



# **Skagit County Washington Investment Policy**

FOR FUNDS IN THE CUSTODY OF THE TREASURER

Adopted \_\_\_\_, 2023

## TABLE OF CONTENTS

I. INTRODUCTION AND OVERVIEW .....	3
II. GOVERNING AUTHORITY .....	3
III. POLICY STATEMENT .....	3
IV. SCOPE .....	4
V. OBJECTIVES.....	4
VI. STANDARDS OF CARE.....	5
VII. SAFEKEEPING, CUSTODY AND CONTROLS .....	6
VIII. TRANSACTION COUNTERPARTIES .....	7
IX. AUTHORIZED AND SUITABLE INVESTMENTS .....	9
X. INVESTMENT PARAMETERS .....	11
XI. INVESTMENT PROGRAM REPORTING.....	13
XII. PERFORMANCE STANDARDS/BENCHMARK .....	14
XIII. POOLING OF FUNDS.....	14
XIV. INVESTMENT INTEREST ALLOCATION AND SERVICE FEES/EXPENSES .....	14
XV. BUSINESS CONTINUITY.....	15
XVI. TRAINING REQUIREMENTS/EXPECTATIONS.....	16
XVII.INVESTMENT POLICY REVIEW, REVISIONS, AND ADOPTION.....	16
GLOSSARY .....	17

## I. INTRODUCTION AND OVERVIEW

Skagit County was established in November of 1883, has a current population of 133,315 people, and is in northwest Washington. The Salish Sea lies to the West and the Cascade Mountains rise to the east. The Skagit County Treasurer serves over 80 local government districts which includes serving as the bank for all school districts, fire districts, cemetery districts, dike districts, drainage districts, library districts, hospital districts, Northwest Clean Air Agency, Skagit Council of Government, Fidalgo Pool, SEC-Emergency 911 Center, Public Facilities District, Behavioral Health Services Organization, water districts, sewer districts, port districts, and Skagit Transit.

The major responsibilities of the County Treasurer include collection of taxes, receipting and accounting of revenue, cash management, disbursement of funds, debt management, and investment portfolio management.

## II. GOVERNING AUTHORITY

Skagit County is led as an organization by an elected Board of County Commissioners. See the Revised Code of Washington (RCW) chapter 36.32 for additional details regarding the roles and responsibilities of the County Commissioners. The Skagit County Treasurer is independently elected every 4 years with no term limits. The laws governing the duties of the Treasurer are outlined in RCW chapter 36.29.

The Skagit 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. In accordance with Revised Code of Washington 36.29.020, the Treasurer will invest any and all funds which meet the following conditions:

1. The funds belong to a municipal corporation, and
2. Are in the custody of the County Treasurer, and
3. Are not required for immediate expenditure.

The interest or other earnings thereon shall be deposited in the current expense fund of Skagit County and may be used for general County purposes.

## III. POLICY STATEMENT

It is the policy of the Skagit County Treasurer to invest public funds in accordance with all federal, state, and local governing statutes. The Skagit County Treasurer will invest public funds in a manner that seeks to preserve capital and ensure the protection of investment principal, allow adequate liquidity for the County and its taxing districts, and achieve the highest investment return consistent with the primary objectives of safety and liquidity.

## IV. SCOPE

This policy applies to all financial assets held or controlled by the Skagit County Treasurer. Currently the Skagit County Treasurer performs the treasury and investment functions for approximately 300 funds of all types. These funds are administered by school districts, port districts, hospital districts and junior taxing districts comprised of dike and drainage assessment districts, fire, cemetery, library, water, weed and sewer districts. In addition, any new fund created by a governmental entity shall apply under this policy.

In addition, the Treasurer may carry out investment functions for separate governmental authorities for which the County Treasurer is not the treasurer or ex-officio treasurer. Investments will be authorized by an inter-local agreement with those entities, pending approval by the County Commissioners.

The average annual balance of funds invested by the Skagit County Treasurer ranges between \$450 million and \$650 million in fund balances. The balance is dependent upon participants' bond issues and tax receipts cycles.

## V. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

### A. Safety

Safety of principal is the foremost objective of the investment program. Investments of Skagit County and the junior taxing districts shall be undertaken in a prudent manner which seeks to ensure preservation of capital in the overall portfolio. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio whether from securities, defaults, or erosion of market value. The objective will be to mitigate credit risk and interest rate risk.

### B. Liquidity

Maintenance of adequate liquidity to meet the cash flow needs of participants is essential. Accordingly, the securities in the portfolio will be structured in a manner that ensures sufficient cash available to meet anticipated cash flow needs of the county and its participants based on historical activity and current information of the county and districts.

### C. Return on Investment

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account, the investment risk constraints and the cash flow characteristics of the portfolio. Return on investments is of secondary importance compared to the safety and liquidity objectives described above.

## VI. STANDARDS OF CARE

### A. Delegation of Authority and Responsibilities

Authority to manage the Skagit County Treasurer's Investment Program is derived from the Revised Code of Washington in RCW 36.29.

- i. **Treasurer:** The Skagit County Treasurer shall be responsible for all transactions undertaken and shall establish a system of written controls and procedures to regulate the activities of all staff in investment matters. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Skagit County Treasurer
- ii. **Deputy Treasurer:** The Treasurer hereby delegates the Chief Deputy Treasurer as the Investment Officer. The Investment Officer is responsible for daily oversight of investment transactions including accounting activities and internal controls as well as the responsibility for managing the investment portfolio consistent with economic, market and liquidity factors, ensuring that all necessary tasks are performed to account for and safeguard investments.
- iii. **Finance Committee:** Approval of the Skagit County Treasurer's Investment Policy is given by the Skagit County Finance Committee, made up of Chairperson of the County Commissioners, Skagit County Auditor and Skagit County Treasurer pursuant to RCW 36.48.070. The Treasurer shall recommend to the Finance Committee policy changes as appropriate, and shall be charged with implementing such policy, and subsequent policy changes in a timely, prudent, and effective manner. The Finance Committee shall meet quarterly to review the investment performance and the investment plan.
- iv. **Investment Advisor:** The Treasurer may engage an independent registered investment advisor to provide oversight and consulting services as needed or provide full-time assistance with the management of the County's investment portfolio in a manner that is consistent with the County's objectives and investment guidelines of this investment policy. The capacity of the investment advisor will be managed by a contract scope of services.

### B. Prudence

The standard of prudence to be used by the County Treasurer and any authorized County investment officers shall be the Prudent Person Standard and shall be applied in the context of managing an overall portfolio under prevailing economic conditions at the moment of investment commitments. The Prudent Person Standard states:

*Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.*

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.

All participants in the investment process shall seek to act reasonably as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the office of the Skagit County Treasurer.

### **C. Ethics, Conflicts of Interest, and Limitations on Gifts**

The Treasurer and staff involved in the investment process shall refrain from personal activity that could conflict with the proper execution of the investment program, impair their ability to make impartial investment decisions, or give the appearance of impropriety.

Officers and employees involved in the investment process shall refrain from personal business activities that may conflict with the proper execution of the investment program or may impair their ability to make impartial decisions. Investment officials shall disclose to the Treasurer any material financial interests in financial institutions that conduct business with the county, and they will further disclose any personal financial or investment positions that could be related to the performance of the County portfolio, particularly with regard to the timing of purchases and sales.

Limitations on gifts shall be subject to the same restrictions outlined in RCW 42.52.150

## **VII. SAFEKEEPING, CUSTODY AND CONTROLS**

### **A. Delivery vs. Payment**

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with a third-party custodian prior to the release of funds.

### **B. Third-Party Safekeeping**

Securities will be held by an independent third-party custodian selected by the Treasurer. All transactions will be evidenced by safekeeping receipts and recorded based on the terms in the custodial contract. The third-party custodian shall be required to provide a statement to the County listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The County will have online access through the safekeeping bank for verification of the account holdings and transactions.

### **C. Internal Controls**

The investment official 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 and Deputy Treasurer shall establish an annual process of independent review by an external auditor as well as periodic review by the Skagit County Internal Auditor. This review will provide internal control by assuring compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

#### **D. Internal/External Audit**

The custodian/safekeeping account, investment transactions, and records may be audited by internal auditors independent of the Treasurer and/or by outside independent auditors with a frequency prescribed by the County.

#### **E. Operational Procedures**

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

### **VIII. TRANSACTION COUNTERPARTIES**

The County Treasurer will update a list of financial institutions along with approved security brokers or dealers through which investments may be made. Deposit and investment of County funds shall be made only in those institutions and in those securities in which the Skagit County Treasurer is statutorily authorized and approved to invest including Chapter 39.59 of the Revised Code of Washington.

#### **A. Broker/Dealers**

Both Primary and regional dealers may be selected. Dealers may be required to submit a completed Skagit County broker/dealer questionnaire for review prior to consideration and must supply the following:

- i. Annual audited financial statements
- ii. Proof of registration with the Financial Industry Regulatory Authority (FINRA)
- iii. Proof of registration with the State of Washington
- iv. 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 utilizing an Advisor, the broker/dealer review will be the responsibility of the Advisor.

## **B. Investment Advisors**

The County may contract with an external non-discretionary investment 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 shall conduct investment transactions of specific securities. Advisors must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring prior approval from the County.

The Treasurer or designee may utilize the Investment Adviser'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 must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures shall include but are not limited to:

- i. FINRA Certification check:
  - a. Firm profile
  - b. Firm history
  - c. Firm operations
  - d. Disclosures of arbitration awards, disciplinary and regulatory events
  - e. State registration verification
  
- ii. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

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 County will receive documentation directly from the brokers for account verification and regulatory requirements.

## **C. Financial Institutions**

The Public Deposit Protection Commission (PDPC) must approve financial institutions for acceptance of public deposits. As a minimum, institutions are required to submit yearly financial reports to the Skagit County Treasurer. Quarterly reports may also be requested. Quarterly reports of the PDPC will be used to track the growth or decline of net worth of financial institutions and will be taken into consideration when determining where investments are placed and in assessing a financial institution's solidity. Compliance/listing with the PDPC will be verified by the County Treasurer or designee annually.

## **D. Competitive Pricing**

- i. The Treasurer/Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- ii. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.



- iii. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- iv. If the Advisor provides investment management services, the advisor must retain documentation of the competitive pricing execution on each transaction and provide upon request.

## IX. AUTHORIZED AND SUITABLE INVESTMENTS

### A. Authorized Investments

RCWs 36.29.020, 39.59.020, 39.59.040 and 43.84.080 provide authorization for the County Treasurer to purchase various types of security instruments for the county and its taxing districts.

The Treasurer may invest in any instrument authorized by law for the Treasurer of the State of Washington or any local government in the State of Washington.

Additional Specifications:

- 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 individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.

### B. Suitable Investments

Listed below are the authorized investments:

**U.S. Treasury Obligations:** 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 Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), Federal Farm Credit Banks Funding Corporation (FFCB), 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 U.S government as its largest shareholder. These include: International Bank for

Reconstructive 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:** Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds 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 weak single A (A-) or better by all 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 rated in the broad single A (A-) category from all the major rating agencies that rate the security is 2% of the total portfolio. The individual country limit of non-U.S. and non-Canadian exposure is 2% of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.

**Commercial Paper:** Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Rating 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 at the time of purchase 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.

**Certificate of Deposit:** Non-negotiable CDs may be purchased from qualified public depositories within limits as regulated by the PDPC in the State of Washington.

**Bank Time Deposits and Savings Accounts Issued by Banks:** Deposits in PDPC approved banks.

**Bankers Acceptances:** 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.

**Registered Warrants of local municipalities** Interest rate on warrants will be priced at Washington State Local Government Investment Pool rate on the day of issue plus 2%..

**Washington Local Government Investment Pool (LGIP):** Investment Pool managed by the Washington State Treasury Office.

**Inter-fund loans:** Subject to compliance with RCW 39.56.030, inter-fund loans of the Skagit County Treasurer Investment Pool. Skagit County Treasurer Investment Pool may invest in short-term local interfund loans of districts within the county without rating at the discretion of the Treasurer. The Treasurer must receive and approve cash flow statement from issuing district forecasting pay off prior

to final maturity. The loans must be no longer than five-years, pay semi-annually, and in aggregate total no more than 3% of pool. Below are the general interest rate guidelines for interfund loans. These guidelines can change depending on market conditions. The Interest charged will be fixed and priced off the corresponding Treasury note interest rate on a pre-determined date before settlement of the loan.

<b>Loan Length – Final Maturity</b>	<b>Interest Charged Scale</b>
1 – 2 years	2 Yr Treasury Note +.75% (75 bps)
3 years	3 Yr Treasury Note + 1% (100 bps)
4 – 5 years	5 year Treasury Not +1.25% (125 bps)

In the event interest rates are negative, the floor rate will be a minimum of 75 bps with a maximum maturity no longer than 2 years.

**C. Bank Collateralization**

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under the act, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

**D. 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. These include but are not limited to:

- i. Equity Securities
- ii. Leveraged Securities
- iii. Mortgage-Backed Securities

**X. INVESTMENT PARAMETERS**

**A. Diversification**

Skagit County will minimize its exposure to bank deposits and will diversify its funds with the limits set by this investment policy listed below. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be reviewed periodically by the investment officer for all funds. The County’s investment portfolio will be limited as follows:

**Diversification Constraints – Total Funds:**

<b>Issue Type</b>	<b>Maximum % Holdings</b>	<b>Maximum % per Issuer</b>	<b>Ratings S&amp;P, Moody's or Equivalent NRSRO</b>	<b>Maximum Maturity</b>
US Treasury Obligations	100%	None	N/A	5.5 years
US Agency Obligations	100%	35%	N/A	5.5 years
Supranational Agency Notes	10%	5%	AA- / Aa3	5.5 years
Municipal Obligations (GO only outside WA)	30%	5%	A- / A3 Short Term**	5.5 years
Corporate Notes	25%	3%* for AA- 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%*	A1 / P1 Long Term A-/A3	270 days
Certificates of Deposit	30%	10%	Deposits in PDPC approved banks	5.5 years
Bank Time Deposits/Savings Accounts	20%	10%	Deposits in PDPC approved banks	N/A
Banker's Acceptance	10%	5%	N/A	180 days
Registered Warrants	3%	None	N/A	5 years
Inter-fund Loans	3%	None	N/A	N/A
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 - F-1

Note: Individual county limit of non-U.S./non-Canadian exposure is 2% of the total portfolio

**B. Investment Maturity**

To the extent possible and to preclude sales of securities that could result in a loss, investments will be made to coincide with anticipated cash flow requirements. The Treasurer will not directly invest in securities maturing more than five and a half (5.5) years from the date of purchase. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as the Local Government Investment Pool and bank deposits to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### Total Portfolio Maturity Constraints

<b>Maturity Parameters</b>	<b>Maximum % of the Total Portfolio</b>
Under 30 days	10%
Under 1 Year	25%
Under 5.5 years	100%
<b>Maturity Constraints</b>	<b>Maximum of Total Portfolio in Years</b>
Weighted Average Maturity	2.0 years
Duration of Corporate Note Portfolio	3 years
<b>Security Structure Constraint</b>	<b>Maximum % of the Total Portfolio</b>
Callable Agency Securities	25%

#### C. Investment Philosophy

The primary investment philosophy of the County is to match investment maturities with expected cash outflows. Securities shall generally be held until maturity with the following exceptions:

- A Security with declining credit may be sold early to minimize the loss of principal.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

## XI. INVESTMENT PROGRAM REPORTING

#### A. Reporting

The Treasurer's Office will provide a quarterly report to the Finance Committee for review. It will summarize the current position of the portfolio. The report will consist of current investment strategy being followed, recent economic conditions, and market developments which have a bearing on this strategy. At minimum, the report to the Finance Committee will include:

- i. Portfolio Summary: Weighted average maturity, weighted average book yield, asset allocation by type, maturity distribution, and aggregate book and market values
- ii. A listing of individual securities held at the end of the reporting period including issuer, CUSIP or identifier, purchase date, maturity date, purchase yield, par value, book value, market value, credit rating
- iii. Performance of portfolio and its appropriate benchmark(s)
- iv. Investment Income
- v. Transaction information
- vi. Compliance matrix stating the compliance or non-compliance of investments or parameters

#### B. Compliance Report

A quarterly compliance report will be generated comparing the portfolio positions to this investment policy. The basis will be reported on market value.

### **C. 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.

### **D. Accounting Method**

The County shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB).

## **XII. PERFORMANCE STANDARDS/BENCHMARK**

The investment portfolio will be managed in accordance with the parameters specified within this policy. 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. An appropriate benchmark reflective of the actual securities being purchased, the risks undertaken, with similar weighted average maturity as the portfolio will be used to evaluate overall performance. For purposes of evaluating the County's investment performance, the Treasurer uses the following indices:

- Washington State Local Government Investment Pool Yield
- A customized benchmark on a total return basis which is reviewed and approved by the Finance Committee

## **XIII. POOLING OF FUNDS**

Participants of the Skagit County Treasurer Investment Pool will be established by way of a participant agreement. This will serve as the authorization to pool the jurisdictions' money for the purchase of investment.

Except for cash in certain restricted and special funds, the County will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation in the investment program and in accordance with generally accepted accounting principles.

## **XIV. INVESTMENT INTEREST ALLOCATION AND SERVICE FEES/EXPENSES**

In accordance with R.C.W 36.29.020, five percent (5%) of the earnings, with an annual maximum of fifty dollars, on each transaction authorized by the governing body shall be paid as an investment service fee

to the office of the County Treasurer. The Treasurer shall deduct such investment service fee when the earnings become available to the governing body. If such investment service fee amounts to five (5) dollars or less the Treasurer may waive such fee, in sole discretion of the Treasurer.

#### **A. Interest Allocation**

Pooled Investments will be carried at amortized cost. Premiums or discounts on investments purchased at a price other than par will be accreted monthly over the expected life of the investment. Interest earnings will be accrued and credited monthly based on the daily principal balance maintained in the pool by the participants. Realized gains or losses from investments will be credited or charged to investment income at the time of the sale.

#### **B. Fees**

The Skagit County Treasurer's Office charges pool participants a fee representing administration and recovery costs associated with the operation of the pool. In accordance with RCW 36.29.024, this fee is intended to reflect the Skagit County Treasurer's actual direct expense and out-of-pocket cost of administering the pool.

The average periodic investment fee charged is on an annualized basis and will be based on the daily principal balance maintained in the pool by the participants. The rate may fluctuate due to the actual average principal balances being maintained in the pool differing from projected balances. The monthly interest allocations will be distributed net of fees. If there are no earnings, the administrative fee will be deducted from principal. Because most of the expenses in the Skagit County Investment Pool are fixed costs, the fee will be affected by: (1) The amount of operating expenses; and (2) the total assets of the pool.

Any investment fees collected in excess of actual expenses will be rebated to the pool participants at least on an annual basis. Refer to the pool operating agreement for current fee schedule and calculation of the fees.

### **XV. BUSINESS CONTINUITY**

The Treasurer and Deputy Treasurer shall implement procedures that will maintain continuity of operations related to the investment program while also maintaining proper internal controls. Various examples include:

- Ongoing and continuous training of finance and investment staff
- Training and knowledge of software used to conduct trades with brokers. Utilizing Bloomberg anywhere allows investment officers to conduct trades with brokers remotely.
- The use of and training of centralized investment software and reporting that allows back up personnel to access data for conducting daily funding and accounting of investment settlements.
- Written procedures and documentation will be maintained that provide guidance and instruction in the absence of the investment officer.

## XVI. TRAINING REQUIREMENTS/EXPECTATIONS

*Investment Officer Training (Chief Deputy Treasurer)* - It is expected that the investment officer would participate in regular ongoing training and education as it relates to investment best practices and economic conditions. Examples of organizations that provide support, training, and networking with other finance professionals are:

- Washington Public Treasurers Association, Washington Finance Officers Association, Government Investment Officers Association, Government Finance Officers Association, Washington State Association of County Treasurers.

At a minimum, the investment officer should review and be informed of any rules, regulations, and reputable guidelines/best practices associated with managing the investments including but not limited to:

- This investment policy
- Revised Code of Washington
- Bond valuation and execution practices
- Participant Agreements
- Skagit County ordinances and resolutions
- State Treasurer's Guide to Public Fund Investing
- State Investment Board Commercial Paper & Corporate Notes Policy

*Treasurer Training* - It is expected that the Treasurer will at a minimum have or gain an understanding of the overall philosophy and strategy of the investment program. The Treasurer is encouraged to maintain involvement with the Washington State Association of County Treasurers in order to stay informed of statewide issues related to investing public funds. The Treasurer shall be familiar with the terms and conditions of the Participant Agreements with each entity.

*Finance Committee Training* - It is expected that at a minimum, any new member of the Finance Committee attends public fund investment related training within 6 months of becoming a member. Recommendations of current relevant training available can be made by the Investment Officer. It is strongly encouraged that some form of refresher training be attended by any members of the Finance Committee at least once each year.

## XVII. INVESTMENT POLICY REVIEW, REVISIONS, AND ADOPTION

The Treasurer shall recommend to the Finance Committee policy changes as appropriate, and shall be charged with implementing such policy, and subsequent policy changes in a timely, prudent, and effective manner. The Skagit County Investment Policy will be formally adopted by the Finance Committee and updated with appropriate modifications on an annual basis, or as amendments are needed.



## 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 Treasurer's office established to help cities 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**

Three Highest Rating Categories	S&P	Moody's	Fitch	Definition
	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**

Highest Rating Category	S&P	Moody's	Fitch	Definition
	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