

City of Coral Gables City Commission Meeting
Agenda Item F-1
January 8, 2008
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Slesnick Donald D. Slesnick, II
Vice Mayor William H. Kerdyk, Jr.
Commissioner Maria Anderson
Commissioner Rafael "Ralph" Cabrera, Jr.
Commissioner Wayne "Chip" Withers

City Staff

City Manager, David Brown
City Attorney, Elizabeth Hernandez
City Clerk, Walter J. Foeman
City Clerk Staff, Billy Urquia
Don Nelson, Finance Director

F-1 [Start: 9:43 a.m.]

Discussion regarding The State Investment Fund
Mayor Donald D. Slesnick, II

Mayor Slesnick: Item F-1 is an item I asked be added to the agenda, I don't have much to say; I would like Mr. Brown, if you and Mr. Nelson would update us on the State Investment Fund; I think it is something we need to continue to have the Commission informed on every meeting; and I know that we have circulated some articles that have come out about the fund and about the investment strategies of the fund, and about the responsibilities of certain parties – Mr. Nelson.

City Manager Brown: Thank you Mr. Mayor.

Mr. Nelson: Good morning. At the City Commission meeting of December 11, 2007, Commissioner Anderson requested an update on the City's investment in the State of Florida State Board of Administration Local Government Investment Pool, and I presented a five page history at that time that lead to the events leading to the temporary closing of the withdrawals from the State Investment Pool, and the State Board of Trustees dividing the Pool into two separate funds. If you remember, the State Board had a draw down of the investments in the Pool. The Board of Trustees, that's made up of the Governor, the Attorney General, and the Chief Financial Officer decided to shut the Pool down because the Pool was having large withdrawals. They divided the Pool into two funds, Fund "A" and Fund "B". Fund "A", which the City is one of seven hundred and sixty nine (769) participants in the program, representing fourteen billion dollars (\$14B), and the City's investment at the time was thirty six million dollars (\$36M). The Fund –

the Trustees decided to divide the fund into two, Fund “A” which represents eighty six percent (86%) of the investments, which are one hundred percent (100%) high quality investments, triple “A” rated investments, one hundred percent (100%) secure; Fund “B” which represents fourteen percent (14%), which are in commercial paper, backed by mortgages, which are not secure, and are not of high quality investments, are also that’s what makes up the fund. The Board allowed one withdrawal from Fund “A”, which the City withdrew, four million dollars (\$4M) out of that fund. We presently have in Fund “A” twenty three point four million dollars (\$23.4M), and in Fund “B” four point six million dollars (\$4.6M). There has not been a second withdrawal from the State – the Board has not allowed the second withdrawal, that will be occurring some time in January and they are increasing the withdrawal from the original withdrawal provision of fifteen percent (15%) of the fund to twenty one percent (21%) of the fund. So we will be able to draw out additional funds from Fund “A”. Fund “B” however, will remain as the market conditions improve with the mortgage backed securities that back up the commercial paper that the State invested in; that will occur over time, and that will take six to twelve months to have those investments return back to a marketable rate and recover the investment that the State has made into those commercial paper investments. So, all the participants in the State program are not eligible to withdraw monies from Fund “B”. Fund “A” will be allowed over time within the next four months; they will allow twenty one percent (21%) to be withdrawn over the next four months and the City will withdraw out its share of funds, which again is twenty three point four million dollars (\$23.4M). In the meantime, the City has invested in a separate fund outside of the State, which is a Federated investor’s fund, a hundred percent (100%), triple “A” rated fund. The City currently has forty six million dollars (\$46M) in that fund; the City is able to operate, we are able pay our bills, we are able to pay our payroll, our debt payment, and the investment in the State Fund will not affect the City’s operations of paying its obligations. The State Board of Trustees is making the decision, they are seeking, and they have requested outside counsel, to look at the legality of the fund. They have also hired an outside auditor, independent...

Commissioner Withers: For which fund, “A” or “B”?

Mr. Nelson: Both, both; they have actually – the State Board of Trustees made up again of the Governor, the CFO and the State Attorney General, have hired outside counsel to look at the entire State Board of Administration program. They have also hired an outside auditor to do a forensic audit as to what investments were made, who made the investments, did they go outside of their investment policy, and then they also are conducting an internal audit of the entire matter. The State Board of Trustees is investigating the entire matter in order for them to later seek legal remedy and recourse of recovering investments that the State made on behalf of all the participants. The City is monitoring this; I’m one of sixteen members on an Advisory Board to the State that is monitoring this, making sure that the State does its due diligence in pursuing the collection of any lost investments. At this time there really is no direct loss; there has been no right down; there has been no immediate loss of funds that will be remained to see, as into Fund “B” as time occurs whether the investments that they made in these commercial paper products will come due with the mortgage backed securities that back

up the commercial paper, so that will be seen. In the meantime they are doing the investigation, outside counsel, the internal auditors and the external auditors in order to basically sort out everything that has gone wrong with the State and their investments in these various investment products. We had a meeting with the Chief Counsel of the Florida League of Cities, who is monitoring this; they are looking at what the State is doing to make sure that if the State does not step in and pursue collection of lost investments, if there are any, then the other cities will then step in and seek legal remedy to recover its loss.

Vice Mayor Kerdyk: Who are the money managers did you say? Who are the managers of the fund?

Mr. Nelson: Some of the money managers that were involved were Lehman Brothers and J.P. Morgan that sold commercial paper to the State that were backed by mortgage products.

Commissioner Withers: Sub-prime mortgage.

Mr. Nelson: Yes. So we are currently as all of the seven hundred and sixty nine participants on hold waiting its next draw from Fund "A", and then waiting for Fund "B" to improve as to its quality of its investments, which will be within six months to a year, and also reviewing the States pursuit of its legal action against any loss in Fund "B".

Vice Mayor Kerdyk: If the State does not pursue it, the City would have to file a class action suit or file an individual suit against the State which has sovereign immunity, and then a suit against some pretty big boys, which is J.P. Morgan and what was the other one?

Mr. Nelson: Lehman Brothers.

Vice Mayor Kerdyk: Lehman Brothers.

Mr. Nelson: Those are two named, there are possibly other named investment houses that sold, but those will be disclosed once the audit is completed, and the external audit.

Mayor Slesnick: And in regards to that, I have spoken with the League of Cities, both the Dade and the Florida League of Cities, of which I am not yet satisfied as to what they may or may not do, if anything, but in several weeks I'm going to be a part of a Board meeting for the League of Mayors – the Florida League of Mayors, and I have asked that, that be placed on the agenda, because I really think, and you are right, I mean, one City proceeding by itself is not – and I think that it needs to be a group action. We already have organizations that we are members of and I'm not quite certain why we are not, you know, being represented more vocally and more aggressively by these groups, and it's my intention to keep pushing that. A couple of things though to inform people; you said we have like seven hundred plus local governmental entities including separate taxing

districts, airports, seaports and so forth, that are part of this fund, right – seven hundred plus?

Mr. Nelson: Yes sir – seven hundred and sixty nine (769), they represent one hundred and ninety nine (199) cities, seventy nine (79) counties, eighty-two school boards, three hundred and forty eight special districts which are transits, ports, and utilities, county tax collectors, there is twenty one, sheriff's offices, there is thirteen, and other component units, including Citizens Insurance, water management districts, community colleges, State and three supervisor of elections.

Mayor Slesnick: When I first heard of this, I was surprised, not because we would be using a State fund to invest in, but I didn't know anything about it, when did the City of Coral Gables enter the fund?

Mr. Nelson: The City was authorized in June of 1991 by resolution to enter into an agreement with the State and to provide its investment of operating funds, and again I want to be very clear that this does not include any retirement funds, only the City's operating funds.

Mayor Slesnick: Right. So, I just want to make it clear though so that people understand these things; so this City has been investing in this since 1991.

Mr. Nelson: Yes sir.

Mayor Slesnick: And I don't remember that we've ever really talked about any reauthorization or any – we've just continued to invest.

Mr. Nelson: Yes.

Mayor Slesnick: Why is it, Don, that there were a couple of significant governmental entities that seem to have an inkling as to what was going on, and all of a sudden withdrew their money just before the dooms day scenario took effect? If you know, if you don't know then...

Mr. Nelson: Well...

Mayor Slesnick: I just can't understand why people like Orange County all of a sudden stepped up and took their money out and left.

Mr. Nelson: Right. Well, the news as I reported at the last meeting on December 11th was coming out of the State Board that it was up to the very end a very secure, safe place to invest. How the decision was made by the other entities, I don't know how they made that decision to pull their funds out; it was decided that the City would remain and keep its funds in based upon the publications and the information coming out of the State Board; that it is a one hundred percent (100%) safe, secure investment for all cities and entities throughout the State.

Mayor Slesnick: For the money that we are pulling out that we are drawing down, where are we putting it?

Mr. Nelson: That's going into a Federated fund, which is a triple "A" rated fund that we've opened, and currently there is forty six million dollars (\$46M) that we've invested in this since this fund is no longer eligible for withdrawals, and of course the forty six million dollars (\$46M) in this Federated, triple "A" rated fund, money market fund, daily liquidity, is from tax proceeds and daily proceeds of its revenues.

Mayor Slesnick: And this is operating monies that we use, its not just sitting there, this is not a reserve, this is operating.

Mr. Nelson: These are operating funds to pay all the bills, the payroll, the debt payments, and to keep the City running, and like I mentioned at the last meeting, at any one point in time we have an average of thirty five to forty million (\$35-\$40M) in the fund all the time which represents all of our reserves, so currently we have a total investment at the State of twenty eight million dollars (\$28M), which is below our average balance throughout the entire year, so there is never a point we go below.

Mayor Slesnick: It's my understanding that there are a number of small cities who had their entire operating funds in this and are now borrowing from the State to make up for the losses.

Mr. Nelson: That's correct – they had their entire investment portfolios – there were some cities, small counties that could not meet payroll, and they've had to borrow and use the collateral in this program as back-up to secure their loans in order to keep operating. We are not in that position; we are very liquid; we have sufficient funds to carry us through the entire fiscal year, and into next year. We'll be able to wait to even Fund "B" out; our most important message to the Governor and his Board is that they need to preserve one hundred percent (100%) of the capital investment that we all have invested in this program in order to continue its future, but to ensure – and that will be seen either by the legal action, the legislative action when they come in the Spring to guarantee backing of this fund, so there will be many avenues that the City and the Board and the Trustees will be able to pursue to ensure a hundred percent (100%) guarantee of this fund, because otherwise it will not exist, the confidence level is not there, and they will not get any future investors if they do not return a hundred percent of principal.

Mayor Slesnick: Well, I think one of the messages I'd like to send is if they find that there was negligence or misdeeds by State employees of this fund, that they need to stand behind what happened within their responsibility.

Mr. Nelson: Yes – and they've acknowledged the State Board of Trustees are the fiduciaries to this fund; they invested public funds on our behalf, and we instilled the trust in them and they are the fiduciaries of our funds throughout the State, and they are held accountable.

Commissioner Withers: Did the City ever sit on the investment committee for this Board?

Mr. Nelson: No.

Commissioner Withers: Does Citizens Insurance have any investments in this fund?

Mr. Nelson: Citizens has two billion dollars (\$2B) in this fund.

Commissioner Withers: And what percentage of the overall fund is that?

Mr. Nelson: The total fund is fourteen billion (\$14B), so it's...

Commissioner Withers: They have a large stakeholder.

Mr. Nelson: They are the largest shareholder, which is Citizens.

Commissioner Withers: And that's basically the State.

Mr. Nelson: That's the State insurance program.

Commissioner Withers: You know if that's two billion in Fund "A" or Fund "B", do you know how it breaks down?

Mr. Nelson: The two billion actually is divided; they also have to divide eighty-six percent (86%) of the two billion dollars in Fund "A", which is a hundred percent high quality, but fourteen percent of their two billion dollars is in Fund "B".

Commissioner Withers: I think Don, it would be prudent at some point for you to get a comment from them; you know, they have been fairly fortunate, Citizens has, in that they haven't had major storms in the last couple years that's really hit their reserves. I don't know what a major storm would do with this shortfall they are having as to the program next year, I don't know, maybe they have a contingency plan set up, but I'll be real curious to know what their plan is as far as reinsurance or something like that.

Vice Mayor Kerdyk: Is there any other questions for Don?

Commissioner Withers: No.

Vice Mayor Kerdyk: Thank you very much Don.

[End: 9:59 a.m.]