



KITSAP COUNTY INVESTMENT POLICY

AUGUST 29TH, 2023

Contents

I. GENERAL, COUNTY PROFILE & GOVERNING AUTHORITY	2
II. SCOPE	2
III. PRUDENCE.....	3
IV. DELEGATION OF AUTHORITY, OVERSIGHT COMMITTEE & PROGRAM REVIEW	3
V. ETHICS AND CONFLICTS OF INTEREST.....	4
VI. INVESTMENT OBJECTIVES.....	4
VII. INVESTMENT STRATEGY & PHILOSOPHY	5
VIII. AUTHORIZED INVESTMENTS.....	5
IX. INVESTMENT POOLS.....	6
X. COLLATERALIZATION	6
XI. SAFEKEEPING/CUSTODY AND DELIVERY	6
XII. DIVERSIFICATION.....	6
XIII. MATURITIES	7
XIV. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS	7
XV. INTERNAL CONTROLS.....	7
XVI. PERFORMANCE STANDARDS	8
XVII. REPORTING & POOL RETURN ALLOCATION.....	8
XVIII. CONTINUING EDUCATION	8
XIX. PROCEDURES MANUAL.....	9
XX. INVESTMENT POLICY ADOPTION	10
SCHEDULE 1.....	11
<u>SCHEDULE 2.....</u>	<u>12</u>
<u>GLOSSARY OF TERMS.....</u>	<u>13-16</u>

KITSAP COUNTY INVESTMENT POLICY

I. GENERAL

It is the policy of the Kitsap County to invest public funds in a manner which will provide maximum security, while meeting daily cash flow demands, conforming to all state and local statutes governing the investment of public funds, while providing a market rate of return through budgetary and economic cycles.

Kitsap County Profile & Governing Authority

Kitsap County, formed in 1857, is a political subdivision of the State of Washington operating under the general laws of the State. The County is located on the western side of the Puget Sound and includes the Kitsap Peninsula and Bainbridge Island. There are four incorporated cities in the County: Bremerton, Port Orchard (the County seat), Bainbridge Island and Poulsbo. The County can be reached from Seattle by ferry and from Tacoma by automobile via State Highway 16 and the Tacoma Narrows Bridge. The County is served by the Burlington Northern Santa Fe Railroad.

The County is divided into two distinct regions. The mostly rural Kitsap Peninsula is home to several major naval installations and the Hood Canal. Hood Canal is a major recreation area which attracts many seasonal residents who own homes along the shore. The region's natural resources include the Hood Canal's extensive shoreline, fish, shellfish, and timber. Bremerton is the largest municipality on the peninsula. Bainbridge Island, the other distinct region of the County, is primarily a residential area. Many island residents commute by ferry to Seattle.

Kitsap County is governed by a three-member Board of County Commissioners each representing one of the three geographical County Districts (North, Central & South). Each member serves for a term of four years and is elected at-large in a general election subsequent to district-specific primaries. The County Commissioners meet every second and fourth Monday in the Commissioners' Chambers at 619 Division Street, Port Orchard, Washington.

The County's Investment Policy is reviewed as needed by the County's Finance Committee and does not require annual adoption by the Board of County Commissioners. The County's Finance Committee is comprised of 3 standing members; County Treasurer, County Auditor and elected Chair of the County Commissioners which cycles annually amongst each of the 3 Commissioner Districts.

II. SCOPE

This Policy applies to all available cash assets of Kitsap County and funds under the management of the Kitsap County Treasurer (the "Treasurer") as primarily defined under Revised Code of Washington ("RCW") 36.29.020. The primary focus of this Policy is the Kitsap County Investment Pool established in 1987 as the most effective method for investment management of County Funds and its junior taxing districts.

III. PRUDENCE

Investments will be made under the Prudent Person Rule. 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.

Employees of the Treasurer's Office involved in the investment process and acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions as may be possible in consideration of the particular circumstances and within the provisions of this policy.

IV. DELEGATION OF AUTHORITY

Authority granted to the County Treasurer to manage the investment portfolio is derived from RCW 36.29.020, Management of all investments is delegated to the Investment Officer by the Treasurer. Limited authority to initiate transactions with the State Local Government Investment Pool have been granted to specific officers and investment personnel as listed in Schedule One (1).

No person may initiate investment transactions on behalf of this office except as provided herein, and with the express consent of the Treasurer.

Investment Program Oversight Committee & Investment Program Review

The County's Investment Policy is reviewed as needed by the County's Finance Committee and does not require annual adoption by the Board of County Commissioners. The County's Finance Committee is comprised of 3 standing members; County Treasurer, County Auditor and elected Chair of the County Commissioners which cycles annually amongst each of the 3 Commissioner Districts.

The Investment Policy is reviewed annually by the Investment Officer and County Treasurer. Should there be any recommendations from the annual review, these are discussed with the County's Finance Committee and incorporated into the Policy by majority approval. Furthermore, any updated Investment Policy approved by Finance Committee, is also shared with the County's Board of County Commissioners.

The County Finance Committee meets at a minimum every 6 months to review the Investment Portfolio and Policy as needed. Should there be a need for additional meetings these are scheduled as needed.

V. ETHICS AND CONFLICTS OF INTEREST

The Treasurer and the Investment Officer shall refrain from personal business activity that could impair their ability to make impartial investment decisions. Employees of the Investment office shall disclose to the County Treasurer any material financial interests in financial institutions that conduct business with the County, and they shall further disclose any personal investment positions that could be related to the performance of investments falling under the scope of this policy. All employees and officers of the Investment office shall subordinate their personal investment transactions to those of the investment portfolio.

Additionally, no individual responsible for the management of the County's Investment Portfolio or any member of the County's Finance Committee shall accept honoraria, gifts or gratuities from any advisor, broker, dealer, banker or other person with whom the County conducts business, that aggregate in value in excess of the IRS de minimis gift value in any fiscal year.

VI. INVESTMENT OBJECTIVES

Safety: The primary objective is the preservation of capital. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio as opposed to any individual transaction.

Liquidity: The secondary objective is liquidity. The investment portfolio will remain sufficiently liquid to enable Kitsap County and its junior taxing districts to meet all cash requirements which may be reasonably anticipated.

Return: The Investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account the County's investment risk constraints and liquidity needs. Return on investments is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize the loss of principal.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early

VII. INVESTMENT STRATEGY & PHILOSOPHY

The investment portfolio will be professionally managed using active rather than passive management techniques. As stated above in the Investment Objectives, Investment Returns are secondary to the objectives of Safety (preservation of capital) and Liquidity. After meeting the Safety & Liquidity primary objectives, through an active approach, securities may be bought and sold to obtain greater than market yield and credit risk protection than might have been obtained using a strict hold to maturity approach. With this complementary approach it is recognized that losses on individual securities may be taken to improve the overall positioning of the portfolio in anticipation of, or in reaction to, overall changes in market prices, yield curve structure, credit quality, or extraordinary cash flow demands.

VIII. AUTHORIZED INVESTMENTS

The types of securities authorized for investment are limited by state statute, principally RCW 36.29.020. All securities authorized by statute will also be authorized for Kitsap County. The County policy adheres to the policies and procedures adopted by the Washington State Investment Board regarding Commercial Paper and Corporate Notes.

Among the authorized investments are US Treasury and agency securities (i.e., obligations of any government sponsored corporation eligible for collateral purposes at the Federal Reserve), supranational agency bonds that have the U.S. government as its' largest shareholder, repurchase and reverse repurchase agreements for collateral otherwise authorized for investment, municipal bonds, where one of the three highest ratings of a national rating agency at the time of investment, certificates of deposit with qualified public depositories within statutory limits as determined by the Public Deposit Protection Commission at the time of investment, foreign and domestic banker's acceptances, commercial paper and corporate bonds purchased on the secondary market, and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government sponsored pool or mutual fund approved for investment of Kitsap County funds.

Although authorized for investment, Collateralized Mortgage Obligations and related mortgage backed products are restricted to those meeting the investment guidelines established by the Federal Financial Institutions Examination Council (FFIEC). The investment officer must have written approval of the County Treasurer before initiating a program of purchasing mortgage-backed or related securities.

The County will review the underlying credit of the Corporate Note portfolio annually to ensure each corporate entity is financially sound. In the event a Corporate security owned by the County falls below a weak single-A rating, the county finance committee will be advised, and the underlying credit of the security will be reviewed to determine the appropriate action.

The current market prices and information available on the Investment Office market information system may be utilized in lieu of competitive bidding to ensure fair and current prices on all investment transactions.

IX. INVESTMENT POOLS

Review of the Washington State Local Government Investment Pool (LGIP) will be made at least annually. The Investment Policy and annual reports of the LGIP will be reviewed for appropriateness of security selection and maturity, financial integrity of the pool, safekeeping of the pool's assets, and procedures for the calculation and distribution of earnings.

X. COLLATERALIZATION

Collateralization at a minimum of 102% of market value of the underlying security plus any accrued interest is required on repurchase and reverse repurchase agreements. Collateral is limited to the types of securities authorized for purchase. Collateral is to be held by an independent third party with whom the Investment Office has a current custodial agreement. A clearly defined evidence of ownership of the collateral must be supplied to the office of the Treasurer.

A completed Master Repurchase Agreement is required with the counterparty prior to execution of any repurchase or reverse repurchase transactions. The counterparty must be an authorized bank or broker-dealer.

XI. SAFEKEEPING/CUSTODY AND DELIVERY

Securities purchased by the office, as well as collateral for repurchase agreements, are to be held in a custodial account in the safekeeping or trust department of a bank acting as a third-party custodian. All securities transactions processed by the custodian on behalf of the County are to be on a delivery-versus-payment (DVP) only basis. The Kitsap County Treasurer will periodically select and contract with the trust custodian.

XII. DIVERSIFICATION

To minimize the risk of loss resulting from the over-concentration of assets in a specific asset class, all cash and investments shall be diversified. A complete matrix of limitations by security type and issuer is included in Schedule 2 and is a component of this policy. Compliance is calculated at the time of purchase.

XIII. MATURITIES

The Kitsap County Investment Pool will be restricted to a final maturity of not more than five and half years. The average weighted maturity of the Investment Pool will not exceed 2 ¾ years and will be managed to optimize return after the objectives of preserving capital and liquidity are satisfied. A range of maturities will be used to ensure against over concentration in a specific maturity sector.

Investments outside of the Kitsap County Investment Pool may have maturities consistent with specific cash flows and debt maturity requirements.

XIV. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer will maintain a list of authorized banks and broker-dealers, which will be limited to primary dealers or other dealers that qualify under SEC Rule 15c3-1, the Uniform Net Capital rule.

No certificates of deposit will be made except in qualified public depositories as provided in RCW 39.58.

The financial condition of authorized banks and broker-dealers will be reviewed at least annually. Current audited financial statements will be kept on file for each financial institution with whom the County invests.

XV. INTERNAL CONTROLS

The Kitsap County Treasurer's Office shall establish and maintain an internal controls structure designed to ensure that the assets are protected from loss, theft, or misuse. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Both procedures and internal controls are subject to audit by Kitsap County's Internal Auditor and by the State Auditor to assure compliance with policies and procedures. The State Auditor's Office conducts an examination of Kitsap County's financial affairs at reasonable, periodic intervals as the state auditor shall determine in accordance with RCW 43.09.260. This review helps to ensure compliance with applicable laws, regulations and Generally Accepted Accounting Principles (GAAP). In the past, this examination has occurred annually.

XVI. PERFORMANCE STANDARDS

Portfolio performance will be measured against the performance of the 6-month US Treasury bill and the State Local Government Investment Pool. Actual performance will take into account the slope and behavior of the yield curve during the period under review. It is recognized that strategies may be undertaken that might produce a decrease in the short-term portfolio return in anticipation of increased returns on a longer-term basis.

XVII. REPORTING & POOL RETURN ALLOCATION

The investment officer will prepare a monthly written report of investment activity to be distributed to the Kitsap County Finance Committee, a written report to the Kitsap County Treasurer, and such other reports as may be required by the Treasurer or Finance Committee.

Total Investment Pool Returns will be distributed based on each pool participant's average balance for the month less an appropriate Pool Fee to maintain the County's Investment Pool Program. Should an equity balance in the County's Investment Pool exceed the current year's expenditure budget plus one additional year's expenditure budget, the excess will be distributed to each pool participant based on the most recent 12 months of average balances per pool participant.

XVIII. CONTINUING EDUCATION

Because of the constantly changing complexities of managing public funds, at a minimum, the following continuing education requirements recommended by the Washington State Association of County Treasurers will be required:

- Treasurer: 16 hours every 2 years of general fund investing education including 2 hours of ethics.
- Investment Staff: 36 hours every 3 years of general public fund investing education including 2 hours of ethics.

In recognition that the County Finance Committee is responsible for the approval of investment and debt policies, it is recommended that the Finance Committee have at least 1 hour of training each year. The focus of this training should be on the elements of good investment and debt policy and how the committee can effectively monitor for compliance with their adopted policies.

XIX. PROCEDURES MANUAL

The investment officer will maintain a written procedures manual. The manual will provide sufficient guidance and information to ensure the continuity of the Kitsap County Investment Pool and related banking relationships. A glossary of common treasury terminology will be included in the manual.

XX. INVESTMENT POLICY ADOPTION

This investment policy shall be adopted by vote of the County Finance Committee, and any modifications to it, except the attached Schedule 1 which is under the approval of the County Treasurer, shall be similarly approved.

Approved by the Kitsap County Finance Committee, August 29th, 2023.

A handwritten signature in black ink, appearing to read "Peter J. Boissonneau", written over a horizontal line.

Peter J. Boissonneau
Kitsap County Treasurer
Chair, Kitsap County Finance Committee

A handwritten signature in blue ink, appearing to read "Charlotte Garrido", written over a horizontal line.

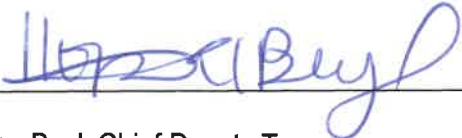
Charlotte Garrido
Chair, Board of Kitsap County Commissioners
Member, Kitsap County Finance Committee

A handwritten signature in blue ink, appearing to read "Paul Andrews", written over a horizontal line.

Paul Andrews
Kitsap County Auditor
Member, Kitsap County Finance Committee

SCHEDULE 1

To meet the cashflow needs of the County and Junior Taxing Districts in the absence of the Investment Officer, the Kitsap County Treasurer grants the authority to deposit or withdraw funds from the Washington State Local Government Investment Pool to the following:



Hope Beyl, Chief Deputy Treasurer



Becky Stack, Financial Analyst

Authorized By:



Peter J. Boissonneau

Date **8/29/2023**

Kitsap County Treasurer

SCHEDULE 2

SECURITY TYPE	MAXIMUM PERCENTAGE	MAXIMUM PER ISSUER
WA ST LGIP	100%	100%
US TREASURIES	100%	100%
GSE-AGENCIES	90%	40%
SUPRANATIONALS	20%	10%
MUNICIPAL DEBT	20% WA 15% NON-WA	5%
CORPORATES and COMMERCIAL	15%	3%
CERTIFICATE OF DEPOSIT/ TIME DEPOSITS/SAVINGS ACCOUNTS	25%	10%
REPURCHASE AGREEMENTS	20%	5%
REVERSE REPURCHASE AGREEMENTS	10%	5%

Glossary of Terms

1. **Bankers' Acceptances** – A short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts from face value in the secondary market on the basis of the credit quality of the guaranteeing banks.
2. **Book Return** - The sum of all investment income plus “realized” gains and losses.
3. **Broker** – A broker facilitates security trades on behalf of investors (see Dealer).
4. **Capital** - Is a broad term that can describe anything that confers value or benefit to its owner.
5. **Certificate of Deposit** – A debt instrument issued by financial institutions that will pay interest, periodically or at maturity, and principal when it reaches maturity. Maturities range from a few weeks to several years.
6. **Collateralization** - A process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.
7. **Commercial Paper** - An unsecured short-term promissory note issued by corporations, with maturities typically ranging from 1 to 270 days, and usually transacts at a discount with no coupon payments.
8. **Corporate Bonds** - A debt obligation issued by a corporation.
9. **Dealer** - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account. (see Broker).
10. **Delegation of Authority** – A process that enables a person to assign a task to others within their organization.
11. **Delivery Versus Payment (DVP)** - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.
12. **Diversification** - A process of investing assets among a range of security types by sector, maturity, and quality rating.
13. **Duration** – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

14. **Government Securities** - An obligation backed by the full faith and credit of the U.S. government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.
15. **Government Sponsored Enterprises (GSE)** - Federally-chartered agency or instrumentality of the United States Government (i.e., Federal Home Loan Bank, Federal Farm Credit Bank)
16. **Interest Rate Risk** - The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. Duration is a measure of interest rate risk
17. **Investment Pool** - An investment by local governments in which their money is pooled as a method for managing local funds (see Local Government Investment Pool).
18. **Junior Taxing Districts** - Means a taxing district other than the state, a county, a county road district, a city, a town, a port district, or a public utility district (i.e., School District, Fire District, Library District, Park District).
19. **Liquidity** - The amount of a portfolio or an asset that can be converted easily and quickly into cash.
20. **Local Government Investment Pool** – An investment by local governments in which their money is pooled as a method for managing local funds (see Investment Pool).
21. **Market Return** - Subtracting the initial amount of money that you put in from the final value of your financial investment. Then you would divide this total by the cost of the investment and multiply that by 100.
22. **Master Repurchase Agreement** - A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower. SIFMA's MRA is the industry standard agreement.
23. **Maturity** - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.
24. **Money Market Account** - Typically refers to short-term debt instruments (bills, commercial paper, discount notes, etc.)

25. **Municipal Bond** - A municipal bond is a debt security issued by a local government, such as county, state, city, special improvement district, to finance its capital expenditures, including the construction of highways, bridges or schools. Municipal bonds can issue taxable or tax-exempt from federal, state, and local taxes.
26. **National Rating Agency** - A credit rating agency that as one of its services, analyzes and rates securities. The “Big Three” credit rating agencies are; Fitch, Moody’s and S&P.
27. **Portfolio** – A collection of securities held by an investor.
28. **Principal** - The face value or par value of a debt instrument. Also, may refer to the amount of capital invested in a given security.
29. **Public Deposit Protection Commission** - The Public Deposit Protection Commission is administered through the office of the Washington State Treasurer and is comprised of the State Treasurer, Governor, and Lieutenant Governor. PDPC ensures public funds deposited in approved financial institutions are protected if a financial institution becomes insolvent.
30. **Qualified Public Depositories** – Washington State qualified financial institutions by the Public Deposit Protection Commission (see Public Deposit Protection Commission).
31. **Repurchase Agreement** - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
32. **Reverse Repurchase Agreement** - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.
33. **Safekeeping/Custody and Delivery** - The holding and delivery of assets (e.g., securities) by an independent 3rd party financial institution, from the buyer and seller.
34. **Secondary Market** - A market made for the purchase and sale of outstanding issues following the initial distribution.
35. **Security Swap** - Selling one asset and buying another.
36. **Super Nationals** - A supra-national entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. The three U.S. based supra-nationals are International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank.

37. **Total Return** - The sum of all investment income plus realized and unrealized gain and losses.
38. **Treasury Bills & Notes** – *Treasury Bills* are short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends. *Treasury Notes* are Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.
39. **Yield** - The current rate of return on an investment security generally expressed as a percentage of the security's current price.
40. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

