

**Polk County Wisconsin**

**INVESTMENT POLICY**

**Policy 913**

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**POLK COUNTY INVESTMENT POLICY**

1.0 **Policy:**

The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director shall be empowered to invest public funds in a manner which will provide maximum security while meeting the daily cash flow demands of Polk County and conforming to all State and County ordinances governing the investment of public funds while earning the highest investment return.

2.0 **Scope:**

This investment policy applies to all financial assets of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report and include:

2.1 **Funds:**

2.1.1 General Fund

2.1.2 Capital Project Funds

3.0 **Prudence:**

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.

3.1 **Standard:** 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. Investment officers acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

4.0 **Objectives:**

The primary objectives, in priority order, of the County's investment activities shall be:

4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the County shall be underwritten 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 on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 **Liquidity:** The County's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the County's investment risk constraints and the cash flow characteristics of the portfolio.

#### 5.0 **Delegation of Authority:**

Authority to manage the County's investment program is derived from Sections 66.04 and 59.62 (101), Wisconsin Statutes. Management responsibility for the investment program has been delegated to the County Board Chairperson, Polk County Treasurer, and Polk County Finance Director, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms on this policy and the procedures established for the County Board Chairperson, Polk County Treasurer, and Polk County Finance Director. The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the subordinate officials.

In addition, the Finance Committee should be consulted about the investment transactions as time permits.

#### 6.0 **Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program that they or their immediate family members might have or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the County Board any material financial interests in financial institutions that conduct business within this jurisdiction and they shall further disclose any large personal financial/investment positions that could be related to the performance of the County, particularly with regards to the time of purchases and sales.

## 7.0 **Authorized Financial Dealers, and Institutions:**

The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security **broker/dealers** selected by credit worthiness who are authorized to provide investment services in the State of Wisconsin. These may include 'primary' dealers or regional dealers that qualify under **Securities and Exchange Commission Rule 153C-1 (uniform net capital rule)**. No public deposit shall be made except in a **qualified public depository** as established by State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the County Board Chairperson, Polk County Treasurer, and Polk County Finance Director with the following: audited financial statements, National Association of Security Dealers Certification or other documents requested by the County.

## 8.0 **Authorized and Suitable Investments:**

Minimal risk tolerance with long-term expectations for each asset classification will guide the strategic decisions regarding individual purchases and overall portfolio structure. Polk County is empowered to invest in certain types of securities by Wis. Statute 66.0603. These include:

1. Time deposits in any credit union, bank, savings bank, trust company or savings and loan association that is authorized to transact business in this state if the time deposits mature in not more than 3 years.
2. Bonds or securities issued or guaranteed as to principal and interest by the federal government, or by a commission, board or other instrumentality of the federal government.
3. Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of this state.
4. Securities of a no-load investment trust with a portfolio limited to consisting of the following:
  - Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government.
  - Bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government.
  - Repurchase agreements that are fully collateralized by bonds or securities.
6. The State of Wisconsin Local Government Investment Pool and other states' managed local government investment pools (LGIPs). LGIPs other than the State of

Wisconsin's should have a thorough investigation of the pool/fund prior to investing, and on a continual basis.

## **8.1 Criteria for Investment Decisions:**

The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director shall make all decisions concerning the investment of surplus funds based upon the following criteria:

8.1.1 In cases where the rates of return are approximately equal, preference shall be given to the investment of surplus funds in any bank, savings bank, trust company or savings and loan association which is located in Polk County. All surplus funds shall be invested in a reasonable and prudent fashion and in a manner calculated to obtain the maximum possible return for Polk County within the bounds of such reasonableness and prudence.

## **9.0 Collateralization:**

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Collateral is required for amounts in excess of the \$100,000 coverage provided by Federal or State deposit insurance and the \$400,000 provided by the Public Deposit Recovery Statute (Chapter 34)

Collateral will always be held by an independent third party with whom the County has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the County and retained. The right of collateral substitution is granted.

## **10.0 Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the County shall be conducted on a **delivery-versus-payment** (DVP) BASIS.

Securities will be held by a third party custodian designated by the County Board Chairperson, Polk County Treasurer, and Polk County Finance Director and evidenced by safekeeping receipts.

## **11.0 Diversification:**

When practical and fiscally prudent the County will diversify its investments by security type. With the exception of U. S. Treasury securities and authorized pools, no more than

75% of the County's investment portfolio will be invested in a single security type.

12.0 **Maximum Maturities:**

To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in securities maturing more than 5 years from the date of purchase. However, the County may collateralize its repurchase agreements using longer dated investments not to exceed 7 years to maturity.

Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Excess funds not needed to meet immediate cash flow needs and identified as such and declared to be intended to be held to maturity of the security may be invested at maturities exceeding 5 years

13.0 **Internal Control:**

The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director shall participate in an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

14.0 **Performance Standards:**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

**14.1 Market Yield (Benchmark):** The County's investment strategy is active. Given this strategy, the basis used by the County Board Chairperson, Polk County Treasurer, and Polk County Finance Director to determine whether market yields are being achieved shall be the 3-month U. S. Treasury Bill and the average Fed Funds rate.

15.0 **Reporting:**

The County Board Chairperson, Polk County Treasurer, and Polk County Finance Director shall report to the Finance Committee on no less than a quarterly basis on investment activity and returns. Reports will include performance, market sector breakdown, number of trades, interest earnings and such other detail as may be from time to time requested.

## GLOSSARY

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BANKER'S ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid). See offer.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, **surety bonds**, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for Polk County. It includes five (5) combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with financial related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**COUPON:** (a) The annual rate of interest that bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two (2) methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at a lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**FEDERAL CREDIT AGENCIES:**

Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL DEPOSIT INSURANCE**

**CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS**

**(FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE**

**ASSOCIATION (FNMA):** FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD), it is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA securities are also highly liquid and are

widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET**

**COMMITTEE (FOMC):** Consists of seven (7) members of the Federal Reserve Board and five (5) of the twelve (12) Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven (7) member Board of Governors in Washington, D.C., twelve (12) regional banks and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL  
MORTGAGE ASSOCIATION (GNMA**

**OR GINNIE MAE):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Maes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and turned rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asking prices is narrow and can be done at those quotes.

#### **LOCAL GOVERNMENT**

**INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

#### **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.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc) are issued and traded.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid

#### **OPEN MARKET OPERATIONS:**

Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.



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**SECURITIES AND EXCHANGE**

**COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 153-1:** See Uniform Net Capital Rule.

**SURETY:** A security against a loss or damage; security for the fulfillment of an obligation.

**TREASURY BILLS:** A non-interest bearing discount security is issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three (3) months, six (6) months or one (1) year.

**TREASURY BOND:** Long-term U.S. Treasury securities having initial maturities of more than ten (10) years.

**TREASURY NOTES:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three (3) months, six (6) months, or one (1) year.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates.

**QUALIFIED PUBLIC DEPOSITORIES:**

A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial

Liquid capital includes cash and assets easily converted into cash.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage.

(A) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security.

(B) **NET YIELD OR YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.