

**KLAMATH COUNTY**  
**INVESTMENT POLICY**



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# KLAMATH COUNTY

## INVESTMENT POLICY GUIDELINES FOR NON-PENSION/DEFERRED COMPENSATION FUNDS

### I. Scope.

This investment policy applies to activities of Klamath County with regard to investing the financial assets of all funds except for the amounts held in trust for the Pension Plan for Employees of Klamath County, which has a separate investment policy. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, such funds are subject to the regulations established by the State of Oregon. Other than bond proceeds or other unusual situations, the total of all funds ranges from \$60,000,000 to \$130,000,000. This policy provides direction for the following fund types:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Projects Funds
- D. Enterprise Funds
- E. Debt Service Funds
- F. Permanent Funds
- G. Internal Service Funds
- H. Investment Trust Funds
- I. Agency Funds

Funds of Klamath County will be invested in compliance with the provisions of but not necessarily limited to ORS 294.035 through 294.048, ORS 294.125 through 294.155, ORS 294.810, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and any debt service funds will comply with the "arbitrage" restrictions of Section 148 of the Internal Revenue Code of 1986 and all applicable Internal Revenue Codes.

This policy does not include funds held in trust for the Pension Portfolio and deferred compensation funds for the Employees of Klamath County, which have separate rules.

### II. General Objectives.

Klamath County's investment objectives are:

- A. **Conformance with federal, state, and other legal requirements.**

- B. **Preservation of capital and the protection of investment principal:** Safety of principal is the foremost objective of the investment program. Investments of Klamath County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, *diversification* is required in order that potential losses do not exceed the income generated from the remainder of the portfolio.
1. **Credit Risk.** Klamath 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 advisers with which Klamath 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.
  2. **Interest Rate Risk.** Klamath County will minimize the risk that the market value of securities in 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.
- C. **Maintenance of sufficient liquidity to meet operating requirements:** Klamath County's investment portfolio will remain sufficiently liquid to enable the entity to meet all operating requirements, which might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static 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). A portion of the portfolio also may be placed in the Oregon Short-Term Fund which offers next-day liquidity for short-term funds.
- D. **Diversification:** The goals for the selections of a portfolio of specific investments are to establish levels of credit quality, diversification by issuers, and diversification by security type to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

- E. **Attainment of a market rate of return throughout budgetary and economic cycles:** Klamath County's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with Klamath County's risk constraints and cash flow characteristics of the portfolio.

### III. Standards of Care.

- A. **Delegation of Authority.** Authority to manage the investment program is granted to the Publicly Elected County Treasurer who is the Chief Investment Officer of the County and is the designated investment officer of Klamath County and is responsible for investment decisions and activities, under the direction of the Board of County Commissioners (O.R.S. 294.125). In the absence of the Chief Investment Officer, the Chief Financial Officer shall perform the duties. The Chief Investment Officer is responsible for setting investment policy and guidelines subject to review and adoption by the Board of County Commissioners and, if required, review and comment by the Oregon Short-Term Fund Board. Further, the Chief Investment Officer will be responsible for the day-to-day operations of the investment process which include but are not limited to choosing what to buy or sell, from whom investments will be purchased, executing the buy/sell orders AND producing necessary reports. In addition to the active management of the investment portfolio, the Chief Investment Officer is responsible for the maintenance of other written administrative procedures consistent with this policy and the requisite compliance. To further optimize the total return of the investment portfolio, the Chief Investment Officer will administer an active cash management program the goal of which will maintain historical cash flow information, i.e., debt service, payroll, revenue receipts, and any extra ordinary expenditures.
- B. **Ethics and Conflicts of Interest.** County employees involved in the investment process shall refrain from business activity that could conflict with the proper execution and management of the investment process, or that could impair their ability to make impartial decisions. Such employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Such employees shall at all times comply with the State of Oregon Government Ethics Commission guidelines set forth in ORS Chapter 244.
- C. **Prohibited Conduct by Chief Investment Officer.** In making investments pursuant to ORS 294.035, the Chief Investment Officer may not:
  - 1. Make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transaction;

2. Enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest;
3. Lend securities to any person or institution, except:
  - a. on a fully collateralized basis; and
  - b. when the lending is specifically permitted under an investment policy adopted pursuant to ORS 294.135(1)(a);
4. Pay for any securities purchased by the Chief Investment Officer until the officer has received sufficient evidence of title to the securities. Evidence of title must be consistent with modern investment, banking and commercial practices and may include physical possession, book entry and automated recordation of such title. However, the Chief Investment Officer may instruct one or more custodial agents or banks to accept or release securities as that Chief Investment Officer considers advisable to be held in safekeeping for collection of principal and interest or other income; or
5. Deliver securities to the purchaser of the securities upon sale prior to receiving payment in full for the securities. However, the Chief Investment Officer may deliver the securities to any custodial agent or bank upon instructions to hold the securities pending receipt by the custodial agent or bank of full payment for the securities.

**IV. Prudence.**

The standard of prudence to be used by the Chief Investment Officer in the context of managing the financial resources shall be the prudent investor rule, which states, "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."

The Chief Investment Officer or the Chief Financial Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, or loss of principal if securities are liquidated prior to maturity provided that these deviations and losses are reported as soon as practical and that appropriate action is taken to control adverse developments.

**V. Safekeeping and Collateralization.**

Investment securities purchased by Klamath County will be delivered by either Fed book entry, DTC, or physical delivery, and held in third party safekeeping with a designated custodian. The trust department of a bank may be designated as custodian for safekeeping securities purchased from that bank. The purchase and sale of securities will be on a delivery versus payment basis.

The custodian shall issue a safekeeping receipt to Klamath County listing the specific instrument, selling broker/dealer, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information. Delivery versus payment will also be required for all repurchase transactions and with the collateral priced and limited in maturity in compliance with ORS 294.035(11).

Demand and time deposits shall be collateralized in compliance with ORS Chapter 295.

*ORS 294.145(4) requires delivery versus payment. ORS 294.035(11) 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(1)*

*These pricing margins are established as guides which could change as customary practices and authoritative pronouncements change. They should be viewed as minimum standards and there is latitude for requiring more conservative (higher) margins if the local government chooses to do so. Finally, ORS 295.005 and ORS 295.015 require the 25% collateralization of excess deposits over the amount insured by US government agencies.*

## **VI. Accounting Method.**

Klamath County shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles contemplated are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB).

Investments will be carried at fair value.

Investment income includes: interest, dividends, realized gains and losses and changes in fair value. Interest and dividends will be accrued monthly and be credited to investment income. Premiums and discounts on securities shall be amortized/accreted over the life of the securities, and be credited to or charged to investment income. Realized gains and losses will be recognized at the time of sale or callable securities called will be credited to or charged to investment income at the time of sale or call. Changes in fair value will be

recognized monthly and be credited to or charged to investment income.

Investment returns are calculated as total return, including interest earned, premiums, discounts and changes in fair value. The yield is calculated on a 365-day basis.

Transaction costs include: investment management fees, bank charges, wire transfer fees, audit and financial reporting costs, etc. Investment management fees in addition to the fees charged by various financial institutions shall also include an investment management fee for services provided by the Chief Investment Officer. The investment management fee charged by the Chief Investment Officer shall be 5% of investment income each month. This investment management fee shall be credited to Klamath County's general fund each month.

Net investment income shall include investment income less transaction costs.

Net investment income shall be allocated to each fund from which the investment was made based on the average daily balance in the fund. If the average daily balance in the fund is negative and the fund has received investment income during the fiscal year, the fund will be debited investment income for the period or periods the average cash balance is negative. If investment income has been exhausted and the fund remains in a negative average daily balance position, the fund shall be charged interest expense for any future interest allocations. If the average daily balance in the fund is negative and the fund has not received investment income during the fiscal year, the fund will be charged interest expense for the period or periods the average cash balance is negative.

**VII. Internal Controls.**

The Chief Investment Officer shall maintain a system of written internal controls designed to help prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officer of the county. A copy of these controls will be submitted to the county's independent external auditor and the county's Chief Financial Officer upon revision, or upon any extraordinary event, i.e., turnover of key personnel or the discovery of any inappropriate activity.

**VIII. Reporting Requirements.**

The Chief Investment Officer shall generate daily and monthly reports for management purposes. In addition, the Board of County Commissioners will be provided quarterly reports which will include but not necessarily be limited to: portfolio activity, instruments held market valuation, as well as any narrative necessary for adequate clarification.

**IX. Investment of Funds authorized by Order of Governing Body.**

Subject to ORS 294.040 and 294.135 to 294.155, the custodial officer of any county, municipality, school district or other political subdivision of this state may, after having obtained a written order from the governing body of the county, municipality, school district or other political subdivision, which order shall be included in the minutes or

journal of the governing body, invest any sinking fund, bond fund or surplus funds belonging to that county, municipality, school district or other political subdivision in the bank accounts, classes of securities at current market prices, insurance contracts and other investments described in ORS 294.035. However, except as provided in ORS 294.035, the Chief Investment Officer shall not accept for investment or invest the funds of any other political subdivision of this state and no such political subdivision may tender funds for investment to the Chief Financial Officer of any other such political subdivision.

**X. External Reporting Requirements.**

The Chief Investment Officer for a local government that holds and invests funds on behalf of another governmental unit shall at least once a year submit an audited report to that government unit or units within 30 days after receipt of the audit report by the Chief Investment Officer's governing body.

The Chief Investment Officer shall prepare a report not less than monthly to each county, municipality, school district and other political subdivision the segregated funds of which the Chief Investment Officer is then investing, as to changes made in the investments of the funds of that body during the preceding month. If requested by that body, the Chief Investment Officer shall furnish to it details on the investment transactions for its fund. The Chief Investment Officer shall also provide copies of any investment policy which has been adopted to the custodial officer's governing body upon request.

**XI. Access to Records.**

The Board of County Commissioners, while sitting for county business at the regular terms in January and July of each year, shall carefully examine all books and papers relating to the financial affairs of the county treasurer.

**XII. Investment Policy Adoption.**

The investment policy will be formally adopted by the Board of County Commissioners. The policy will be submitted to the Oregon State Treasury Senior Investment Officer and if required by statute, to the Oregon Short-Term Fund Board to provide a source of feedback and comments. If comments by the Short-Term Fund Board are not incorporated into the policy, the reasons should be compelling. If investments exceeding a maturity of eighteen months are contemplated, further review and comment by the Oregon Short-Term Fund Board will be sought. The policy will be readopted annually (ORS 294.135(1)(a)) even if there are no changes.

**XIII. Qualified Institutions.**

The Chief Investment Officer shall maintain a listing of all authorized broker/dealers and financial institutions, which are, approved for investment purposes or investment dealings (Addendum A). Any firm is eligible to make an application to the Chief Investment Officer and upon due consideration and approval, will be added to the list. Additions or deletions to the list will be made at the Board of County Commissioner's discretion (ORS 294.046 & ORS 294.125). The Chief Investment Officer is authorized to sign a Trading

Authorization agreement or master repurchase agreement with any institution included on this list. At the request of the Chief Investment Officer, the firms performing investment services for the County shall provide their most recent financial statements or Consolidated Report of Condition (call report) for review. Further, there should be in place, proof as to all the necessary credentials and licenses held by employees of the broker/dealers who will have contact with Klamath County as specified by but not necessarily limited to the National Association of Securities Dealers (NASD), Securities and Exchange Commission (SEC), etc. At minimum, the Chief Investment Officer shall conduct an annual evaluation of each firm's creditworthiness to determine whether it should remain on the list. Securities broker/dealers not affiliated with a bank shall be required to have an office located in Oregon and be classified as reporting dealers affiliated with the Federal Reserve Bank as primary dealers.

Before the Chief Investment Officer purchases securities over \$100,000 from any financial institution, the County must have on file the firm's most recent audited financial report. The Chief Investment Officer is responsible for keeping current files indicating the necessary licenses and professional credentials of broker/dealers with whom the County transacts business. The files will be reviewed annually by the Chief Investment Officer.

**XIV. Restriction on Investments.**

Investment of surplus funds may be used to purchase those items listed in ORS 294.035 (3)(a) to (c) only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, school district or city for a period of five years next preceding the date of the investment.

**XV. Investment Maturity.**

Unless matched to a specific cash flow, the County will not directly invest in securities maturing in more than 18 months. With the approval of the Board of Commissioners, if the investment is related to a specific cash flow or particular capital project, securities will be held to a maximum of 60 months. 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), reserve funds (i.e., road construction reserves), self-insurance fund, and special assessment prepayments being held for debt retirement. Except for special situations, as directed by the Chief Investment Officer, the County will maintain the following investment portfolio types and maturity dates:

Short-Term Portfolio (Maturities up to 36 months). Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs and timed to comply with the following guidelines.

Maturities over 18 months and maximum of 36 months will be limited to U.S. Treasury securities or securities of U.S. Government Agencies and instrumentalities. Funds considered short-term will be invested to coincide with projected cash needs or with the following serial maturity:

Under 30 days	10% minimum
Under 90 days	25% minimum
Under 270 days	50% minimum
Under 1 year	70% minimum
Under 36 months	100% minimum

Long-Term Portfolio (Maturities over 36 months and up to a maximum of 60 months). Instruments and diversification for the long-term portfolio shall be as for the short-term portfolio. Long-term portfolio is defined as "maturities over 36 months and maximum of 60 months". Instruments to be purchased for the "Long-Term Portfolio" will be limited to U.S. Treasury securities or securities of U.S. Government Agencies and Instrumentalities. The long-term portfolio will be limited to investments reserved for capital projects (i.e., road construction projects, bond sale proceeds) and special assessment prepayments being held for debt retirement.

Maturity scheduling shall be timed according to anticipated need. For example, investment of capital project funds shall be timed to meet projected contractor payments, usually for a term not to exceed three years. 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.

**XVI. List of Approved Securities.**

The State Treasurer shall prepare and keep current a list of agencies and instrumentalities of the United State with available obligations that any county, municipality, political subdivision or school district may invest in under ORS 294.035(3)(a) and 294.040. The list shall be distributed, upon request, to any county, municipality, political subdivision or school district.

**XVII. Portfolio Diversification.(294.046)**

The Chief Investment Officer is empowered by statute to invest in the following types of securities; however, prior to such action, the Chief Investment Officer shall obtain and keep current, a list of agencies and instrumentalities of the United States with available obligations from the State Treasurer. Diversification will be sought within the following guidelines with the purpose to reduce overall portfolio risk while attaining market average rates of return. The Chief Investment Officer will diversify the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual

financial institutions, or maturities.

The County will diversify its investments by security type and institutions. In selecting authorized investments consideration should be given to credit rating on commercial paper.

With the exception of U.S. Securities or U.S. Agency Securities and authorized pools, no more than 33% of the total portfolio of Klamath County will be invested in a single security type or with a single financial institution.

<u>1. Diversification by Instrument</u>	<u>Maximum Percent of Portfolio</u>
US Treasury Obligations (Bills, Notes, Bonds, Strips, and Cubes)	100%
US Government Agency Securities (GSE's)	100%
Bankers' Acceptances (BA's)	25%
Certificates of Deposit (CD's) with Commercial Banks <sup>1</sup>	25%
Certificates of Deposit (CD's) with Savings & Loan Assoc. <sup>1</sup>	10%
Repurchase Agreements (Repo's)	25%
Corporate Indebtedness (Refer to ORS 294.035)	35%
State and Local Government Securities	25%
State of Oregon Investment Pool	100%

<sup>1</sup> The Chief Investment Officer will be responsible to ensure that all funds are held in compliance with public collateralization requirements as outlined ORS Chapter 295.

2. Diversification by Financial Institution.

The combination of CD's, BA's, and CP's may not exceed 33% with any one financial institution.

Bankers' Acceptances (BA's)

No more than 25% of the total portfolio with any one financial institution.

Commercial Paper (CP)

All commercial paper will comply with ORS 294.035 and shall not in total exceed 35% of the portfolio nor exceed 5% per issuer. In selecting authorized investments consideration should be given to credit ratings on commercial paper. After purchase of commercial paper, the credit rating will be monitored constantly by the Chief Investment Officer.

Certificates of Deposit (CD's) - Commercial Banks

No more than 15% of the total portfolio with any one financial institution or \$100,000, whichever is greater.

Certificates of Deposit (CD's) - Mutual Savings Bank and Savings & Loan Assoc.  
Amount per institution based on capital adequacy guidelines; in any case not to exceed 10% of the total portfolio with any one institution or \$100,000, whichever is greater.

Repurchase Agreements (Repo's)  
No more than 10% of the total portfolio with any one institution; a master repurchase agreement is required. All repurchase agreements will be fully collateralized by US Government and US Agency securities.

State and Local Government Securities  
No more than 25% of the total portfolio and no more than 5% with any one Issuer.

State of Oregon Investment Pool - State Pool  
With the exception of pass-through funds (in and out within 10 days), no more than the maximum allowed under ORS 294.810 allows or 100% of the total Portfolio.

**XVIII. Competitive Selection of Investment Instrument.**

Before the Chief Investment Officer invests funds or sells securities prior to their maturity, competitive offers or bids will be sought from qualified institutions. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, offers will be requested for the instruments, which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous.

Offers will be requested from financial institutions for various options with regard to term and instrument. The Chief Investment Officer will accept the offer, which provides the highest rate of return within the maturity required and within the parameters of these policies.

Records will be kept of the offers, the offers accepted, and a brief explanation of the decision, which was made regarding the investment.

**XIX. Monitoring and adjusting the Portfolio.**

The Chief Investment Officer will routinely monitor the contents of the portfolio comparing the holdings to markets, relative values of competing instruments, changes in credit quality, and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly. Most securities are held to maturity and trading is not encouraged.

**XX. Performance Evaluation.**

The performance of the County's portfolio will be measured against the performance of the Oregon Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick; and/or the 90-day US Treasury Bill yields.

**Note: The size of the portfolio range varies between sixty million dollars (\$60,000,000) and one hundred and thirty million dollars (\$130,000,000) during the year. Investment policy detail on instruments is included as Appendix A.**

**THEREFORE, BE IT RESOLVED, THAT THE KLAMATH COUNTY BOARD OF COMMISSIONERS HEREBY ADOPTS THE KLAMATH COUNTY INVESTMENT POLICY:**

THIS 1<sup>st</sup> DAY OF November, 2011.

  
\_\_\_\_\_  
Al Switzer, Chair

  
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Dennis Linthicum, Vice Chair

  
\_\_\_\_\_  
Cheryl Hukill, Commissioner

**KLAMATH COUNTY, OREGON**  
**INVESTMENT POLICY**  
Appendix A

Financial Institutions

**Brokerage Firms:**

1. Bank of America
2. CastleOak Securities, LP
3. Dain Rauscher, Inc.
4. Key Capital Markets, Inc.
5. Merrill Lynch Capital Markets, Inc.
6. Morgan Keegan & Company, Inc.
7. RBC Wealth Management
8. Seattle Northwest Securities Corp.
9. Salomon Smith Barney
10. US Bancorp Investments, Inc
11. Wells Fargo Brokerage Services, LLC
12. Piper Jaffray
13. UBS Financial Services

**Banks:**

1. Bank of America NT & SA
2. Key Bank NA
3. US Bank NA
4. Wells Fargo Bank NA
5. South Valley Bank & Trust
6. Premierwest Bank
7. Sterling Savings Bank
8. Oregon Community Development Banks (\$95,000 maximum per bank)

**Other:**

1. Oregon Local Government Investment Pool (LGIP)