



# **Walla Walla County**

## Investment Policy – March 2022

Adopted: September 12, 2022\_\_\_\_\_

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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 and manages investment for the County and Taxing Districts.

The average annual balance of funds invested by the Walla Walla County Treasurer ranges between \$120MM and \$180MM 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. If any revisions of State law are enacted that create greater restrictions, adherence to those restrictions will be required as soon as the law is effective. The policy shall be updated to reflect the statutory changes as soon as reasonably possible. For any revisions of State law that provide opportunity for new allowable investment options or reduced restrictions in diversification, the limitations of this policy will remain in effect until options are reviewed and any policy changes are approved by the Finance Committee.

**4. INVESTMENT PHILOSOPHY**

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 while conforming to all state and local statutes governing the investment of public funds.

The investment return achieved is intended to supplement revenue for County departments, agencies, and districts in which the Treasurer serves.

The Objectives outlined in this policy are a direct reflection of the overall philosophy.

## 5. 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.

## 6. OBJECTIVES

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

**6.1 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.

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

**6.3 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.

**6.4 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.

## 7. STANDARDS OF CARE

### 7.1 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.

## **7.2 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 or to assist with the management of the County's investment portfolio in a manner that is consistent

with the County's objectives and this policy. The capacity of the investment advisor will be managed by a contract scope of services.

### **7.3 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.
- Limitations on gifts shall be subject to the same restrictions as outlined in RCW 42.52.150 and County policy.

## **8. PROCEDURES**

### **8.1 Pooling of Funds**

- Participants of the Walla Walla County Investment Pool will be established by way of a Participant Agreement. This will serve as the authorization to pool the jurisdictions' money for the purposes of investment.

Participants may also request that the Treasurer purchase a security with a specific term and amount that is held outside the Walla Walla County Investment Pool.

- Investment income from funds that have been pooled in the Pool will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Respective participation is determined by the average daily cash balance a fund maintains in the Pool.

Average daily cash balance is calculated using the actual number of days in the month.

The total interest distributed in cash to Pool participants will be the interest earned on securities held for the Pool during the month of the interest allocation on an accrual basis.

Gains and losses on securities sold early will be factored into the total interest allocation during any month these gains and losses are realized, and will be distributed to all pool participants with the exception of large withdrawal requests made outside of normal spending patterns.

Losses associated with withdrawal requests made outside of normal procedure will be handled according to the pool Participant Agreement.

## **8.2 Written Procedures**

Day-to-day procedures concerning investment management and investment accounting are outside the scope of this policy. The Treasurer and Investment Officer will establish written procedures for the operation of the investment program consistent with this policy.

## **9. TRANSACTIONAL COUNTERPARTIES**

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.

### **9.1 Broker/Dealers**

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.

### **9.2 Investment Advisors**

The County may contract with an external non-discretionary investment advisor (Advisor) to assist with the management of the County's investment portfolio in a manner that is consistent with the County's objectives and this policy. Such Advisors shall provide recommendations and advice on the County investment program structure and constraints, investment strategy, and purchase and sale of specific securities. Advisors must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the County prior to all transactions. The Advisor may be authorized through the contracted agreement to open accounts on behalf of the County with the broker/dealers on the approved broker/dealer list.

The Treasurer or designee may utilize the investment advisor's approved broker/dealer list in lieu of the County's own approved list. The Advisor must submit the approved list

to the County annually and provide updates throughout the year as they occur. The Advisor shall follow GFOA best practices for evaluating and selecting financial institutions and broker/dealers. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include but are not limited to:

a. FINRA Certification check:

- i. Firm profile
- ii. Firm history
- iii. Firm operations
- iv. Disclosures of arbitration awards, disciplinary and regulatory events
- v. State Registration Verification

b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

## 10. 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.

## 11. AUTHORIZED AND SUITABLE INVESTMENTS

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

Securities rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.



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

### **11.1 Allowable Investments**

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

**U.S. Agency Obligations:** US Government Agency Obligations and US Government Sponsored Enterprises (GSEs) which may include, but are not limited to the following: Federal Farm Credit Banks Funding Corporation (FFCB), Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Tennessee Valley Authority (TVA).

**Supranational Agency Bonds:** United States dollar denominated bonds, notes or other obligations that are issued or guaranteed by supranational institutions, provided that at the time of investment, the institution has the United States as its largest shareholder; which may include, but are not limited to the following: [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 one of the three highest credit ratings of a nationally recognized rating agency.

**Corporate Notes:** Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated at least AA- or better by at least one of the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio. The maturity must not exceed 5.5 years and the maximum duration of the corporate note portfolio cannot exceed 3 years. The percentage of corporate notes that may be purchased from any single issuer rated AA- or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer with a split rating (both AA- and A- from two or more rating agencies) is 2% of the total portfolio. Only U.S. or Canadian domiciled issues are allowable.

**Commercial Paper:** Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them. 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 in one of the three highest rating categories of an NRSRO. The percentage of commercial paper that may be purchased from any one issuer is 3% of the market value of the total portfolio. Issuer constraints will apply to the combined holdings of corporate notes and commercial paper holdings.

**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.

## **11.2 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 11.1 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.

### 11.3 Prohibited Investments

Any investment outside of the authorized securities and deposits listed in statute and within this investment policy are unauthorized and prohibited by law.

## 12. 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, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	7 years
US Agency Obligations	100%	40%	N/A	7 years
Supranational Agency Notes	10%	5%	AA- / Aa3	7 years
Municipal Bonds (GO Only Outside WA)	25%	5%	A- / A3 Short Term**	7 years
Corporate Bonds (US/CDN)	25%	3%* for AA- 2* for AA split rated	AA- / Aa3	5.5 years
Commercial Paper		3%*	A1 / P1 Long Term A- / A3	270 days
Bank Time Deposits/Savings Accounts	25%	25%	Deposits in PDPC Approved Banks	n/a
Certificates of Deposit	20%	10%	Deposits in PDPC Approved Banks	5 years
Banker's Acceptance	10%	5%	N/A	180 days
Repurchase Agreements	10%	10%	N/A	90 days
Inter-fund Loans	20%	None	N/A	None
Registered Warrants	5%	None	N/A	None
State LGIP	100%	None	N/A	N/A

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

\*\*Short Term Ratings: Moody's - P1/MIG1/VMIG1, S&P - A-1/SP-1, Fitch - F1

## 13. 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 2.5 years.

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	20%
Under 7 years	100%
<b>Maturity Constraints</b>	<b>Maximum of Total Portfolio in Years</b>
Weighted Average Maturity	2.50
Duration of Corporate Note Portfolio	3.00
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</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.

**14. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered 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.

**15. INTERNAL CONTROLS, PROCEDURES AND COMPLIANCE**

**15.1 Internal Controls:** The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft, or misuse. The Treasurer is subject to an annual independent review of its internal control by the Washington State Auditor based on their audit plan as developed by the regional audit staff. The Treasurer’s accounting staff also provide regular ongoing oversight as they review all investment transactions. Investment transactions are reviewed daily in comparison to the investment activity report and matched to the bank activity

during the daily bank reconciliation. The Treasurer procedures provide for secondary authorization for any resulting wire transfers. The purposes of any procedures in place to establish internal controls shall reflect the following objectives:

- Prevent control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Reconciliation and review of Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members as determined by the Treasurer

**15.2 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.

**15.3 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 to maintain the liquidity of the pool.

**15.4 Compliance calculation parameters:** 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.

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

## 15 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 suspending 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.

## **16 PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain a market 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.

## **17 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."

## **18 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.

## **19 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.

## **20 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.

## 21 BUSINESS CONTINUITY

In cases where the standard Treasurer's Office operations are interrupted due to necessity, the Treasurer has the discretion to delegate investment pool transactional investment authority to the County's designated Investment Advisor. This authority must be authorized in writing. The goal of this designation is to protect tax payer resources, prevent lapses in investment operations and/or resume operations as quickly and smoothly as possible.

## 22 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.

## 23 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



Karen Martin, County Auditor



Todd L. Kimball, County Commissioner



## GLOSSARY

**Accrued Interest:** The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**Agency:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Government Sponsored Enterprises (GSEs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

**Agency Securities:** Government sponsored enterprises of the US Government.

**Amortization:** In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

**Asset:** Available property, as for payment of debts

**Average Maturity:** A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

**Bankers Acceptances:** A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

**Bank Wire:** A virtually instantaneous electronic transfer of funds between two financial institutions.

**Basis Points:** A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

**Bid:** The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security, a bid is obtained. (See Offer)

**Bond:** An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

**Broker:** An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

**Certificates of Deposit:** Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

**Collateral:** Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by corporations.

**Current Maturity:** The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

**CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

**Dealer:** An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

**Delivery:** Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is the delivery of securities with an exchange of money for the securities.

**Diversification:** Dividing available funds among a variety of securities and institutions so as to minimize market risk.

**Duration:** A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

**Full Faith and Credit:** Indicator that the unconditional guarantee of the United States government backs the repayment of debt.

**General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

**Government Bonds:** Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "governments."

**Interest:** Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

**Investment Core Funds:** Core funds are defined as operating fund balance and other fund balances that exceeds the County's daily liquidity needs. Core funds are invested out the yield

curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

**Investment Securities:** Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

**Liquidity:** The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

**Liquidity Component:** A percentage of the total portfolio that is dedicated to providing liquidity needs for the County.

**LGIP:** Local Government Investment Pool run by the State of Washington Finance Director's office established to help counties with short-term investments.

**Mark to Market:** Adjustment of an account or portfolio to reflect actual market value rather than book price, purchase price or some other valuation.

**Market Value:** The market value of a security is the price at which can be sold on that date.

**Maturity:** The date upon which the principal or stated value of an investment becomes due.

**Municipals:** Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

**Par Value:** The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

**Portfolio:** A collection of securities held by an individual or institution.

**Principal:** The cost of an instrument on which interest is earned.

**Prudent Person Rule:** A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Quotation or Quote:** A bid to buy or the lowest offer to sell a security in any market at a particular time.

**Repurchase Agreement:** Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor

with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

**Safekeeping:** An arrangement under which an organization’s securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer’s name. Evidence of this arrangement is a safekeeping receipt.

**Secondary Market:** A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their stated maturity date.

**Treasury Bill (T-Bill):** An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

**Yield:** The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Yield to Maturity:** The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

**Ratings Table – Long-Term**

	<b>S&amp;P</b>	<b>Moody’s</b>	<b>Fitch</b>	<b>Definition</b>
<b>Three Highest</b>	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

**Ratings Table – Short-Term**

	<b>S&amp;P</b>	<b>Moody’s</b>	<b>Fitch</b>	<b>Definition</b>
<b>Highest Rating</b>	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	<b>Municipal Commercial Paper</b>			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality