

**MINUTES OF A SPECIAL REGULAR MEETING
CITY COMMISSION
FORT LAUDERDALE, FLORIDA
November 29, 2007**

Meeting was called to order at 9 a.m. by Mayor Naugle on the above date, City Commission Meeting Room.

Roll call showed:

Present: Commissioner Christine Teel
Commissioner Charlotte E. Rodstrom
Vice Mayor Carlton B. Moore
Commissioner Cindi Hutchinson
Mayor Jim Naugle

Absent: None

Also Present: City Manager George Gretsas
City Auditor John Herbst
City Clerk Jonda K. Joseph
Senior Assistant
City Attorney Paul Bangel
Sergeant At Arms None

Betty Burrell, Director of Finance, explained that the State has a local government investment pool managed by the SBA (Florida State Board of Administration). The City has approximately \$269 million invested with the SBA. Yesterday the Bloomberg Report indicated that of the \$27 billion in that pool, \$8 billion had been withdrawn by various entities. Another article appeared in November in connection with some risk associated with the pool funds. She had spoken with Rod Smith a couple weeks ago and he assured her that of the \$27 billion, at that time approximately \$2 billion was exposed to the sub-prime market. There are now significant withdrawals being made from the pool, she felt it was important to notify the Commission. She recommended amending the City's investment policy on a temporary basis so they would be able to invest the SBA proceeds in government-backed money market mutual funds. There will be lost opportunities with respect to interest earnings and additional fees.

Robert Mays, City Treasurer, noted that for years, SBA has been considered the safest and most conservative and best investment for Florida government entities. They feel the administrators of the SBA have not been as forthcoming as they should have been in communicating recent risks. A temporary move is recommended by the City's investment advisors to U.S. government backed money market mutual fund. They anticipate that in a few weeks they will have a recommendation as to diversification.

Mr. Mays noted SBA's returns history over the last year. The government-backed fund would have a lesser return, estimated at up to 1% less. SBA's fees over the last year for \$1 million invested were \$112.40. The recommended fund has expected costs \$1,333 for one year on \$1 million investment. At any one time, the City may have \$300 million or more invested with the SBA. Based on these assumptions, the City could potentially

have lower earnings to the tune of about \$3.3 million. Last year the City's interest earnings were \$17.5 million; and previous years were \$13.1 million, \$5.7 million and \$2.6 million.

Vice Mayor Moore asked if there is a commission if the money is transferred to a government-backed money market fund. Mr. Mays advised that the City's Investment Advisory, MBIA, has advised they would not charge for, nor receive, any compensation from this investment. In response to Vice Mayor Moore, Mr. Mays indicated MBIA does not represent the School Board of Palm Beach County, but he did not know if they represent the School Board of Broward County. Vice Mayor Moore wanted to know the answer because it appears those governmental entities were asked to take action at a faster pace than it was brought to the City's attention. He asked if that is correct. Ms. Burrell said that the City has two firms that invest the City's funds. One is PFM, Public Finance Management, and the other is MBIA. PFM was the first firm to bring to the City's attention the risks associated with SBA. PFM does not have a 100% government-backed mutual fund vessel that the City could use. The City will be working with MBIA. The City did not make a knee-jerk reaction when this first surfaced. They were trying to be very cautious.

Vice Mayor Moore asked about the SBA's guarantee. Mr. Mays said that one problem the City has had all along is that the SBA has not been as forthcoming as they should have been in letting the City know that some of the City's funds could be at risk. Ms. Burrell said she asked Rod Smith of SBA to put in writing that the City would not lose any principal or interest if the City's money was left in SBA, and he indicated that he could not do so.

Vice Mayor Moore asked if the money market firm would put in writing that the City would receive at least 4.4%. He was concerned about everyone shifting money. He questioned if this is an emergency for the City to react in this manner. He asked if staff has determined whether the vessel where the money is to be moved has any sub-prime loans and the risks they are taking in the market. Mr. Mays said the City's Investment Advisor, MBIA, have had their staff in New York at the headquarters of the fund being discussed. SBA's problem is related to commercial paper backed by questionable structured investment vehicles such as sub-prime mortgages. The City's Investment Advisor assured the City that this particular fund has zero investments in commercial paper; it is 100% U.S. government securities. Staff feels security is a major factor. If the funds are left in the SBA, no one knows. This is a run on the bank. It is a moral dilemma; should the City act in the best interests of the SBA and the State of Florida or the citizens of Fort Lauderdale. He felt he has the responsibility to protect the City's assets.

Commissioner Rodstrom asked about the fees. Mr. Mays indicated the fees are the total costs listed in the prospectus.

In response to Commissioner Rodstrom, Mr. Mays indicated that the City's investment policy gives the Director of Finance authority to invest in certain approved investments, including U.S. government securities directly and several other vehicles. Commissioner Rodstrom asked if the Commission would have any input in making those decisions. Ms. Burrell indicated that the Commission adopted the investment policy which prescribes how funds may be invested and gives the Director of Finance authority to do

so. The Commission's authorization is needed today to temporarily amend the policy to remove the funds from the SBA.

In response to Commissioner Rodstrom, Mr. Mays said the City has been assured that the fund where the City's money is being moved is very liquid. He believed it is the best choice temporarily because it is U.S. government backed and its liquidity so that money may be withdrawn at will.

The Senior Assistant City Attorney said those sections of the investment policy proposed to be amended presently provide a maximum of 20% of available funds may be invested in money market funds and a maximum of 10% of available funds may be invested with any one money market fund.

Vice Mayor Moore did not understand who is giving this advice. He referred to the minutes of the meeting on the 31st, it appears that PFM began discussing issues. Ms. Burrell confirmed that is correct. In response to Vice Mayor Moore, Ms. Burrell indicated that MBIA also provided advice which is exactly what is recommended, however the MBIA representative was unable to attend that meeting, due to weather.

Vice Mayor Moore understood that according to current policy, the City would only place 10% of its money in any one money market. In response to Vice Mayor Moore, Ms. Burrell indicated this money market is recommended because it is government backed. SBA indicated that they could not guarantee return of the principal or interest, but the new market will do so because it is backed by the U.S. government.

Mayor Naugle asked if the City Auditor has any comments. The City Auditor said the SBA is essentially acting in the same position as the City's other investment advisors. They have established a pool investment account for local governments to participate in, but there are no guarantees with that account. According to Florida statutes and the SBA rules, everyone shares equally in the gains and losses. The State does not stand behind the investments. The City is at risk in the same way they are at risk with other funds. The money market fund is also not a guaranteed fund. While the underlying investments in government securities are guaranteed, the total amount in the fund is not guaranteed because the value at which the underlying investments trade on a daily basis depends upon interest rates in the market. Money markets are designed with the intention to maintain a stable value, but it will not always be the case. The only way to get guarantees would be to buy direct U.S. treasury bills, bonds or notes. There are essentially three ways to acquire treasury bills, which he enumerated. The treasury market is the most liquid in the world because that is where people put their money. The City could look at its cash needs for the next three months, and buy at various maturities. A lot of the cash coming into the City from property taxes normally arrives in the months of November through January. Perhaps the City's cash needs could be met by the \$75 million with the two existing investment advisors and they could place the balance of the SBA funds into U.S. treasuries. Staff has concerns about the ability of internal staff executing and administering investments, although the City could buy directly from the Federal Reserve.

In response to Vice Mayor Moore, the Senior Assistant City Attorney said the actions being requested are to move the \$270 million and place the funds into the money market. The City's investment policy will be temporarily amended.

The City Auditor said currently the investment policy allows the City to be 100% invested in U.S. government issued securities. The mutual fund has a secondary investment in agency securities which backing the mutual fund, hence the need to amend the investment policy. The City would be in compliance with the existing investment policy if they owned the securities directly.

The City Auditor noted a provision in the SBA rules provide in periods of market disruption, which he assumes is up to them to declare, they may suspend fund withdrawals to avoid a run on the bank. It is a smart tool to prevent a panic and impact to the fund stability as a whole and give the market time to unwind these positions in an orderly fashion. At present, there is no market for these mortgage-backed securities, no willing buyers at any time. There is a timeliness issue as this continues to snowball. There is an SBA meeting on December 4th. They may decide to limit withdrawals.

Commissioner Rodstrom asked if staff made any comparisons with respect to fees. Ms. Burrell explained that this is an emergency meeting and as such, they tried to put together the most prudent course to remove the funds from the SBA and not put those monies at risk. There has not been enough time to figure this out.

In response to Commissioner Rodstrom, Mr. Mays indicated that they followed the advice of both investment managers, PFM and MBIA. Both advised the City to withdraw from the SBA. It is very likely that the majority of the City's funds will be invested in U.S. treasuries, but the City needs a transition period to prepare to do so. This particular fund is buying and selling treasury securities everyday. The City could work out a method of purchasing treasuries directly which has been done in the past or going through a primary broker as provided in the investment policy. There has not been time to compare fees, but from general knowledge, he knows that fees for treasuries would be lower.

Commissioner Rodstrom agreed with the City Auditor's recommendation if the fees would be lower.

Commissioner Teel agreed with staff. To leave the money where it is would be good for the SBA, but not for the City. Fees are peanuts in comparison to the amount of principal.

Commissioner Hutchinson supported both but understood that this is both an emergency and temporary move.

In response to Commissioner Hutchinson, Mr. Mays indicated that staff would start exploring their options immediately after this meeting.

Vice Mayor Moore did not agree with this. The City's policy explains why the City should not put all eggs in one basket which is what the Commission is being asked to do. The SBA has given good returns for a number of years. He felt they are overreacting. If a run occurs, it will cause a topple. He would not have a problem with looking at changing the policy, but not both a policy change and movement of money at the same time.

In response to Mayor Naugle, Mr. Mays indicated that about two-thirds of the City's investments are in the SBA. Mayor Naugle thought it would be a better move to transfer these investments into something that is backed by the U.S. government.

Vice Mayor Moore said there are no guarantees. He asked about the money market being recommended being less risky than where the funds are presently. Mr. Mays said the SBA has a wide variety of investments. About \$2.4 billion is at some risk. When looking at a pool of \$27 billion, \$2.4 billion is a significantly higher percent of a smaller pool. They are concerned that the SBA would restrict withdrawals or create a new share class. The SBA is invested mostly in commercial paper and some has exposure to sub-prime mortgages. Staff recommends the City invest in a money market mutual fund that is totally invested in U.S. government securities. There is never a 100% guarantee.

Vice Mayor Moore said the City is in the SBA due to performance. They have profited by the diversification. He understood this is temporary, but did not agree. Even if the money is frozen, there is \$75 million with which the City operates with its two investors.

In response to Mayor Naugle, the City Manager preferred Option 1.

Motion made by Commissioner Rodstrom and seconded by Commissioner Teel to authorize the withdrawal of all City funds held by the Florida State Board of Administration. Roll call showed: YEAS: Commissioners Teel, Rodstrom, and Hutchinson, and Mayor Naugle. NAYS: Vice Mayor Moore.

The Senior Assistant City Attorney explained the idea of Option 2 is to separate the motion. Since the investment policy was adopted by resolution inasmuch as it is being amended that portion needs to be done by resolution.

Commissioner Hutchinson introduced the following resolution (Option2):

RESOLUTION NO. 07-238

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF FORT LAUDERDALE AUTHORIZING THE INVESTMENT OF CITY FUNDS WITHDRAWN FROM THE FLORIDA STATE BOARD OF ADMINISTRATION IN UNITED STATES GOVERNMENT-BACKED MONEY MARKET MUTUAL FUNDS, TEMPORARILY AMENDING SECTIONS XII.L.2. AND 3. OF THE INVESTMENT POLICY OF THE CITY OF FORT LAUDERDALE, FLORIDA, TO ACCOMPLISH SUCH INVESTMENT, DIRECTING THE INVESTMENT COMMITTEE TO MAKE A RECOMMENDATION TO THE CITY COMMISSION ON OR BEFORE JANUARY 31, 2008, PROVIDING FOR AN EFFECTIVE DATE, AND PROVIDING FOR AN EXPIRATION DATE OF FEBRUARY 28, 2008, FOR THE TEMPORARY AMENDMENT OF THE CITY'S INVESTMENT POLICY.

Which resolution was read by title only. Roll call showed: YEAS: Commissioners Teel and Hutchinson, and Mayor Naugle. NAYS: Commissioner Rodstrom and Vice Mayor Moore.

There being no other matters to come before the Commission, the meeting was adjourned at 9:48 A.M.

Jim Naugle
Mayor

ATTEST:

Jonda K. Joseph
City Clerk