



# **Walla Walla County**

## **Investment Policy –February 2017**

Adopted: February 13, 2017

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## **1. INTRODUCTION**

The Treasurer's office provides cash custody, banking and financial services, investment, revenue collection, and debt payment services for regional government districts including school districts, transit, irrigation district, Walla Walla County, fire districts, cemeteries, water districts, and other special districts. The Treasurer's Office collects taxes, and processes debt payments for principal, interest, and debt refunding. Additionally, the Treasurer's Office manages an investment pool in excess of \$60 million.

The average annual balance of funds invested by the Walla Walla County Treasurer ranges between \$60MM and \$90MM in fund balances. The balance is dependent upon participants' bond issues and tax receipts cycles.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of public funds in the custody of the Walla Walla County Treasurer.

## **2. GOVERNING AUTHORITY**

The Walla Walla County Treasurer is authorized by RCW 36.29.020 to determine the investable balances in each fund of the County and its junior taxing districts.

## **3. POLICY**

It is the policy of Walla Walla County Treasurer to invest public funds in accordance with all federal, state, and local governing statutes. The Treasurer will invest public funds in a manner that preserves capital and ensures the protection of principal, allows for adequate liquidity, and achieves a market rate of investment return consistent with the primary policy objectives.

## **4. SCOPE**

This investment policy applies to all financial assets held or controlled by the Walla Walla County Treasurer. These funds are accounted for in Walla Walla County's Annual Financial Report and include:

- Current Expense Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Internal Service Funds
- Trust and Agency Funds
- Retirement/Pension Funds
- Any new fund created by the legislative body, unless specifically exempted

Funds of the County and other agencies may be pooled for investment purposes.

## 5. OBJECTIVES

The primary objectives of the County's investment activities shall be:

**5.1 Safety:** Safety of the principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

**5.2 Liquidity:** the County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements that might be reasonably anticipated.

**5.3 Return on Investment:** the County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account Walla Walla County's investment risk constraints and the cash flow characteristics of the portfolio.

**5.4 Legality:** Funds of the County will be invested in accordance with the Revised Code of Washington (RCW), the Budgeting Accounting and Reporting System (BARS) manual, these policies and written administrative procedures.

## 6. STANDARDS OF CARE

### 6.1 Prudence

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.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy 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.

### 6.2 Delegation of Authority

Authority to manage the County's investment program is derived from Revised Code of Washington (RCW) 36.29.020 which delegates, in part as follows:

*The Treasurer may invest funds when authorized by the governing bodies of the relevant municipal corporations or by the Finance Committee. The governing bodies may instruct the Treasurer to invest in a range of qualifying investments.*

- When not already authorized by statute or the Board of County Commissioners and governing bodies of the relevant municipal corporation, the Finance Committee authorizes the County Treasurer to invest any remaining funds in accordance with this investment policy.
- Management responsibility for the investment program is hereby delegated to the County Treasurer, who shall establish written procedures for the operation of the investment program consistent with this investment policy.
- Procedures should include reference to: safekeeping, PSA master repurchase agreements, wire transfer agreements, custody agreements and investment related banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer. The County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
- To “ensure effective cash management of public funds,” (RCW 43.08.015) the Treasurer may designate investment officers who will have the authority to perform the duties of the Treasurer.
- The Treasurer may engage an independent registered investment advisor to provide oversight and consulting services as needed. The capacity of the investment advisor will be managed by a contract scope of services.

### **6.3 Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to County Treasurer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

## **7. TRANSACTIONAL COUNTERPARTIES**

### **7.1 Authorized List**

The County Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1

(uniform net capital rule). No public deposits shall be made except in qualified public depositories as provided in Chapter 39.58 RCW.

No certificates of deposits will be made except to those financial institutions that are qualified by the Washington Public Deposit Protection Commission.

All brokers/dealers and financial institutions who desire to do business with the County must supply the County Treasurer with the following:

- annual audited financial statements,
- proof of Financial Industry Regulatory Authority registration, (FINRA)
- proof of registration with the State of Washington
- Certification of having read and understood the county's investment policy.

The County Treasurer will conduct a periodic review of the financial condition of the financial institutions and broker/dealers authorized to do business with the County.

If an Investment Advisor is utilized and the Treasurer allows the advisor to transact securities per the contract, then the advisor is authorized to utilize its broker dealer list. The Advisors authorized list must be provided to the Treasurer prior to transacting trades.

## **8. COMPETITIVE PRICING**

- Selecting investments is usually a matter of selecting the highest yielding security; however, consideration will be given to liquidity, safety and security structure.
- Bids may not be disclosed until after the investment closes.
- Providing that there are no material yield differences, broker/dealers with the best overall evaluations will receive a proportionately greater share of the County's investment activity.
- If a specific security is only being shown by one broker, then comparable securities can be used to document competitive pricing.
- If the Advisor executes the transaction, then the competitive pricing must be provided with the trade confirmation.

## **9. AUTHORIZED AND SUITABLE INVESTMENTS**

This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).

In the case of split ratings, where the major NRSROs issue different ratings, the higher rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.

All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

The County is empowered to invest in the following types of securities through RCW 36.29. Listed below are the authorized investments:

### 9.1 Allowable Investments

**U. S Treasury Obligation:** Direct obligations of the United States Treasury.

**GSE – Primary Agency Obligations:** Government Sponsored Enterprises (*GSEs*) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Bureau (*FFCB*).

**GSE – Secondary Agency Obligations:** Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export Funding Corporation (*PEFCO*), Tennessee Valley Authority (*TVA*), Financing Corporation (*FICO*) and Federal Agricultural Mortgage Corporation, (*Farmer Mac*).

**Supranational Agency Bonds:** The institution must have the U.S. government as its largest shareholder. International Bank for Reconstruction and Development (*IBRD* or World Bank); the International Finance Corporation (*IFC*); the Asian Development Bank (*ADB*) and the Inter-American Development Bank (*IADB*).

**Municipal Debt Obligations:** General Obligation and Revenue bonds in any local government in the State of Washington and General Obligation bonds only on government issuers outside the State of Washington. At the time of investment the bonds must have at a minimum a rating of AA- from S&P, or Aa3 from Moody's or AA- from Fitch.

**Corporate Notes:** Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. At the time of purchase corporate notes must have a minimum rating of AA- by S&P, or Aa3 by Moody's or AA- by Fitch. Issuer constraints will be limited to 3% of market value at the time of purchase. Only U.S. or Canadian domiciled issues are allowable.

**Commercial Paper:** Unsecured debt obligations of corporate issuers that are rated at least A1+ by S&P, P1 by Moody's and F1+ by Fitch. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase with a minimum rating of AA- by S&P, Aa3 by Moody's or AA- by Fitch. Issuer constraints for commercial paper combined with corporate notes will be limited to 3% of market value per issuer.

**Certificates of Deposit:** Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

**Bank Time deposits and Savings Accounts:** Deposits in PDPC approved banks.

**Banker's Acceptance:** Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions.

**Repurchase Agreements:** Repurchase agreements with direct U.S. Government obligations as collateral, provided the collateral is held in safekeeping on a delivery versus payment basis and that a Master Repurchase agreement is signed with the primary dealer.

**Registered Warrants:** Subject to compliance with RCW 39.56.030, registered warrants of Walla Walla County taxing districts.

**Inter-fund Loans:** Subject to compliance with RCW 39.56.030, inter-fund loans of Walla Walla County to the investment pool.

**Local Government Investment Pool:** Investment Pool managed by the Washington State Treasury office.

## 9.2 Collateralization

Repurchase Agreement Collateral.

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level must be at least 102% of market value of principal and accrued interest. Collateral is limited to the types of securities authorized in 8 above.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied in the County's name. The right of securities substitution is granted subject to the County Treasurer's approval of each individual substitution transaction.

Certificates of Deposit and Time deposit open accounts shall be collateralized as required by the collateral pool monitored by the State of Washington's Public Deposit Protection Commission.



## 10. DIVERSIFICATION

The County will diversify its investments by security type and institution. The County's investment portfolio will be limited as follows:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's	Ratings Fitch
US Treasury Obligations	100%	None	N/A	N/A	N/A
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	40%	N/A	N/A	N/A
US Agency Secondary Securities FICO, FARMER MAC etc.	10%	5%	AA-	Aa3	AA-
Supranational Agency Notes	10%	5%	AA-	Aa3	AA-
Municipal Bonds	35%	5%	AA-	Aa3	AA-
Corporate Bonds - US/CDN	25%*	3% for AA-	AA-	Aa3	AA-
Commercial Paper		3%	A1+ Long Term: AA-	P1 Long Term: Aa3	F1+ Long Term: AA-
Certificates of Deposit	50%	20%	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Bank Time Deposits/Savings Accounts	100%	None	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Banker's Acceptance	25%	10%	N/A	N/A	N/A
Repurchase Agreements	10%	10%	N/A	N/A	N/A
Registered Warrants	5%	None	N/A	N/A	N/A
Inter-fund Loans	20%	None	N/A	N/A	N/A
State LGIP	100%	None	N/A	N/A	N/A

\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

## 11. MAXIMUM MATURITIES

To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in securities maturing that will extend the overall portfolio weighted average maturity beyond 3 years.

Minimum % of Total Portfolio	
<b>Maturity Constraints</b>	
Under 30 days	10%
Under 1 year	20%
Under 7 years	100%
Maximum of Total Portfolio in Years	
<b>Maturity Constraints</b>	
Weighted Average Maturity	3.00
Maximum % of Total Portfolio	
<b>Security Structure Constraint</b>	
Callable Agency Securities	40%

Exceptions:

- Inter-fund loans will not have maturity constraints.
- Reserve funds may be invested in security maturities to coincide as nearly as practical with the expected use of the funds. These funds will not be included in the total portfolio weighted average maturity since they are restricted funds.

## 12. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the County shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the entity will be delivered against payment and held in a custodial safekeeping account. The County Treasurer will designate a third party custodian and confirmations will evidence all transactions.

## 13. INTERNAL CONTROLS, PROCEDURES AND COMPLIANCE

**13.1 Procedures:** The County Treasurer follows statutes in regards to the annual audit by the State Auditor's Office. This review audits compliance with policies and procedures.

### 13.2 Selling Securities Prior to Maturity

- Securities purchased shall normally be held until maturity. Occasionally, opportunities will exist to sell securities prior to maturity and purchase other securities. These transactions shall only be considered if the proposed transaction enhances the yield over the life of the new security on a total return basis.
- Additionally, securities that are no longer in compliance with the investment policy, due to downgrades or other factors, may be sold prior to maturity.
- Securities may also be sold in order to maintain the liquidity of the pool.

**13.3 Compliance violations:** Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security.

Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

**13.4 Compliance Report:** A compliance report will be generated quarterly by a third party investment consultant.

#### **14. RISK DISCLOSURE**

All securities purchased directly for a separate account are considered direct investments and have inherent market risks which are the same as the risks on the investments in the Pool.

All securities purchased by the Pool shall belong jointly to the Participants who shall share realized gains, income and any realized losses on a pro-rata basis. An investment in the Pool is not an investment in a money market or bank account, which typically has a lower- average maturity (under 60 days) and lower yield. An investment in the Pool is not insured or guaranteed by the Federal Deposit Insurance Corporation, Walla Walla County or any other government agency. The interest earnings of the Pool, depends on amortized earnings and interest accruals at prevailing investment rates and the fund is anticipated to remain at a stable \$1.00 value. The interest earnings of the Pool and direct investments are typically higher than money market or bank accounts due to the longer average maturity of the Pool and direct investments. The market value of the Pool's underlying securities, relative to the cumulative fund balances may vary and will be tracked by the Net Asset Value (NAV).

The Pool's market value and the direct investments may fluctuate due one of the following or all of the following risks:

*Income Risk:* Because there may be fluctuation in market interest rates, the amount of income generated by the Pool may fluctuate as well.

*Counterparty Risk:* A party to a transaction involving the Pool or investments may fail to meet its obligations. This could cause the Pool or separate account to lose the benefit of the transaction or prevent the Pool or account from selling or buying other securities to implement its investment strategies.

*Interest Rate Risk – Market Value Risk:* The Pool and direct investment market values will be affected by changes in interest rates. The rise and fall in interest rates will make the price (i.e. market value) of the underlying security fluctuate, and therefore, affect the value of the Pool's investments and separate fund investments. As a result, the value of the participant's pro-rata share of the Pool will fluctuate with the value of the underlying assets. This will affect the value at which the pro-rata shares or separate securities will be reported on the books of the Participant for financial reporting.

*Credit Risk:* A government or company that issues a security may not be able to repay the principal or pay interest when due which could result in a loss to the Pool. The risk tends to increase as an issuer's credit rating declines, which impacts the market value of the security. The

Pool or direct investments may be made in securities that meet the rating criteria of this policy; however, the rating on some securities purchased may fall below this rating. The Pool or direct investments may continue to hold the downgraded securities at the discretion of the portfolio manager.

*Management or Portfolio Selection Risk:* The portfolio manager’s judgement about the market or interest rates, credit quality or value of a particular security, or the market trends affecting a particular security may be incorrect and cause the value of the Pool to decline.

*Liquidity Risk:* Liquidity risk is the risk that the Pool will experience if significant net withdrawals of the Pool shares occur. The first source of liquidity is bank deposits and LGIP funds, if those are not available then securities would be sold to provide for cash needs. If there were not buyers for the portfolio securities or they can’t be sold without incurring a significant loss the pool, then the pool would incur liquidity risk. All the securities held directly or in the Pool, are considered highly marketable securities with active buyers in the marketplace.

*Risk Associated with use of Amortized Costs:* The use of amortized cost valuation means that the Pool’s stable \$1.00 price value may vary from its market value NAV per share. In the unlikely event that the Walla Walla County Treasurer were to determine that the extent of the deviation between the Pool’s amortized cost per share and the market value NAV. per share may result in material dilution or other unfair results to the shareholders, the County Treasurer, after consulting with the County Finance Committee, may cause that Pool to take such action as it deems appropriate to eliminate or reduce dilutions that cause unfair results to participants.

**Corrective Actions:**

The Treasurer may take such corrective actions, including but not limited to the following; that the Treasurer, after consulting with the County Finance Committee, determines in his discretion are in the best interests of the participants in the Pool and for separate direct investments.

1. Restricting or suspend the redemption of funds, in such amounts and upon such time restrictions as the Treasurer deems necessary
2. Selling securities in the Pool prior to maturity to realize capital gains or losses or to shorten average Pool maturity;
3. Withholding earnings otherwise payable to participants;
4. Establishing a net asset value per share by using available market quotations;
5. Increasing, reducing, suspending or deferring the imposition of the fee to administer the Pool.

**15. PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs.

The County’s investment strategy provides for the ability to adjust portfolio to appropriately balance the risk and return characteristics of the portfolio based on the current rate

environment. Given this strategy, the basis used by the County Treasurer to determine performance levels will be the average return on the State Local Government Investment Pool and a comparison to a market benchmark such as the 0-1 or 0-3 treasury index. This performance standard shall take into account Walla Walla County's investment risk constraints and cash flow needs.

#### **16. MUNICIPAL CORPORATES INVESTMENT ALTERNATIVES WITH THE TREASURER'S OFFICE**

Municipal corporations within the investment jurisdiction of the County Treasurer can either request the Treasurer to invest their money in the Walla Walla County Pool (Pool), or request that the Treasurer purchase a security with a specific term and amount that is held outside the Walla Walla County Investment Pool (Pool). Operational aspects of the Pool are contained in Investment Service Agreement. Pooled securities and securities invested outside the Pool are collectively referred to as the "Portfolio."

#### **17. REPORTING**

The County Treasurer shall provide Walla Walla County Finance Committee quarterly reports. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. Quarterly reports will include:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.

#### **18. ACCOUNTING METHODS**

Pooled investments will be carried at amortized cost. Premiums or discounts on investments purchased at a price other than par will be accrued and credited monthly. Investments not part of the Walla Walla County Investment Pool will also be carried at amortized cost. Realized gains or losses from investments will be credited or charged to investment income at the time of the sale. Accrued interest earnings are recognized only in the Walla Walla County Annual Financial Report.

Returns on non-pooled investments: Interest earned will be withdrawn and credited back to the originating fund at least once per year or as often as transactions occur. Interest earnings on investments in either the State Local Government Investment Pool or the Walla Walla County Investment Pool will be automatically reinvested in the pool.

#### **19. INVESTMENT FEES**

RCW 36.29.020 allows the charging of an investment fee for providing service of investing funds. Five percent of the interest earnings, with an annual maximum of fifty dollars, on each

transaction authorized by each resolution of the governing body shall be paid as an investment service fee. If the fee amounts to five dollars or less, the County Treasurer may waive such fee. RCW 28A.58.440 allows the charging of an investment fee for school districts. Five percent of the interest earnings, with an annual maximum of fifty dollars, on any transactions authorized by each resolution of the board of school directors shall be paid as an investment service fee to the office of county treasurer when the interest or earnings becomes available to the school district or an amount as determined pursuant to RCW 36.29.022 and 36.29.024.

RCW 36.29.024 allow the charging of investment fees which reimburse the Treasurer's Office for the actual expenses incurred in administering the investment function under a local pooling program. This fee is allocated to pool participants in a manner which equitably reflects the differing amounts and differing periods of time the amounts were placed in the county pool. Any investment fees collected in excess of actual expenses will be rebated to the pool participants on an annual basis.

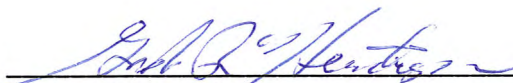
## **20. EDUCATIONAL REQUIREMENTS**

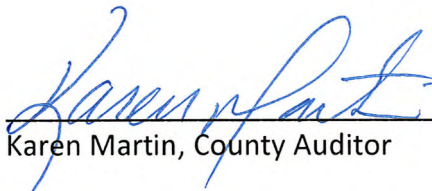
The County Treasurer and County staff is required to maintain a continued investment education program of at least 36 hours every two years. The goal of the education requirement is to support the skill set and current best practices by staff that are required to maintain a prudent investment program.

## **21. INVESTMENT POLICY ADOPTION**

The County's investment policy shall be adopted by resolution of the Walla Walla County Finance Committee. The policy shall be reviewed on a periodic basis by the Finance Committee and the Finance Committee must approve any modifications.

## **WALLA WALLA COUNTY FINANCE COMMITTEE**

  
\_\_\_\_\_  
Gordon R. Heimbigner, County Treasurer

  
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Karen Martin, County Auditor

  
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James L. Duncan, County Commissioners