

Investment Policies for Special Districts

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Introduction to Special Districts

Investment Options for Special Districts

- ▶ Section 218.415, Florida Statutes provides 2 general options for local governments looking to invest:
- ▶ If there is no written investment policy, then the local government may invest in the following:
 - ▶ (a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in [s. 163.01](#).
 - ▶ (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
 - ▶ (c) Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in [s. 280.02](#).
 - ▶ (d) Direct obligations of the U.S. Treasury.
- ▶ The securities listed in paragraphs (c) and (d) shall be invested to provide sufficient liquidity to pay obligations as they come due.

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Written Investment Policy - Priorities

- ▶ A written investment policy must “be structured to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment returns shall be secondary to the requirements for safety and liquidity.” Sec. 218.415, F.S.
- ▶ “Each unit of local government shall adopt policies that are commensurate with the nature and size of the public funds within its custody.” *Id.*
- ▶ “Investment objectives shall include safety of capital, liquidity of funds, and investment income, in that order.” *Id.*
- ▶ “**Prudence and ethical standards.**--The investment policy shall describe the level of prudence and ethical standards to be followed by the unit of local government in carrying out its investment activities with respect to funds described in this section. The unit of local government shall adopt the Prudent Person Rule, which states that: ‘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.’” *Id.* at (4).

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Written Investment Policy - Priorities

- ▶ **(6) Maturity and liquidity requirements.**--The investment policy shall require that the investment portfolio is structured in such manner as to provide sufficient liquidity to pay obligations as they come due. . .
- ▶ **(7) Portfolio composition.**--The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities. . .
- ▶ **(8) Risk and diversification.**--The investment policy shall provide for appropriate diversification of the investment portfolio. Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets. . .
- ▶ **(9) Authorized investment institutions and dealers.**--The investment policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities.
- ▶ **(10) Third-party custodial agreements.**--The investment policy shall provide appropriate arrangements for the holding of assets of the unit of local government. Securities should be held with a third party; and all securities purchased by, and all collateral obtained by, the unit of local government should be properly designated as an asset of the unit of local government. . .

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Written Investment Policy - Priorities

- ▶ (11) **Master repurchase agreement.**--The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. . . .
- ▶ (12) **Bid requirement.**--The investment policy shall require that the unit of local government's staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in subsection (2) must be selected.
- ▶ (13) **Internal controls.**--The investment policy shall provide for a system of internal controls and operational procedures. . . .
- ▶ (14) **Continuing education.**--The investment policy shall provide for the continuing education of the unit of local government's officials responsible for making investment decisions or chief financial officer.
- ▶ (15) **Reporting.**--The investment policy shall provide for appropriate annual or more frequent reporting of investment activities.

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Written Investment Policies - Authorized Investments

The investment policy shall list investments authorized by the governing body of the unit of local government, subject to the provisions of subsection (16). Investments not listed in the investment policy are prohibited. Subsection (16) allows the following type of investments:

- ▶ (a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to. . . [s. 163.01](#).
- ▶ (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- ▶ (c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in [s. 280.02](#).
- ▶ (d) Direct obligations of the United States Treasury.
- ▶ (e) Federal agencies and instrumentalities.

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(16) Allows (continued):

- ▶ (f) Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.
- ▶ (g) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, [15 U.S.C. ss. 80a-1 et seq.](#), as amended from time to time, . . . limited to obligations of the United States Government or any agency or instrumentality thereof. . .
- ▶ (h) Other investments authorized by law or by ordinance for a county or a municipality.
- ▶ (i) Other investments authorized by law or by resolution for a school district or a special district.

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- ▶ (h) Other investments authorized by law or by ordinance for a county or a municipality.
- ▶ Chapter 2004-468 does not authorize investments outside of the parameters of Chapter 281, Florida Statutes.
- ▶ In Attorney General Opinion 91-42, the Attorney General was asked whether a special district could invest in an investment fund where some of the investments failed to meet the requirements of Chapter 218, Florida Statutes.
- ▶ The Attorney General concluded, “In the absence of a provision in the district's enabling legislation or in general law, the Cedar Hammock Fire Control District may not invest its surplus funds, either directly or through an investment pool, in investments which do not meet the requirements of [Chapter 218, Florida Statutes].”