

ORDINANCE 2024 - 20

AN ORDINANCE OF THE BOARD OF COUNTY COMMISSIONERS OF OKALOOSA COUNTY AMENDING ORDINANCE 2016-21, AS AMENDED, RELATING TO THE INVESTMENT POLICY OF THE COUNTY; UPDATING THE COUNTY'S INVESTMENT POLICY TO INCLUDE GUIDELINES ON ETHICAL STANDARDS, USE AND SELECTION OF EXTERNAL ADVISORS, EXPAND THE LIST OF ALLOWED INVESTMENT VEHICLES, INCREASE REPORTING REQUIREMENTS, AND EXPAND THE DIVERSIFICATION GUIDELINES; PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Board of County Commissioners ("Board") adopted Ordinance 2016-21, which established an investment policy for the management of the County's funds; and

WHEREAS, the investment policy was subsequently amended by Ordinances 2017-04 and 2018-02; and

WHEREAS, the Board wishes to further update the investment policy.

NOW THEREFORE, be it ordained by the Board of County Commissioners of Okaloosa County as follows:

Section 1. The above recitals are true and correct and incorporated herein.

Section 2. The updated Investment Policy of Okaloosa County is attached hereto as Exhibit "A."

Section 3. This Ordinance shall become effective as required by law.

PASSED AND DULY ADOPTED in Regular Session this 4th day of November 2024.

BOARD OF COUNTY COMMISSIONERS
OF OKALOOSA COUNTY, FLORIDA

ATTEST:

J.D. Peacock II, Clerk



Paul Mixon, Chairman





FLORIDA DEPARTMENT *of* STATE

RON DESANTIS
Governor

CORD BYRD
Secretary of State

November 12, 2024

J. D. Peacock II
Clerk of the Circuit Court
Okaloosa County
101 East James Lee Boulevard
Crestview, Florida 32536-1359

Dear J.D. Peacock:

Pursuant to the provisions of Section 125.66, Florida Statutes, this will acknowledge receipt of your electronic copy of Okaloosa County Ordinance No. 2024-20, which was filed in this office on November 12, 2024.

Sincerely,

Alexandra Leijon
Administrative Code and Register Director

AL

R. A. Gray Building • 500 South Bronough Street • Tallahassee, Florida 32399-0250
Telephone: (850) 245-6270

EXHIBIT “A”

**Board of County Commissioners
Okaloosa County, Florida
Investment Policy**

I. SCOPE

This Policy was adopted using Florida Statutes Section 218.415 as a guideline and applies to all funds held by the County in excess of those required to meet current expenses. All monetary assets of the Okaloosa County Board of County Commissioners ("County") which are recorded to the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, shall be administered in accordance with the provisions of this Policy.

Investment income earned on the monetary assets of the County shall be used for the same purposes and projects as the assets upon which the investment income was earned.

II. INVESTMENT OBJECTIVES

The primary objectives of all investment activities for the County should be safety of principal, maintenance of adequate liquidity, and secondarily, return maximization.

- A. Safety of Principal. This is the foremost investment objective. Investment transactions should seek to keep capital losses to a minimum, whether the result of security defaults or erosion of market value. This is best ensured by establishing minimum acceptable credit ratings, limiting overall portfolio duration, setting maximum exposures by sector, defining appropriate levels of diversification, and limiting exceptions.
- B. Maintenance of Liquidity. To meet the day-to-day operating needs of the County and to provide ready cash to meet unforeseen temporary cash requirements, a liquidity base of at least two months of anticipated disbursements will be kept in relatively short-term investments. These would include investments in government pools with daily liquidity such as the Local Government Surplus Trust Fund and money market investments.
- C. Return Maximization. Return is of secondary importance compared to the safety and liquidity objectives above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. An overall portfolio rate of return shall be evaluated in comparison to the Standard & Poor's Local Government Investment Pool All 30-Day net rate for short term investments (one to twelve months), and to the Bank of America Merrill Lynch 1-5 Year Treasury Index or another appropriate index for long term investments (maturity beyond one year).
- D. The Clerk of the Circuit Court and Comptroller ("Clerk") will employ mechanisms to control risks and diversify its investments regarding specific security types or individual financial institutions.

- E. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The governing body, however, recognizes that, in a diversified portfolio, market losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided adequate diversification has been implemented.

III. STANDARDS OF CARE

- A. Standards of Prudence. The "Prudent Person" Rule shall be applied in the management of the overall investment portfolio. The "Prudent Person" Rule states: "Investments shall 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. The Clerk and Finance Department employees performing the investment functions, acting as a "prudent person" in accordance with established procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that appropriate monitoring efforts are performed.
- B. Ethical Standards. Officers, employees, and external investment advisors of the Clerk's Office who participate in the investment process shall refrain from personal business activity that could conflict with State Statutes, County ordinances, proper management of the investment portfolio or which could impair their ability to make impartial investment decisions. Investment officials and employees shall disclose any material financial interests in any investment firms, or financial institutions that conduct business with the County and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.

IV. AUTHORITY

Responsibility for the administration of the investment program is vested in the Clerk as provided in Section 28.33, Florida Statutes. The Clerk shall exercise this authority to invest surplus funds in accordance with Section 218.415, Florida Statutes. The Clerk hereby delegates the day-to-day responsibility for the administration of the investment program to the Finance Director. The Finance Director may further delegate certain cash management duties to staff members, provided such duties are clearly outlined in procedures and reported to the Clerk.

V. PROCUREMENT OF EXTERNAL INVESTMENT MANAGERS

The County may utilize external investment managers to assist with management of the portfolio. External management may be employed in situations where, due to limitations in the areas of staff time or expertise, such outside resources would be in a better position to overcome such limitations. Securities purchased by the external manager on behalf of the County, and other investments held by the fund, must be in compliance with the constraints identified by this Policy. The average duration of the funds managed by any one external manager on behalf of the County as part of the portfolio shall not exceed three years.

The Clerk in his capacity as Chief Financial Officer of Okaloosa County oversees the selection of external managers through a competitive selection process (an RFP). The RFP committee will include county and clerk staff along with investment experts from other governments or the community. In making this selection, consideration will be given to past investment performance, fees, assets under management, experience of the firm and the individuals managing portfolios of similar size, complexity, and investment restrictions. Upon selection of an external manager, the Clerk will execute a contract with the firm. External managers will be evaluated and retained based upon their investment performance.

VI. THIRD-PARTY CUSTODIAL AGREEMENTS

The Clerk will execute a Third-Party Custodial Safekeeping Agreement with a depository chartered by the United States Government or the State of Florida. All securities purchased, and/or collateral obtained by the Clerk shall be properly designated as an asset of the County and held in an account separate from other assets held by the depository. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by authorized staff. The Clerk will enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the County.

Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of 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.

The Third-Party Custodial Safekeeping Agreement shall include letters of authority from the Clerk and details as to responsibilities of each party. These responsibilities include notification of security transactions, repurchase agreements, wire transfers, safekeeping and transactions costs, procedures in case of wire failure and other unforeseen mishaps, including the liability of each party.

VII. INTERNAL CONTROLS

The Clerk shall establish and monitor a set of written internal controls designed to protect the County's funds and ensure proper accounting and reporting of the securities transactions. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and 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 recordkeeping, 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. All daily investment activity is performed by the Finance Director under the supervision of the Chief Financial Officer.

Pursuant to Section 218.415 (13), Florida Statutes, independent auditors as a normal part of the annual financial audit to the County shall conduct a review of the system of internal controls

to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

The Clerk staff responsible for making investment decisions must annually complete eight hours of continuing education in subjects or courses of study related to investment practices and products.

IX. POLICY REVIEW AND AMENDMENT

This Policy shall be reviewed annually, and any recommended changes will be presented to the Board of County Commissioners for adoption.

X. AUDITS

Certified public accountants conducting audits of units of local government pursuant to Section 218.39, Florida Statutes shall report, as part of the audit, whether or not the local government has complied with Section 218.415, Florida Statutes.

XI. MASTER REPURCHASE AGREEMENT

The County will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to the requirements of the Master Repurchase Agreement.

XII. INVESTMENT PERFORMANCE AND REPORTING

A quarterly investment report shall be prepared by the Finance Office and provided to the County Administrator. The report shall include an analysis of the portfolio by sector, maturity, yield, as well as its overall performance during that period with sufficient detail for a comprehensive review of investment activity and performance.

An annual report will be presented to the Board of County Commissioners ("Board"), which shall include securities in the portfolio by sector, book value, income earned, market value and purchase yield. Investment performance shall measure risk characteristics, portfolio size, sector allocations, and year-to-date earnings to an appropriate benchmark.

The County Administrator shall be notified immediately of deviations from currently approved investment policies. In the event of a ratings agency downgrade to below the A or better requirement, a written notification and investment plan from the external manager must be submitted to the County Administrator. The forced or immediate sale of the downgraded asset is not required.

XIII. RISK DIVERSIFICATION AND PORTFOLIO COMPOSITION

The County recognizes that investment risks can result from issuer defaults, market price changes, changes in credit ratings, reinvestment of principal and interest, or various technical complications leading to temporary illiquidity. For purposes of this Policy, the top nationally recognized statistical ratings organizations (NRSROs) for all credit-sensitive securities are Moody's, Standard and Poor's, and Fitch. Portfolio diversification and maturity limitations are employed as primary methods of controlling risk. Market value shall be the basis for determining portfolio percentages and compliance with this Policy.

The average range of duration for the County's overall portfolio, inclusive of internally and externally managed investments, is defined as 0.5 years to 3.0 years. Unusual market or economic conditions may mandate moving the portfolio outside of this range.

XIV. AUTHORIZED INVESTMENTS

This section lists the authorized investments for the internal and external county portfolios. Details of key limitations on authorized investments are provided in Exhibit A. Investments not listed in this policy are prohibited.

Internal Investment Portfolio

- A. The Local Government Surplus Trust Fund (Florida Prime) or any intergovernmental investment pools authorized pursuant to the Florida Interlocal Cooperation Act of 1969 as provided in Section 163.01 Florida Statutes.
- B. Investments may be made in SEC registered constant net asset value fixed income money market mutual funds rated AAAM or AAAG comprised of only those investment instruments as authorized in this Policy, provided that such funds do not allow derivatives.
- C. Interest-bearing time deposits or savings accounts in Qualified Public Depositories as defined in Section 280.02 Florida Statutes. This includes, but is not limited to, time deposit accounts, demand deposit accounts, and non-negotiable certificates of deposit.
- D. The Surplus Funds of the County may be utilized for the funding of Special County Purposes and Projects ("Special Projects") and shall be treated as a loan and investment of the County's Surplus Funds. The use of Surplus Funds for these Special Projects shall comply with the following requirements:
 - The terms of the investment of Surplus Funds for these purposes, including the principal amount used to be loaned for the Special Project, the interest rate and repayment date of the loan and the revenue source to be used for the repayment of the loan, shall be approved by the Board as included in an authorizing resolution.
 - The total amount of all loans for Special Projects from the County's surplus balances shall not exceed ten percent (10%) of the total amount of available Surplus Funds. In no event shall the total amount loaned for Special Projects

exceed the amount of legally available revenues to repay, if required.

- Each request for Board approval of a loan for the funding of a Special Project shall include the Clerk's determination that the investment is authorized by the county investment policy.
- Each Special Project to be funded from the County's Surplus Funds shall have a scheduled repayment date that does not restrict, impede, or limit implementation or fulfillment of the original purposes for which the Surplus Funds are designated. The Board, in approving use of the County's surplus funds, shall include within the resolution a specific finding that the transfer will not restrict, impede, or limit implementation or fulfillment of the original purposes for which the Surplus Funds are designated. Further, the resolution shall provide that the County may repay loan from any available revenue source in the event that the Surplus Funds are required for their original purposes.
- The interest rate for Special Projects shall be a fixed rate of interest equal to the Treasury rate that matches the maturity of the loan. For example, if the funds borrowed for the Special Project are determined by Resolution to be repaid in 2 years, then the interest rate to be applied shall be equal to the 2-year Treasury Note rate.
- When the Special Project is fully authorized and requires funding, the investment shall be funded in full, from the Surplus Funds. Interest will be calculated using the Simple Interest method. Interest will be assessed annually and credited to the investment pool in the same manner as other interest income.
- The loan of surplus balances used for Special Projects may be re-paid early at any time and without penalty.

External Investment Portfolio

- E. Direct obligations of the United States Treasury. Investments may be made in negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the United States Government.
- F. Federal Agencies and Instrumentalities. United States Government Agencies and Government Sponsored Enterprises (GSEs) which are non-full faith and credit.
- G. Corporate Debt Securities. Investments may be made in securities issued by any U.S. corporation provided that such instrument is rated A or better by at least two NRSROs.
- H. Municipal Bonds. Investments may be made in securities issued by governmental entities or territorial boundaries of the United States provided that such instrument is rated A or better by at least two NRSROs.
- I. Mortgage-Backed Securities (MBS). Only agency collateralized (FNMA, FHLMC and GNMA) MBS, including collateralized mortgage obligations (CMOs), may be purchased.

- J. Asset-Backed Securities (ABS). Only ABS collateralized by traditional consumer receivables such as automobile, equipment, utility, and credit card loans may be purchased. The minimum credit rating for ABS must be AAA by at least two NRSRO at the time of purchase.
- K. Commercial Mortgage-Backed Securities (CMBS). Only an agency collateralized CMBS may be purchased.
- L. Repurchase Agreements. Investments whose underlying purchased securities consist of United States Treasury, Federal Agencies and/or Instrumentalities and based on the requirements set forth in the Clerk's Master Repurchase Agreement.
- M. Banker's Acceptances. Investments may be made in bankers' acceptances which are inventory based and issued by a bank, which has at the time of purchase, an unsecured, uninsured, and un-guaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by Standard & Poor's.
- N. Commercial Paper. Investments may be made in commercial paper of any United States company, which is rated at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Asset backed commercial paper is prohibited.

XV. SUMMARY OF KEY LIMITATIONS ON AUTHORIZED INVESTMENTS

The detailed guidelines for investments and limits on security issues, issuers, maturities, and credit quality as established by the Clerk are provided in **Exhibit A**. The Clerk or the Clerk's designee (Finance Director) shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Exceeding percentage limits due to changes in portfolio balance will not require liquidation of any asset but will restrict further investment. Any changes to the portfolio composition guidelines or limits must be in writing by the Finance Director.

Additional Portfolio Limitations

- A. The limits for the Internally Managed portfolio apply to the combined internal and external portfolios.
- B. The External Manager's limits apply to external portfolio.
- C. The maximum combined portfolio allocation to MBS, CMBS and ABS securities is 45% at time of purchase.
- D. The maximum combined portfolio allocation to corporate debt and municipal securities is 45% at time of purchase.
- E. Portfolio securities may be purchased in either fixed or floating-rate form.
- F. All investments must be denominated in U.S. Dollars.
- G. Investments rated BBB and below are not permitted at the time of purchase. The lower rating shall apply in instances of split-rated securities.

EXHIBIT A

IP Section	Portfolio Management	Security Type	Portfolio Sector Maximum	Per Issuer Maximum	Further Limited By	Maximum Maturity/ WAL Limit	Quality Minimum
XIV.A.	IM	Local Government Surplus Funds Trust Fund (Prime)	100%	NA	NA	NA	NA
XIV. A.	IM	FL Local Government Investment Trust (FLGIT); Florida Surplus Asset Fund Trust (FLSAFE); Florida Cooperative Liquid Assets Securities System (FLCLASS); Florida Fixed Income Trust (FL-FIT)	20% each Pool	NA	NA	NA	NA
XIV. B.	IM	Constant Net Asset Value Money Market Mutual Funds	100%	NA	NA	NA	SEC-qualified, must hold investments allowed by this Policy
XIV. C.	IM	Financial Deposit Instruments	30%	NA	NA	2-Year Mat; 1 Year Avg Maturity	Florida Security for Public Dep. Act
XIV. D.	IM	Investment of Surplus Funds for Special Projects	10%	NA	NA	NA	NA
XIV. E.	EM	United States Government Securities	100%	NA	NA	10-Year Maturity	NA
XIV. F.	EM	United States Federal Agencies (full faith and credit)	100%	20.0%	NA	5-Year Maturity	NA
XIV. F.	EM	Federal Instrumentalities (Non-full full faith and credit)	45%	15.0%	NA	5-Year Maturity	NA
XIV. G.	EM	Corporate Debt Securities	25%	3.0%	NA	5-Year Maturity	A3/A- by 2 NRSRO
XIV. H.	EM	Municipal Bonds	35%	3.0%	NA	5-Year Maturity	A3/A- by 2 NRSRO
XIV. I.	EM	Mortgage-Backed Securities (MBS), including CMOs	35%	15.0%	3.0% per CUSIP	5-Year WAL	Agency only
XIV. J.	EM	Asset-Backed Securities (ABS)	10%	3.0%	NA	5-Year WAL	Aaa/AAA by 2 NRSRO
XIV. K.	EM	Commercial Mortgage- Backed Securities (CMBS)	8%	3.0%	NA	5-Year WAL	Agency only
XIV. L.	EM	Repurchase Agreements	15%, if longer than 1-Day	5.0%	NA	60-Days	Requires Master Repo Agreement
XIV. M.	EM	Bankers' Acceptances	15%	5.0%	No ABCP	270-Days	A1/P1 by 2 NRSRO
XIV. N.	EM	Commercial Paper	20%	5.0%	No ABCP	270-Days	A1/P1 by 2 NRSRO

EM. External Managers where limits apply to external portfolio.

IM. Internal Management where limits apply to combined internal and external portfolios.

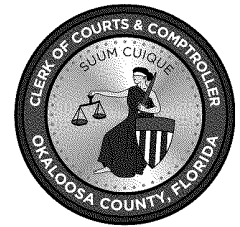
WAL. Weighted Average Life.

The maximum combined portfolio allocation to MBS, CMBS and ABS securities is 45% at time of purchase.

The maximum combined portfolio allocation to corporate debt and municipal securities is 45% at time of purchase.

Portfolio securities may be purchased in either fixed or floating-rate form.

Crosswalk Document: Current vs. Draft Investment Policy



1. Scope

Current Policy: Focuses on managing the County's excess funds to meet current and future financial obligations.

Draft Policy: The draft policy maintains the same scope but specifies compliance with Section 218.415, Florida Statutes and updates the benchmarks to be used as performance measures.

2. Investment Objectives

Current Policy: Lists objectives such as safety, liquidity, and return maximization in order of priority.

Draft Policy: Emphasizes the same objectives but places more focus on liquidity and diversification strategies to minimize risk.

3. Standards of Care

Current Policy: Mentions the 'Prudent Person' Rule and ethical standards without much detail.

Draft Policy: Adds a more detailed definition of the 'Prudent Person' Rule and includes guidelines on ethical standards and the use of external advisors.

4. External Investment Managers

Current Policy: Allows for external managers but does not specify the selection process.

Draft Policy: Adds more specific guidelines for the selection and management of external investment managers, including the use of RFP (Request for Proposal) processes.

5. Authorized Investments

Current Policy: Provides a list of allowed investment vehicles such as U.S. government securities.

Draft Policy: Expands the list and imposes stricter limits on some types of investments, including ABS, CMBS, and MBS. Differentiates between internal and external restrictions.

6. Reporting and Auditing

Current Policy: Requires annual reporting and review by auditors.

Draft Policy: Adds quarterly reporting requirements and more detailed audit procedures to ensure compliance with internal controls.

7. Risk Diversification and Portfolio Composition

Current Policy: Provides general guidelines on diversification.

Draft Policy: Expands the diversification guidelines by specifying limits on particular investment categories and adding portfolio duration guidelines.

ORDINANCE 2018- 02

AN ORDINANCE OF THE BOARD OF COUNTY COMMISSIONERS OF OKALOOSA COUNTY AMENDING ORDINANCE 2016-21, AS AMENDED, RELATING TO THE INVESTMENT POLICY OF THE COUNTY; AMENDING THE ORDINANCE TO ALLOW TEN PERCENT OF SURPLUS FUNDS TO BE LOANED INTERNALLY TO ASSIST IN THE FUNDING OF SPECIAL PROJECTS; ESTABLISHING A METHOD TO CALCULATE THE INTEREST RATE TO BE APPLIED; AMENDING THE REQUIREMENTS OF THE RESOLUTION; PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Board of County Commissioners adopted Ordinance 2016-21 which established an investment policy for the management of the County's funds; and

WHEREAS, it is in the best interest to modify the provisions relating to the loaning of County Surplus Funds for the purposes of assisting in the funding of Special Projects of the County.

NOW THEREFORE, be it ordained by the Board of County Commissioners of Okaloosa County as follows:

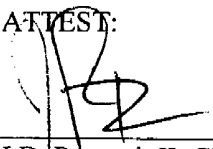
Section 1. The above recitals are true and correct and incorporated herein.

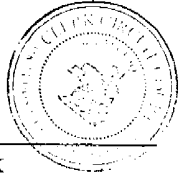
Section 2. The Investment Policy of Okaloosa County is amended as reflected on Exhibit "A" attached hereto.

Section 3. This Ordinance shall become effective as required by law.

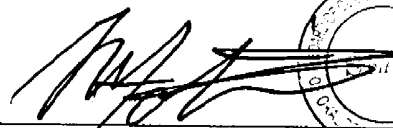
PASSED AND ADOPTED in Regular Session this 6th day of February 2018.

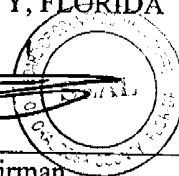
ATTEST:


J.D. Peacock II, Clerk

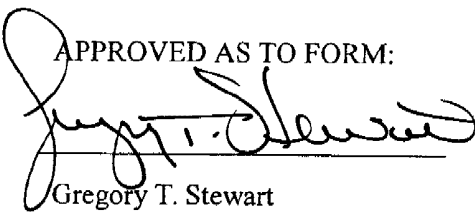


**BOARD OF COUNTY COMMISSIONERS
OF OKALOOSA COUNTY, FLORIDA**


Graham W. Fountain, Chairman



APPROVED AS TO FORM:


Gregory T. Stewart
County Attorney

EXHIBIT

“A”

INVESTMENT POLICY OF THE BOARD OF COUNTY COMMISSIONERS

I. SCOPE

This Investment Policy of the Board of County Commissioners applies to all monetary assets of the government of Okaloosa County with the following exceptions: (1) deferred compensation, which is administered by a separate insurance carrier; (2) investments administered by third parties governed by bond resolutions; and (3) funds held by other agencies (i.e., Tax Collector, State of Florida) during collection periods which are governed by the agencies' investment policies.

All monetary assets of the Okaloosa County Board of County Commissioners which are recorded to the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and other funds that exist or may be created from time to time shall be administered in accordance with the provisions of this Policy. Investment income earned on the monetary assets of Okaloosa County Board of County Commissioners shall be used for the same purposes and projects as the assets upon which the investment income was earned.

II. INVESTMENT OBJECTIVES

The following investment objectives will be applied in the management of the Board of County Commissioners' monetary assets:

- A. Safety of principal is the foremost objective of the government of Okaloosa County. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from security defaults or erosion of market value. Purchases and sales shall be made for investment purposes and not speculation.
- B. The investment portfolio will remain sufficiently liquid to enable the Okaloosa County Board of County Commissioners to meet operating requirements and other needs which may be reasonably anticipated.
- C. In investing public funds, the Clerk to the Board will strive to maximize the return on the portfolio and to preserve the purchasing power but will avoid assuming unreasonable investment risks. A minimum standard for the overall portfolio rate of return is to exceed the current SBA rate for short term investments (one to twelve months), and to exceed the bond equivalent yield of the current one-year Treasury Bill for investments with a maturity beyond one year.

- D. The Clerk to the Board will employ mechanisms to control risks and diversify its investments regarding specific security types or individual financial institutions.
- E. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The governing body, 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. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of managing an overall portfolio consisting of public funds. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The "prudent person" standard is herewith understood to mean the following: Investment shall 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.

IV. INVESTMENT AUTHORITY

In accordance with Section 28.33, Florida Statutes, the responsibility for the investment of County funds, in conformity with this Investment Policy, rests with the Clerk of Circuit Court. Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the investment program, consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Director of Finance will also complete the eight hours of continuing education in compliance with section 218.415(14), Florida Statutes. The Clerk shall report to the Board on an annual basis the investments that have been made of County funds and the return that has been achieved.

V. AUTHORIZED INVESTMENTS

The Clerk to the Board may purchase investment securities, at prevailing market rates, at an appropriate amount thereof in:

A. STATE AUTHORIZED INVESTMENTS PER SECTION 218.415, FLORIDA STATUTES

1. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government at the then prevailing market price for such securities [Treasury bills, State and Local Government Series (SLGS), notes, and/or bonds].
2. Obligations of federal farm credit banks (FFCB)*; the Federal Home Loan Mortgage Corporation (Freddie Mac), including Federal Home Loan Mortgage Corporation participation certificates* and collateralized mortgage obligations; or the Federal Home Loan Bank FHLB)* or its district banks or but not limited to the agencies and instrumentalities listed above.]
3. Obligations of the Federal National Mortgage Association (FNMA), including Federal National Mortgage Association participation certificates, collateralized mortgage obligations and mortgage pass-through certificates guaranteed by the Federal National Mortgage Association*; [Small Business Administration **; Federal Housing Administration (FHA)II; Farmers Home Administration (FmHA)**; and General Services Administration (GSA)**]. [Included but not limited to the agencies and instrumentalities listed above.]
 - * Instrumentalities - FFCB; Freddie mac; FHLB; FNMA
 - ** Agencies - GNMA; Small Business Administration; FHA; FmHA; GSA
4. Local Government Surplus Funds Trust Fund [State of Florida State Board of Administration (SBA)].
5. Interest-bearing time deposits or savings accounts in banks organized under the laws of this state, in national banks organized under the laws of the United States and doing business and situated in this state, in savings and loan associations which are under state supervision, or in federal savings and loan associations located in this state and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law. [Certificates of Deposit are under the same guidelines. The institutions must be fully insured by the Federal Deposit

Insurance Corporation and approved by the State Treasurer as a public depository.]

6. 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. ss80a-1, et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to United States Government obligations and to repurchase agreements fully collateralized by such United States Government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian. [Average portfolio maturity shall be under 90 days. Investment objectives must include the maintenance of a stable price of \$1.00 per share.]

B. AUTHORIZED INVESTMENTS BY RESOLUTION/ORDINANCE

1. Any term repurchase agreements with any primary brokers/dealers who report daily to the NY Federal Reserve Bank provided such agreements are: (1) in writing; (2) fully secured by securities (A)(1, 2, or 3) above, and provided further that (a) such collateral is held by the County or any agent acting solely for the County during the full term of such agreements (b) such collateral is not subject to liens or claims of third parties (c) such collateral has a market value (determined at least every seven days) as defined in Section IX; (d) the County has a perfected first security interest in such collateral; (3) such agreement shall provide that the failure to maintain such collateral at the level acquired by Clause (c) above will require the County or its agents to request additional collateral or liquidate when such request is not met.
2. Overnight repurchase agreements with collateral held by the trust department of bank(s) or custodian bank(s).
3. Bonds, notes, or obligations of any state of the United States, any municipality, political subdivision, agency, or authority of this state, which are exempt from the federal income taxation, if such obligations are insured and rated by at least one (1) of the nationally recognized rating agencies for municipal bonds in any one of the two highest classifications.
4. Bankers' acceptances which are inventory-based and domestic only. Bankers' acceptances must be eligible to qualify for use as collateral at the Federal Reserve Bank.

5. S.E.C. - registered, open-end mutual funds whose portfolios consist of United States Government securities and repurchase agreements secured by such securities. The average maturity of bond mutual funds shall not exceed four years. No sales or load charge may be added to the purchase price or deducted from the redemption price of a mutual fund.

Tax-exempt mutual funds shall be limited to S.E.C. - registered, no-load money market mutual funds whose portfolios consist of tax-exempt securities and repurchase agreements. The maturities or optional redemption dates of securities in the fund's portfolio may not exceed one year, and shares of the mutual fund must be rated in the two highest categories by a nationally recognized rating service. Portfolio securities may not be invested in bonds subject to the federal alternative minimum tax, and 98 percent of the fund's securities or dividends must be tax-exempt. If there is any contemplation that the County may seek tax exempt financing for the Special Project at some point in the future, a reimbursement resolution should accompany the authorizing resolution.

6. Florida Local Government Investment Trust (FLGIT), authorized by County Ordinance No. 92-03 and Resolution No. 92-10.
7. Investment of Surplus ~~Balances~~ Funds for Special County Purposes and Projects- Surplus ~~balances~~ Funds of the County may be utilized for the funding of Special County Purposes and Projects ("Special Projects") and shall be treated as a loan and investment of the County's Surplus Funds. The use of Surplus ~~balances~~ Funds for these Special Projects shall comply with the following requirements:
 - (a) The terms of the investment of Surplus ~~balances~~ Funds for these purposes, including the principal amount used to be loaned for the Special Project, the interest rate and repayment date of the loan and the revenue source to be used for the repayment of the loan, shall be approved by the Board as included in an authorizing resolution.
 - (b) The total amount of all loans for Special Projects from the County's surplus balances shall not exceed ~~one~~ ten percent (10%) of the total amount of ~~that~~ available Surplus Funds. In no event shall the total amount

loaned for Special Projects exceed the amount of legally available revenues to repay, if required.

- (c) Each request for Board approval of a loan for the funding of a Special Project shall include the Clerk's determination that the investment is authorized by the county investment policy.
- (d) Each Special Project to be funded from the County's Surplus balances Funds shall have a scheduled repayment date that does not restrict, impede, or limit implementation or fulfillment of the original purposes for which the Surplus Funds are designated. The Board, in approving use of the County's surplus balances shall include within the resolution a specific finding that the transfer will not restrict, impede, or limit implementation or fulfillment of the original purposes for which the Surplus Funds are designated. Further, the resolution shall provide that the County may repay loan from any available revenue source in the event that the Surplus Funds are required for their original purposes.
- (e) ~~The use of surplus balances for Special Projects shall bear interest at a rate equal to or greater than the County's rate of return on the investment of the surplus funds from which the transfer is made. The interest rate for Special Projects shall be a fixed rate of interest equal to the Treasury Bill rate that matches the maturity of the loan. For example, if the funds borrowed for the Special Project are determined by Resolution to be repaid in 2 years, then the interest rater to be applied shall be equal to the 2-year Treasury Bill rate.~~
- (f) When the Special Project is fully authorized and requires funding, the investment shall be funded in full, from the Surplus Funds. Interest will be calculated using the Simple Interest method. Interest will be assessed annually and credited to the investment pool in the same manner as other interest income.
- (g) The loan of surplus balances used for Special Projects may be re-paid early at any time and without penalty.

VI. MATURITY AND LIQUIDITY

To the extent possible, the Clerk to the Board will attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, funds of the Board of County Commissioners will not be directly invested in securities maturing more than five (5) years from the date of purchase, except for eligible mortgage-backed securities reasonably expected to be paid down within a five-year period or approved by the Board by resolution, or for Special Project loans where the repayment period requires a longer maturity.

VII. RISK AND DIVERSIFICATION

It is the policy of Okaloosa County 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 that the Clerk's Director of Finance directs, including investments purchased under advisement of a third-party investment advisor under contract to the Clerk, with the approval of the Board, and shall be considered as one portfolio for the diversification calculation. Overnight repurchase agreements, however, are excluded from the diversification calculation.

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

1. United States Treasuries/Agencies/Instrumentalities maximum	50%
2. Local Government Surplus Funds Trust Fund maximum	75%
3. Repurchase Agreements*	50% maximum
4. Mutual Funds	75% maximum
5. Florida Local Government Investment Trust	75% maximum
6. Other (CDs and BAs individually)	25% maximum
7. <u>Investment of Surplus Funds for Special Projects</u>	10% maximum

*Repurchase agreements purchased from any one broker cannot exceed 30% of the portfolio.

The Board recognizes that investment risks can result when the issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Board 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 Director of Finance 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 eight weeks 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.

VIII. CRITERIA FOR SELECTION OF FINANCIAL INTERMEDIARIES AND ISSUERS

Financial intermediaries allowed are as follows: (a) Financial institutions which qualify under Florida law as public depositories - interest bearing time deposits; (b) Primary securities dealers as designated by the New York Federal Reserve Bank - government securities and repurchase agreements. The Florida State Board of Administration Local Government Surplus Funds Trust Fund (SBA) and the Florida Counties Investment Trust (FLGIT) are other investment sources. These institutions, dealers, and issuers must meet capital adequacy guidelines as determined by their respective regulatory agencies.

All repurchase agreements (term and overnight) shall be negotiated with primary securities brokers/dealers as designated by the New York Federal Reserve Bank and banks with which the Clerk to the Board has master repurchase agreements on file. All repurchase agreement transactions shall adhere to the Master Repurchase Agreement. All securities purchased shall be only those securities of authorized issuers of the various security types.

Lists of authorized institutions, dealers and issuers of the various security types will be maintained by the Clerk of the Board. Criteria for addition or deletion from the lists will be based on the following: (1) State law, Board of County Commissioners resolution and ordinance code, or investment policy requirements where applicable; (2) perceived financial difficulties; (3) consistent lack of competitiveness; (4) lack of experience or familiarity of the account representative in providing service to large institutional accounts; (5) request of the institution or dealer; and/or (6) when deemed in the best interest of the Board of County Commissioners.

The Clerk may require each bank, thrift, and securities dealer otherwise qualified under the provisions of this policy who wishes to conduct business with the County to submit a copy of its latest financial statement on an annual basis. In addition, the Clerk may require banks to provide a copy of their call report (Consolidated Reports of Condition and Income) including all appropriate schedules (Form FFIEC-032 or 031, as applicable).

The Clerk's Finance Division shall send a copy of the current edition of the Board's investment policy to all institutions which are approved to handle Okaloosa County's investments. Receipt of the policy shall be acknowledged by mailing the policy via certified, return receipt.

IX. SAFEKEEPING AND THIRD-PARTY CUSTODIAL AGREEMENTS

To protect against possible fraud and embezzlement, the collateral and securities held by Okaloosa County shall be secured through third-party custody and safekeeping procedures.

Public employees shall be bonded by either an independent surety or through the County's Self-Funded Insurance Fund to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by the independent auditors performing the annual financial audit of the County.

The majority of securities purchased for the Board of County Commissioners under this section shall be properly designated as an asset of the Board of County Commissioners and held in safekeeping by a third-party custodial bank, chartered by the United States Government or the State of Florida; and no withdrawal/sale of such securities, in whole or in part, shall be made from safekeeping except by the Clerk to the Board's designated employees. The exceptions to safekeeping are mutual funds, SBA, CDs, SLGS, and FLGIT.

The Clerk to the Board will execute third-party custodial agreement(s) with depository institution(s). Such agreement will include letters of authority from the Clerk to the Board with details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safekeeping, transactions agreements and costs and procedures in case of wire failure.

All securities purchased or sold will be transferred when possible only under delivery versus payment (D.V.P.) method and payment versus delivery (P.V.D.) methods, respectively, to insure that funds or securities are not released until all criteria relating to the specific transactions are met.

All overnight repos purchased from the depository bank must be collateralized by securities in Section V (A)(I, 2, or 3) which the depository bank has placed in a separate account in the County's name in its trust department. Third-party overnight repurchase agreements will also require collateral to be held in the County's name at the custodial bank.

Collateral must be valued in accordance with the following schedules:

<u>Maturity of Purchased Securities</u>	<u>U.S. Treasury Securities</u>	<u>U.S. Agency/Instrumentality Discount and Coupon Securities*</u>
Under 1 Year	101%	
1 – 5 Years	101%	102%
Over 5 Years	101%	102%
		102%

*Securities issued by FNMA, FFCB, FHLB, quoted daily in the financial press.

Collateral must be "marked to market" on a weekly basis by the Clerk or an independent source. The seller should be notified of any drop in market value and required to increase the collateral immediately.

X. INTERNAL CONTROLS AND OTHER

The Clerk to the Board shall establish and monitor a set of written internal controls designed to protect the Board of County Commissioners assets and ensure proper accounting and reporting of the transactions related thereto.

1. The Clerk to the Board is authorized to accept, on the behalf of and in the name of the Board of County Commissioners, bank trust receipts or confirmations from a third-party custodian (which might be the trust department of the bank) in return for investment of temporary idle funds as evidence of actual delivery of the obligations or securities. Any such trust receipt or confirmation shall fully describe the various obligations or securities held, together with the specific number of each obligation or security held, and that they are held for the Board of County Commissioners. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued may be held by any bank/depository chartered by the United States Government or the State of Florida.

2. After the Director of Finance, or designee, has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) banks and/or dealers must be contacted and asked to provide the Director of Finance with yields on securities or repo that the County wishes to purchase to a certain maturity date. The exception to the three-bid rule is conditional upon signed contracts with the brokers/dealers. All costs (i.e., safekeeping bank charges) should be considered in analyzing the final yield rate that is given by the banks or dealers. Overnight repos transacted with brokers/dealers and banks other than the pooled cash depository bank will be subject to the bid process.
3. The Director of Finance shall generate daily and monthly reports for management purposes. In addition, the Clerk to the Board will be provided a monthly report which will include investment activity for the month reported. Additionally, in conjunction with the presentation of the CAFR, the Clerk will present to the Board of County Commissioners an annual report which will include investment summary for the year reported.
4. The investment and portfolio policies are to be reviewed annually and updated as required.
5. Internal controls will also encompass, at a minimum, the additional issues:
 - (a) Transfers of all funds (purchases, sales, etc.)
 - (b) Separation of functions including transaction authority for accounting and record keeping.
 - (c) Custodial safekeeping.
 - (d) Delegation of authority to subordinate staff members.
 - (e) Written confirmation of telephone transactions.
 - (f) Supervisory control of employee actions.
 - (g) Specific guidelines regarding security losses and remedial action.
 - (h) Documentation of decisions and transactions.