

FP 13: Investment Policy

The County will have an investment goal to maintain adequate cash to meet current obligations and to invest in those legal securities that maximize earnings and protect principal. Monies that are not required on a short-term basis are to be invested in compliance with the County's investment guideline.

It is the policy of the County to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the County and conforming to all State statutes governing the investment of idle funds.

Scope

- This investment policy applies to all financial assets of the County except authorized petty cash and debt proceeds, which are accounted for and invested separately from pooled cash. The County pools the cash resources of its various funds and participating component units into a single pool in order to maximize investment opportunities and returns. Each fund's and participating component unit's portion of total cash and investments is tracked by the financial accounting system.

Prudence

- The standard of prudence to be used by authorized staff 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 would 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.
- Authorized staff acting in accordance with 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.

Authorized Staff

- G.S. 159-25(a)6 delegates management responsibility for the investment program to the Finance Director. The Finance Director will establish and maintain procedures for the operation of the investment program which are consistent with this policy. Such procedures will include delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of the policy and the procedures established by the Finance Director. The Finance Director will be responsible for all transactions undertaken and will establish and maintain a system of controls to regulate the activities of subordinates.
- In the absence of the Finance Director and those to which he or she has delegated investment authority, the County Manager or his or her designee is authorized to execute investment activities.

Objectives

- The County's objectives in managing the investment portfolio, in order of priority, are safety, liquidity, and yield.

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. To best mitigate against credit risk (the risk of loss due to the failure of the security issuer), diversification is required. To best mitigate against interest rate risk (the risk that changes in interest rates will adversely affect the market value of a security and that the security will have to be liquidated and the loss realized), the second objective, adequate liquidity, must be met.

Liquidity

- The investment portfolio shall remain sufficiently liquid to meet all operating and debt service cash requirements that may be reasonably anticipated. The portfolio will be structured so that securities mature concurrent with cash needs (static liquidity), with securities with an active secondary market (dynamic liquidity), and with deposits and investments in highly liquid money market and mutual fund accounts.

Yield

- The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary, economic, and interest rate cycles, taking into account investment risk constraints and liquidity needs.

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 to the County Manager any interests in financial institutions with which they conduct business material to them. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transaction with the same individuals with whom business is conducted on behalf of the County.

Authorized Financial Dealers and Financial Institutions

- The Finance Director will maintain a list of financial institutions that are authorized to provide investment services. Authorized financial institutions will be selected by credit worthiness and must maintain an office in the State of North Carolina. These may include "primary" dealers or regional dealers or regional dealers that qualifies under SEC Rule 15C3-1 (uniform net capital rule).
- Any financial institutions and broker-dealers that desire to become qualified to conduct investment transactions with the County must supply the Finance Director with the following:
 - Audited financial statement;
 - Proof of National Association of Securities Dealers certification;
 - Proof of State registration; and
 - Certification of having read the County's investment policy.

- Any previously qualified financial institution that fails to comply or is unable to comply with the above items upon request will be removed from the list of qualified financial institutions.
- The Finance Director shall have discretion in determining the number of authorized financial institutions and may limit that number based upon the practicality of efficiently conducting the investment program. The Finance Director shall also have the discretion to add or remove authorized financial institutions based upon potential or past performance.

Internal Control

- The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires the use of estimates and judgments by management.

Collateralization

- Collateralization is required for certificates of deposit. North Carolina General Statutes allow the State Treasurer and the Local Government Commission to prescribe rules to regulate the collateralization of public deposits in North Carolina banks. These rules are codified in the North Carolina Administrative Code-Title 20, Chapter 7 (20 NCAC 7). The Pooling Method of collateralization under 20 NCAC 7 allows depositories to use an escrow account established with the State Treasurer to secure the deposits of all units of local government. This method transfers the responsibility for monitoring each bank's collateralization and financial condition from the County to the State Treasurer. The County will only maintain deposits with institutions using the Pooling Method of collateralization.

Delivery and Custody

- All investment security transactions entered into by the County shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Finance Director and each transaction will be evidenced by safekeeping receipts and tickets.

Authorized Investments

- The County is empowered by North Carolina G.S. 159-30(c) to invest in certain types of investments. The Board of County Commissioners approves the use of the following investment types, the list of which is more restrictive than G.S. 159-30(c):
 - Obligations of the United States or obligations fully guaranteed as both principal and interest by the United States.
 - Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the United States Postal Service.
 - Obligations of the State of North Carolina.
 - Bonds and notes of any North Carolina local government or public authority that is rated "AA" or better by at least two of the nationally recognized ratings services or that carries any "AAA insured" rating.

- Fully collateralized deposits at interest or certificates of deposit with any bank, savings and loan association, or trust company that utilizes the Pooling Method of collateralization.
- Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service which rates the particular obligation.
- Banker's acceptance of a commercial bank or its holding company provided that the bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- Participating shares in a mutual fund for local government investment, provided that the investments of the fund are limited to those qualifying for investment under G.S. 150-30(c) and that said fund is certified by the LGC. (The only such certified fund is the North Carolina Capital Management Trust.)
- Evidences of ownership of, or fractional undivided interest in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian (STRIPS).
- Guaranteed investment contracts utilizing repurchase agreements but only for the investment of debt proceeds which are to be collateralized at 105% and marked to market on a daily basis.
- Prohibited Forms of Authorized Investments
- The use of repurchase agreements in the normal investment portfolio (not debt proceeds)
- The use of collateralized mortgage obligations
- The use of any type of securities lending practices.

Diversification

- Investments will be diversified by security type and by institution
- With the exception of United States Treasury securities and the North Carolina Capital Management Trust, no more than 30% of the County's total investment portfolio will be invested in a single security type or with a single financial institution.
- The total investment in certificates of deposit shall not exceed 25% of the County's total investment portfolio and the investment in certificates of deposit with a single financial institution shall not exceed \$3,000,000.
- The total investment in commercial paper shall not exceed 25% of the County's total investment portfolio and the investment in commercial paper of a single issuer shall not exceed \$3,000,000.
- The total investment in bankers' acceptances shall not exceed 5% of the County's total investment portfolio and the investment in bankers' acceptances of a single issuer shall not exceed \$2,000,000.
- The Finance Director is responsible for monitoring compliance with the above restrictions. If a violation occurs, the Finance Director shall report such to the County Manager and to the Board along with a plan to address the violation.

Maximum Maturities

- To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Beyond identified cash flow needs, investments will be purchased so that maturities are staggered.
- The following maturity limits are set for the County's investment portfolio:
 - At least 60% of the investment portfolio will have maturities of no more than 3 years from the date of purchase.
 - At least 80% of the investment portfolio will have maturities of no more than 5 years from the date of purchase.
 - At least 95% of the investment portfolio will have maturities of no more than 10 years from the date of purchase.
 - No investments maturing more than 15 years from the date of purchase may be purchased.
- For purposes of this section, for any variable rate demand obligation, the purchase date is considered to be the last reset and remarketing date and the maturity date is considered to be the next reset and remarketing date.
- If any change is made to the County's policy for unassigned fund balance in the General Fund, this policy must be concurrently revised.

Selection of Securities

- The Finance Director or his or her designee will determine which investments shall be purchased and sold and the desired maturity date(s) that are in the best interest of the County. The selection of an investment will involve the evaluation of, but not limited to, the following factors: cash flow projections and requirements; current market conditions; and overall portfolio balance and makeup.

Responses to Changes in Short Term Interest Rates

- The County will seek to employ the best and most appropriate strategy to respond to a declining short term interest rate environment. The strategy may include, but does not have to be limited to, purchases of callable "cushion" bonds, lengthening of maturities in the portfolio, and increases in the percentage of ownership of treasury notes relative to that of treasury bills.
- The County will seek to employ the best and most appropriate strategy to respond to an increasing short term interest rate environment. That strategy may include, but does not have to be limited to, purchases of "step-up" securities, shortening of maturities in the portfolio, the use of floating rate investments, and increases in the percentage of ownership of treasury bills relative to that of treasury notes.

Performance Standard

- The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will strive to obtain a market average rate of return within the constraints of the County's investment risk profile and cash flow needs.
- The performance benchmarks for the performance of the portfolio will be rates of return on 90 day commercial paper and on three year treasury notes.

Active Trading of Securities

- It is the County's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal. However, if economic or market conditions change making it

in the County's best interest to sell or to trade a security before maturity, that action may be taken.

Polled Cash and Allocation of Interest Income

- All moneys earned and collected from investments other than bond proceeds will be allocated monthly to the various participating funds and component units based upon the average cash balance of each fund and component unit as a percentage of the total pooled portfolio. Earnings on bond proceeds will be directly credited to the same proceeds.

Marking to Market

- A report of the market value of the portfolio will be generated at least semi-annually by the Finance Director. The Finance Director will use the reports to review the investment portfolio in terms of value and price volatility, as well as for compliance with GASB Statement #31.

Software

- The County recognizes the significance of the size of its investment portfolio and of the requirements contained in this policy. The County will utilize investment software which enables efficient transaction processing and recording, sufficient portfolio monitoring, and the ability to maintain reporting compliance with this policy.

Reporting

- The Finance Director will prepare a monthly investment report that will be submitted with the Board's monthly report package.
- The monthly investment report will include a listing of all investments and will show the investment number, the investment description, the purchase, call, and maturity dates, the yields to call and to maturity, the weighted average yields to call and to maturity by investment type and in total, the coupon rate, the par value, and the ending amortized value. The report will also include earnings information for the last twelve months with that information compared to the established benchmarks.
- The monthly investment report will include reporting on the status of diversification compliance.

Policy Considerations

- A maturity or diversification violation created by fluctuations in the size of the portfolio does not require corrective action. The violation may be cured through an increase in the portfolio size or the maturity of an investment.