

Cowlitz County Investment Pool

Operating Terms & Conditions



Effective 1/1/2023

Cowlitz County Investment Pool (CCIP)

The Cowlitz County Investment Pool (the CCIP) is an investment pool consisting of public funds offered by the Cowlitz County Treasurer and authorized under RCW's 36.29.020, 36.29.022 and 36.29.024

The CCIP is being established to provide county departments as well as eligible government entities within Cowlitz County a mechanism whereby they may utilize the resources of the County Treasurer to maximize the potential of their surplus public funds, in a manner that optimizes safety, liquidity and return on such funds. The CCIP portfolio is a combination of the State LGIP pool holdings and direct investments in high-quality securities with varying maturities designed to control investment risk and enhance earnings. The CCIP seeks to provide current income by investing in a combination of State LGIP holdings and fixed income securities that meet defined standards for credit quality and maturity. Please refer to the Cowlitz County Investment Policy, available upon request, or on the Treasurer's website.

Participants may include, but are not limited to, county departments and Jr. Taxing Districts (such as schools, fire districts, ports, cemeteries, and diking districts).

The fund seeks to provide income by investing in the State LGIP to provide for ongoing participant liquidity needs and in high-quality, short- and intermediate term securities that are eligible for investment in the State of Washington. The CCIP is designed to provide for withdrawals and contributions by participants as needed.

Participation

Participation in the investment pool should be considered an investment and will be managed to provide for ongoing cash flow requirements of participants. It is important to note that the direct investment held in the pool will have varying market values as interest rate change. Participants will be able to access investment funds as needed, however, the pool should not be used for speculative purposes as such actions may negatively impact other participants in the pool. All participants are required to provide larger cash withdrawal amounts to the Treasurer when known.

Administrative Fee

The Cowlitz County Treasurer's office charges pool participants a fee representing administration and recovery costs associated with the operation of the pool. In accordance with RCW 36.29.024, this fee is intended to reflect the Cowlitz County Treasurer's actual direct expense and out-of-pocket cost of administering the pool.

The average periodic investment fee charged is on an annualized basis and will be based on the daily principal balance maintained in the pool by the participants. The rate may fluctuate due to the actual average principal balances being maintained in the pool differing from projected balances. The monthly interest allocations will be distributed net of fees. If there are no earnings, the administrative fee will be deducted from principal. Because most of the expenses in the CCIP are fixed costs, the fee will be affected by: (1) The amount of operating expenses; and (2) the total assets of the CCIP

Investment Objective

The CCIP will seek to effectively achieve ongoing market rates of return in a manner consistent with preserving principal. In priority order, the objectives are safety, liquidity, and yield.

Principal Investment Strategies

The CCIP will seek to invest primarily in securities issued by the US government and its agencies and instrumentalities, some of which may not be backed by the full faith and credit of the US government. The CCIP may only invest in eligible investments permitted by state law.

The CCIP manager will select investments considering the credit quality of the issuer, security specific features, current and potential future valuation, and trading opportunities.

The CCIP manager will be able to improve on the investment return of all pool participants by monitoring the cash flow needs of the pool participants, and to its best ability, matching its investments with those needs.

Investments of the CCIP will conform to the CCIP Investment Policy, the most recent version of which is posted on the Cowlitz County Treasurer's website and is available upon request.

For purposes of evaluating the performance of the CCIP, benchmark comparison will be established and may include a benchmark yield comparison to the Washington State Local Government Investment Pool (LGIP), and a standard or customized total return market benchmark utilizing the ICE BofA market indices.

Principal Risks of Investing in the CCIP

Interest Rate/Market Risk

The CCIP invests in short to intermediate weighted average maturity that will react relatively slower to a rise or drop in interest rates compared to a weighted average maturity fund such as the LGIP. If interest rates rise rapidly, the CCIP may, in the short term, return a lower rate compared to the LGIP. Conversely, if interest rates drop quickly, the CCIP will be able to maintain a relatively higher rate of return than that of the LGIP. Over the course of a full interest rate cycle, the CCIP should outperform the LGIP due to its longer weighted average maturity.

All securities purchased by the Pool shall belong jointly to the Participants who shall share realized gains, income and any realized losses on a pro-rata basis. An investment in the Pool is not an investment in a money market or bank account, which typically has a lower- average maturity (under 60 days) and lower yield. An investment in the Pool is not insured or guaranteed by the Federal Deposit Insurance Corporation, Cowlitz County, or any other government agency. The interest earnings of the Pool depends on amortized earnings and interest accruals at prevailing investment rates, and the fund is anticipated to remain at a stable \$1.00 per share value. The interest earnings of the Pool and direct investments are typically higher than State LGIP, money market or bank accounts due to the longer average maturity of the Pool and direct investments. The market value of the Pool's underlying securities, relative to the cumulative fund balances may vary and will be tracked by the Net Asset Value (NAV) per share.

The Pool's market value and income may fluctuate due to one of the following or all of the following risks:

Income Risk: Because there may be fluctuation in market interest rates, the amount of income generated by the Pool may fluctuate as well.

Counterparty Risk: A party to a transaction involving the Pool or investments may fail to meet its obligations. This could cause the Pool or separate account to lose the benefit of the transaction or prevent the Pool or account from selling or buying other securities to implement its investment strategies.

Interest Rate Risk – Market Value Risk: The Pool and direct investment market values will be affected by changes in interest rates. The rise and fall in interest rates will make the price (i.e., market value) of the underlying security fluctuate, and therefore, affect the value of the Pool's investments and direct investments. As a result, the value of the participant's pro-rata share of the Pool will fluctuate with the value of the underlying assets. This will affect the value at which the pro-rata shares or separate securities will be reported on the books of the Participant for financial reporting.

Credit Risk: A government or company that issues a security may not be able to repay the principal or pay interest when due which could result in a loss to the Pool. The risk tends to increase as an issuer's credit rating declines, which impacts the market value of the security. The Pool or direct investments may be made in securities that meet the rating criteria of this policy; however, the rating on some securities purchased may fall below this rating. The Pool or direct investments may continue to hold the downgraded securities at the discretion of the investment advisor.

Liquidity Risk: Liquidity risk is the risk that the Pool will experience if significant net withdrawals of the Pool shares occur. The first source of liquidity is bank deposits and LGIP funds, if those are not available then securities would be sold to provide for cash needs. If there were not buyers for the portfolio securities or they can't be sold without incurring a significant loss to the Pool, then the Pool would incur liquidity risk. All the securities held directly or in the Pool, are considered highly marketable securities with active buyers in the marketplace. The overall strategy will incorporate a minimum liquidity balance to be held in the LGIP to mitigate this risk.

Risk Associated with use of Amortized Costs: The use of amortized cost valuation means that the Pool's stable \$1.00 price value may vary from its market value NAV per share. In the unlikely event the Treasurer were to determine that the extent of the deviation (targeted at 0.985 to 1.015 by policy) between the Pool's amortized cost per share and the market value NAV per share may result in material dilution or other unfair results to the shareholders, the Treasurer may cause that Pool to take such action as it deems appropriate to eliminate or reduce dilutions that cause unfair results to participants.

Transactions: Investing and Withdrawing Cash from the CCIP

Investment purchases and withdrawals may be emailed to the Cowlitz County Treasurer's email at treasurerbanking@cowlitzwa.gov or delivered to the County Treasurer's Office two days prior to the effective date.

The Cowlitz County Treasurer's office will supply an investment template to fill out to complete the transaction.

The Chief Deputy/Investment Deputy is the manager of the daily transactions. If you have any questions call the Cowlitz County Treasurer's office at 360-577-3063.

Transaction Limitation

The County Treasurer reserves the right at his/her sole discretion to set a minimum and/or maximum transaction amount from the CCIP and to limit the number of transactions, whether contribution, withdrawal, or transfer permitted in a day or any given period.

The County Treasurer also reserves the right at his/her sole discretion to reject any proposed contribution, and in particular to reject any proposed contribution made by a pool participant engaged in behavior deemed by the County Treasurer to be abusive of the CCIP.

Large Withdrawals

To allow the investment officer to manage cash flows, the following are guidelines for withdrawing large sums of money:

1. CCIP participants will notify the Treasurer's Office 7 business days in advance if a disbursement over \$5 million is to be made.
2. Withdrawals can be made between cash and investments in 2 business days.

Participants in the pool are expected to provide known large cash flows to the Treasurer. To operate the pool efficiently, the participants should also disclose to the Treasurer's Office, in a timely manner, any plans for significant withdrawals or deposits on balances maintained in the CCIP. Pool participants should also disclose, in a timely manner, anytime there is a material change to their historical pattern of cash flow requirements. This allows the Treasurer to enhance returns while maintaining sufficient liquidity for all pool participants.

Investing Cash Outside the CCIP

Eligible Pool Participants may invest certain specified monies outside of the CCIP if the following criteria are met:

- District must clearly demonstrate to County Treasurer's satisfaction that adequate cash flow planning at District level exists and has a dedicated cash flow requirement that varies from the CCIP pool investments.
- External investment must represent new money received by the district, such as bond proceeds. A segregated portfolio may be utilized if the District and Treasurer agree it is in the benefit of both parties and the County. The County would require the District to utilize the Counties investment advisor to effectively manage the bond proceeds with applicable fees.
- Investments must comply with all applicable statutes and policies.
- Minimum size of external investment is \$25,000,000.
- District is solely responsible for risk of principal loss should there be a need to sell security prior to maturity.
- District is solely responsible for monitoring coupon payment, maturity dates and reinvestment of cash.

Valuing Shares

The CCIP will be operated using a constant dollar value calculation based on the amortized cost of all securities held such that the securities will be valued at their acquisition cost plus accrued income and amortized/accretion daily.

The CCIP will mark-to-market the portfolio on a monthly basis. The unrealized loss/gain will be calculated by subtracting the market value of the securities less the amortized book value and will represent the NAV value of the fund.

Earnings and Distribution

Accrued Earnings:

Earnings are allocated based on the weighted average daily balance a participant's fund maintains in the Pool as determined by Cowlitz County. Earnings are calculated on a 365-day basis. Earnings and fees will be calculated by the 10th business day of the following month; however, the distribution will be effective as of the first of the following month. The monthly interest rate used for Pool distributions will be calculated using earnings of the Pool on an accrual basis as well as gains or losses from the sale of investment instruments. Earnings will be posted less the administrative fee.

Monthly Statements and Reporting

Statements:

Every calendar month, each pool participant will be sent a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, fees, earnings and ending balance for the preceding calendar month.

Reporting:

At least quarterly, a report will be posted to the Treasurer's website summarizing the current position of the CCIP. This report will be prepared in a manner which will allow the participants in the pool to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include at a minimum:

- Holdings summary by type and issuer
- Book Yield
- Performance of portfolio and its appropriate benchmark(s)
- Duration and weighted average maturity of the portfolio
- Book and market value, unrealized gain/loss.

Ongoing Instructions

No written notice with ongoing instructions will be accepted. A new directive shall be provided for each new Investment.

Deficit Cash Balances

No public entity may carry a deficit cash balance per RCW 36.29.010. If a fund has a deficit cash balance and we have been unable to contact the department or district, we have the statutory authority to liquidate the investment without the department or districts authorization. The department or district will be notified by email when their investments have been liquidated by the Cowlitz County Treasurer under this rule.

Authorized Signers

The County Treasurers Offices has a template Signature Form that will be required to identify who the authorized Investment Officer and Alternate Investment Officer are. Please include the board approved resolution that authorizes the Investment Officers to conduct investment transactions with the Cowlitz County Treasurer.

Management

The County Treasurer is the manager of the CCIP and has overall responsibility for the general management and administration of the fund.

The County Treasurer may utilize outside investment resources such as an Investment Portfolio Advisor to provide non-discretionary advisory services for the CCIP.

Custodian

A third-party custodian that will hold securities and act as an agent for the Fund, will be appointed in accordance with the terms of the Cowlitz County Investment Policy. The current custodian is US Bank Safekeeping.

Amendments

The **Operating Terms and Conditions** as well as the **Cowlitz County Investment Policy** may be amended from time to time at a public meeting of the County Finance Committee. Pool participants will receive a notice if any changes have been made and the most current version of the documents will be available on the Cowlitz County Treasurer's website, and upon request.

CCIP – Contact Information

Email: treasurerbanking@cowlitzwa.gov

Phone: 360-577-3063

By Mail:

Cowlitz County Treasurer

Accounting Department

207 4th Ave. N.

Kelso, WA 98626

Fax: 360-578-2071

**ACKNOWLEDGEMENT OF RECEIPT EFFECTIVE 1/1/2023
CCIP OPERATING TERMS AND CONDITIONS**

District Name _____

I _____ on behalf of _____ have read and
Understand the Operating Terms and Conditions for the Cowlitz County Investment Pool. I understand
and acknowledge that these Operating Terms and Conditions represent a memorandum of
understanding between _____ and the Cowlitz County Treasurer.

Signed by: _____

District Name: _____

Signature: _____

Date: _____

Please email a copy of the signed page back to the Investment Department at:

treasurerbanking@cowlitzwa.gov