

# CLARK COUNTY TREASURER'S OFFICE

## INVESTMENT POLICY



Clark County Finance Committee

May 18, 2021

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# CLARK COUNTY INVESTMENT POLICY

## I. Introduction

The Clark County Treasurer's Office provides cash custody, banking, financial, investment, revenue collection, and debt payment services. These services are provided to the County and its junior taxing districts, including school, fire, cemetery, water and sewer, and other special purpose districts. The county has approximately 485,000 residents. The Treasurer's Office bills and collects over \$700 million in property related taxes from its residents and processes approximately \$100 million in debt payments for principal, interest, and debt refunding.

The average annual balance of funds invested in the Clark County Investment Pool (CCIP) ranges between \$850 million and \$1.1 billion in fund balances. The balance is dependent upon participants' bond issues and tax receipt 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 Clark County Treasurer.

## II. Governing Authority

The Treasurer of Clark County is authorized by RCW 36.29.020 to determine the investable balances in each fund of the County and its local taxing districts and is authorized to invest such monies. The Clark County Investment Policy is established by the Clark County Finance Committee (see section XXIV).

## III. Delegation of Authority

Authority to manage the Clark County Investment Program is derived from the Revised Code of Washington (RCWs) in RCW 36.29.020 which delegates, in part, as follows:

- Any municipal corporation may by action of its governing body authorize any of its funds which are not required for immediate expenditure, and which are in the custody of the county treasurer to be invested by the treasurer.
- When not already authorized by statute or the governing bodies of the relevant municipal corporations, the County Finance Committee authorizes the County Treasurer to invest any remaining funds in accordance with this investment policy.

The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff in investment matters. The Treasurer shall recommend policy changes, as appropriate, to the County

Finance Committee and shall be charged with implementing such policy and subsequent policy changes in a timely, prudent, and effective manner. 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.

#### **IV. Prudence**

The Treasurer and authorized investment officers will perform their duties in a manner consistent with the standard of a “prudent person,” as defined by RCW 43.250.040.

“In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments..., there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.”

Authorized investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

#### **V. Policy**

It is the policy of the 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 investment principal, allows adequate liquidity for any relevant municipal corporations (Participants), and achieves the highest investment return consistent with the primary objectives of safety and liquidity.

#### **VI. Scope**

The Clark County Investment Policy (Policy) applies to all financial assets held or controlled by the Treasurer other than trust fund assets held by third parties. This includes funds where the Treasurer is the Treasurer or ex-officio Treasurer for Participants that have signed Investment Services Agreements with the Treasurer to have this function performed on their behalf. Examples of funds include General Funds, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds, Insurance Funds, Transportation Vehicle Funds, and Agency Funds. These funds are administered by Fund Managers who are authorized to act on behalf of relevant municipal corporations, as well as Clark County. In addition, any new fund created by the Participants shall comply with this policy.

Fund Managers can either request the Treasurer to invest their jurisdictions' money in the Clark County Investment Pool (Pool), or request that the Treasurer purchase a security with a specific term and amount that is held outside the Clark County Investment Pool (Pool). Operational aspects of the Pool are contained in Section XIX. Pool securities and securities invested outside the Pool are collectively referred to as the "Portfolio").

## VII. Objective

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

1. **Safety**: Safety of principal is the foremost objective of the Portfolio. This objective seeks assurance that principal losses are minimized, whether from securities default, broker/dealer default, or erosion of market value. To attain 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.
2. **Liquidity**: The portfolio shall remain sufficiently liquid to enable Clark County and its Participants to meet their needs for funds to pay their operating expenses and capital purchases that should be reasonably anticipated.
3. **Return on Investment**: The 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 requirements of the Participants.

## VIII. Investment Philosophy

The Clark County Investment Pool provides its participants an alternate investment vehicle to the state LGIP. Its longer duration has the potential to achieve higher yields, while maintaining adequate diversification and liquidity. The Pool's investment strategy is to adjust maturity and asset class diversification when market conditions change. Securities are generally held until maturity, with the following exceptions:

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

## IX. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal

business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose annually to the Prosecuting Attorney any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Clark County Investment Portfolio.

The County Finance Committee will file personal financial disclosure forms annually, with the Public Disclosure Commission consistent with the provisions of RCW 42.17.

No officer or employee of Clark County may receive, accept, take, seek, or solicit, directly or indirectly, anything of economic value as a gift, gratuity, or favor from a person if it could be reasonably expected that the gift, gratuity, or favor would influence the vote, action, or judgment of the officer or employee, or be considered as part of a reward for action or inaction. RCW 42.52.140

## **X. Authorized Financial Dealers and Institutions**

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the Treasurer and who are in compliance with Washington State and U.S. Securities and Exchange Commission. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- primary dealers recognized by the Federal Reserve Bank; or,
- non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1 and who are a certified member of the Financial Industry Regulatory Authority.

Each authorized broker/dealer will submit annual reports, including audited financial statements, and other information as determined by the Treasurer.

Financial Institutions are those entities that provide CDs, BAs and Deposits and are approved by the Washington Public Protection Commission. We will periodically review their Financial Statements on-line.

The Treasurer will maintain quarterly Call Reports for those Financial Institutions where we have investments.

All broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements,
- proof of Financial Industry Regulatory Authority (FINRA) certification,
- a signed trading authorization form,
- proof of registration with the state of Washington, and
- a completed Broker/Dealer questionnaire and certification of having read Clark County's Investment Policy.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. This includes a periodic review of the financial condition and registrations of qualified bidders. Current audited financial statements are required to be on file for each financial institution and broker/dealer in which the Treasurer invests.

## **XI. Authorized and Suitable Investments**

Eligible investments are only those securities and deposits authorized by statute (RCW 36.29.020, 36.29.022, 39.58.050, 39.59.020, 2016 c 152 & 12, and 43.84.080).

The Treasurer may invest in any investment authorized by law for the Treasurer of the state of Washington or any local government in the state of Washington (RCW 39.59.020). The following criteria applies to all investment purchases:

- 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 lower rating shall apply. Minimum credit ratings and percentage limitations apply at the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

The following investments are representative (not inclusive) of the permitted securities:

- 1. U.S. Treasury obligations.** Direct obligations of the United States Treasury with the full faith and credit of the United States.
- 2. 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).
- 3. 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).

4. **Supranational 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).
5. **Municipal Bonds.** The Treasurer may invest in general obligations bonds of any state and general obligations bonds of local governments of any state which at the time of investment are rated by S&P, A- or better, Moody's, A3 or better or Fitch, A- or better. Bonds outside of the state of Washington must be General Obligation bonds with a minimum rating of A- from a nationally recognized rating agency.
6. **Corporate Notes:** This unsecured debt obligation must be purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated A- by S&P, A3 by Moody's, or A- by Fitch or better. The maturity must not exceed 5 years and the maximum maturity of the corporate note portfolio cannot exceed 3 years. Issuer constraints for single A+ to A- holdings are 2 % of the total portfolio and 3% per issuer for ratings AA- or better at the time of purchase. If the issuer's rating is single A+ to A- category and it is on negative watch, it is not allowed. If the issuer is rated by more than one NRSRO, then the lowest rating will be used. Foreign issuers are further constrained to a 2% limit for each country, with the exception of Canadian issuers, which have no limit.
7. **Commercial paper**
  - a. Commercial paper must be rated with the highest short-term credit rating of any two NRSROs A-1, P-1 or F-1, 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.
  - b. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO.
  - c. Commercial paper must be purchased in the secondary market and not directly from the issuers.
  - d. The percentage of commercial paper that may be purchased from any single issuer is 3% of the assets of the total portfolio.
8. **Non-negotiable Certificates of Deposits**
  - a. Normal (term) non-negotiable Certificates of Deposits can be purchased with financial institutions qualified by the Washington Public Deposit Protection Commission.
  - b. Flexible Certificates of Deposits can be purchased with financial Institutions qualified by the Washington Public Depository Protection Commission which offer periodic draws of principal and interest prior to the maturity of



such Certificates.

9. **Public Depositories** can be invested with financial institutions qualified by the Washington Public Deposit Protection Commission.
10. **Banker's Acceptances** can be purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) A-1, P-1 or F-1, at the time of purchase.
11. The Treasurer may invest in **Repurchase Agreements** only with primary dealers who have a long-term credit rating of "A" or better by two NRSROs, if the final maturity of the repurchase agreement is less than one week. The third-party custodian must also maintain an "A" long-term credit rating. If the final maturity of the repurchase agreement is longer than one week, the primary dealer and the third-party custodian must maintain an "AA" long-term credit rating or better by 39two NRSROs. The Treasurer must enter into a Bond Market Association (BMA) Master Repurchase Agreement and third-party custodial contract which specifies terms and conditions of the repurchase agreement.
  - a. The third-party custodian will act as trustee solely on behalf, and at the direction of, the Treasurer for the safekeeping of securities.
  - b. The market value of collateral pledged must be maintained at 102% of the value of the repurchase agreement, plus accrued interest. Collateral for mortgage-backed (CMO) repurchase agreements will be priced at 105% of market value, plus accrued interest.
  - c. The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury and/or U.S. Government Agency obligations and/or U.S. Government instrumentality obligations.
  - d. The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer's staff and by a third-party custodian. If any deficiencies are discovered, they shall be corrected within one day. If the deficiencies are not corrected within one day, the procedures defined in the Repurchase Agreement contract will be followed to cancel the Repurchase Agreement.
  - e. The right of collateral substitution is granted provided only authorized securities are used.
12. **Registered Warrants.** The Treasurer may invest in registered warrants issued by the County or the junior taxing districts within Clark County (RCW 39.59.040, 2016 c 152 & 12).
13. **Securities Lending.** The Treasurer may select one or more firms to provide securities lending management services. Securities lending services will include, but are not limited to, the following:
  - a. The Treasurer may lend securities only to primary dealers who have a long-

term credit rating of "A" or better by two NRSROs. The third-party custodian must also maintain an "A" long-term credit rating.

- b. The Treasurer must enter into a written agreement with the lending agent, and must enter into the industry standard agreement with any borrower. The Treasurer must receive indemnification from the lending agent for borrower default and any losses resulting from the agent's negligence or failure to comply with written instructions from the County.
- c. All loans of securities must be supported by collateral valued at not less than 102% of market value of the securities, including accrued interest.
- d. Procedures will detail the restrictions permitted on "mismatch" of the loan and the reinvestment of cash collateral.
- e. Provide next-day liquidity for all securities on loan as required.
- f. Provide monthly accounting, performance, compliance, management reports, and other reports as required by the treasurer.
- g. Reinvestment of proceeds of securities lending for cash collateral must be done as an investment according to the restrictions of this policy but only count against the limit on reverse repurchase agreements at fiscal year-end.
- h. Collateral accepted by a securities lending agent must conform to the collateral requirements of this policy and must be equal to no less than 102%.
- i. Collateral must be held by an independent third-party custodian with whom the Treasurer has entered into a custodial agreement.
- j. All securities transactions are to be conducted on a delivery-versus-payment (DVP) basis only, and trades must have a confirmation/safekeeping receipt provided to the Treasurer.

#### **14. Washington State Local Government Investment Pool (LGIP).**

#### **15. All other investments authorized by law.**

### **XII. Prohibited Investments**

Any investment outside of the authorized securities and deposits listed in statute (RCW 36.29.020, 36.29.022, 39.58.050, 39.59.020, 2016 c 152 & 12, and 43.84.080) are unauthorized and prohibited by law.

### **XIII. Collateralization, Safekeeping, and Custody**

All investment securities purchased by the Treasurer or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution (to be designated as the "Custodian") qualified to act in this capacity. All securities held for the Treasurer account will be held free and clear of any lien and all transactions will be conducted on a delivery-versus-payment (DVP) basis. The Custodian shall issue a safekeeping receipt to the Treasurer listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports

that list all securities held for the Treasurer, the book value of holdings, and the market value at month end. Appropriate employees in the Treasurer's Office and the representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Portfolio shall be bonded to such a degree as to protect the Treasurer and Clark County against losses from malfeasance and misfeasance.

#### XIV. Diversification

The Pool's portfolio shall be structured to diversify investments to reduce risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the portfolio permitted in each eligible security is 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 Obligations - Primary FHLB, FNMA, FHLMC, FFCB	100%	35%	N/A	N/A	N/A
US Agency Obligations - Secondary FICO, FARMER MAC etc.	10%	5%	AA-	Aa3	AA-
Supranationals	10%	5%	AA-	Aa3	AA-
Municipal Bonds (GO only outside WA)	20%	5%	A-	A3	A-
Corporate Notes	25%*	3% for AA- 2% for A-,A,A+	A-	A3	A-
Commercial Paper		3%	Short Term A1 Long Term A-	Short Term P1 Long Term A3	Short Term F1 Long Term A-
Non-Negotiable Certificates of Deposit	40%	5%	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Public Depositories	100%	N/A	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Banker's Acceptance	25%	5%	N/A	N/A	N/A
Repurchase Agreements	30%	20%	A-	A3	A-
Registered Warrants	10%	5%	N/A	N/A	N/A
Securities Lending	25%	10%	A-	A3	A-
Washington LGIP	100%	None	N/A	N/A	N/A

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

#### XV. Maximum Maturities

Maintenance of adequate liquidity to meet the cash flow needs of Clark County and Participants is essential. Accordingly, securities in the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs of Participants, based on historical information and any projected cash flow needs provided by Participants. Any cash in excess of that necessary to meet the anticipated needs may be invested with the following maturity limitations:

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Banker's Acceptances	180 days
Commercial Paper	270 days
Repurchase Agreements	90 days
<b>Maturity Constraints</b>	<b>Maximum of Total Portfolio in Years</b>
Weighted Average Maturity	1.50
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</b>
Callable Agency Securities	25%

The Pool is an external investment pool. The maximum weighted average maturity of the Pool cannot exceed one and one-half (1 ½) years.

#### **XVI. Investment Transaction Parameters**

The investment program shall follow the following investment transaction parameters:

- Obtain at least three offers/bids (when applicable/available) or obtain independent third-party pricing
- Forward settlement time limit of not more than 30 days

#### **XVII. Calculation Parameters**

Calculations of percentage allocations shall be done at the time of purchase and formulated on book value. Weighted average maturity will be calculated by using the following proxies, and if a security contains more than one of the following attributes, the shortest attribute will be used as the maturity date proxy:

1. For securities that have been called by the issuer, the effective call date will be used as the maturity date proxy;
2. For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment's par or face amount will be used as the maturity date proxy; and
3. For variable rate securities, the period remaining to the next reset date will be used as the maturity date proxy.

(Note: Information on securities which have been purchased/sold but have not settled, may be included.)

## XVIII. Risks

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, Clark 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 per share 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 (N.A.V.) per share.

The Pool's market value and the direct investments may fluctuate due to 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.

*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 N.A.V per share. In the unlikely event that the Clark County Treasurer were to determine that the extent of the deviation (set at 0.985 to 1.015 by policy) between the Pool's amortized cost per share and the market value N.A.V. per share may result in material dilution or other unfair results to the shareholders, the County Treasurer may cause that Pool to take such action as it deems appropriate to eliminate or reduce dilutions that cause unfair results to participants. This risk shall be described in writing to participants in the pool as of May, 14 2019 and contained in all future information statements and service agreements.

## **XIX . Internal Control**

The Treasurer shall establish and monitor a set of written internal controls designed to protect Clark County and Participant's cash and cash equivalent assets and to ensure proper accounting and reporting of the investment transactions. Such internal control policy statements shall include, but not be limited to:

- The use of third-party custody and safekeeping;
- The execution of all securities transactions on a delivery versus payment basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the county;
- The use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

## **XX. External Audit**

The Treasurer's Office is subject to an annual independent review by the Washington State Auditor of its internal controls and compliance with all state and federal statutes and relevant policies and procedures. However, the Washington State Auditor is not required to annually audit the Treasurer's Office.

## **XXI. Performance Standards**

The Pool's objective is to obtain a market average rate of return throughout budgetary and economic cycles that corresponds with investment risk constraints and Participants'

cash flow needs.

For purposes of evaluating the Pool's investment performance, the Treasurer uses the following indices:

- the Washington State LGIP on a yield basis;
- ICE BAML 1 year UST on a total return basis

## **XXII. Bond Proceeds**

Clark County shall comply with all applicable sections of the Internal Revenue Code of 1986; Arbitrage Rebate Regulations and bond covenants concerning investment of bond proceeds.

## **XXIII. Reporting**

The Treasurer prepares reports on investment activity on a monthly, periodic and annual basis. Reports may also be prepared at such times as deemed appropriate by the Treasurer. A report showing the original cost (or book) value and fair value of each Participant fund's investment in the Pool will be provided as of each month end. Reports will be distributed to the various oversight committees and to the Clark County Investment Pool participants as deemed appropriate by the Treasurer and will be readily available upon request. Examples of reports are:

- investment purchases and sales;
- investment income received;
- realized and unrealized gains and losses;
- weighted average maturity of the portfolio;
- percentage of portfolio by issuer, by type of security, and by maturity sector;
- Net Asset Value (N.A.V.) per share of Pool Shares and the number of shares outstanding;
- Pool balances, stated at cost and market value;
- Pool yields;
- Pool performance on a total return basis after subtracting any relevant fees, including the Treasurer's Investment Fee, compared to established benchmarks shall be reported monthly;
- investment strategies shall be reported quarterly ; and
- a report on current economic conditions.

Examples of these reports and summaries of the information in the reports shall be provided to the Clark County Finance Committee (Finance Committee) quarterly.

### Fair Market Value/Net Asset Value per share:

At the end of each month, and at any other times deemed appropriate by the Treasurer,

the Treasurer's Office shall determine the Fair Market Value (F.M.V.) of the securities making up the Pool along with the Net Asset Value (N.A.V.) per share. F.M.V and the N.A.V per share will be reported to the County and Participants each month. The N.A.V. per share is determined by dividing the value of the Pool's net assets (fair market value of the Pool's assets less fair market value of the pool's liabilities) by the total number of Pool shares outstanding.

#### **XXIV. Finance Committee Membership and Purpose**

By statute, the Finance Committee consists of the County Treasurer as Chair, the County Auditor as Secretary, and the Chair of the Board of County Councilors. The committee shall approve the Policy and shall make all appropriate rules and regulations to carry out the provisions of RCW 36.48.010 through 36.48.060. The Finance Committee shall meet at least quarterly (calendar quarter) and these meetings are subject to the Open Public Meetings Act. The purpose of the Finance Committee meetings is to review compliance with the Policy, consider any proposed changes to the Policy, review the extent to which the Portfolio is meeting its investment objectives and any other matters that may appropriately come before it. Members of the Finance Committee shall adhere to RCW 42.17.245 by disclosing annually to the Public Disclosure Committee any financial interest in institutions in which public funds were invested.

#### **XXV. Investment Advisor**

The Treasurer may use an Investment Advisor, depending on budgetary constraints, on at least an annual basis. The role of the Investment Advisor is to provide technical advice to the Treasurer and staff in managing the Portfolio. Items the Treasurer may request the Investment Advisor to review include:

- evaluating the current Portfolio and investment strategy and describing any changes which should be made;
- determining if internal controls, market analysis, Portfolio analysis, and reporting practices are adequate; and
- evaluating the Investment Policy and Procedures Manual.

#### **XXVI. Intergovernmental Investment Pool Committee**

The Intergovernmental Investment Pool Committee's (IIPC) purpose is to assist in reviewing the investment strategy and the need for cash flow information from Participants. The IIPC is composed of all Participants. The IIPC generally meets once a quarter prior to the County Finance Committee meeting. Participants will be notified at least one week prior to the scheduled meeting of the date, time and location of the IIPC meeting.

#### **XXVII. Clark County Investment Pool**

The Treasurer invests funds collectively in order to better meet investment objectives of



the County and Participants. RCWs 36.29.020, 36.29.022, and 36.29.024 provide statutory authority for the Treasurer to operate an Investment Pool. The purpose of the Pool is to allow the County and Participants to combine funds available for investments in order to better meet their investment objectives.

All Participants must sign an Investment Services Agreement with the Treasurer to participate in the Pool.

The Pool shall operate under the following guidelines:

Purchase of Pool Shares (also known as Deposits):

Participants may invest monies in the Pool by purchasing shares by giving notice of such amounts to be invested to the Treasurer. There is no minimum or maximum amount of shares that must be purchased or dollar amount deposited. The purchase price per share shall be one dollar (\$1.00).

Management of the Pool's Net Asset Value:

It is recognized by all Participants that there can be no assurance that the Treasurer will be able to maintain a constant N.A.V. per share of one dollar (\$1.00) due to changes in the value of the Pool's investments resulting from changes in interest rates and the duration of the securities within the Pool. The Pool will be managed in a manner to maintain the N.A.V. per share within a band of \$1.015 to \$0.985. The calculation of N.A.V. per share will be done twice each month.

If the Pool's N.A.V. per share exceeds the \$1.015 or \$0.985 band in either direction, the County will sell securities to bring the N.A.V. per share back within the specified band. The County Treasurer will promptly disclose these sales to the Finance Committee and to Pool Participants. The realized gain or loss on the securities sold will be distributed to all Pool Participants as provided below.

Earnings:

Interest is distributed based on the average weighted daily balance a Participant's fund maintains in the Pool and is calculated using the actual number of days in the month based on a 360-day year. The total accrued interest earned on the Pool securities and realized gains and losses on securities sold before their maturity date will be distributed monthly to Pool participants based upon Participants' weighted daily average (pro-rata) ownership of Pool shares. Interest will be paid based upon the last calendar day of each month and will be automatically reinvested as principal.

Should the dollar amount of realized losses exceed the amount of realized gains and interest earned in a given month, the net negative earnings will be distributed to Participants resulting in a pro-rata reduction in the fund balances for Participants.

Redemptions of Shares – to pay normal expenditures:

Participants who redeem Pool shares for normal expenditure purposes will receive one dollar (\$1.00) per share.

Redemption of Shares – to reinvest outside the Pool:

Participants withdrawing one or more funds completely from the Pool to reinvest outside of the Pool shall receive one dollar (\$1.00) per share, less costs associated with the transaction. Costs associated with this transaction include but are not limited to wire transfer fees, safekeeping fees, etc.

Participants withdrawing one or more funds completely from the Pool, wherein the value of the shares being redeemed equals or exceeds three percent (3.00%) of the value of the total Pool, must provide ten (10) business days' notice prior to withdrawal.

Investment Fee – Clark County Investment Pool:

The Treasurer charges Participants an investment fee based on RCW 36.29.024. The investment fee is determined by the actual costs of managing the Pool and is set by the Treasurer. The investment fee will be calculated annually and may fluctuate due to the actual average principal balances being maintained in the Pool differing from the projected balances. This fee is expressed as a rate (e.g. 6.3 basis points) based on the projected daily principal balance of the Pool for the next twelve months. If at the end of each twelve month period the Treasurer determines that the amount of the Investment Fee collected was less than actual costs, or was greater than actual costs incurred during the prior twelve months, then the rate for the next twelve months will be increased or reduced to reflect that. The calculation of the Investment Fee, with identification of actual costs, aggregated by major expense category, as adjusted and projected Pool balance, will be provided to Participants and the Finance Committee promptly after the calculation is completed.

Investment Fee – Investments Outside the Clark County Investment Pool:

The Treasurer charges Participants an investment fee based on RCW 36.29.020. The investment fee charged for investments placed outside the Clark County Investment Pool shall equate to five percent (5.00%) of the earnings of a security with an annual maximum of fifty dollars on each investment transaction.

**XXVIII. 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.

**XXIX. Ongoing Training and Education**

The county strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards, the county will provide opportunities and funding for the personnel involved in the investment function to complete continuing education programs or other training in cash and investment management sufficient to maintain their skills and remain up-to-date on best practices and new regulations.

**XXX. Investment Policy Adoption**

This Investment Policy shall be adopted by vote of the County Finance Committee, and is reviewed by the committee annually. Any modifications to the policy shall be similarly approved.

Approved by the Clark County Finance Committee this the 18<sup>th</sup> day of May, 2021.

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Eileen Quiring  
Chair, Board of the County Councilors

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Alishia Topper  
Clark County Treasurer

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Greg Kimsey  
Clark County Auditor

## XXXI. Glossary

**Active Management Investment Strategy:** The use of investment strategies designed to increase portfolio values by exceeding market average rates of return. This can be achieved by using active portfolio management techniques such as swaps and spreads. Active management is characterized by the trading of securities prior to maturity.

**Agencies:** Some credit agencies (such as the Government National Mortgage Association) are owned and directed by the federal government and their debt obligations are backed by the full faith and credit of the U.S. government. Other federal agencies, referred to as government sponsored enterprises, are not guaranteed by the full faith and credit of the U.S. Government. These agencies presumably have de facto backing by the federal government and include the Federal Farm Credit Banks, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

**Amortized Cost:** The original cost of an investment with amortization of premium or accretion of discount over the life of the security. In addition, interest received from semi-annual coupon interest payments would be accrued ratably over six month periods. This amortization smoothes coupon interest payments and recognizes, ratably until the investment matures, the difference between the purchase price and, at maturity, the par value of the security.

**Asked:** The price at which securities are offered for sale.

**Banker's Acceptances (BA):** A Bankers Acceptance (BA) is a credit instrument used to finance certain types of domestic and international commercial transactions. The bank on which the BA is drawn accepts the liability and responsibility of making payment upon maturity. This liability makes the acceptance very marketable and safe.

**Bid:** The price a seller is requesting. (When you are selling securities, you ask for a bid). See Offer.

**Bond Market Association (BMA) Master Repurchase Agreement:** A standard written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Book Value:** The term book value denotes the original cost of an investment.

**Book Value Return:** Measures the yield at which securities in the portfolio were originally purchased adjusted for realized gains or losses.

**Broker:** A broker brings buyers and sellers together for a commission.

**Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a certificate. Treasurers are only allowed to purchase non-negotiable CDs from financial institutions qualified by the Washington Public Deposit Protection Commission.

**Collateral:** Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Comprehensive Annual Financial Report (CAFR):** The official annual report for Clark County. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**Coupon:** (a) the annual rate of interest that an issuer of a bond promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**Credit Risk:** The potential for loss due to a reduction of the issuer's financial strength. This is also known as Default Risk.

**Credit Rating Definitions:**

Long-term	Moody's	Standard & Poor's	Fitch
Highest Quality	Aaa	AAA	AAA
High Quality	Aa	AA	AA
Upper-medium-grade	A	A	A
Medium-grade	Baa	BBB	BBB
Speculative elements	Ba	BB	BB
Lack investment characteristics	B	B	B
Issues in default	Caa	CCC	CCC
Speculative in a high degree	Ca	CC	CC
Lowest rated class of bonds	C	C	C
Debt in default		D	D

Short-term (less than 365 days)			
	Moody's	Standard & Poor's	Fitch
Superior ability for repayment	P-1	A-1	F-1
Strong ability for repayment	P-2	A-2	F-2
Acceptable ability for repayment	P-3	A-3	F-3
Adequate capacity for payment		B	F-S
Doubtful capacity for payment		C	D
Issue in default		D	

Moody ratings from Aa to C may be modified by 1, 2, or 3 to show relative standing within the major rating categories. For example: Aa3.

S&P and Fitch ratings from AA to B may be modified by the (+) or (-) to show relative standing within the major rating categories. For example: AA+.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**Debenture:** A bond secured only by the general credit of the issuer.

**Delivery Versus Payment:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Derivative Security:** A financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Discount:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount from par and redeemed at maturity for full face value, i.e. U.S. Treasury Bills.

**Distribution:** Allocation of Pool earnings to Participants' accounts.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns. Interest income (coupon interest) plus realized gains and losses.

**External Investment Pool:** An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government.

**Fair Value:** The price at which a financial instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

**Federal Credit Agencies:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, i.e. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**Federal Funds Rate:** The interest rate at which Fed funds are traded. This rate is currently pegged by the Federal Reserve and managed through open-market operations.

**Federal Home Loan Banks (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks via-a-via member commercial banks.

**Federal National Mortgage Association (FNMA):** FNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Federal Home Loan Mortgage Corporation (FHLMC):** The FHLMC is a stockholder-owned corporation established by Congress in 1970 to provide a continuous flow of funds to mortgage lenders.

**Federal Open Market Committee (FOMC):** Consists of seven members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**Federal Reserve System:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Flexible non-negotiable CD:** A time deposit with a specific maturity evidenced by a certificate. Treasurers are only allowed to purchase non-negotiable CDs from financial institutions qualified by the Washington Public Deposit Protection Commission. Step-up option will renew with each successive term if the certificate is automatic renewable. You may exercise the step-up option one time during the term, after the first six days. Additional deposits can be made (these additions may not exceed the original issue value) in \$500.00 or larger increments after the first six days. Withdrawals may be made in any portion or total of amount of certificate at any time after the first six days. Withdrawals are limited to X times per month.

**Interest Rate Risk:** The risk associated with fluctuations in market interest rates that cause a fixed-income security to increase or decrease in value.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**Liquidity Risk:** The risk that although an issuer may eventually make good on an obligation, cash may not be available for a period longer than an investor originally intended.

**Local Government Investment Pool (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**Market Risk:** The risk that affects the price of a security as a result of changes in market conditions.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold by willing parties.

**Master Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity:** The date upon which the principal (and accrued interest) or stated value of an investment becomes due and payable.

**Money Market:** The market in which short-term debt instruments (bills, commercial



paper, banker's acceptances, etc.) are issued and traded.

**Net Asset Value (N.A.V.) per share:** For purposes of the Clark County Pool, the N.A.V. per share is determined by valuing the portfolio at market value. The market value of the Portfolio's securities less associated liabilities (assets less liabilities) is then divided by the total number of shares outstanding. This method results in a fluctuating N.A.V that may be equal to, greater than or less than \$1.00.

**Offer:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**Open Market Operations:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**Passive Investment Strategy:** If the governing body does not wish to allocate resources or encourage the staff to seek optimizing adjustments, a buy-and-hold investment strategy would be utilized. This method may not optimize total return and could involve a sacrifice of yield.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity and quality requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

**Prudent Investor Rule:** An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Public Deposit Protection Commission (PDPC):** The PDPC consists of the State Treasurer, as Chairman, the Governor, and the Lieutenant Governor. The Commission is empowered to request a qualified public depository to furnish information on its public deposits and the exact status of its net worth. The Commission is further empowered to take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from loss.

**Qualified Public Depositories:** A financial institution that does not claim exemption from

payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability, and which has been approved by the Public Deposit Protection Commission to hold public funds.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price.

**Repurchase Agreement (RP or Repo):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is used to increase bank reserves.

**Relevant municipal corporations:** Political subdivisions, junior taxing districts that are required to, or are eligible to, use the County Treasurer's investment and debt management services.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**State and Local Government Series Securities:** These securities are offered by the U.S. Treasury through its Bureau of Public Debt to state and local government entities as an investment alternative to assist these issuers of tax-exempt securities in complying with yield restriction and arbitrage rebate provisions of the Internal Revenue Code.

**Total Return:** Measures the change in value of the overall portfolio over a given period (including market effects on price, income earned and adjustments for deposits/withdrawals). Total return enables portfolio managers to evaluate fluctuations in the value of principal rather than simply the income produced.

**Treasury Bills:** A discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in 4 weeks, three months, six months, or one year.

**Treasury Bonds:** An interest-bearing coupon security issued by the U.S. Treasury with initial maturities of more than ten years to finance the national debt.

**Treasury Notes:** An interest-bearing coupon security issued by the U.S. Treasury with

initial maturities between one and ten years, to finance the national debt.

**Weighted average:** A proportional average in which each item's value compared to the total of all items is to be averaged is assigned a weight. These weightings determine the relative importance of each quantity on the average. Weightings are the equivalent of having many like items with the same value involved in the average. For example if an investor purchases one hundred (100) shares at a cost of one dollar and fifty cents (\$1.50) per share and twenty five (25) shares at a cost of two dollars per share, the weighted average cost of these one hundred twenty five (125) shares is one dollar and sixty cents (\$1.60).

**Yield:** The earnings returned annually divided by the purchase price on an investment, expressed as an annual percentage.