

INVESTMENT POLICY AND GUIDELINES

Policy

Washington County invests its funds in a manner to sustain a reliable and solvent financial condition. This policy sets forth the investment and strategy guidelines for the investments of funds for Washington County (the "County") in order to achieve its goals of safety of capital, liquidity necessary to meet obligations, diversification, and yield consistent with County goals and market risks.

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Minn. Stat. Chaps.118A and 466.07.

It is the policy of the County that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which provides the maximum security of principal through risk management and diversification while meeting the daily cash flow needs of the County and conforming to all applicable state and County laws.

The receipt of a market yield will be secondary to the requirements for safety and liquidity.

Scope

This Policy applies to all the financial assets of Washington County. These funds are accounted for in the County's Comprehensive Annual Financial Report and all other funds that may be created are included under this Policy unless specifically excluded by the County Board.

This Policy does not apply to funds managed under separate pension investment programs such as the County's Deferred Compensation Program and Public Employees Retirement Association (PERA) and Other Post-Employment Benefits (OPEB), which are managed by the State Board of Investment.

Guidelines

All investment transactions are to be made in good faith using professional judgment and care, conforming to the County's Investment Policy and all applicable governmental regulations, using the highest level of integrity and care to ensure the safety of the principal, and assuring derived interest earnings are managed and recorded properly.

The standard of care to be used in the investment process shall be the "prudent person standard" and shall be applied in the context of managing the overall portfolio, rather than a consideration as to the prudence of a single investment.

The "prudent person" standard states that,

"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 staff acting in accordance with written procedures and this Investment Policy and exercising due diligence shall have protection afforded under Minn. Stat. Chapt. 466.07, Indemnification.

Portfolio Management

The County will structure its portfolio(s) to manage market risks. Investments will be staggered or laddered to avoid undue concentration of assets in a specific maturity or market sector. Selected investments will be judged to provide stable income, reasonable liquidity, and reasonable market yield. The County manages market rate risk by limiting the length of maturity periods and recognizing the need for liquidity to meet daily cash obligations. Laddering security maturities and balancing investments between short-term and long-term periods assures proper timing of investments and reduces these risks. Funds may be pooled for investment purposes. The portfolio will recognize and reflect the unique needs of all the funds to assure that anticipated cash flows are matched with adequate investment liquidity.

The county has limited ability to make investments with maturity greater than five (5) years. Investments over a five (5) year maturity should not exceed 10% of the overall portfolio value.

The total portfolio value will be determined based on projected cash flows to provide for all anticipated liquidity needs of the County. Investments are to be chosen in a manner which promotes portfolio diversity by market sector, credit, and maturity. The choice of high-credit quality government investments and high-grade, money market instruments are designed to assure the marketability of those investments should liquidity needs arise. The investment process shall be designed to produce a reasonable return commensurate with low-risk securities and designed to meet cash flow demands. Funds due to other taxing authorities are invested until the statutory settlement date, as prescribed by state statute.

- A. **Safety:** The preservation and safety of principal is the County's foremost objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio whether from security defaults or erosion of market value.

- B. Liquidity: Because the cash position of the County and its various programs fluctuate during the year, a reasonable portion of the investment portfolio must be liquid, and a liquidity buffer maintained. The County considers liquidity as a priority, while still recognizing the need to obtain reasonable yield. The portfolio shall remain sufficiently liquid to enable the County to meet all reasonably anticipated expenditures.
- C. Diversification: Diversification of the portfolio is critical to spread risk. The portfolio will incorporate diversification by maturity and market sector and will include the use of a number of institutions and brokers for diversified market coverage and competition. The County will diversify its investment in an effort to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- D. Yield: After the above considerations have been met, the County will maximize its yield while assuring that maturity dates coincide with expenditure needs and assuring that reserve funds are fully invested.

Benchmark

The overall portfolio shall have a weighted average maturity equal to or less than three (3) years. The overall risk in the portfolio shall be measured periodically against a benchmark of the one-year Treasury Bill or Constant Maturity Treasury (CMT)¹ chosen to reflect the projected cash flow and the authorized portfolio limitations and authorized security types of the portfolio.

Portfolio Strategy

The County may commingle funds for investment purposes while addressing the unique characteristics of the funds represented in the portfolios. The County will maintain a conservative but pro-active strategy and use a predominantly buy-and-hold strategy. The maximum maturity for 90% of the portfolio's securities is five (5) years or less with a maximum weighted average maturity of equal to or less than three (3) years.

- a. **Operating funds and commingled portfolios containing operating funds** have as their primary objective to assure that anticipated cash flow needs are met with adequate investment liquidity. A liquidity buffer of at least 10% should be maintained at all times. The secondary objective is to obtain a reasonable yield with minimal volatility. This may be accomplished by purchasing high credit quality securities matched to known liabilities. Maximum maturities should be guided by known liabilities.

¹ When a one-year Treasury Bill is not being issued by the Treasury, the CMT is used to measure a comparable yield by combining treasury securities in the one-year area. The information is easily accessible.

- b. **Debt service funds** shall be invested to ensure adequate funding for each consecutive debt service payment. Funds shall be invested in such a manner so as not to exceed an “unfunded” debt service date with the maturity of any investment. (An unfunded debt service date is defined as an interest or principal payment date that does not have cash or investment maturities targeted to satisfy said payment.)
- c. **Capital project or special purpose funds** shall have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates or securities held should not exceed the estimated project expenditure date.
- d. **Reserve Funds** shall have as their primary objective generation of incremental income through high credit quality investments.

Responsibility

Investment Committee

The county board established an investment committee via Resolution #2016-010. The investment committee is comprised of the county administrator, deputy county administrators, accounting and finance director, deputy accounting and finance director, property records and taxpayer services director or designee and the public works director or designee. The investment committee shall meet at least twice per year to determine operational strategies and to monitor investment results. The investment committee shall include in its deliberation such topics as: economic outlook, portfolio diversification, maturity structure, risk, and performance of the portfolio.

The investment committee will review the semi-annual reports before forwarding them to the finance committee and board for presentation on an annual basis. The accounting and finance department will prepare a quarterly investment report for administration’s review.

Investment Officer(s)

Management responsibility for the investment program is delegated through this Policy to the accounting and finance director. The accounting and finance director shall establish written procedures and controls for the operation of the investment program, consistent with County policy. Such procedures shall include explicit delegation of authority to individual employees responsible for investment transactions and documentation of investment transactions and holdings. The accounting and finance director remains responsible for all transactions undertaken and shall regulate the activities of investment officers.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officers will avoid any transaction that might impair public confidence in the County's ability to govern effectively.

All investment officers shall be familiar with this policy and its underlying procedures. No investment officer may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the accounting and finance director.

Investment Adviser

The accounting and finance director may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such managers must be registered under the Investment Advisers Act of 1940.

The accounting and finance department is responsible for implementing this policy.

Training

All investment officer(s) shall attend training within six (6) months of assuming responsibilities and attend investment training every successive two-year period. Training shall be provided or endorsed by recognized professional organizations.

Ethics and Conflicts of Interest

Investment officers and others involved in the investment process shall follow the County's Code of Ethical Conduct Policy. Investment officers involved shall disclose in writing to the accounting and finance director any material financial interest in financial institutions that conduct investment transactions with the County or any personal financial/investment positions that could be related to the portfolio performance.

Authorized Investments

The County manages credit risk through several strategies. In accordance with Minn. Stat. Chapt. 118A, the County authorizes investments only in those securities allowed by state law and further defined by this Policy. Investments authorized under Minn. Stat. Chapt. 118A are considered the safest investments in the market. The following is a list of the only authorized investment instruments in which County funds may be invested:

- A. Obligations of the United States government, its agencies and instrumentalities excluding mortgage-backed securities and 90% or more of the securities held within the portfolio will have a maturity date not to exceed five (5) years.

- B. Fully insured or collateralized depository certificates of deposit with banks doing business in any US state with a stated maturity not to exceed five (5) years and collateralized in accordance with this Policy.
- C. FDIC insured brokered certificates of deposit securities from any US state not to exceed five (5) years to maturity. Before purchase the investment officer must verify that the issuing bank is FDIC insured.
- D. Fully collateralized repurchase agreements with a defined termination date and executed under a written Bond Market Association Master Repurchase Agreement with a *primary dealer* as defined by the Federal Reserve. *Flex* repurchase agreements may be used for capital project funds but not to exceed the planned expenditure date of the funds.
- E. A1/P1 rated commercial paper, including asset-backed commercial paper, rated by two nationally recognized rating agencies and not to exceed 120 days to maturity. Commercial paper shall be diversified by issuer and industry with no more than 5% from any one issuer.
- F. Prime bankers acceptances, the issuing bank for which must have an A1/P1 or equivalent short-term rating by one nationally recognized rating agency.
- G. General Obligations or Revenue Bonds of any US state or local government rated A or better by a nationally recognized rating agency not to exceed five (5) years to stated maturity.
- H. Fully Guaranteed Investment Contracts (GIC) not to exceed three years to stated maturity.
- I. AAA-rated SEC-rated money market funds striving to maintain a \$1 net asset value.
- J. Interest bearing and money market accounts in Minnesota banks (Minn. Stat. Chapt. 118A).
- K. Local Government Investment Pools (LGIP).

Diversification

The County shall diversify its portfolio by security type and institution to reduce reliance on any one issuer or financial institution and spread potential market risk. Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations.

<u>Investment Type</u>	<u>Max % of Portfolio</u>
U.S. Treasury Notes/Bonds/Bills	90%
U.S. Government Agencies	90%
Depository Certificates of Deposit	50%
Limit per financial institution	10%
Brokered Certificates of Deposit Securities	50%
Limit per financial institution	FDIC Coverage
Commercial Paper	
Operating Funds	20%
Limit per issuer	5%
Agency Tax Funds (Flowing Through County)	100%
Bankers Acceptances	20%
State and Local Debt Obligations	90%
Guaranteed Investment Contracts	20%
Repurchase Agreements	20%
Flex repurchase agreements by bond issue	100%
Money Market Mutual Funds	100%
Bank Time and Demand Deposits	100%

“Due to fluctuations in the aggregate surplus fund 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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.”

Internal Controls

Competitive Bidding Requirement

All investment transactions will be made on a competitive basis. It is the policy of the County to require competitive bidding for all individual security purchases except for those transactions with money market mutual funds which are deemed to be made at prevailing market rates. At least three bids/offers must be obtained and documented for each transaction. County may use generally accepted electronic methods of obtaining competitive bids/offers.

For those situations where it may be impractical or unreasonable to receive three bids for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the trade document. All bids received must be documented and filed for audit purposes.

Delivery Versus Payment

All security transactions will be cleared delivery versus payment (dvp) into the county’s safekeeping institution.

No County securities will be held by a broker or dealer. To perfect delivery versus payment the brokerage subsidiary of the County's safekeeping agent shall not be used as a broker. This assures County control of all its funds and assets.

Change of Authorization or Rating

The County will not be required to liquidate investments that were authorized by policy at the time of purchase. The investment officer shall monitor, on no less than a monthly basis, the credit rating on all authorized investments, requiring a rating, held in the portfolio based upon independent information from a nationally recognized rating agency.

If any security falls below the minimum rating required by Policy, the investment officer shall notify the accounting and finance director of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two days of the downgrade.

Monitoring FDIC Status

The investment officer shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CD securities owned by the County based upon information from the FDIC.

If any bank has been acquired or merged with another bank in which brokered CDs are owned, the investment officer shall immediately liquidate any brokered CD which places the County above the FDIC insurance level.

Cash Management and Cash Flow Analysis

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The County shall maintain a cash management program which includes a cash flow analysis process, collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

Safekeeping Services

To protect its financial assets, the County uses delivery versus payments on each security transaction and contracts with an independent safekeeping institution to safekeep securities owned by the County. The primary function of the safekeeping institution is to minimize all safekeeping risks associated with the manipulation, conversion, or unauthorized trading of county investments. A secondary function of the custodial agent may be to provide accurate information on trades of all assets.

The responsibilities of the safekeeping institution may be provided by the County's depository bank and are to be formalized in a service contract to include:

- A. Delivery on a DVP basis only. Securities are to be cleared and remain in the safekeeping account and identified with ownership by the County.
- B. No discretionary authority, control, or responsibility with respect to the management or disposition of any County asset.
- C. No authority or responsibility to render investment advice with respect to any County asset,
- D. No fiduciary authority with respect to the County or its assets, and
- E. The safekeeping institution shall submit to the County, at least monthly a listing of all securities held for the County.

Authorized Broker/Dealers and Financial Institutions

The accounting and finance department and/or investment advisers will maintain a list of broker/dealers authorized to do business with the County. Before transacting any business with the County every broker/dealer must provide the following information:

- an annual audited financial statement must be on file with the County
- policy certification form
- the individual broker and the firm's FINRA CRD number
- completed broker/dealer questionnaire

Before doing business with the County, a broker/dealer must (a) complete the broker/dealer questionnaire and (b) provide certification that the broker has reviewed the investment policies and objectives, as well as applicable state laws, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of the business transactions between the County and the broker/dealer. The broker/dealer shall further certify that it will institute reasonable controls to prevent it from selling the County an investment outside the County's investment authority as set by policy. An annual certification form will be obtained from each brokerage firm prior to transacting investments or whenever a modified and adopted investment policy is issued with material changes.

To the extent practical, all approved firms are given the opportunity to bid on deposits or investments on a regular basis, but the County has no responsibility to transact business with any specific firm.

Collateralization

Collateral for time and demand bank deposits is pledged to the County. Custodial credit risk in time and demand deposits is managed by ensuring that the County be covered by appropriate levels of FDIC insurance and/or collateral. All time and demand deposits of the County will be FDIC insured or collateralized in accordance with this Investment Policy and all applicable Minnesota laws in accordance with prudent financial management principles. All collateral will be held by an independent third-party custodian outside the holding company of the pledging bank. The custodian will be approved by the County and a written collateral agreement with the pledging bank will be executed in accordance with FIRREA. (The agreement must be in writing and approved by resolution of the Bank Board or Bank Loan Committee.)

Collateral of 110% of the total deposits will be required daily and the custodian will report monthly to the County with a listing of collateral pledged. The County reserves the right to require substitute collateral if any collateral subsequently fails to meet the requirements set forth. The County will approve substitution after review.

The County will restrict its business to banks that are willing to meet the requirements set forth by state law and County Policy, for the County's protection in regard to safekeeping, delivery, and receipt. The County may reduce or halt deposits or investments with a particular institution, if reports indicate a deterioration of status or performance.

- A. All pledging institutions must monitor and maintain collateral to ensure that the County's assets are properly collateralized in an amount equal to 110% of time and demand deposits including accrued interest.
- B. All banks must be members of FDIC and funds on deposit shall be insured by the Federal Deposit and Investment Corporation's (FDIC) as applicable.
- C. All collateral will be marked-to-market at least monthly, and a report sent directly to the County from the custodian listing the collateral.

Authorized Collateral

Only the following are authorized as collateral for the County for both time and demand deposits and repurchase agreements:

- Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities. Collateralized mortgage obligations (CMO) must pass the *bank test* as defined by the Federal Reserve,
- General debt obligations of any US State or its subdivisions and localities rated A or better by at least one nationally recognized rating agency.

Collateral for Repurchase Agreements

Repurchase collateral is owned by the County. All repurchase agreements will be collateralized with a 102% margin. The collateral will be held by a custodian independent of the repurchase counterparty. Collateral will be marked-to-market daily and reported to the County at least weekly. All collateral will be delivered on a DVP basis. Authorized collateral will be in accordance with this Policy.

Reporting

The accounting and finance director on behalf of the Investment Committee shall prepare and submit to the Board an investment report on no less than an annual basis provide a detailed list of the investments making up the portfolio and summary information which would describe to any knowledgeable reader of the report the makeup, performance and risks inherent in the portfolio. The report shall include at a minimum:

- detail on each investment position or security including final stated maturity date
- the beginning and ending amortized book value and market value of each position
- the change in overall market value in the portfolio (volatility measurement)
- the yield on each position
- the total earnings of the portfolio for the period
- the allocation by maturity date and market sector
- the dollar weighted average yield of the portfolio
- the yield on the benchmark for the comparable period

Policy Adoption

The County's Investment Policy shall be adopted by resolution of the county board. The investment committee shall periodically review the policy and shall make any recommended changes to the board.

Source

County Board action August 7, 2001, April 3, 2001, April 6, 2004
Replaced Policies #2010 and #2019, July 26, 2005
Replaced Policies #2302, #2303, and #2304, December 19, 2006
County Board action December 8, 2009
County Board action September 13, 2011
County Board action January 26, 2016
County Board action August 23, 2016
County Board action December 7, 2021