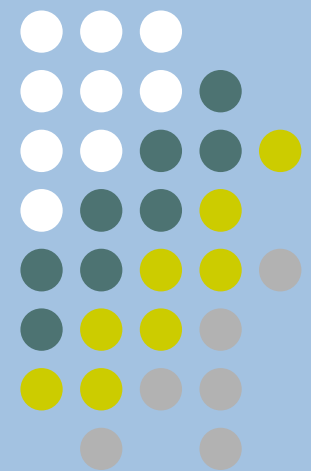
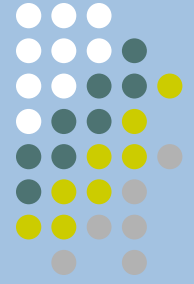


# Cash Management, Investments, and Lessons Learned

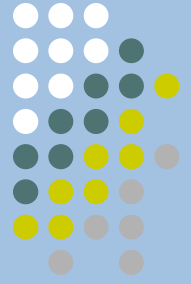
---

**Chief Financial Officer Alex Sink**  
State of Florida  
NAST- August 20, 2008



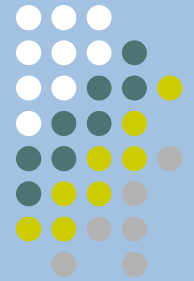


# Cash Management Best Practices



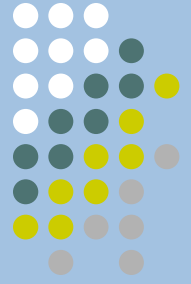
# Benefits of a Central Treasury

- Better Management
- Economies of Scale



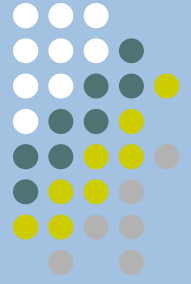
# Control of Practices

- **Statutory Authority over Agency Practices**
  - Approval of Bank Contracts
  - Approval of Credit and Debit Card Acceptance
  - Consulting with Ability to Recommend Process Changes



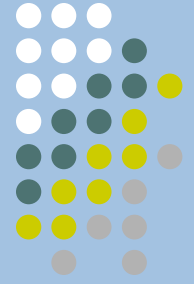
# Cash Management Services

- Statewide Deposit Concentration
- Consolidated Revolving Account
- Training on Payment Card Industry Security Requirements

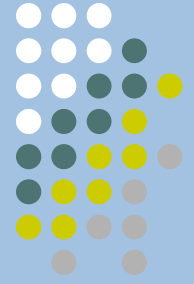


# Promote Electronic Receipts

- Florida now Collects 81 Percent of its Money Electronically
- Money can be Used or Invested Instantly

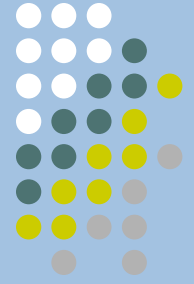


# Treasury Investments Best Practices



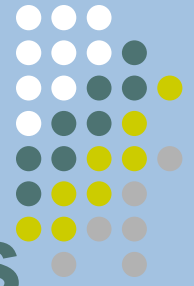
# Background Information

- Treasury Funds = \$13.5 billion
- Special Purpose Investment Account Funds = \$3.5 billion
- New Challenges as States Experience Declining Revenue



# Placement of Funds

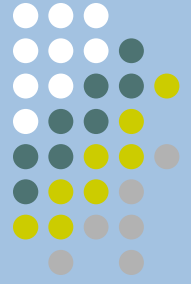
- Florida Certificates of Deposit
  - \$1.1 Billion
- Internal Investments
  - Provides Liquidity- \$5.4 Billion
- External Investments
  - Provides Excess Returns over Time- \$10.5 Billion



# Tightening Investment Practices

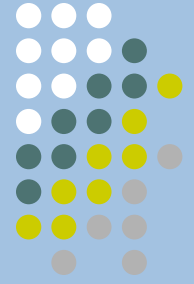
April 2007

- Reduced Concentration Limits on Corporate Holdings
- Banned Certain Investments
  - SIVs, Sub-Prime, Alt A
- Raised Credit Requirements on Asset-Backed Securities
- Increased Liquidity

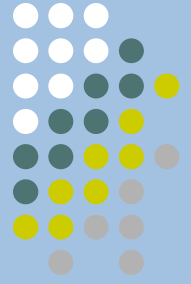


## Final Note

- **\$1.7 Billion More for Florida by Expanding External Investment Program since 1990**

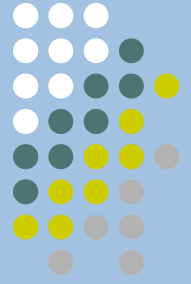


# Florida's Local Government Investment Pool (LGIP) Lessons Learned



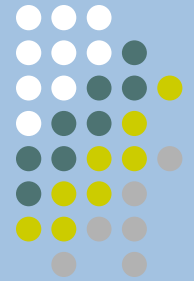
# Background

- State Board of Administration (SBA) Manages Various Funds:
  - Pension Fund
  - Local Government Investment Pool
  - Other Funds



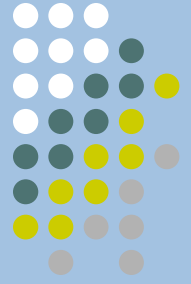
# Background

- State Board of Administration Trustees
  - Governor
  - Attorney General
  - Chief Financial Officer



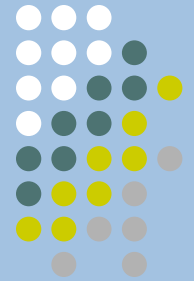
# LGIP Problem Investments

- Purchased in July and August 2007 – All Top Rated
  - Ottimo Funding, KKR Atlantic, KKR Pacific, Axon Funding
- Downgraded to Junk within Two Months



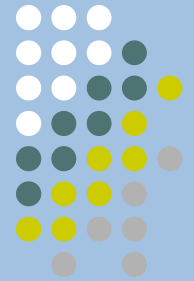
# Problems Ensur

- **Lack of Information**
  - Insufficient Communication to Investors
  - No Communication to Trustees until November
- **Inadequate Risk Management Policies**
  - Investment Oversight Committee Notified After Investments were Restructured
  - Oversight Lacking Over Securities Purchases
- **Media Coverage**
  - National Coverage of Investment Downgrades Leads to Panic



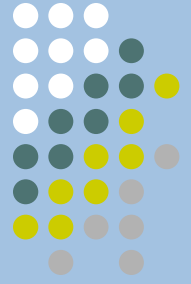
# Investors Panic

- Classic “Run on the Bank”
  - \$26 Billion Dropped to \$14 billion in November
- Pool Lacked Liquidity to Pay All Investors at Par
- Trustees Freeze Pool-- 11/29



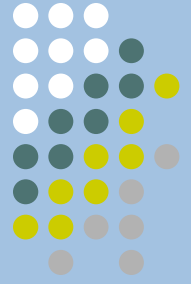
## Quick Action to Get Back on Track

- Trustees Hired Independent Financial Advisor- BlackRock
- Split Pool– Segregate Problem Investments
- Limited Future Withdrawals of Fund A
- Fund B “Off-Limits” Until Investments Mature



## Current Status

- Fund Still Independently Managed—  
Hired Federated Investors
- As More Liquidity Becomes Available,  
Balances Continue to Drop
- Fund A Balance is \$7 billion



# Lessons Learned

- **Transparency**
  - Must Immediately Disclose Problems to Board & Investors
- **Communication**
  - Must Provide Thorough and Uniform Communication to Investors
- **Accountability**
  - Must Establish Risk Management Policies & Follow Them