

JACKSON COUNTY TREASURER'S INVESTMENT POLICY
(Revised November 2017)

I. Policy

Jackson County strives for the optimum utilization of its cash resources by investing funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of the County and conforming to all applicable laws.

II. Scope

This policy applies to the investment of all county funds including proceeds from debt issuance, but excluding amounts held in trust by third-parties on behalf of the county including pension plan funds. All county accounting and budgetary funds as well as any blended component units are covered by this policy.

III. Objectives

Investment objectives, in priority order, shall consist of the following:

1. *Safety of Capital*

Preservation of principal shall be the foremost investment objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objectives will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The county will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting exposure to poor or medium credits and concentrating investments in the safest types of securities.
- Diversifying the portfolio so that potential losses within individual security types will be minimized.
- Monitoring the investment portfolio given changing economic/market conditions or credit changes of issuers.

b. Interest Rate Risk

The county will minimize the risk that losses will be realized by selling securities prior to maturity in an unfavorable interest rate environment by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby generally avoiding the need to sell securities prior to maturity
- Investing short-term operating funds in short-term securities, money market accounts, the Local Government Investment Pool (LGIP), or similar short-term investments.

2. *Liquidity*

The investment portfolio shall be structured with both static and dynamic liquidity:

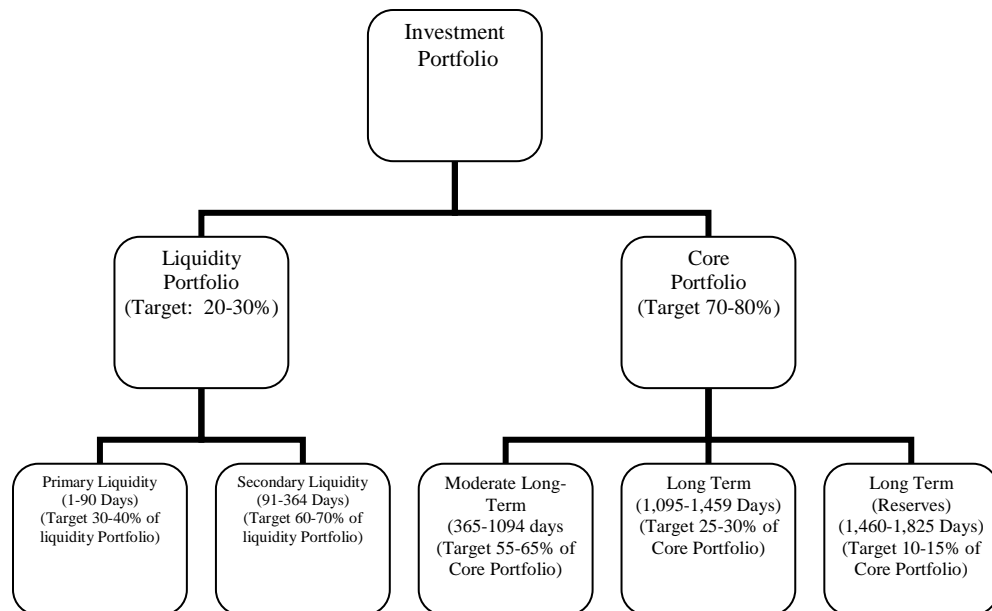
a. **Static Liquidity**

The portfolio shall remain sufficiently liquid to meet all operating requirements that may reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

b. **Dynamic Liquidity**

To meet unanticipated demands on cash, the portfolio will consist largely of securities with active secondary or resale markets.

For the purposes of measuring liquidity, the investment portfolio shall be invested to have a target of 20-30% liquidity (maturities within a year) and the remaining as the core portfolio for longer term investing purposes. These targets are not regulated by any laws or statutes and are just designed as guidelines. The investment portfolio shall have the following liquidity allocation targets:



3. *Return on Investment*

The portfolio shall be designed to obtain a market rate of return throughout budgetary and economic cycles taking into account legally available investment options, constraints established by policy, investment risk constraints and liquidity requirements. The county will generally consolidate cash balances from all funds to maximize investment earnings. Circumstances may arise that make separate investments advantageous or necessary to comply with legal or

recordkeeping requirements. Investment income will be allocated to participating funds based on their respective average monthly balances and in accordance with generally accepted accounting principles and accepted treasury practices.

The core of investments are limited to relatively low risk securities in anticipation of earning a fair return, relative to the risk being assumed. Securities shall generally be held until maturity, with the following exceptions:

1. A security swap improves the quality or yield in the portfolio
2. A security with declining credit may be sold early to minimize loss of principal.
3. Liquidity needs of the portfolio require that the security be sold.

Due to fluctuations in the market, the Treasurer may swap an investment to obtain a higher yield, quality or target within the portfolio. These swaps are considered “normal investment activity”.

If a security is sold due to declining credit, the Treasurer shall notify the Board of Commissioners, County Administrator and County Auditor prior to the trade being executed.

IV. Authority

The Finance Director is the County Treasurer, and is the investment officer for Jackson County. References to the Treasurer and the Treasurer’s Office in this policy refer to the Treasury program of the Finance Department.

The Finance Director is responsible for the day-to-day operations of the investment program which include but are not limited to:

- choosing investments to purchase or sell
- selecting investment brokers
- selecting banks for placement of investment funds
- executing buy and sell orders
- opening and closing depository accounts
- adding and deleting signature authorizations on depository accounts
- producing performance and investment reports
- maintenance of written administrative procedures consistent with this policy

In the absence of the Finance Director, or when so designated, the Deputy Treasurer will perform investment functions.

V. Standards of Care

A. **Prudence:** The standard of prudence to be used by the Finance Director in managing the financial resources of the county shall be the prudent investor rule, which states: "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution." (ORS 130.755).

B. **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 and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, "Government Ethics".

VI. Authorized Financial Dealers and Institutions

The Finance Director shall maintain a list of all authorized broker/dealers and financial institutions that are approved for investment purposes or investment dealings. Any firm is eligible to make application to the county. Upon meeting the criteria listed below and completing the application procedures below a Broker/Dealer will be considered for approval. Additions or deletions to the list will be made at the sole discretion of the Investment Officer and his/her decision on the eligibility or removal from the approved list is final.

Criteria

1. An institution/dealer must be an established business in the investment services field with at least a five year operating history.
2. The institution/dealer must provide services routinely to public entities in the State of Oregon.
3. The institution/dealer must be knowledgeable of Oregon government statutes.
4. The broker/dealer must certify that they have read and understood the county's investment policy, and agree to comply with it.
5. Must have proof of certification by the Financial Industry Regulatory Authority (FINRA)
6. Completion of Jackson County Broker/Dealer questionnaire

Application Procedures

1. Complete Broker/Dealer Questionnaire and provide requested supporting documentation to the Investment Officer
2. The Investment Officer reviews the submission for completeness and determines if the institution/dealer meets the selection criteria.
3. The Investment Office will review the submissions and determine if the Broker/Dealer will be added as an authorized provider of investment services to the County.

The Local Government Investment Pool (LGIP) may be utilized for operating fund or bond proceeds up to the current statutory limit, excluding pass through funds and is automatically an authorized financial institution for investment.

VII. Investment Instruments

Investments shall be made in compliance with ORS Chapter 294, “County and Municipal Financial Administration”, this investment policy, and written administrative procedures. Two documents are included by reference as part of this policy: **a)** the State Treasurer’s List of U.S. Government and Agency Securities For Local Government Investment, and; **b)** Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment. Current versions of these documents will be kept on file in the Treasurer’s office are also available on the Oregon State Treasurer’s website.

Allowable investments include U.S. Treasury securities: bills, notes, bonds, STRIPS, inflation indexed bonds, and all other authorized Treasury securities. Agencies and Instrumentalities of the United States with non-floating maturity dates, including callable versions of the same, are allowed. Additional allowable investments, subject to the requirements contained in “b” above, are repurchase agreements, bankers’ acceptances, corporate indebtedness (commercial paper and promissory notes), municipal debt obligations, and certificates of deposits.

VIII. Investment Parameters

Diversification

Portfolio diversification is undertaken to reduce overall portfolio risks (avoidance of losses) while attaining average market rates of return. Investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investments in securities that have higher credit risks,
- Investing in securities of varying maturities, and
- Investing a portion of the portfolio in readily available funds such as the LGIP and repurchase agreements.

<u>Diversification by Investment Type</u>	<u>Maximum Percent of Portfolio</u>
US Treasury Obligations	100%
US Government Sponsored Enterprises (GSEs)	75%
Bankers Acceptances	25%
Certificates of Deposit	65 %
Repurchase Agreements	25%
Municipal Debt (Total)	10%
Corporate Indebtedness (Total)	35%

Diversification by Issuer

Local Government Investment Pool (1)	50%
Any Government Sponsored Enterprise Issuer	33%
Any Certificate of Deposit Issuer	30%
Any Corporate Indebtedness Issuer	5%

(1) Subject to limits under ORS Chapter 294.810 which restricts the amount of surplus funds that

can be placed in the LGIP.

There is no maximum maturity for any investment type other than limits set by statute, the State of Oregon Treasurer's Office, or the investment horizon set by this policy.

Due to fluctuations in the aggregate investment pool 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 security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases or liquidations are made.

Maximum Maturities and Weighted Average Maturity

ORS 294.135 generally limits investments to a maximum period of 18 months. This policy utilizes an option available within statute to permit investments for a period greater than 18 months (ORS 294.135(a)). Jackson County chooses to permit investments up to a maximum of 60 months (5 years) for funds that are not needed for liquidity, given a favorable interest rate environment. However, the county will maintain liquidity targets as set forth in Section III(2) – "Liquidity".

Performance Standards

To measure the portfolio's objective of achieving a fair return, the investment portfolio will be measured based on both book and market returns. Book return will be measured on yield return on a monthly basis and total (market) return on a quarterly basis defined as follows:

1. Yield Return: The portfolio's month end weighted book/purchase yield.
2. Total (market) Return: The interest earned year to date for the portfolio adjusted for premiums/discounts, realized gains/losses and mark-to-market adjustments.

Both return calculations will be measured against the weighted average yield of the LGIP, and 1-5 year treasuries based on the relative duration of the portfolio at the time of measurement.

IX. Compliance

Online Treasury software generated dashboards and other supporting reports are reviewed at least weekly to ensure compliance with the limits of this policy and to meet the liquidity needs of the county. Significant annual and one-time sources and uses of funds, as well as the aging schedule, are taken into account prior to making any new investments. County departments that may have large one-time expenditures are reminded to notify the Finance Department should a significant outlay become a possibility. At least \$5 million is kept in a combination of LGIP and bank demand accounts to meet short-term liquidity needs.

X. Internal Controls

The Finance Director shall maintain a system of internal controls designed to help prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the county. These controls are reviewed and tested by the County's independent external auditors as well as the County's internal audit staff

periodically.

XI. Reporting

All investment data is available real time through the Clearwater investment software program online. Login information for this program will be granted, upon request, to any member of the Board of Commissioners (the Board), County Administrator, Internal Audit and other authorized County employees expressing an interest in reviewing the current investment activity of the County. In addition, performance reports shall be posted electronically to the County's website at www.jacksoncounty.org/finance/Treasury on a monthly basis and a full year report for each fiscal year. These reports shall contain at a minimum: Investment listing, Interest accruals and receipts, trading activity, duration and yield information. Additional information will be provided as agreed upon by the Finance Director, the County Administrator and the Board.

In addition to monthly reports, performance as compared to the benchmark will also be provided to the Budget Committee each year as part of the annual budget process. The portfolio benchmark may be modified as needed to ensure that a valid comparison to actual performance can be provided. A benchmark with a range is recommended to help mitigate variances created by rapid changes in short-term interest rates.

Mark to market adjustments are calculated monthly and posted to the financial system periodically and at a minimum at year-end.

XII. Competitive Selection of Investment Instruments

Generally, prior to purchasing an investment, the Finance Director shall request and document quotes from qualified brokers and/or financial institutions. If a maturity range is specified, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet this required term. If no specific maturity is required, a market trend (yield curve) review will be conducted to determine which maturities would be the most advantageous. If a broker has distributed a list of investments in inventory, this may be used to evaluate quotes.

Nothing in this policy will prevent Treasury staff from immediately purchasing an investment that suddenly becomes available, and meets an existing need. It is recognized that investments can both become available and sell-out in a matter of minutes. The Investment Officer shall use professional judgement before buying an investment without competitive quotes.

XIII. Collateralization and Safekeeping of Deposits

Purchased securities will be delivered to the county's third-party safekeeping custodian, currently Zion's Corporate Trust. The purchase and sale of securities will be on a "delivery versus payment" basis. The custodian shall provide online access to the County's account which shall contain transaction history and holdings reports which include a description of the specific instrument, selling dealer or broker, rate, maturity, CUSIP number, purchase price, settlement date, and other requested pertinent information. The custodian will also provide a hard copy report of all County holdings and transactions at fiscal year-end.

XIV. Banking

Only banking deposits of qualified institutions under ORS Chapter 295 are allowed.

The financial institution(s) utilized for daily operations (daily revenue deposits, payroll and accounts payable checks, electronic funds transfers, etc) will have a branch located in Jackson County, and the account or accounts established shall be associated with that branch.

Certificates of deposit and demand deposits with qualified institutions will be collateralized through the state's collateral pool as required by statute.

XV. Treasury Software

The county utilizes Clearwater as its treasury system. Clearwater receives a secure electronic feed daily from the County's custodial account and bank accounts. At the end of each month the investment activity is uploaded to the County's financial system and reconciled. Bank accounts are reconciled monthly. Interest will be allocated monthly based on a system generated journal entry within the financial system based on average monthly fund balances.

Premiums or discounts are amortized or accreted through the life of the investment. If the investment is called, any remaining premium or discount is recognized at the time of call.

XVI. Method of Accounting

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

XVII. Policy Review

The county's investment policy will be reviewed and modified as deemed appropriate by the Finance Director. The investment policy will also be adopted by the Board of Commissioners. Since authorization for investments exceeding a maturity of eighteen months is a part of this policy, review and comment by the Oregon Short-Term Fund Board was obtained; and thereafter, this policy will be re-adopted annually even if there are no changes (ORS 294.135(a)).

XVIII. Documents Used in Conjunction with this Policy

In addition to the two documents included as a part of this policy by reference in Section V: **a)** the State Treasurer's List of U.S. Government and Agency Securities For Local Government Investment, and; **b)** Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment, the following documents are used in conjunction with this policy and are on file in the Treasurer's office:

- Broker/Dealer Questionnaire.
- Relevant investment statutes and ordinances
- Master repurchase agreements
- Safekeeping contracts and agreements
- Brokerage service contracts and agreements
- Broker and banking confirmations and safekeeping receipts