

# **Destin Fire Control District**

## **Investment Policy**

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*To set forth the investment objectives and parameters for the management of the funds of the Destin Fire Control District, (hereinafter “District”). This Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and a reasonable rate of return given our other criteria of security and liquidity.*

### **POLICY GUIDELINES**

#### **I. SCOPE**

In accordance with Section 218.415, Florida Statutes, this Policy applies to all funds controlled by the District in excess of those required to meet current expenses, with the exception of pension funds, funds related to the issuance of debt where there are other existing policies or indentures in effect. Additionally, any future revenues that have statutory investment requirements conflicting with this Policy and funds held by state agencies (e.g. Department of Revenue) are not subject to the provision of this Policy.

Cash balances from all accounting funds are consolidated to maximize investment earnings. Investment income is allocated to each accounting fund based on the fund’s respective participation and in accordance with generally accepted accounting principles.

#### **II. INVESTMENT OBJECTIVES**

The following investment objectives will be applied in the management of the District’s monetary assets:

- a. **Safety** – The primary objective of the District’s investment activity is preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses.
- b. **Liquidity** – The District’s investment portfolio shall remain sufficiently liquid to enable the District to meet operating requirements that may be reasonably anticipated. To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than two years from the date of purchase.
- c. **Investment Income** – The District’s investment portfolio shall be designed with the objective of regularly exceeding the average rate of return on a six month U.S. Treasury Bill. The District’s investment risk constraints and cash flow needs shall be taken into consideration. Rate of investment is of least importance compared to the preservation of principal and liquidity objectives described above.
- d. All participants in the District’s investment process shall seek to act responsibly as custodians of the public trust. Investment will be avoided where the transaction might

impair public confidence in the District's ability to govern effectively. The District, however, recognizes that, in a diversified portfolio, occasionally measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided adequate diversification has been implemented.

### **III. PERFORMANCE MEASUREMENT**

To assist in the evaluation of the portfolios' performance, each portfolio's overall performance will be reviewed on a quarterly basis, with emphasis placed on results achieved over a rolling time period of three to five years for long-term portfolios. Objectives will be reviewed annually and adjusted as necessary after consultation with the District, Investment Advisor(s), and Portfolio Manager(s).

### **IV. PRUDENCE AND ETHICAL STANDARDS**

The standard of prudence to be used by the District or employees of the District shall be the "Prudent Person Rule" stand and shall be applied in the context of managing the overall investment portfolio within the applicable legal constraints. District Officers and employees acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for any individual security's credit risk or market price changes, provided deviations from expectation are reported to the District in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

The "Prudent Person Rule" is herewith understood to mean the following: Investments should 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.

District Officers and 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, District Officers and employees involved in the investment process shall disclose to the Financial Administrator any material financial interests in financial institutions that conduct business with the District, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the District's investment program.

## V. LISTING OF AUTHORIZED INVESTMENT

The District is authorized to invest District funds in the following instruments:

- a. U.S. Treasury Obligations – This is the largest segment of the fixed-income security market. Treasury securities are the safest and most marketable investments, but they yield the lowest return for a given maturity of all investment instruments. Treasury securities are classified as bills, notes, and bonds.

The District is authorized to invest in bills, notes, bonds and debentures (bond backed by the general credit of the issuer rather than a specific lien on particular assets) of the United States Treasury, the maturities of which are not more than 1 year from the date of purchase

All United States Treasury issue transactions will be conducted only with primary dealers from the list of Government Security dealers reporting to the Markets Reports Division of the Federal Reserve Bank of New York.

- b. Agency Securities – These obligations of various agencies and corporations chartered by the federal government are guaranteed by the issuer. Principal issuers include federal land banks, federal home loan banks, federal intermediate credit banks, the Federal National Mortgage Association (“Fannie Mae”), the Governmental National Mortgage Association (“Ginnie Mae”), and the banks for cooperatives.

Notes or bonds secured by mortgages insured by the Federal Housing Administrator, securities of national mortgage associations, and debentures issued by the Federal Housing Administrator (FNMA, GNMA, and FHMLC) are acceptable investments so long as the maturity dates do not extend more than 1 year from the date of purchase.

- c. Negotiable Certificates of Deposit – A CD is the deposit of funds at a commercial bank for a specified period of time and at a specified rate of interest. Rates on CD’s are quoted by money-market banks. Certificates of deposit and other evidences of deposit at financial institutions, bankers’ acceptances, and commercial paper, must be rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency and must be fully collateralized at 102%. The District may make a practice of investing only in the CDs of local banks located within the District boundaries
- d. Local Government Investment Fund (State Pool) – The Florida Statutes authorizes the State Treasurer to establish and maintain a common trust fund (The Florida Pooled Investment Fund) in which cities, counties, school districts, regional councils of government, and other political subdivision of the State may deposit public monies. The District may withdraw deposits with a one day notice to the States Treasurer’s Office.

Investments not listed in the Policy are prohibited

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds (liquidity

and enhanced cash portfolios) shall have maturities of no longer than twenty-four (24) months. Investments of bond reserves, construction funds, and other non-operating funds (short- and long-term portfolios) shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years.

For the purpose of this Policy, the top Nationally Recognized Statistical Rating Organization (NRSRO) for corporate and municipal securities are Moody's Investor Service, Stand & Poor's, and Fitch Ratings.

In the event of a ratings downgrade of a security, the Investment Advisor(s) shall notify the District within three business days of such a decline in the required rating. The Investment Advisor(s) and the District will review the individual facts and circumstances of the situation and determine an appropriate course of action.

In addition to the investments authorized above and notwithstanding any other provisions of law, the District may deposit any portion of surplus public funds in its control or possession in accordance with the following conditions:

- a. The funds are initially deposited in a qualified public depository, as defined in Section 280.02, Florida Statutes, selected by the District.
- b. The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or savings and loan association, wherever located, for the account of the District.
- c. The full amount of the principal and accrued interest of each financial deposit instrument is insured by the Federal Deposit Insurance Corporation.
- d. The selected depository acts as custodian for the District with respect to each financial deposit instrument issued for its account

## **VI. RISK AND DIVERSIFICATION**

It is the policy of the District to diversify its investment portfolio. Assets held shall be diversified to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, class of security, and/or dealers through whom these instruments are bought and sold. The portfolio shall consist of all investments the District directs; including investments purchased under advisement of a third-party investment advisor under contract to the District, and shall be considered as one portfolio for the diversification calculation. Overnight repurchase agreements, however, are an exclusion for the diversification calculation. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the District.

The maximum percentage of the total portfolio in each eligible security is as follows:

Diversification by instrument:

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|--|--------------|
| a. United States Treasuries/Agencies/Instrumentalities | 50% maximum  |
| b. Local Government Surplus Funds Trust Fund           | 75% maximum  |
| c. Repurchase Agreements*                              | 50% maximum  |
| d. Mutual Funds  | 75% maximum  |
| e. Florida Local Government Investment Trust           | 100% maximum |
| f. Other (CDs and Bas individually)                    | 25% maximum  |

\* Repurchase agreements purchased from any one broker cannot exceed 40% of the portfolio

The District recognizes that investment risks can result when the issuer defaults, market prices changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The District may approve, under separate cover, an increase or decrease to any of the above limits. Investment managers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of a default by a specific issuer, the District shall review and, if appropriate, proceed to liquidate securities having comparable credit risks.

To control the risk of illiquidity within the pooled cash area, an average minimum dollar amount equivalent to two month of expenditures shall be held in a liquid investment (i.e., overnight repurchase agreements, mutual funds, SBA, FLGIT and any other approved, short term instrument with a maturity not to exceed sixty days). However, the dollar amount placed in a liquid investment has no maximum restrictions.

## **VII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

The following institutions are authorized to provide investment services and act as portfolio managers to the Destin Fire Control District:

- a. Financial institutions included on the State of Florida's list of Qualified Public Depositories
- b. Entities providing intergovernmental investment pools authorized per Florida State Statute 163.01
- c. Securities brokers/dealers meeting all of the following requirements
  1. Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)
  2. Assets under management of no less than \$500 million
  3. Registered as a dealer under the Securities Exchange Act of 1934
  4. Member of the National Association of Dealers (NASD)
  5. Registered to sell securities in Florida

6. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years

All institutions conducting investment transactions on behalf of the District shall provide written acknowledgement of receiving a current copy of the District's Investment Policy.

#### **VIII. THIRD-PARTY CUSTODIAL AGREEMENTS**

Securities, with the exception of certificates of deposit, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District, should be properly designated as an asset of the District. 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, 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.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the District and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping unless by such a duly authorized person.

The custodian shall provide the District with safekeeping statements that provide detail information on the securities held by the custodian. On a monthly basis, the custodian will also provide reports that list the dates and nature of all transactions as well as all securities held for the District and the book value and the market value of each as of month-end.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer or money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

#### **IX. MASTER REPURCHASE AGREEMENT**

All approved investment institutions and brokers/dealers transacting repurchase agreements are required to execute and perform as stated in the District's Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

Investment in any derivative products or the use of reverse repurchase agreements is 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.

**X. BID REQUIREMENT**

After the District and Investment Advisor(s) have determined the approximate maturity dated based on cash flow needs and market conditions and have analyzed and selected one or more optimal types of investments, the security in question must be competitively bid when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in Section II Investment Objective must be selected.

However, if obtaining bids/offers 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:

- a. Telerate Information System
- b. Bloomberg Information Systems
- c. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- d. Daily market pricing provided by the District’s custodian or the correspondent institution

The District or the Investment Advisor(s) 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 District or the Investment Advisor(s), competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- a. Time constraints due to unusual circumstances preclude the competitive bidding process
- b. No active market exists for the issue being traded due to the age or depth of the issue
- c. A security is unique to a single dealer, for example, a private placement
- d. The transaction involves new issues or issues in the “when issued” market

Overnight sweep investments or repurchase agreements will not be bid, but may be placed with the District’s depository bank relating to the demand account for which the sweep investments or repurchase agreement was purchased.

**XI. INTERNAL CONTROLS**

The District shall establish a system of internal controls and operations procedures that are in writing and made a part of the District’s operational procedures. The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and “delivery vs. payment” procedures. No person may engage in an investment transaction except as authorized under the terms of this Policy. These procedures are intended to reduce the relatively low risk that material losses may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Independent auditors as a normal part of the annual financial audit of the District shall conduct a review of the system of internal controls.

**XII. CONTINUING EDUCATION**

The District and/or investment staff shall annual complete eight (8) hours of continuing education in subjects of courses of study related to investment practices and products.

**XIII. REPORTING**

The District and/or Investment Advisor(s) shall provide the District with a “Quarterly Investment Report”. The Investment Report shall include the following information, at minimum, as of the report date:

- a. Securities in the portfolios by class or type
- b. Book value
- c. Market value (presented consistent with accounting guidelines in GASB Statement 31)
- d. Income earned
- e. Any areas of concern warranting possible revisions to current or planned investment strategies.

Investment reports shall be available to the public.

**XIV. SALE OF SECURITIES**

When the invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, the District may sell such investments at the then-prevailing market price and place the proceeds into the proper account or fund of the District.

**XV. PREEXISTING CONTRACT**

Any public funds subject to a contract or agreement existing on October 1, 2000, may not be invested contrary to such contract or agreement.

**XVI. PREEMPTION**

Any provision of any special act, municipal charter, or other law which prohibits or restricts the District from complying with this section or any rules adopted under this section is void to the extent of the conflict.