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MORAGA-ORINDA FIRE DISTRICT
DISTRICT POLICY
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Investment Policy

Purpose

The purpose of the Investment Policy is to establish a prudent and systematic policy and to organize and formalize investment-related activities.

Policy

Section One: Scope and Authority

1.1 The Moraga Orinda Fire District's (District) Investment Policy is authorized under the California Government Code, section 53600, et seq. as it applies to the investment of public funds.

1.2 It is intended that this policy cover all funds and investment activities under the direct authority of the District excluding pension funds, other post-employment benefit trust funds, and the proceeds of debt issues. Investments authorized by Fiscal Agents pursuant to bonded debt are controlled by the terms and conditions of the specific bond and may not necessarily coincide with the Investment Policy outlined herein. Investments must conform to Government Code section 53601 concerning custody of all securities. Wherever practical, investments made by a Fiscal Agent on behalf of the District will be consistent with this Policy.

1.3 The District’s Board hereby delegates management authority for the investment program to the Fire Chief or designee.

1.4 The District’s Board hereby authorizes District participation in the Contra Costa County investment pool. The Board delegates investment authority for investment of public agency funds to the Treasurer of Contra Costa County. The Board authorizes the County Treasurer to invest such District funds as may be designated by the District consistent with provisions of the California Government Code. The County Treasurer shall follow the written instructions provided by the District.

Section Two: Investment Objectives

2.1 Safety - It is the primary duty and responsibility of the District Treasurer, Fire Chief and Administrative Services Director to protect, preserve and maintain cash and investments placed in trust on behalf of the citizens of the District.

2.2 Liquidity - An adequate percentage of the District's investment portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk.

2.3 Yield - Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

a) The overall yield should be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the District's risk constraints, the cash flow characteristics of the portfolio, and State and local laws, ordinances or resolutions that restrict investments.

2.4 Public Trust - All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

2.5 Diversification - The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

In a diversified portfolio, it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

2.6 Prudence - The District adheres to the "prudent investor standard" which states that

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

Section Three: District's Investment Strategy

3.1 The most effective method of increasing investment yields without sacrificing safety is to extend the investment horizon commensurate with the District's cash requirements. To that end, improved cash forecasting and management is the preferred investment strategy for the District.

a) Cash management activities include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a short-term borrowing program, when needed, that coordinates working capital requirements and investment opportunity.

Section Four: Allowable Investment Instruments

4.1 The Government Code, sections 53601, 53601.1, 53601.6 and 53635 shall govern the District's allowable investments and the length of those investments, unless specifically limited by this policy. Although the maximum maturity for any deposit or investment is five years, most investments should be for no longer than 2-3 years.

4.2 The specific investments allowed are listed below:

a) The State's Local Agency Investment Fund (LAIF)
b) Any Public Agency's Pooled Investment Fund, provided such involvement is approved in advance by resolution of the Board
c) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest
d) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises
e) Insured Certificates of Deposits (CD's)
f) Passbook savings and money market accounts
g) Money market funds that have attained the highest letter and numerical rating provided by not less than two Nationally Recognized Statistical Rating Organizations and not to exceed 20% of the portfolio and not to exceed 10% of the portfolio per money market fund.

4.3 Any investment not specifically approved by this policy is prohibited.

Section Five: Reporting Requirements

5.1 The Fire Chief or designee shall annually submit a written investment policy to the Board. The Board shall consider the investment policy at a public meeting.

5.2 The Administrative Services Director or designee shall submit a quarterly investment report to the Board. The report must be submitted within 30 days following the end of the month covered by the report. Such report shall include at least the following information:

a) Types of investments;
b) Names of the institution in which funds are invested or deposited;
c) Date of maturity, if applicable;
d) Par and original investment amount on all securities;
e) Percent distribution of each type of investment;
f) Current market value as of the date of the report, including sources of the valuation except those under LAIF;
g) Rate of interest;
h) Average weighted yield of portfolio;
i) Investment income for the fiscal year to date
j) A statement relating the report to the District's Investment Policy; and
k) A statement that there are sufficient funds to meet the District's next six months' financial obligations.

5.3 Periodic reports shall be prepared as required by circumstances or as directed by the Board. Such circumstances include, but are not limited to, notification that any District investment may be in jeopardy or a sudden and significant drop in the current market value of any District investment.

5.4 The District will report the investment portfolio at market value at the end of each fiscal year in accordance with Governmental Accounting Standards Board Statement No. 31.

Section Six: Internal Controls and General Guidelines

6.1 A system of internal control shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

6.2 Controls deemed most important include:

a) The control of collusion and separation of duties;
b) Custodial safekeeping of funds invested or on deposit;
c) Minimizing the number of authorized Investment Officers; and
d) Written documentation of procedures and transactions.

6.3 In selecting financial institutions for the deposit or investment of District funds, the Treasurer or designee shall consider the credit-worthiness of the institution. Such credit-worthiness shall be monitored on a regular basis throughout the period in which District funds are deposited or invested.

a) Any deposit or investment of funds shall be in writing, signed by the Fire Chief or designee and the authorized representative of the institution.
b) All transactions will be executed on a Delivery Versus Payment (DVP) basis
c) All investment securities shall be held in the District's name by a third-party custodian that is the trust or custody division of a bank.

6.4 The District will require the auditors to perform cash and investment testing as part of the audit of the District's financial statements.

6.5 An annual Cash Flow Forecast may be prepared by the Fire Chief or designee and would be used to assist in the development of the annual operating budget for the District.

6.6 This Investment Policy shall be reviewed by the Board on an annual basis.

6.7 Ethics and Conflict of Interest - Board members 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. Board members and employees shall disclose any material financial interests that could be related to the performance of the District's investment portfolio.

DEFINITIONS

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

Collateral – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Custody – Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

Diversification – Dividing investment funds among a variety of securities offering independent returns.

Federal Agency Obligation – A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Liquidity – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

Local Agency Investment Fund (LAIF) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is trading and could presumably be purchased or sold on a specific date.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio – Collection of securities held by an investor.

Prudent Investor Standard – An investment standard that all investments should be made with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

U.S. Treasury – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS). All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

Yield at Market – The percentage rate of return paid if the security is held to its maturity date using the market price of the security. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Market will vary over time.

Yield at Cost – The percentage rate of return paid if the security is held to its maturity date at the original time of purchase. The calculation is based on the coupon rate, length of time to maturity, and original price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Cost on a security remains the same while held as an investment.