

**MISSOULA COUNTY  
COUNTY INVESTMENT POLICY**

**I. Purpose**

- A. The purpose of this policy is to establish the framework within which Missoula County's investment program shall be conducted.

**II. Scope**

- A. Funds included within the scope of this investment policy statement are the general fund, special revenue funds, debt service funds, school districts, trusts, special improvement districts and other agencies. Capital project funds and the County insurance trust may not necessarily adhere to this policy. Separate guidelines shall be developed for these special funds.

**III. Objectives**

- A. **Safety of capital:** Safety of principal is the foremost objective of the government of Missoula County. The objective is to mitigate credit risk and interest rate risk:
1. **Credit Risk:** The County will minimize credit risk, which is defined as the risk of loss due to the failure of the security issuer or backer, by:
    - **Limiting investments to the safest types of securities and investments as outlined in section VII.**
    - **Evaluating the financial stability of the financial institutions broker/dealer with which the County will do business.**
    - **Diversifying the investment portfolio so that potential losses on individual securities will be minimized.**
  2. **Interest Rate Risk:** The County will minimize the fluctuations or market value risk of securities in the portfolio due to changes in general interest rates, by:
    - a. **Structuring the investment portfolio so that liquidity is met first, then investing excess liquidity funds in a conservative investment manner that is consistent with risk and return expectations.**
- B. **Return on investment:** The government of Missoula County's cash management portfolio shall be designed with the objective of achieving a market rate of return throughout budgetary and economic cycles, taking into account the investment risk and liquidity needs. The objective for the overall funds will be to achieve rate equal to or greater than the 90-day Treasury bill. The core of investments will be limited to relatively low risk securities in anticipation of

earning a fair return relative to the risk being assumed. A specific benchmark may be established to compare return and risk for the core assets. It is the County's policy to hold investments to maturity; however, securities may be sold prior to maturity under the following circumstances:

- **A security that has a declining credit may be sold early to minimize loss of principal.**
  - **A security be swapped for one that would improve the quality, yield or target duration in the portfolio.**
  - **Liquidity needs of the portfolio require that the security be sold.**
- C. **Local considerations:** The government of Missoula County seeks to attain market rates or return on its investments consistent with constraints imposed by its safety objectives, cash flow considerations and state laws that restrict the placement of certain public funds. The Government's investment managers are encouraged to represent the public's best interests in removing constraints to the efficient investment of its funds.
- D. **Maintaining the public's trust:** All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in Missoula County's ability to govern effectively.
- E. **Legal considerations and limitations:** Missoula County's investment program shall be operated in compliance with Montana State Law. Please see Attachments A and B for copies of County Attorney Opinions No. 85-2 and 79-44.
- F. **Diversification:** Missoula County shall maintain a diversified portfolio of investment instruments to preclude outright losses through defaults and market losses due to price changes. The County may diversify by investing with local financial institutions, the State of Montana, or by purchasing qualified U.S. government securities to the extent consistent with the policy objectives on safety and capital and return on investment.
- G. **Liquidity:** The County's investments shall be managed to maintain the liquidity needed to meet each fund's cash requirements. Regardless of the investments, the County shall continue to meet its daily obligations.

#### IV. Staffing

- A. Missoula County is committed to providing on-going investment training for County's investment staff in order to ensure staff competence and integrity.
- B. Missoula County's investment program will operate in compliance with the so-called "prudent expert principle," which requires any investment manager to:
1. Discharge his/her duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent expert acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims,
  2. Diversify the holdings of each fund within the Missoula County investment

program to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and

3. Discharge his/her duties solely in the interest of and for the benefit of the funds forming the Missoula County investment program.
- C. **Delegation of authority:** In accordance with Section 7-6-201 of the Montana Code Annotated, the responsibility for conducting investment transactions for Missoula County resides with the Treasurer. It is the responsibility of the County Treasurer to insure that competent individuals handle the daily investing of Missoula County's funds.
- D. **Liability:** Section 7-6-212, Montana Code Annotated provides that "Where money shall have been deposited in accordance with the provisions of this part, the treasurer or town clerk shall not be liable for loss on account of any such deposit that may occur through damage by the elements or for any other cause or reason occasioned through means other than his own neglect, fraud, or dishonorable conduct." The treasurer and any duly appointed investment officers, 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, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.
- E. **Investment Advisor:** The County may hire an investment advisor(s) to assist with the investment decisions and portfolio management. A competitive process shall occur to ensure that the best advisor(s) is selected.

#### V. **Investment Advisory Committee**

An ongoing investment advisory committee shall be established to review, monitor and evaluate the County's investment program on a continuing basis. The committee shall also have the authority to develop and grant variances upon the request of a financial institution. This committee shall consist of the County Clerk and Recorder/Treasurer, one County Commissioner or a representative from the Commissioner's office; the County Auditor; two representatives from the Treasurer's Division; the County Superintendent of Schools; two non-County government representatives; and one at-large member with professional experience, appointed by the Board of County Commissioners.

#### VI. **Bonding**

All appropriate investment personnel shall be bonded.

#### VII. **Designation of Allowable Instruments**

All investments allowed by state law will be eligible for the investment of Missoula County funds as in accordance to Section 7-6-202 of the Montana Code Annotated.

#### VIII. **Maximum Maturity Policy**

An investment authorized may not have a maturity date exceeding five years, except when the investment is used in an escrow account to refund an outstanding bond

issue in advance as in accordance to Section 7-6-202 of the Montana Code Annotated.

**IX. Risk Assessment**

The investment advisory committee will monitor both market risk (the possibility that interest rates will change adversely) and default risk (the possibility that the County could actually lose part or all of its principal due to the failure of one of its depositories).

**X. Repurchase Agreements**

- A. "Retail" repurchase agreements will not be used. These instruments pledge an undivided share in a secondary reserve portfolio and typically offer inadequate protection in the event of issuer default. Missoula County will only invest in "perfected" repurchase agreements. These specifically identify the underlying security in the repurchase agreement.
- B. The investment advisory committee in conjunction with the County Attorney's Office shall develop a master written repurchase agreement that defines the nature of the transaction as a simultaneous buy/sell, identifies securities eligible as collateral, provides the purchaser with redemption rights, identifies the location of collateral securities, and limits the issuer's rights of collateral substitution. Collateral should be defined as an underlying security to which the "repo" purchaser has a security interest during the term of the repurchase agreement and in the event of insolvency default.
- C. Missoula County shall only do repurchase agreements with "primary" reporting dealers (monitored by the New York Federal Reserve Bank) and local financial institutions approved by the investment advisory committee. Repurchase agreements with brokers and dealers must be protected by third party custody safekeeping of collateral.
- D. If physical separation and safekeeping of repo collateral is not feasible with local institutions, reasonable alternative solutions shall be developed by the investment advisory committee.
- E. Collateral shall be marked to market on the day of the trade or otherwise protected against price deterioration as determined by the investment advisory committee.
- F. The investment advisory committee shall define the level of over-collateralization needed, if any.
- G. Collateral shall be verified in writing and may be examined on a surprise basis during the year. Verification of collateral shall be part of the independent audit engagement.

**XI. Government Securities**

- A. Missoula County shall only purchase government securities from those financial institutions approved by the advisory committee.
- B. Excessively frequent transactions that produce minimal net returns shall be avoided as they generate unnecessary extra commissions.

- C. Orders shall not be placed "at the market" (the interim market for government securities that have not yet been issued to their auction-purchasers) and shall be limited to legitimate forward deliveries. The "when issued" market shall not be used to speculate on interest rates when investing funds on deposit with the Missoula County Treasurer.

## **XII. Safekeeping and Custody**

- A. All investment transactions shall be conducted on a delivery versus payment basis, which ensures that securities are deposited at the third party custodian simultaneously with the release of funds. Securities will be held in a custodial account by the third party custodian designated by the Treasurer and evidenced by safekeeping receipts. Non-negotiable Certificate of Deposits are not handled on delivery vs. payment basis and are exempt from this process. Some investments are transferred and settled through the Federal Reserve System in a book entry format. These book entry transactions are monitored by the safekeeping custodian and will be held in the account on that basis.
- B. If an adviser(s) is utilized, the securities can be held with the advisor(s) in a custodial account on behalf of the County. The advisor is not to use the securities in any way for their own purpose, such as lending and borrowing.

## **XIII. Federal Insurance**

Deposit of Missoula County funds in financial institutions will be invested in accordance to Section 7-6-201 of the Montana Code Annotated.

## **XIV. Collateralization Requirements - Certificates of Deposit**

- A. Pledged securities shall be valued at market rather than face value. In order to insure that Missoula County's deposits are secured by investments that are safe and liquid:
  - 1. All securities pledged for Missoula County funds must be capable of being "marked to market" preferably daily but within two business days at the maximum.
  - 2. All collateral shall be "marked to market" upon initial pledging with Missoula County. Updated values are to be reported by the depository to the Missoula County Treasurer on a quarterly basis. The Missoula County Treasurer may request revaluation of the pledged collateral more often than quarterly for certain securities with considerable market value fluctuation.
- B. For certificates of deposits, third party safekeeping of collateral shall be mandatory.
- C. Missoula County will adhere to state law (7-6-207 M.C.A.) by requiring any institutions with Missoula County funds to pledge security for that portion of the deposits which is not guaranteed or insured by FDIC, FSLIC or NCUA to the extent of:
  - 1. 50% of such deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more; or

2. 100% if the institution in which the deposit is made has a net worth to total assets ratio of less than 6%.
  3. The net worth to total assets ratio is to be calculated on a G.A.A.P. (Generally Accepted Accounting Principles) basis.
- D. The following securities shall be the only collateral eligible as pledging to secure deposits of Missoula County funds:
1. Direct obligations of the United States with the full faith and credit pledge of the United States.
  2. Securities issued or fully guaranteed by the following agencies of the United States or their successors:
    - a. Federal intermediate credit banks
    - b. Federal land bank (Farm credit services)
    - c. Federal home loan banks
    - d. Federal national mortgage association
    - e. Government national mortgage association
    - f. Small business administration
    - g. Federal housing administration
    - h. Federal home loan mortgage corporation
  3. General obligation bonds of the state or of any county, city, school district or other political subdivision of the state if they have a legal opinion from bond counsel.
  4. Revenue bonds of any county, city or other political subdivision of the state, when backed by the full faith and credit of such subdivision and are accompanied by a legal opinion from bond counsel.
  5. General obligation bonds of other states and of municipalities, counties and school districts of other states if they have a legal opinion from bond counsel.
  6. Cashier's checks issued to the depository institution by any federal reserve bank.

**XV. Evaluating the Credit of County Depositories and Certificate of Deposit Issuers.**

- A. All financial institutions bidding for deposits of County funds or repurchase agreements must provide the Missoula County Treasurer with copies of their quarterly call reports on a timely basis.
1. All reports shall be treated as confidential information by the Missoula County Treasurer's staff.
  2. A financial institution belonging to a holding company shall also provide a copy of their holding company's annual report to the Missoula County Treasurer.

3. From all banks with Missoula County deposits, the following reports and supporting schedules contained in each institution's call report are required on a quarterly basis:

a. Consolidated Report of Condition

Schedule RC	Balance Sheet
Schedule RC-A	Cash & Balances Due from Depository Institutions
Schedule RC-B	Securities
Schedule RC-C	Loans & Lease Financing Receivables
Schedule RC-E	Deposit Liabilities
Schedule RC-F	Other Assets
Schedule RC-G	Other Liabilities
Schedule RC-J	Repricing Opportunities for Selected Balance Sheet Categories
Schedule RC-K	Quarterly Averages
Schedule RC-L	Commitments & Contingencies
Schedule RC-M	Memoranda
Schedule RC-N	Past due, Non-accrual & Renegotiated Loans & Lease Financing Receivables

Optional Submission of Narrative Statement Concerning the Figures Submitted on Schedule RC-N, Past due, Non-accrual, & Renegotiated Loans & Lease Financing Receivables

Schedule RC-O	Other Data for Deposit Insurance Assessment Loans to Executive Officers
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b. Consolidated Report of Income

Schedule RI	Income Statement
Schedule RI-A	Changes in Equity Capital
Schedule RI-B	Charge-offs & Recoveries & Changes in Allowance for Loan & Lease Losses
Schedule RI-C	Applicable Income Taxes by Taxing Authority
Schedule RI-E	Explanations

4. From all savings and loan associations with Missoula County Deposits, the following reports filed with the Federal Home Loan Bank Board are required when filed on a semi-annual basis. In addition, comparable (more abbreviated) reports prepared for the quarter between each of the FHLBB semi-annual reports are also required.

- a. Statement of Condition (Sections A, B, C)
- b. Income and Expense (Sections D, E)
  - Section F Supplemental Data
  - Section G Deposit Balances in Accounts with Fixed Maturity by Type
  - Section H Maturity and Yield Cost Information:  
Assets and Liabilities
  - Section I Annual Supplement
  - Section K Slow Loans & Other Scheduled Items

B. The Missoula County Treasurer's staff shall evaluate the quarterly reports for the following information:

- 1. Profitability
- 2. Capitalization
- 3. Asset quality
- 4. Liquidity

C. The financial analysis without names of the specific financial institutions will be reviewed by the investment advisory committee.

#### **XVI. Ratable Deposits**

In accepting bids for deposits, Missoula County will also limit its deposits with any one financial institution to 10% of the County's total deposits or 75% of the G.A.A.P. based equity of the institution, whichever is less.

#### **XVII. Reporting**

A. The Missoula County Treasurer's Office will prepare the following quarterly reports for the investment advisory committee:

- 1. Transaction report
- 2. Portfolio statistics
  - a. Maturity structure
  - b. Types of holdings – Diversification
  - c. Average Maturity of total portfolio
  - d. Average Maturity of Core funds
  - e. Performance analysis if funds are handled by an advisor(s)

B. Annual listing of pledged securities of financial institutions in which County holdings exceed the amount guaranteed or insured by FDIC, FSLIC or NCUA, according to Section XL (C) of this policy.

C. Depository credit evaluation, when requested by the investment advisory



committee.

#### **XVIII. Amendment**

The Investment Advisory Committee may make recommendations to the Board of County Commissioners to amend this policy statement from time to time.