Josephine County Investment Policy

(Re-adopted January 29, 2020)

EXHIBIT A – January 29, 2020

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I. Objectives:

The primary objectives of investment activities shall be safety, liquidity, and yield.

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

   a. Credit Risk: Josephine County will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:
      - Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
      - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which Josephine County will do business.
      - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      - Actively monitoring the investment portfolio holdings for ratings changes, changing economic/market conditions, etc.

   b. Interest Rate Risk: Josephine County will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
      - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
      - Investing operating funds primarily in shorter-term securities or short-term investment pools.
      - Diversifying the portfolio by maturity dates to mitigate the impact of reinvestment risk, i.e. "laddering" the maturity dates.

2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). A reasonable portion of the portfolio should be maintained in the Oregon Short-Term Fund and collateralized commercial bank interest bearing accounts which offer next-day liquidity. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of the portfolio is limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities are generally held to maturity unless declining credit or liquidity needs warrant a pre-maturity sale.

II. Scope:

This policy applies to the investment of both short-term operating funds and long-term capital funds including bond proceeds and bond reserve funds. Funds held by trustees, and fiscal agents are excluded from these rules, however, all funds, including component unit funds, are subject to applicable statutes and regulations established by the State of Oregon and the federal government.

- Investments of employees' retirement funds, deferred compensation plans, and other funds are not covered by this policy.
- Funds include but are not limited to:
  - General Funds
  - Special Revenue Funds
  - Internal Service Funds
  - Capital Projects Funds
  - Enterprise Funds
  - Special District Funds
  - Debt Service Funds
  - Unsegregated Tax Funds
  - Trust & Agency Funds
  - Taxing Districts

A General Purpose Investment Portfolio will be the primary pool in which investments will be made. This portfolio may have a range of funds from a low of $32 million to a high of $80 million. Other special purpose investment pools may be established to conform to legal restrictions (e.g. bond covenants) or to recognize the longer term nature of some funds (e.g. capital projects). Interest earned on the general purpose portfolio will be allocated prorata to the participants in the pool based upon average daily balance.

III. Standards of Care:

1. **Prudence:** The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
   - Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.
2. **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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees, officers and their families shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of Josephine County. Officers and employees shall, at all times, comply with the State of Oregon code of Government Ethics as set forth in ORS 244.
3. **Delegation of Authority:** Authority to manage the investment program is granted to the publicly elected County Treasurer, hereinafter referred to as investment officer, and derived from

the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction without approval of the investment officer.

IV. Safekeeping and Custody, Delivery versus Payment:

All investments eligible for delivery purchased pursuant to this investment policy will be delivered versus payment by either book entry or physical delivery to a third party custodian. The custodian shall issue a safekeeping receipt to Josephine County listing the specific instrument, selling broker/dealer, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information.

V. Accounting Method:

1. **Accounting Standards:**
   - Josephine County, Department of the Treasurer, shall comply with required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).
2. **Investment Return:**
   - Investment returns are calculated as total return, including interest earned, premiums, discounts and appreciation or depreciation of investment values. Investment return for purposes of benchmarking against performance indicators will be compared on a total portfolio basis.
3. **Investment Costs:**
   - Investments will be carried at par. Losses on the sale of investments will be recognized at time of sale. Premiums or discounts on securities will be amortized or accreted over the life of the securities.
4. **Investment Fee:**
   - Where allowable, an investment fee of .25% (1/4%) of portfolio par value may be deducted from interest earned and credited to the County General Fund each month. After deducting the investment fee, interest earnings will be credited as of the last day of each month to the funds from which the investment was made based on the average daily balance in the fund.

VI. Internal Controls:

The Treasurer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of Josephine County from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuations of costs and benefits require estimates and judgments by management.

Accordingly, the Treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. This audit will generally coincide with the annual external financial audit. The internal controls shall address the following points:

1. Control of collusion.
2. Separation of transaction authority from accounting and record keeping.

3. Custodial safekeeping.
4. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of transactions for investments and wire transfers.
7. Development of a wire transfer agreement with the lead bank and third party custodian and implementation of the appropriate safeguards described in the GFOA Recommended Practice on "Electronic Transactions for State and Local Governments".
8. Compliance and oversight with investment parameters including diversification and maximum maturity.

VII. Reporting Requirements:

1. **Reports to Governing Body**:
   a. Monthly Report: The Josephine County Treasurer will provide a monthly report to the County Commissioners on or before the 10th of the succeeding month or the first business day thereafter:
      - Fulfilling the requirements of ORS 208.090 reporting:
        - The amount of cash on hand in the custody of the county treasurer;
        - The banks in which such funds are deposited, with the amounts so deposited in each;
        - The security furnished the county by each bank to cover such deposits (i.e. collateral certificate amount), and
        - The interest rates paid on such deposits.
      - Reporting on Investments, including:
        - Purchase Date
        - Maturity Date
        - Book Value
        - Rate of Return
        - Coupon Rate
        - Collateral, if required

   b. Quarterly Report: The Josephine County Treasurer will provide an additional quarterly report to the County Commissioners on or before the last day of the succeeding month, including:
        - Portfolio information included in the monthly report expanded to include market valuation ("mark-to-market"),
        - Statement of compliance with this Investment Policy,
        - Performance of the portfolio relative to benchmark(s),
        - Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy,
        - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks,
        - A listing of fund cash balances under the control of the Treasurer and transactions therein, and
        - Any narrative necessary for adequate clarification.

   c. Bi-Annual Reporting: In February and August of each year the Treasurer will report to the Board of County Commissioners in accordance with ORS 294.085. In addition to the information included in the written Quarterly Report, the Treasurer shall review the Quarterly Report with Board of County Commissioners in a regularly scheduled meeting.

2. **Management Reports:** The investment officer shall maintain up-to-date records of portfolio activity providing reports which are timely and available daily. A monthly report of investment activity is generated for management reporting purposes and as a permanent record.

VIII. Investment Policy Adoption:

This Investment Policy will be formally adopted by the Josephine County Board of Commissioners, and will be re-adopted annually even if there are no changes.

IX. Qualified Financial Institutions:

The Treasurer will maintain a list of all authorized Broker/Dealers and Financial Institutions authorized to provide investment services. To qualify for the list, they must be an approved security Broker/Dealer, selected by credit worthiness that is authorized to provide investment services in the State of Oregon.

- These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposits shall be made except in a qualified public depository as established by the State of Oregon.
- All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following information:
  - Audited financial statement
  - Proof of National Association of Security Dealers certification
  - Proof of state registration
  - Completed Broker/Dealer Questionnaire
  - Certification of having read and understood the Josephine County Investment Policy
  - Certification of agreement to comply with Josephine County's Investment Policy
- After due consideration and approval, the firm will be added to the list. The Treasurer will conduct an annual review of the financial condition and registration requirements of qualified Broker/Dealers. Preferably, firms shall have a local office and Registered Representative in Oregon. However, the County will not exclude Broker/Dealers located outside the state as long as they are licensed in Oregon and meet all other qualifications.
- An updated Broker/Dealer Questionnaire will be mailed to each firm annually, and should be completed and returned to the Treasurer's office. Failure to complete the update questionnaire may lead to removal from the approved list.
- Additions or deletions to the list will be made at the Treasurer's discretion.

X. Suitable and Authorized Investments

The following investments will be permitted by this policy, ORS 294.035 and 294.810:

1. U.S. Treasury Obligation (bills, notes and bonds)
2. U.S. Government Agency Securities and Instruments of Government Sponsored Enterprises
3. Banker's Acceptances (BA's) from qualified institutions
4. State of Oregon Investment Pool
5. Certificates of Deposits (CD's) and interest bearing accounts
   (Subject to ORS 295 collateralization)
6. Repurchase Agreements
7. State and Local Government Securities

Reverse Repurchase Agreements and Securities Lending Agreements are not allowed under this policy.

XI. Portfolio Diversification

Diversification will be sought within the following guidelines with the purpose of reduction of overall portfolio risk while attaining market average rates of return. The investments shall be diversified by investment type, issuer and maturity. Before any transaction is concluded, to the extent practicable, the Treasurer shall solicit and document competitive bids and offers on comparable securities. When not practicable, the reasons should be similarly documented. Additionally, if reasonably unanticipated events cause the portfolio limits to be exceeded, the Treasurer will take steps necessary to correct the situation as soon as practicable. The Treasurer will document the occurrence and advise the Josephine County Board of Commissioners in the next monthly and quarterly investment report.

1. **Diversification by Type and Issuer:**

Security	***%Limitation of Total Portfolio***
US Treasury	Up to 100%
US Government Agencies and Government Sponsored Enterprises (GSE)	Up to 75% and 25% in any single Agency or GSE
State of Oregon Investment Pool	Up to 100% or to the maximum imposed by ORS 294.810
Certificates of Deposit and other Interest Bearing Accounts.	Up to 50% and 25% in any single qualified financial institution collateralized as required by ORS Chapter 295
Banker's Acceptances	Up to 25% and 10%, on the settlement date, in bankers acceptances of any qualified financial institution
State and Local Government Securities	Up to 25% of total portfolio
Repurchase Agreements	Up to 25% and 10% in any single qualified financial institution collateralized as required by ORS Chapter 294.035

2. **Diversification by Maturity:**

Maturity limitations shall depend upon whether the funds being invested are considered short term or long term funds. All funds shall be considered short term except those reserved for capital projects (i.e., bond sale proceeds) and special assessment repayments being held for debt retirement.

a. **Short Term Portfolio (maturity up to 3 years):**

- Investment maturity for operating funds shall be scheduled to coincide with projected cash flow needs and timed to comply with the following guidelines:
  - Maturity will be laddered to provide for interest rate fluctuations and to minimize investment interest rate risk. Careful monitoring of interest rate fluctuation will provide a basis for evaluating risk and return.

- ○ Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer, investment type or maturity 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 liquidations are made.

1 to 30 day maturity	Minimum of 10% of total portfolio
1 to 90 day maturity	Minimum of 25% of total portfolio
1 to 365 day maturity	No limit
12 months to 18 month maturity	Maximum of 25% of total portfolio
18 months to 36 months	Maximum of 25% of total portfolio

b. **Long Term Portfolio (Capital Projects and Special Assessment Repayments) maturities over 36 months and up to a maximum of 60 months:**

- Maturity scheduling shall be timed according to anticipated need. For example, investment of capital project funds shall be timed to meet projected contractor payments.
- Investment of prepaid assessment funds shall be tied to bond payment dates, after cash flow projections are made using a forecasting model which considers prepayment rate, delinquency rate, interest on bonds, and income on investments.
- The investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the most restrictive parameters of this policy and the applicable bond covenants and tax laws.
- Investments in the long term portfolio will be limited to U.S. Treasury Securities or securities of U.S. Government Agencies and Instrumentalities.
- This investment policy has been submitted for review by the OSTF Board as specified above and in accordance with ORS 294.135(1)(a), debt service reserves may be invested to a maturity date not exceeding five years. Otherwise debt service reserves shall not be invested to a maturity date exceeding one year.

XII. Bids and Offers

Before any security purchase or sale is initiated, the Investment Officer shall first determine the appropriateness of seeking competitive bids or offers. Such factors to consider include where the securities are held, the size of the transaction, and the term to maturity. In the event competitive bids or offers are not sought, the decision to do so shall be documented. When required by tax laws or bond covenants competitive bids and offers shall always be sought for security purchases and sales of bond funds.

XIII. Collateralization:

All bank deposits shall be held in qualified Oregon depositories in accordance with ORS Chapter 295. Such deposits are designated cash management tools and not investments under this policy unless otherwise designated as such.

- Certificates of Deposit and Interest Bearing Bank Accounts opened for investment purposes are considered investments under this policy, and are collateralized by the Public Funds Collateralization Program as governed ORS Chapter 295.
- ORS 294.035 (k) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board. On March 12, 1996, the OSTF Board adopted the following margins:
    - US Treasury Securities: 102%
    - US Agency Discount and Coupon Securities: 102%
    - Mortgage Backed and other: 103%*

      *Limited to those securities described in ORS 294.035
- A signed Master Repurchase Agreement must be in place prior to execution of any repurchase agreement trade.

XIV. Performance Indicators:

The performance of the County's portfolio shall be measured against the performance of the Oregon Local Government Investment Pool and the 90-day Treasury bill rate.

- It is the goal of the County to maintain an annualized yield that is not more than ½ percent (.5%) lower than the Oregon Local Government Investment Pool and is not less than ¼ percent (.25%) higher than the 90 day Treasury Bill yield. The County may also benchmark against any other money market indices it deems appropriate.
- It is anticipated the portfolio should attain a benchmark average rate of return over time. Factors influencing performance deviations will be described by the investment officer in quarterly reports to the Josephine County Board of Commissioners.

XV. Additional Documents

The following documents are used in conjunction with this policy, and are available from the Treasurer's office upon request:

1. Listing of authorized personnel
2. Relevant investment statutes
3. Master repurchase agreements
4. Listing of authorized broker/dealers and financial institutions –Addendum A
5. Safekeeping agreements
6. Wire transfer agreements
7. Broker confirmations and safekeeping receipts
8. Broker/Dealer Questionnaire
9. Monthly and other investment reports

ADDENDUM A

LISTING OF AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

Brokerage Firms:
Bank of America Merrill Lynch
RBC Dain Rauscher, Inc.
Raymond James Inc
PiperJaffray & Co.
Seattle Northwest Securities Corp.
Wells Fargo Brokerage Services, LLC
Morgan Stanley Smith Barney LLC
Time Value Investments
Vining Sparks

Banks:
Bank of America, NT & SA
First Interstate Bank
Evergreen Federal Bank
JPMorgan Chase Bank NA
Key Bank
People's Bank of Commerce
US National Bank of Oregon
Umpqua Bank
Wells Fargo Bank NA
Oregon Community Development Banks ($95,000 maximum per bank)

Other:
Oregon Local Government Investment Pool (LGIP)
Northwest Community Credit Union
Rogue Federal Credit Union
First Community Credit Union