

**FINANCIAL POLICIES**  
**MONTECITO FIRE PROTECTION DISTRICT**



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Prepared by:



**Capitol | PFG**

2436 Professional Drive, Suite 300  
Roseville, CA 95661  
(916) 641-2734  
[www.capitolpfg.com](http://www.capitolpfg.com)

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### **Section 1: Overview**

The purpose of these Financial Policies is to promote the financial stability and long-term planning of the Montecito Fire Protection District (MFPD) by directing the Fire Chief to achieve the following goals:

1. Develop and manage the Budget
2. Maintain Adequate General Fund and Capital Reserves
3. Achieve the goal of fully funded Pension and Other Post-Employment Benefits
4. Allow for the prudent use of debt

The Financial Policies have been prepared specifically for the MFPD. They were developed based on industry best practices from a variety of sources including the Government Finance Officers Association and recommendations including specific reserve policy goals from Capitol PFG, the MFPD's Municipal Advisor. The Financial Policies build upon periodic financial reviews related to budgeting and long-term liabilities such as vehicle needs, station funding and retirement obligations of the MFPD. In keeping with past practice, the Board of Directors (Board) will continue to review and amend these policies as it deems appropriate in order to sustain the prudent financial management of the MFPD.

## Section 2: Financial Policies

### 2.1 Management of Budget

1. **Annual Budget** - The financial operations of the District will be conducted in accordance with an annual budget that has been reviewed and adopted by the Board of Directors in compliance with applicable laws and regulations.
2. **Preliminary Budget** - Each year a preliminary budget will be prepared and presented for approval by the Board in open session normally in June. A final budget will be presented for approval, normally in September for public hearing and adoption by the Board.
3. **Financial Performance** - The District's financial performance against the adopted budget will be reviewed by the Finance Committee bi-monthly.
4. **Gann Limit** - Each year, the District will perform the necessary calculations to determine if year-end proceeds of taxes subject to the Gann Limit have exceeded the Gann Limit. The compliance calculation will be completed within 90 days after the end of the fiscal year.
5. **Multi-Year Forecast** - The Fire Chief will maintain a multi-year financial forecast that will help provide an understanding of available funding; evaluate financial risk; assess the likelihood that services can be sustained; assess the level at which capital investment can be made; identify future commitments and resource demands and identify key variables that cause change in the level of revenue. The multi-year financial forecast will be used as a tool for the development of the District's annual budget and can support budget recommendations made to the Board.

### 2.2 Maintenance of Reserves

Maintaining the appropriate level of reserves is essential for sustaining the long-term financial health of the MFPD. The Reserve Policies will assist the Board in maintaining existing public assets, responding to unplanned events and emergencies, and ensure financial viability should there be an unexpected fluctuation in revenues or expenditures.

#### **2.2.1 Categories**

The MFPD shall accumulate, maintain and segregate its reserve funds into the following categories:

1. General Fund Reserve
  - a. Economic Uncertainties
  - b. Catastrophic Event
  - c. Unrestricted Residual
2. Capital Reserve
3. Land and Building Reserve

### 2.2.2 Scope

The Reserve Policy will assist the Board of Directors in establishing:

1. Periodic review requirements for each reserve
2. Target levels for reserve funds
3. Requirements for the use of reserve funds

### 2.2.3 Periodic Review

The MFPD shall review the reserve balances and targets annually as a part of the annual budget process. The Fire Chief will continue to review all reserve balances on a monthly basis, with a yearly report going to the full Board to receive and file.

### 2.2.4 General Fund Reserves

The Board will maintain the following General Fund Reserves:

1. **Economic Uncertainties Reserve** - equal to at least 3 months of operating expenditures. The Economic Uncertainties Reserve will be internally restricted and utilized for the temporary transfer of funds for annual operating cash flow purposes. Any funds transferred shall be returned to the Economic Uncertainties Reserve to sustain sufficient working capital for operations.

Fiscal Year 2024-25 Reserve Target: \$5,420,000

2. **Catastrophic Event Reserve** – equal to 10% of the District’s property tax revenues, plus 5% of total General Fund expenditures. The Catastrophic Event Reserve will be internally restricted and utilized to ensure against significant one-time outlays due to significant loss in the tax base or large-scale fire suppression.

Fiscal Year 2024-25 Reserve Target: \$3,490,000

3. **Unrestricted Residual Reserve** – equal to a maximum of \$2 million, which shall be adjusted annually based on the Consumer Price Index (CPI) for Los Angeles – Anaheim as published in the <https://www.dir.ca.gov/oprl/CPI/CPICalculator/CpiCalculator.aspx>. The Unrestricted Residual Reserve is utilized for providing the Board of Directors with financial flexibility to augment internally restricted reserves and be a source to supplement operating needs.

Fiscal Year 2024-25 Reserve Target: \$2,240,000

### 2.2.5 Capital Reserve

The Board will maintain a Capital Reserve with an assigned funding target of \$3 million, which may be adjusted annually based on the Consumer Price Index (CPI) for Los Angeles – Anaheim as published in the <https://www.dir.ca.gov/oprl/CPI/CPICalculator/CpiCalculator.aspx>. The Capital Reserve will address expenditures for acquisition of apparatus, vehicles and equipment as identified in the Vehicle Replacement Plan. The assigned funding target will be maintained at a level that will allow the MFPD to acquire vehicles and apparatus on a pay-as-you go basis.

The Board may also use the Capital Reserve for the temporary transfer of funds for annual operating cash flow purposes. Any funds transferred will be returned to the Capital Reserve.

Fiscal Year 2024-25 Reserve Target: \$3,360,000

### **2.2.6 Land and Building Reserve**

The MFPD will set-aside a minimum reserve of \$1 million and a target maximum reserve of \$4 million for this purpose. The maximum reserve shall be adjusted annually based on the California Construction Cost Index as published in the <https://www.dgs.ca.gov/RES/Resourses/Page-Content/Real-Estate-Services-Division-Resourses-List-Folder/DGS-California-Construction-Cost-Index-CCCI>.

If necessary, the Board may accumulate funds in excess of the target maximum in order to ensure sufficient funding for foreseeable land acquisition as well as construction and reconstruction of buildings, refurbishment and modernization of existing stations.

The Fire Chief will submit plans for increasing or decreasing the level of unrestricted reserves in order to maintain reserve levels that are consistent with this Policy.

Fiscal Year 2024-25 Reserve Target: \$4,720,000

## **Section 3: Pension and Other Post Employment Benefit Policy**

### **3.1 Overview**

Retirement benefits are an important factor in attracting and retaining talented personnel to the MFPD. The purpose of these policies is to reduce unfunded liabilities and sustain funding that honors the MFPD promises to its personnel while establishing a firm financial foundation for the future.

### **3.2 Pension Benefits**

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to plan participants. In order for the pension-benefit plan to be sustainable over time, the plan must accumulate adequate resources over the active service life of benefiting employees. The MFPD pension funding policy provides a strategy for maintaining a funded status goal of 100%.

#### **3.2.1 CalPERS Background**

##### **CalPERS Pension Plan**

The MFPD participates in the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within California. All full-time and certain part-time MFPD employees that meet the CalPERS membership eligibility requirements can participate in CalPERS.

The employee contribution level for MFPD Miscellaneous members is 8%, while District Safety member's contribution level is 9% of reportable earnings. The MFPD makes these contributions for the employees on their behalf, and is required to contribute an actuarially determined employer contribution rate for both member groups. The contribution requirements of plan members are based upon the benefit level adopted by the MFPD Board. The employer contribution rate is established annually and may be amended by CalPERS.

On January 1, 2013, the Public Employee Pension Reform Act of 2013 (PEPRA) became effective, which limits the employer contribution for the employee's share of the contribution for employees hired on or after January 1, 2013.

In addition to employer cost contributions, the MFPD may make unfunded liability payments annually to help make up shortfalls, if any, in the pension plan. This is actuarially determined by CalPERS.

##### **CalPERS Funded Status**

The measure of funded status is an assessment of the need for future employer contributions based on the actuarial cost method to fund the plan. It is a "point in time measurement" that assesses the funding progress of the pension plan. The funded ratio is determined by dividing the Accrued Liability (AL) by the Market Value of Assets (MVA). As of this date, the current funded ratio is estimated at [82.4%](#).

### **3.2.2 CalPERS Policies**

#### **Annual and Lump Sum Payments to CalPERS**

The MFPD will annually make the Actuarially Determined Contributions (ADC) including the normal cost for current service and amortization of any under-funded amount.

As part of the annual budget process, the MFPD will pay the entire fiscal year's contributions for any actuarial unfunded liabilities (UAL) in July in order to receive a discount instead of making monthly payments. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members.

#### **Annual Review of CalPERS**

The Fire Chief will annually review the actuarial valuations, including the required employer contribution for the upcoming fiscal year, increases or decreases in the unfunded liability, and funded status. This review may include factors such as changes to the discount rate, investment earnings on assets and assumptions changes.

#### **CalPERS Funding Target**

The MFPD has a goal of maintaining a funding target of 90%-100%. In the event that the funded status falls below 90%, the MFPD may rely on its PARS Pension Trust to bring the funding target up to its funding goal.

### **3.2.3 PARS Pension Trust Background**

The MFPD established a Section 115 Irrevocable Exclusive Benefit Trust in May 2017. The purpose of the Pension Trust is to maintain local control over funds set-aside exclusively to reimburse or pay pension benefits. The Board of Directors controls the PARS Pension Trust (Pension Trust). The Fire Chief serves as the Plan Administrator. The MFPD contracts with a Team of consultants to serve in the following capacities:

- Trust Administrator – provide record keeping, monitor compliance, process contributions/disbursements and provide support
- Trustee – plan fiduciary and custodian of assets
- Investment Manager – investment sub-advisor to trustee, provide investment policy assistance and provide investment management services

### **3.2.4 PARS Pension Trust Policies**

#### **Contributions to Pension Trust**

Contributions to Pension Trust are discretionary. The Fire Chief may recommend to the Board of Directors contributions from the following funding sources:

- Reserves in excess of funding targets
- Budget savings
- Bond proceeds from pension bonds



### **Withdrawals from Pension Trust**

The Fire Chief may recommend to the Board of Directors withdrawals from the Pension Trust for the following reasons:

- Make contributions to CalPERS
- Reimburse the MFPD for contributions made to CalPERS
- Make additional catch-up payments to CalPERS to increase funding ratios

Contributions to the Pension Trust are discretionary and may not be made if it would cause the total of pension assets at CalPERS and the market value of assets in the Pension Trust to exceed Total Pension Liabilities.

### **Investment Strategy**

The current investment strategy consists of a moderately conservative Highmark Plus (Active) Strategy. The investment strategy should be reviewed by the Board on an annual basis.

### **Funding Target**

The MFPD will utilize the Pension Trust and amounts held at CalPERS to maintain a funding target of 100%.

## **3.3 Other Post-Employment Benefits (OPEB)**

### **3.3.1 OPEB Background**

The MFPD provides retiree healthcare benefits for employees who retire with CalPERS pension benefits. The District contracts with CalPERS for this insured benefit plan. The plan's medical benefits and premium rates are established by CalPERS and insurance providers. The MFPD pays for medical, dental, and vision premiums for the lifetime of the retiree and their eligible dependents. The MFPD offers the same medical, dental and vision plans to its retirees as to its active employees with the exception that once a retiree becomes eligible for Medicare, they must join a Medicare HMO or a Medicare Supplement plan.

The MFPD participates in the Public Agency Retirement System (PARS) Public Agencies Post-Retirement Health Care Plan Trust Program (OPEB Trust), which is a single employer irrevocable trust to prefund OPEB. Contributions to the OPEB plan are based on pay-as-you-go financing requirements with an additional amount contributed to the OPEB Trust to prefund benefits at the discretion of the Board.

### **Local Control by Board of Directors**

The OPEB Trust was established by the MFPD in October 2009, under Internal Revenue Code Section 115. The MFPD maintains control over the OPEB Trust. The Fire Chief serves as the Plan Administrator. The MFPD contracts with a Team of consultants to serve in the following capacities:

- Trust Administrator – provide record keeping, monitor compliance, process contributions/disbursements and provide support
- Trustee – plan fiduciary and custodian of assets
- Investment Manager – investment sub-advisor to trustee, provide investment policy assistance and provide investment management services

Trust assets can be used to reimburse the MFPD for retiree health care benefits or pay MFPD health care benefits. The MFPD retains DFA to prepare an actuarial valuation report to comply with GASB 75 valuation requirements at least once every two years.

### **3.3.2 OPEB Policies**

#### **Contributions to the OPEB Trust**

Contributions to the OPEB Trust are discretionary. The Fire Chief may recommend to the Board of Directors contributions from the following funding sources:

- Reserves in excess of funding targets
- Budget savings

In lieu of making contributions to reach a desired funding target, the Fire Chief may recommend to the Board of Directors that assets in the trust grow naturally to achieve the funding target without making further contributions.

#### **Withdrawals from OPEB Trust**

The Fire Chief may recommend to the Board of Directors withdrawals to pay or reimburse applicable benefits. The MFPD will make withdrawals from the OPEB Trust when it is 100% funded.

#### **Investment Strategy**

The current investment strategy consists of a moderately conservative Highmark Plus (Active) Strategy. The investment assumption used in the OPEB Trust of 5.5% and investment strategy should be reviewed by the Board on an annual basis.

#### **Implicit Subsidy**

The valuation described in the Investment and Funded status section above, reflects the value of an implicit subsidy equal to \$2,177,453. The implicit subsidy represents the value of age-specific claims over average premiums. When claims experience of both active employees and retirees are pooled in determining healthcare premiums, a retiree pays a rate that is based on a blended pool of members that, on average, is younger and healthier. Retiree claims are covered by premiums charged to the retiree plus an added cost included in active premiums. The added cost represents an implicit cost. The implicit cost is not funded by the MFPD.

#### **Funding Target**

The MFPD has a minimum funding target of 85% with a goal of attaining a funding target of 100% or greater by June 30, 2028. The funding target excludes the implicit subsidy as described above.

#### **Funded Status**

The MFPD's GASB Statement No. 75 provides the most recent measurement of the MFPD actuarial valuation for the District's retiree health insurance program. For reference purposes, as of the most recent

June 30, 2022 measurement date, the MFPD had an OPEB liability of \$17,761,866. Plan assets were \$12,373,446. The total OPEB liability was \$5,388,420, which equates to a funded status of 69.7%. The net OPEB liability, net of the implicit subsidy was \$2,177,453, which equates to a funded status of 79.4%.

## **Section 4: Debt Issuance and Management Policy**

### **4.1 Authorized Purposes for the Issuance of Debt**

The MFPD may issue debt for any of the following purposes:

1. To provide for cash flow needs
2. To fund pensions
3. To pay for the cost of capital improvements, including acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and/or equipping MFPD facilities
4. To refinance existing debt

### **4.2 Authorized Types of Debt**

The Fire Chief or designee shall recommend to the Board potential financing method(s) that result in the highest benefit to the MFPD, with the cost of staff and consultants considered. Potential financing sources may include:

1. Temporary borrowings from other sources and short-term debt, such as TRANS, when necessary to allow the MFPD to meet its cash flow requirements
2. Lease financing and Installment Sale Agreements, including certificates of participation (COPs) and Lease Revenue Bonds (LRBs) and Pension Obligation Bonds (POBs)
  - a. To fund priority capital projects and equipment purchases when pay-as-you-go financing is not desirable
  - b. To fund unfunded pension liabilities

### **4.3 Relationship of Debt to MFPD Facilities Program and Budget**

Decisions regarding the issuance of debt for the purpose of financing capital improvement shall be aligned with current needs of the MFPD, including its vehicle and apparatus replacement plan, capital improvement plan, and other applicable needs subject to the assessment of the projected costs and resources of the MFPD.

When considering a debt issuance, the MFPD may evaluate both the short-term and long-term implications of the debt issuance and additional operating costs associated with the new projects involved. Such evaluation may include the effect of annual debt service secured by the general fund on general fund expenditures; the amortization structure, prepayment features, and useful life of the projects being financed (for further information see "Structure of Debt Issues" below).

For debt issued to fund pension liabilities, the MFPD will consult with actuaries and advisors regarding the estimated effects of any pension bonds on future contributions, and any applicable changes to the current budget year.

The MFPD may enter into credit enhancement agreements such as municipal bond insurance, surety bonds, letters of credit, and lines of credit with commercial banks, municipal bond insurance companies,

or other financial entities when their use is judged to lower borrowing costs, eliminate restrictive covenants, or have a net economic benefit to the financing.

#### **4.4 Structure of Debt Issues**

The MFPD shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

The MFPD shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, ensure cost effectiveness, provide flexibility, and, as practical, recapture or maximize its debt capacity for future use. Principal amortization will be structured to meet resources available for debt repayment and flexibility goals.

For debt issuances for capital improvements, the MFPD shall size the debt issuance with the aim of funding capital projects as deemed appropriate by the Board and consistent with the overall financing plan.

To the extent practicable, the MFPD shall also consider credit issues, market factors, and tax law when sizing the MFPD's debt issuance. The sizing of refunding bonds shall be determined by the amount of money that will be required to cover the principal of, any accrued interest on, and any redemption premium for the debt to be paid on the call date and to cover appropriate financing costs.

The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.

#### **4.5 Method of Sale**

For the sale of any district-issued debt, the MFPD's Municipal Advisor shall recommend the method of sale with the potential to achieve the lowest financing cost and/or to generate other benefits to the MFPD. Potential methods of sale include:

1. A competitive bidding process through which the award is based on, among other factors, the lowest offered true interest cost
2. Negotiated sale, subject to approval by the MFPD to ensure that interest costs are in accordance with comparable market interest rates
3. Direct loans and private placement sale. A direct loan with the MFPD's depository bank can be used when the terms, financing costs, and relationship make the direct loan the most cost effective and favorable option. A private placement may be used as an alternative when the terms of the private placement are more beneficial to the MFPD than a direct loan, or negotiated or competitive sale

#### **4.6 Investment of Proceeds**

The MFPD shall actively manage the proceeds of debt issued for public purposes in a manner that is consistent with state law governing the investment of public funds and with the permitted securities covenants of related financing documents executed by the MFPD. Where applicable, the MFPD's official investment policy and legal documents for a particular debt issuance shall govern specific methods of

investment of bond-related proceeds. Preservation of principal shall be the primary goal of any investment strategy, followed by the availability of funds and then by return on investment.

The management of public funds shall enable the MFPD to respond to changes in markets or changes in payment or construction schedules so as to ensure liquidity and minimize risk.

#### **4.7 Refunding/Restructuring**

The MFPD may consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility. When doing so, the MFPD shall consider the maximization of the MFPD's expected net savings over the life of the debt issuance.

#### **4.8 Goals of Debt Management Policy**

The MFPD's debt issuance activities and procedures shall be aligned with the MFPD's vision and goals for providing adequate facilities and emergency services that protect the community. When issuing debt, the MFPD shall ensure that it:

1. Maintains accountability for the fiscal health of the MFPD, including prudent management and transparency of the MFPD's financing programs
2. If applicable, pursues the best possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements
3. Takes all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues
4. Maintains effective communication with rating agencies and, as appropriate, credit enhancers such as bond insurers or other providers of credit or liquidity instruments in order to enhance the creditworthiness, liquidity, or marketability of the debt
6. When determining the timing of debt issuance, considers market conditions, cash flows associated with repayment, and the MFPD's ability to expend the obtained funds in a timely, efficient, and economical manner consistent with federal tax laws
7. Determines the amortization (maturity) schedule which will fit best within the overall debt structure of the MFPD at the time the new debt is issued
8. Considers the useful lives of assets funded by the debt issue, as well as repair and replacement costs of those assets to be incurred in the future
9. Preserves the availability of the MFPD's general fund for operating purposes
10. Meets the ongoing obligations and accountability requirements associated with the issuance and management of debt under state and federal tax and securities laws

#### **4.9 Internal Controls**

The MFPD shall establish internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures shall assist the MFPD in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the MFPD and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest.

The MFPD shall be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred.

In addition, the MFPD shall ensure that it complies with all federal securities laws, federal tax compliance requirements, and covenants associated with the debt issuance.

#### **4.10 Records/Reports**

No later than 30 days prior to the sale of any debt issue, the MFPD shall submit a report of the proposed issuance to the California Debt and Investment Advisory Commission. The report of the proposed debt issuance shall include a certification by the MFPD that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies.

No later than 21 days after the sale of the debt, the MFPD shall submit a report of final sale to the California Debt and Investment Advisory Commission. A copy of the final official statement for the issue shall accompany the report of final sale. If there is no official statement, the MFPD shall provide each of the following documents, if they exist, along with the report of final sale:

- Other disclosure document.
- Indenture.
- Installment sales agreement.
- Loan agreement.
- Promissory note.
- Bond purchase contract.
- Resolution authorizing the issue.
- Bond specimen.

The MFPD shall submit an annual report for any issue of debt for which it has submitted a report of final sale on or after January 21, 2017. The annual report shall cover a reporting period from July 1 to June 30, inclusive, and shall be submitted no later than seven months after the end of the reporting period. The annual report shall consist of the following information:

- Debt authorized during the reporting period, which shall include the following: (1) Debt authorized at the beginning of the reporting period; (2) Debt authorized and issued during the reporting period; (3) Debt authorized but not issued at the end of the reporting period; and (4) Debt authority that has lapsed during the reporting period.
- Debt outstanding during the reporting period, which shall include the following: (1) Principal balance at the beginning of the reporting period; (2) Principal paid during the reporting period; and (3) Principal outstanding at the end of the reporting period.

- The use of proceeds of issued debt during the reporting period, which shall include the following: (1) Debt proceeds available at the beginning of the reporting period; (2) Proceeds spent during the reporting period and the purposes for which it was spent; and (3) Debt proceeds remaining at the end of the reporting period.

#### **4.11 Municipal Advisor**

The Fire Chief or designee shall retain a municipal advisor to assist with the issuance of debt or bank loans exceeding \$1.5 million in size. The municipal advisor will render advice, as directed, on the District's current debt, financing options for new debt including recommendations concerning the timing, structure, repayment, sizing, method of sale and other debt related issues. Municipal advisors shall be registered with the Securities & Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).

#### **4.12 SB 1029 Compliance**

In September 2016, the California legislature enacted Senate Bill 2019, which amended Government Code Section 8855 by requiring debt issuers to certify that they have adopted local debt policies 30 days prior to the issuance of debt. The debt policies must include the following:

1. The purposes for which the debt proceeds may be used
2. The types of debt that may be issued
3. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable
4. Policy goals related to the issuer's planning goals and objectives
5. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use

The above Debt Policy complies with the requirements of SB 1029 and includes best practices for issuing debt.



## **Section 5: Investment of Funds**

### **5.1 Depository of Santa Barbara County Investment Pool**

The MFPD believes in the prudent management of its funds. The MFPD is a voluntary participant in the Santa Barbara County Treasurer's Investment Pool ("Pool"). Funds held in the Pool are considered public funds and are invested in compliance with state statutes and other legal constraints, with goals of preservation funds, protection of capital, maintenance of sufficient cash flow to meet daily demands, and earning a market rate of return at minimum risk.

The Santa Barbara County Treasurer makes quarterly reports on investment activities to ensure both accuracy and transparency. These quarterly reports include charts, tables, and supporting documentation that provide a clear record of portfolio values, investment results, and general economic indicators. These reports are presented to the Board of Supervisors and can be viewed at the following link: <https://www.countyofsb.org/ttcpapg/treas/index.aspx#reports>

### **5.2 Investment of Surplus Funds**

The Government Code allows the MFPD to invest surplus money i.e., money that is not required for immediate operations, subject to specified restrictions, in certain state, local, and Federal securities as well as in specified types of bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements, corporate notes, and other securities. These investment restrictions are not applicable to assets held in the MFPD's Pension Trust or Other Post Employment Benefit Trust.

At this time, the MFPD does not have plans to invest surplus monies outside of the Pool. In the event that the MFPD has surplus funds available for investment, it will consult with the Santa Barbara County Treasurer's Office and adopt appropriate additional policies that will comply with state law.

### **5.3 Investment Guidelines Pertaining to the Pension and OPEB Trust**

As stated in Section 5.2 above, investment restrictions that apply to the MFPD's General Fund and Surplus Funds, are not applicable to assets held in the MFPD's Pension Trust or OPEB Trust.

In order to prudently oversee assets held in the Pension Trust and OPEB Trust, the MFPD annually approves investment guidelines. The investment guidelines identify the respective investment goals, objectives, risk tolerance and management policies of the Trust. Both Trusts are currently invested for a long-term horizon using moderately conservative investment and risk tolerance objectives.

The Board of Directors is responsible for supervising each Trust while the investment manager is responsible for recommending appropriate investments. The investment manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, the investment manager is authorized to invest in shares of mutual funds in which the investment manager services as advisor or sub-advisor. The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible)
- Venture Capital

- Short Sales\*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions\*
- Commodities Transactions Puts, calls, straddles, or other option strategies\*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs

\*Permissible in diversified mutual funds and exchange-traded funds

## **Section 6: Financial Accountability**

### **6.1 Financial Accountability and Transparency**

The Fire Chief will ensure financial accountability by implementing this policy and annual reporting to the Board regarding any significant changes to the Budget, Capital Improvement Plans, reserve levels, and funded status of pension and other post-employment benefits.

The Fire Chief will ensure financial transparency by publishing the following information on MFPD's website:

- Annual Operating Budget
- Annual Financial Report
- Financial Policies

Copies of the Annual Actuarial Valuations for CalPERS plans and the OPEB actuarial valuation will also be made available to the Board of Directors, plan participants and residents.

### **6.2 Review of Policy**

Sustaining the financial health of the MFPD requires a long-term horizon. As such, the MFPD will review this policy annually to determine if changes to this policy are needed.