

ORDINANCE NO. 2024 - 04

AN ORDINANCE OF THE VILLAGE COUNCIL OF THE VILLAGE OF ESTERO, FLORIDA, CREATING DIVISION 4 (INVESTMENT POLICIES) OF ARTICLE IV (FINANCE) OF CHAPTER 2 OF THE VILLAGE OF ESTERO CODE TO CREATE DETAILED POLICIES RELATED TO INVESTMENT OF VILLAGE FUNDS; MAKING RELATED FINDINGS; AND PROVIDING FOR SEVERABILITY, CODIFICATION AND AN EFFECTIVE DATE.

WHEREAS, Article IV (Finance) of Chapter 2 (Administration) of the Village Code of the Village of Estero provides for a variety of policies related to the Village’s finances and budgeting process; and

WHEREAS, the Village has been founded upon principles of sound financial management and best management practices, and while successive Village Councils have continued to ensure those principles are followed; and

WHEREAS, the Village Council nevertheless finds that adoption of codified policies related to the Village’s investments is necessary to further enhance the Village’s near term and future fiscal responsibility; and

WHEREAS, the Village Manager has worked with financial experts to develop a series of investment policies which incorporate a host of municipal investment best practices, and which will not only ensure the Village remains on sound financial footing, but which may also ensure the Village obtains and maintains the most advantageous financial terms when it engages in the financial markets; and

WHEREAS, as allowed by Florida Statutes § 218.415(17), on October 19th 2016, the Village adopted Resolution No. 2016-32 establishing that the Village would have no written investment policy for the investment of public funds in excess of amounts needed to meet current operating expenses, apart from the baseline policy established in Florida law; and

WHEREAS, through prudent financial management, the Village has established a strong reserve of public funds in excess of amounts needed to meet current operating expenses; and

WHEREAS, having written investment policies will expand the Village’s investment abilities to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity; and

WHEREAS, the Village Council has considered the provisions set forth in this Ordinance and finds that they are in the best interests of the Village and its taxpayers.

NOW, THEREFORE, be it ordained by the Village Council of the Village of Estero, Florida:

Section 1. Division 4 (Investment Policies) of Article IV (Finance) of Chapter 2

(Administration) of the Village Code is hereby amended as follows:

DIVISION 4. INVESTMENT POLICIES

Sec. 2-200. – Purpose.

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the village. These policies are designed to safeguard the village's funds, provide for the availability of operating and capital funds when needed, and promote an investment return competitive with comparable funds and financial market indices.

Sec. 2-201. – Scope.

In accordance with Florida Statutes § 218.415, this investment policy applies to all cash and investments held or controlled by the village with the exception of the village's pension funds, all its deferred compensation plans and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Additionally, any future revenues which have statutory investment requirements conflicting with this investment policy, and funds held by state agencies, are not subject to the provisions of this policy.

Sec. 2-202. – Investment objectives.

- (a) *Safety of Principal.* The foremost objective of the village's investment program is to ensure the safety of principal. Investment transactions shall seek to avoid capital losses, whether they are from securities defaults (credit risk) or erosion of market value (interest rate rise). To attain this objective, investments are limited to securities that are of very high quality and considered safe and conservative with investment terms appropriate with the expected cash need. This policy specifies authorized investments and portfolio composition and establishes terms and conditions to ensure the safety of principal. Items to consider in this regard are:
- (b) *Interest Rate Risk.* The village will minimize the interest rate risk, which is the risk that the value of the securities in the investment portfolio will fall due to changes in interest rates, by:

 - (1) Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.
 - (2) Investing short term designated operating funds in primarily short-term securities, money market mutual funds, or similar investment pools and limiting the weighted average maturity of the portfolio.
 - (3) Limiting the price sensitivity (duration) of the investments in the portfolio.

(c) Credit Risk. The village will limit credit risk, which is the risk of loss due to default by the issuer, by:

(1) Limiting investments to investment-grade securities as rated by Moody's, Standard & Poor's, Fitch or other nationally recognized statistical rating organization (NRSRO) in the United States.

(2) Diversifying the investment portfolio to reduce the impact of potential losses from any one type of security, or an individual issuer or backer.

(d) Maintenance of Liquidity. The village's investment portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity. By maintaining liquidity, the portfolio will inherently reinforce the safety of principal requirement. This is accomplished by structuring the investment program so that adequate liquidity in cash and cash equivalent investments is available to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment program should consist of liquidity investment strategies for short term and daily liquidity needs, and investment portfolios structured with securities with an active secondary or resale market. To facilitate this, the investment program may be partitioned into a short-term strategy focusing on cash equivalent or other investments with maturities of less than one year, and a Long-term strategy focusing on higher yielding investment opportunities having maturities of greater than one year. This policy establishes specific maturity and liquidity requirements to meet this objective.

(e) Return on Investment. The village's investment portfolio shall be designed with the objective of maximizing a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The village shall maintain the level of investment of all idle bank balances as close to 100% as possible and shall actively manage its investment portfolio to the greatest extent possible within the constraints of safety and liquidity to take advantage of prevailing or anticipated market conditions. Return on investment is of tertiary importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities as defined within this investment policy statement in anticipation of earning a fair return relative to the risk being assumed. The village may utilize an active or passive investment strategy within the overall investment program. Securities within a passively managed investment portfolio will generally be held until maturity and securities in actively managed portfolios may be sold prior to maturity. Securities within the investment program may be sold in accordance the investment program which include the following scenarios:

(1) A security with declining credit or a downgrade below the rating requirements stated later in this Policy may be sold early to minimize loss of principal.

(2) A security swap would improve the quality, yield or target duration in the portfolio.

(3) Liquidity needs of the portfolio require that a security be sold.

(f) *Investment decisions.* The investment decisions for the City's investment program must be based solely on pecuniary factors and may not subordinate the interests of the beneficiaries of the investments to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. As used in this policy, "pecuniary factor" has the same meaning as defined in Florida Statutes § 218.415(24)(a).

Sec. 2-203. – Delegation of authority.

(a) No person may engage in an investment transaction except as authorized under the terms of this investment policy. The responsibility for providing oversight and direction in regard to the management of the investment program resides with the village's finance director. The finance director is also designated as the investment officer of the village and is responsible for investment decisions and activities, under the direction of the village manager. The day-to-day administration of the cash management program is handled by the finance department staff.

(b) The director shall hold primary responsibility for assuring compliance with the village's investment policy. The director and village manager at any time may reassign the designation of investment officer to another competent employee upon written notification. The director and is authorized to make investments under this policy as required or appropriate. The village may employ an investment manager by written contract to assist in managing village funds. Such investment manager must be registered under the Investment Advisors Act of 1940. The director will maintain written procedures consisting of a system of internal accounting and administrative controls to regulate the village's investment activities.

Sec. 2-204. – Standards of prudence.

(a) The prudent person standard stands for the proposition that 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 from the investment.

(b) The prudent person standard shall be applied in the context of managing the overall investment program. The director acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the village manager in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Sec. 2-205. – Ethics and conflicts of interest.

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the village manager any material financial interests in financial institutions that conduct business with the village, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the village’s investment program. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the village.

Sec. 2-206. Internal controls and investment procedures.

- (a) The director shall maintain a system of internal controls and operational procedures with regard to the village’s investment program and be made a part of the village’s public funds management program. The internal controls should be designed to protect the village’s assets and prevent the loss of funds which might arise from fraud, embezzlement, error, mismanagement, or misrepresentation by village employees or by third parties. The procedures should include at a minimum, reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and “delivery-vs-payment” procedures.
- (b) The director shall assign competent staff, to maintain separation of duties within the financial management department, to reconcile the village’s general depositor account on a monthly basis by comparing the village’s general ledger with the applicable bank statements. The reconciliation would reveal any difference in investment transaction recording and the actual movement of funds.
- (c) The director shall assign competent accounting staff, to reconcile investments reflected in the custodial statements with the village’s records. The reconciliation will be reviewed each month by the director or designee. When applicable, the village’s investment manager shall also reconcile the custody statement with the statements for all assets under management by the investment manager.
- (d) Independent auditors as a normal part of the annual financial audit or any other audit initiated by the village shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

Sec. 2-207. – Continuing education.

In accordance with Florida Statutes § 218.415(14), the director and appropriate staff shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

Sec. 2-208. – Authorized investment institutions and dealers.

(a) The director shall establish and maintain a list of approved broker/dealers and financial institutions and provide them with a copy of this investment policy. The village or its investment manager, if any, will only buy and sell securities using broker/dealers registered with the Federal Reserve Bank of New York’s list of “Primary Government Securities Dealers”, approved non-primary securities dealers, or from banks and savings and loan associations (including their wholly owned subsidiaries or their parent companies’ wholly owned subsidiaries established to provide institutional brokerage services) that are included on the list of “qualified public depositories” issued by the State of Florida. These entities must qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). No depository will operate without at least \$100 million in collateral or insurance coverage on the village’s accounts. The director or the investment manager, if any, will be responsible for operating within the guidelines of this policy and will be responsible for the selection of “Primary Government Securities Dealers”.

(b) All approved non-primary securities dealers must qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The village’s investment manager will provide the director a list of approved brokers annually or as requested. The selection of broker/dealers used by an external investment adviser retained by the village will be at the sole discretion of the investment adviser. For all transactions executed by the director, the approved broker must provide the following information prior to executing investment trades with the village:

(1) Annual financial statement, as well as most recent quarterly statement.

(2) Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD for securities firms.

(3) Statement of any pending lawsuits materially affecting the firm’s business.

Sec. 2-209. – Maturity and liquidity requirements.

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

(1) *Maturity Guidelines.* Securities purchased by or on behalf of the village shall have a final maturity of five (5) years or less from the date of trade settlement. The maturities of the underlying securities of a repurchase agreement will follow the requirements of the master repurchase agreement.

(2) *Liquidity Requirements.* In order to have an available source of funds to meet unexpected cash requirements, a minimum of the equivalent of two months of projected payroll and operating expenditures will be invested with cash or cash equivalents, or vehicles that provide daily liquidity. The village shall purchase only investments with an active secondary market, with the exception of non-negotiable certificates of deposit and other

time and savings deposits. The monitoring and maintenance of required liquidity shall be the sole responsibility of the village and the investment manager is herein authorized to rely upon assurances from the village that sufficient liquid funds are maintained outside of the managed portfolio.

Sec. 2-210. – Competitive selection of investment instruments.

- (a) After the director or the investment manager has determined the approximate maturity date, issuer, type, and any other security characteristics based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers in writing on securities in question. Bids/offers will be held in confidence until the bid/offer deemed to best meet the investment objectives is determined and selected.
- (b) From time to time, various government agencies, municipalities and corporations announce the issue of new securities to the financial markets. Since all new issues bought in the primary market are sold at the same offering price by all members of the selling syndicate, the competitive bidding process offers no benefit. If the new, “To Be Announced” security meets the portfolio diversification and maturity requirements set forth in the Investment Policy, the village may, at the discretion of the director, place the investment with the broker/dealer or financial institution that initiated the investment opportunity, provided that the broker/dealer or financial institution is on the approved list.
- (c) The broker/dealer or financial institution offering the most favorable yield for the specific security type with the desired maturity date will be selected. For all trades executed by the village, the broker/dealers and financial institutions to be solicited will be rotated from the approved list, although if one or more specific dealers or institutions have proven to be particularly competitive, they may be contacted for bids/offers on a more frequent basis. All bids/offers for a particular purchase or sale shall be documented and the winning bid clearly identified for auditing purposes.
- (d) If obtaining a bid/offer is not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

 - (1) Bloomberg Information Systems,
 - (2) Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing,
 - (3) Daily market pricing provided by the Village’s custodian or their correspondent institutions.
- (e) The Director or the Investment Manager shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price,

as indicated above, shall only be utilized when, in judgment of the director or the investment manager, competitive bidding would inhibit the selection process.

Sec. 2.211. – Authorized investments and portfolio composition.

- (a) Investments should be made subject to the village’s cash flow needs and such cash flows are subject to revisions as market conditions and the village’s needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the director may sell the investment at the then-prevailing market price.
- (b) The village shall actively manage its investment portfolio to the greatest extent possible within the constraints of safety and liquidity to take advantage of prevailing or anticipated market conditions. The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the village. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the director. The percentage allocation requirements for investment types and issuers are calculated based on the market value of each investment. Due to fluctuations in the aggregate invested balance, these maximum percentages may be exceeded from time to time and shall not require liquidation to realign the portfolio. However, consideration should be given to this matter when future purchases are made.
- (c) The maximum percentage allocation requirements and any minimum credit ratings requirements shall apply at the time the investment is made. Should the credit rating of a security owned by the village be downgraded to a level below that required by this Investment Policy, the village will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the village and reported on a quarterly basis to the director. Investments not listed in this policy are prohibited.

<u>Village and Investment Manager Authorized Investment- Sector Type</u>	<u>Minimum Rating Requirement</u>	<u>Maturity Limits</u>	<u>Maximum Allocation</u>	<u>Individual Issuer Limit</u>
<u>Cash and Cash Equivalents</u>	<u>N/A</u>	<u>NA</u>	<u>100%</u>	<u>N/A</u>
<u>United States Government Securities</u>	<u>N/A</u>	<u>5 Years</u>	<u>100%</u>	<u>N/A</u>
<u>United States Government Agencies</u>	<u>N/A</u>	<u>5 Years</u>	<u>50%</u>	<u>N/A</u>
<u>Federal Instrumentalities (United States Government Sponsored Enterprises “GSE”)*</u>	<u>N/A</u>	<u>5 Years</u>	<u>75%</u>	<u>40%</u>
<u>Interest Bearing Time Deposit or Savings Accounts</u>	<u>N/A</u>	<u>1 Year</u>	<u>20%</u>	<u>10%</u>
<u>Repurchase Agreements**</u>	<u>N/A</u>	<u>90 Days</u>	<u>25%</u>	<u>10%</u>
<u>Registered Investment Companies (Money Market Mutual Funds)</u>	<u>AAAm (or equivalent)</u>	<u>N/A</u>	<u>20%</u>	<u>10%</u>
<u>Intergovernmental Investment Pools (Stable Net Asset Value)</u>	<u>AAAm (or equivalent)</u>	<u>N/A</u>	<u>80%</u>	<u>N/A</u>
<u>Intergovernmental Investment Pools (Floating Net Asset Value)</u>	<u>AAAf (or equivalent)</u>	<u>N/A</u>	<u>40%</u>	<u>N/A</u>
<u>Florida PRIME Fund</u>	<u>AAAm</u>	<u>NA</u>	<u>25%</u>	<u>N/A</u>
<u>Investment Manager Authorized Investment- Sector Type</u>	<u>Minimum Rating Requirement</u>	<u>Maturity Limits</u>	<u>Maximum Allocation</u>	<u>Individual Issuer Limit</u>
<u>Mortgage Backed Securities “MBS”*</u>	<u>AA</u>	<u>5 Years</u>	<u>20%</u>	<u>15%</u>
<u>State and/or Local Government Taxable and/or Tax-Exempt Debt</u>	<u>Single “A” category by two NRSROs****</u>	<u>5 Years</u>	<u>30%</u>	<u>5%</u>
<u>Commercial Paper***</u>	<u>A-1 by S&P and P-1 by Moody’s</u>	<u>270 Days</u>	<u>20%</u>	<u>5%</u>
<u>Corporate Notes***</u>	<u>Single “A” category by any NRSROs****</u>	<u>5 Years</u>	<u>25%</u>	<u>5%</u>
<u>Asset-Backed Securities (ABS)***</u>	<u>Double “A” category by any two NRSROs****</u>	<u>5 Years</u>	<u>20%</u>	<u>5%</u>

*The combined maximum amount of available funds invested in Federal Instrumentalities and mortgage-backed securities will not exceed seventy five percent (75%).

**Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a

market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement.

***The maximum amount of corporate investments will not exceed forty percent (40%). Therefore, the total allocation to Commercial Paper, Corporate Notes, and Asset Backed Securities shall not exceed forty percent (40%).

***National Recognized Statistical Rating Organization (NRSRO).

(d) The following sectors (1-10) may be purchased by the village or its investment manager:

(1) Cash and Cash Equivalents

(A) Purchase Authorization. The director and investment manager may invest in cash and cash equivalent investments that provide daily and short-term liquidity.

(B) Portfolio Composition. A maximum of 100% of the portfolio market value may be invested in the cash and cash equivalent investments.

(2) United States Government Securities

(A) Purchase Authorization. The director and investment manager may invest in negotiable, full faith and credit, direct obligations of the United States Government. Such securities will include:

- (i) Cash Management Bills
- (ii) Treasury Securities – State and Local Government Series (“SLGS”)
- (iii) Treasury Bills
- (iv) Treasury Bonds
- (v) Treasury Notes
- (vi) Treasury Strips
- (vii) Treasury TIPS

(B) Portfolio Composition. A maximum of 100% of the portfolio market value may be invested in the United States Government Securities.

(C) Maturity Limitations. The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of trade settlement.

(3) United States Government Agencies

(A) Purchase Authorization. The director and investment manager may invest in bonds, debentures, or notes issued or guaranteed by United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government and have an active secondary market. Such securities will include:

- (i) United States Export – Import Bank – Direct obligations or fully guaranteed certificates of beneficial ownership
- (ii) Federal Housing Administration
- (iii) Government National Mortgage Association (GNMA)
- (iv) Small Business Administration
- (v) United States Department of Housing and Urban Development

(B) Portfolio Composition. A maximum of 50% of the portfolio market value may be invested in United States Government agencies.

(C) Maturity Limitations. The maximum length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.

(4) Federal Instrumentalities (United States Government Sponsored Enterprises)

(A) Purchase Authorization. The director and investment manager may invest in bonds, debentures, or notes issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which do not carry the full faith and credit of the U.S. Government limited to the following:

- (i) Federal Farm Credit Bank (FFCB)
- (ii) Federal Home Loan Bank or its Village banks (FHLB)
- (iii) Federal National Mortgage Association (FNMA)
- (iv) Federal Home Loan Mortgage Corporation (Freddie-Macs)

(B) Portfolio Composition. A maximum of 75% of the portfolio market value may be invested in Federal Instrumentalities.

(C) Limits on Individual Issuers. A maximum of 40% of the portfolio market value may be invested in any one issuer.

(D) Maturity Limitations. The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of trade settlement.

(5) Interest Bearing Certificates of Deposit, Demand Deposit Accounts, Saving Accounts, NOW Checking Accounts or Money Market Accounts

(A) Purchase Authorization. The director and investment manager may deposit public funds in non-negotiable interest bearing certificates of deposit, (including through the Certificate of Deposit Account Registry Service, or CDARS), demand deposit accounts, savings accounts, NOW checking accounts and money market accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that such banks are Qualified Public Depositories (QPDs) and any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. QPDs are confirmed by the Florida Finance Director and the Florida Department of Financial Services and the list of current QPDs can be obtained at:

<https://www.myfloridacfo.com/division/treasury/collateral-management>.

(B) Portfolio Composition. A maximum of 20% of the portfolio market value may be invested in non-negotiable interest-bearing deposits secured by the Florida Security for Public Deposits Act, Florida Statutes Chapter 280, as described herein.

(C) Limits on Individual Issuers. A maximum of 10% of the portfolio market value may be deposited with any one financial institution, except for deposits with the village's primary treasury depository institution or deposits in the CDARS program.

(D) The maximum maturity on any deposit shall be no greater than one (1) year from the date of trade settlement.

(6) Repurchase Agreements

(A) Purchase Authorization

- (i) The director and investment manager may enter into repurchase agreements composed of only those investments authorized in Section XII. B, C, and D. All financial institutions are required to sign the village's master repurchase agreement prior to the execution of a repurchase agreement transaction. The agreement must specify that it is governed by the laws of Florida, and it must be approved as to form and legal sufficiency by the village attorney.
- (ii) A third-party custodian with whom the village has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. Overnight repurchase agreement collateral for the village's sweep accounts, if any, shall be held at the village's custodial or safekeeping institution. A clearly marked receipt that shows evidence of ownership must be supplied to the director and retained for all repurchase agreements that are not overnight sweep accounts.
- (iii) Securities authorized for collateral must have maturities under ten (10) years and have market value for the principal and accrued interest equal to at least 102 percent of the value and for the term of the repurchase agreement.

Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Director.

(B) Portfolio Composition. A maximum of 25% of the portfolio market value may be invested in repurchase agreements.

(C) Limits on Individual Issuers. A maximum of 10% of the portfolio market value may be included in a repurchase agreement with any one institution.

(D) Limits on Maturities. The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

(7) Registered Investment Companies (Money Market Mutual Funds)

(A) Investment Authorization. The director and investment manager may invest in shares in open-end and no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. Must be rated in the highest tier by a nationally recognized rating agency, and whose portfolios consist of only dollar denominated securities.

(B) Portfolio Composition. A maximum of 20% of the portfolio market value may be invested in money market funds.

(C) Limits of Individual Issuers. A maximum of 10% of the portfolio market value may be invested with any one money market fund.

(8) Intergovernmental Investment Pool (Stable Net Asset Value)

(A) Investment Authorization. The director and investment manager may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Florida Statutes § 163.01, and provided that said funds contain no derivatives and share value can never be less than \$1. The stable net asset value intergovernmental investment pool must have a rating of AAAM or equivalent.

(B) Portfolio Composition. A maximum of 40% of available funds may be invested in intergovernmental investment pools with a stable net asset value.

(C) Due Diligence Requirements. A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the director that will contain a list of questions that covers the major aspects of any investment pool/fund.

(9) Intergovernmental Investment Pool (Floating Net Asset Value)

(A) Investment Authorization. The director and investment manager may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes. The floating net asset value intergovernmental investment pool must have a rating of AA Af or equivalent.

(B) Portfolio Composition. A maximum of 40% of available funds may be invested in intergovernmental investment pools with a floating net asset value.

(C) Due Diligence Requirements. A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the director that will contain a list of questions that covers the major aspects of any investment pool/fund.

(10) The Florida Local Government Surplus Funds Trust Fund (Florida Prime/SBA)

(A) Investment Authorization. The director may invest in the Florida Prime.

(B) Portfolio Composition. A maximum of 25% of available funds may be invested in the Florida Prime.

(e) In addition to the permitted sectors defined in subsection (d) 1-10 above, the village or village's investment manager may also purchase the fixed income sectors set forth in subsections 1-5 below (which securities generally require additional resources offered by an investment manager):

(1) Agency Mortgage-Backed Securities (MBS)

(A) Purchase Authorization. The investment manager may invest in mortgage-backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.

(B) Portfolio Composition. A maximum of 20% of available funds may be invested in MBS.

(C) Limits on Individual Issuers. A maximum of 15% of available funds may be invested with any one MBS issuer.

(D) Maturity Limitations. A maximum length to maturity for an investment in any MBS is five (5) years based on the weighted average life of the security. The maturity of mortgage-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

(2) Municipal Bonds

- (A) Investment Authorization. The investment manager may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds. Must be rated in the single A category by at least two NRSRO's.
- (B) Portfolio Composition. A maximum of 30% of the portfolio market value may be invested in obligations of state and local governments.
- (C) Limits on Individual Issuers. A maximum of 5% of the portfolio market value may be invested in any one issuer.
- (D) The maximum maturity on any obligation shall be no greater than five (5) years from the date of trade settlement.

(3) Commercial Paper

- (A) Purchase Authorization. The investment manager may invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and minimum "A-1" by Standard & Poor's (highest tier commercial paper).
- (B) Portfolio Composition. A maximum of 20% of the portfolio market value may be directly invested in prime commercial paper. The maximum total allocation to Commercial Paper, Corporate Notes, and Asset Backed Securities shall not exceed 40%.
- (C) Limits on Individual Issuers. A maximum of 5% of the portfolio market value may be invested with any one issuer.
- (D) Maturity Limitations. The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

(4) Corporate Notes

- (A) Investment Authorization. The investment manager may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States rated in the "A" category by Standard & Poor's, or the equivalent by another rating agency at the time of purchase.
- (B) Portfolio Composition. A maximum of 25% of the portfolio market value may be invested in obligations of corporate notes. The maximum total allocation to

Commercial Paper, Corporate Notes, and Asset Backed Securities shall not exceed 40%.

(C) Limits on Individual Issuers. A maximum of 5% of the portfolio market value may be invested in any one issuer.

(D) The maximum maturity on any obligation shall be no greater than five (5) years from the date of trade settlement.

(5) Asset-Backed Securities (ABS)

(A) Investment Authorization. The investment manager may invest in asset-backed securities (ABS) rated in the “AA” category by any two NRSRO’s at the time of purchase.

(B) Portfolio Composition. A maximum of 20% of available funds may be invested in ABS. The maximum total allocation to Commercial Paper, Corporate Notes, and Asset Backed Securities shall not exceed 40%.

(C) Limits on Individual Issuers. A maximum of 5% of available funds may be invested with any one issuer.

(D) Maturity Limitation. A maximum length to maturity for an investment in any ABS is five (5) years from the date of trade settlement. The maturity of asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security’s description.

Sec. 2-212. – Unauthorized investments.

Investments in any derivative products or the use of reverse repurchase agreements are prohibited. A “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values. All other investments not specifically stated under “Allowable Investments” are prohibited.

Sec. 2-213. – Performance measurements.

In order to assist in the evaluation of the portfolio’s performance, the village will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the village to measure its returns against other investors in the same markets.

(1) For the short-term investment program (strategies with less than 12 months maturity), the S&P Rated GIP Index, or similar index, will be used as a benchmark as compared to the portfolios’ net book value rate of return for current operating funds.

- (2) Investment performance of funds designated as core funds and other funds that have a long-term (greater than 12 months average maturity) investment horizon, and are actively managed, will be compared to an appropriate index comprised having a duration and asset mix that approximates that of the portfolios. The index will be utilized as a benchmark to be compared to the portfolio's total rate of return. Examples of an appropriate index include: the ICE BofAML Merrill Lynch 1-3 Year Government & Corporate AA Index and/or the ICE BofAML Merrill Lynch 1-5 Year Government & Corporate AA Index. The Village will determine an appropriate benchmark based upon the characteristics of the longer-term core portfolio(s).
- (3) Investment advisors will report performance on both book value and total rate of return basis and compare results to the above-stated benchmarks for all actively managed portfolios. Investment advisors will report on book value for passively managed portfolios.

Sec. 2-214. – Accounting and reporting.

- (a) Investments will be carried at book value and marked to market value. Gains or losses from investments will be credited or charged to investment income at the time of sale. Premiums or discounts on securities may be amortized over the life of the securities. The village shall comply with Generally Accepted Accounting Principles (“GAAP”) and Government Accounting Standard Board (“GASB”) standards.
- (b) The director shall prepare a quarterly investment report which shall be presented to the village manager and the village council. The quarterly investment report is available to the public upon request. Schedules in the quarterly report will include the following:
 - (1) Listing of investments by type, book value, and market value as of the report date as well as portfolio activity during the period.
 - (2) Weight, by percentage, of each security type within the portfolio.
 - (3) Investment balance at end of quarter.
 - (4) Income earned for the quarter and year-to-date.
 - (5) Comparison of quarterly and calendar year-to-date performance to authorized performance benchmarks.
 - (6) Weighted average maturity of the portfolio.
- (c) The director shall report any occurrences of non-compliance with this policy in writing to the village manager as soon as reasonably possible once he or she is aware of the occurrence.

Sec. 2-215. – Third-party custodial agreements.

- (a) Securities, with the exception of certificates of deposits and overnight repurchase agreements (one business day), shall be held with a third-party custodian; and all securities purchased by, and all collateral obtained by, the village should be properly designated as an asset of the village. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Florida Statutes § 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider’s safekeeping department for the term of the deposit.
- (b) The custodian shall accept transaction instructions only from those persons who have been duly authorized by the director and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, from safekeeping, shall be permitted unless by such a duly authorized person.
- (c) The custodian shall provide the director with safekeeping receipts that provide detailed information on the securities held by the custodian. In addition, the custodian shall report at least quarterly, and the director shall verify the reports. Settlement transactions between a broker/dealer and the custodian on behalf of the village that involve a settlement of investments purchased or sold by the director or investment manager must be made on a “delivery vs. payment” basis to ensure that the custodian will have the security or money, as appropriate, in hand on behalf of the village at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

Sec. 2-216. – Municipal advisor rule.

Brokers and dealers who execute investment trades directly with the village’s portfolio typically require a form to be signed stating they are not acting in a municipal advisor role. The financial management director shall be authorized to sign these forms for the village’s authorized broker/dealers.

Sec. 2-217. – Risk diversification.

There are risks inherent in investing; however, every investment portfolio should include a specific diversification strategy to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities. The investments shall be diversified by:

- (1) Limiting investments to avoid over-concentration in securities from a specific issuer or of a specific type.
- (2) Staggering investment maturities to avoid undue concentration in a specific maturity sector.

(3) Limiting the duration (price sensitivity and maturity) of the investment portfolio.

(4) Investing in only high-grade securities with low credit risk.

(5) Maintaining a portion of the portfolio in readily available funds such as state investment pools, money market mutual funds, or overnight repurchase agreements.

Sec. 2-218. – Investment policy adoption and amendments; companion administrative procedures.

(a) The financial management director shall prepare any proposed amendments to these investment policies and submit them to the village manager for review and, if recommended by the manager, presentation to the council for review and approval.

(b) The village manager is authorized to administratively promulgate such additional procedures, protocols and forms to implement both the provisions, and intent of this division.

Section 2. For purposes of codification of any existing section of the Estero Village Code herein amended, words **underlined** represent additions to original text, words **~~stricken~~** are deletions from the original text, and words neither underlined nor stricken remain unchanged.

Section 3. If any section, subsection, sentence, clause, provision or word of this Ordinance is held unconstitutional or otherwise legally invalid, same shall be severable and the remainder of this Ordinance shall not be affected by such invalidity, such that any remainder of the Ordinance shall withstand any severed provision, as the Village Council would have adopted the Ordinance and its regulatory scheme even absent the invalid part.

Section 4. The Codifier shall codify the substantive amendments to the Estero Village Code contained in Section 1 of this Ordinance as provided for therein, and shall not codify the exordial clauses nor any other sections not designated for codification.

Section 5. Pursuant to Florida Statutes § 166.041(4)(a), prior to the date the public notice of the public hearing for this Ordinance was published, the Village prepared and posted on

its website a business impact estimate which included: a) a summary of the Ordinance, a statement of the public purpose to be served by the Ordinance, b) an estimate of the direct economic impact of the Ordinance on private, for-profit businesses in the Village, c) an estimate of direct compliance costs that businesses may reasonably incur due to the Ordinance, d) identification of any new charge or fee on businesses created by the Ordinance or for which businesses will be financially responsible, e) an estimate of the Village's regulatory costs and of revenues from any new charges or fees imposed on businesses to cover such costs, and f) a good faith estimate of the number of businesses likely to be impacted by the Ordinance.

Section 6. Pursuant to Florida Statutes § 166.041(4), this Ordinance shall take effect immediately upon adoption.

ADOPTED ON FIRST READING by the Village Council of the Village of Estero, Florida on the 6th day of March, 2024.

ADOPTED ON SECOND AND FINAL READING by the Village Council of the Village of Estero, Florida on the 20th day of March, 2024.

Attest:

By:


Carol Sacco, Village Clerk

VILLAGE OF ESTERO, FLORIDA

By:


Jen McLain, Mayor