investment Options

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**PURPOSE**

Discuss options for investing city funds.

**BACKGROUND**

Currently the city has funds invested in the following interest bearing investments:

*Sweep Account* - Interest Rate May 2008 .735%

A sweep account allows for the available balance in a checking account to be sweep out into one account. Funds in this account are then invested in overnight interest-bearing instruments such as money market mutual funds or repurchase agreements. Funds are collateralized.

*Local Government Investment Pool (LGIP)* - Interest Rate May 2008 2.49%

LGIP's may be state-sponsored or set up through an inter-local agreement. LGIP's allow the benefit of pooling funds, participating governments benefit from economies of scale, full-time portfolio management, diversification, and liquidity. LGIP's normally follow the investment guidelines of SEC Rule 2a-7 and are managed like money market funds with the objective of providing "constant" net asset values (NAV) of \$1 and providing excellent liquidity to their participants.

*Public Funds Money Market Account* - Interest Rate May 2008 2.02%

A money market deposit account is an interest bearing deposit account that is considered a savings account for some purposes, but upon which checks can typically be written, subject to certain restrictions. Funds are collateralized.

**The City's investment banker provided the information below:**

Given the size of the City's core portfolio (\$3 to \$4Mn), will be along the following lines:

- 1) Keep some funds with local bank checking, and then overnight sweep account, enough to run the City for 60 days.
- 2) Locate two sources of liquidity, stable net asset value funds (probably split between AAAM rated FL SAFE and an AIM account that only invests in US Treasuries or Agencies). Split the balance of the funds between these two.

You can stop here, or also put some funds into a longer term (1 to 3 year) variable NAV bond fund that is also AAAM rated. But the City is exposed to loss of principal if the money is drawn out just like selling prior to maturity a US Treasury Security.

As previously reported, you are not big enough to really warrant the time or energy of directly buying US Treasuries, paying to have them safe kept with a Custodian, and then the FASB/CPA requirements of marking to market. Even large counties with over \$150Mn in portfolios have found this approach tough to explain to elected officials as when a "loss shows up", it is a bookkeeping loss and not real, but still reported.....it takes ALOT of effort to explain this, and for around \$3 to \$4Mn does not seem to provide a return.

Keeping it safe and simple (KISS) makes the best sense.

#### **Staff Input**

Staff concurs with the investment banker recommendations and we additionally recommend considering Public Funds Money Market Accounts. Currently the City still has active accounts with the SBA (due to the restrictions on Pool B, total balance as of June 1<sup>st</sup> - \$378,290) and as funds are transferred from Pool B to Pool A transfers are made from SBA to our Wachovia checking account (subject to sweeping out for overnight investment) and/or our Money Market account. Staff will continue to deplete the SBA accounts.

If Council agrees, the next step will be to evaluate and rank the three investments (AIM account, Money Market account and the FLSAFE LGIP) to determine which two investments will be utilized. Based on this evaluation Council will be presented with the required resolutions to enter into a banking relationship with the two top ranking investment options.

#### **RECOMMENDATION**

Staff recommends Council provide direction on investment of City's funds.