



# **Administrative Regulation 3211**

## **INVESTMENTS**

**Responsible Office:** Office of Business & Financial Services

### **PURPOSE**

This administrative regulation shall establish the guidelines for the prudent investment of public funds of the Washoe County School District (District).

### **REGULATION**

1. Scope. This regulation applies to the investment of cash balances of the following funds:
  - a. General Fund;
  - b. Capital Projects Funds;
  - c. Debt Service Fund;
  - d. Internal Service (Insurance) Funds;
  - e. Special Revenue Funds; and
  - f. Agency (Student Activity) Funds.
2. This regulation does not cover the District's OPEB Trust, which falls under the authority of the OPEB Trust Committee.
3. Objective - Cash balances are to be invested with the goal of achieving the objectives of safety, liquidity, and rate of return. Objectives in order of priority are as follows:
  - a. The primary objective of the District investment program is the preservation of capital and investment principal. Investment transactions will be made in a manner that seeks to ensure the preservation of principal in the overall portfolio;
  - b. The secondary objective will be to provide for sufficient liquidity to meet operating requirements. Liquidity may be achieved by matching investment maturities with forecasted cash flow requirements. The ability for converting an investment into cash must be considered to satisfy changing requirements of cash flow while allowing for minimal risk of loss of principal and accrued interest; and

- c. After the basic requirements of safety and liquidity have been met, the rate of return shall become a consideration. Investments shall be acquired to optimize a rate of return through budgetary and economic cycles, taking into account the statutory constraints and risk parameters.

#### 4. Legal Requirements

- a. Public funds of the District, other than bond proceeds and student activity funds, will be invested in compliance with this regulation and the provisions of Nevada state law (Nevada Revised Statutes (NRS) Chapters 355 and 356).
- b. Bond proceeds will be invested in compliance with AR 3211, the provisions of Nevada state law (NRS Chapter 350), and in accordance with applicable bond indentures.
- c. Student Activity funds will be invested in compliance with AR 3211 and the provisions of Nevada state law (NRS Chapter 356).

#### 5. Responsibility

- a. The Chief Financial Officer (CFO) shall be responsible for the investment program. Written procedures consistent with this regulation shall be established and will include an explicit delegation of authority to persons responsible for investment transactions and will include a system of controls to regulate investment activities.
- b. The CFO shall utilize an Investment Committee to consult on general strategies for the investment of District funds. Members of the committee shall include the CFO and two public members of the local business community. Public members will be appointed by the Superintendent. Four-year terms shall begin on July 1<sup>st</sup> of each year. Terms will be staggered with renewal at the pleasure of the Superintendent.
- c. To ensure that District funds are professionally managed according to industry best practices, the CFO shall engage registered investment advisors (not broker-dealers) to provide investment management and advisory services, unless the CFO has chosen to invest all of the District's assets in a local government investment pool. Management services may be contracted on either a discretionary or non-discretionary basis. Advisors shall be registered by the Securities and Exchange (SEC) and licensed to do business in the State of Nevada. Authorized advisors are

subject to the provisions of all District regulations and procedures, and must act in the best interest of the District in the capacity of a fiduciary.

- d. No person shall engage in an investment transaction except as provided under the terms of this administrative regulation and written procedures established by the CFO.
- e. Ethics and conflicts of interest - All participants in the investment process shall act responsibly as fiduciaries of District funds. District employees shall avoid any transaction that might impair public confidence in the District's ability to govern effectively. Any District employee involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair his/her ability to make impartial investment decisions.
- f. A report of investments will be provided to the Board of Trustees each quarter for review. See below for requirements.

#### 6. Prudence

- a. The standard of prudence to be used by internal or external personnel authorized to make investments on behalf of the District shall be the "prudent person" standard as applied in the context of managing the overall portfolio. "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." This standard would apply to the CFO or designated internal personnel when contracting with an investment manager on a non-discretionary basis.

#### 7. Diversification

- a. The District shall diversify its investment portfolio to mitigate the risk of loss that could result from one concentration of assets in a specific maturity, a specific issuer, or a specific class of maturities.
- b. In addition to the maximum holdings and maximum issuer limits noted in the table on page 11:
  - i. No more than 25% of total assets shall be invested in callable bonds; and

- ii. No more than 5% of general (other than bond proceeds) assets shall be invested a single corporate, asset-backed or municipal credit. This does not include treasuries, agencies, agency mortgage-backed securities, collateralized bonds, repurchase agreements or deposits, and money market funds.

#### 8. Safekeeping and Custody

- a. Safekeeping of investments shall be provided by a Custodian bank selected by the District. The custodial agent's records shall assure the notation of the District's ownership of or explicit claim on the securities.
- b. All time deposits of District funds shall be secured by pledged collateral with a market value equal to no less than 102 percent (102%) of the deposits, less any amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by a third party safekeeping bank.
- c. Acceptable collateral shall be limited to the securities defined in of Nevada state law (NRS 356.020) and shall be subject to inspection by the School District's independent auditor or the Chief Internal Auditor.
- d. Collateral shall be held in the name of the District or held on behalf of the District and the custodial agent's records shall assure the notation of the District's ownership of or explicit claim on the securities.

#### 9. Delivery vs. Payment

- a. All investments shall be purchased using the delivery vs. payment (DVP) method, which provides that funds shall not be wired or paid until verification has been made that the security or collateral was received by the custodial agent.

#### 10. General Investments (other than bond proceeds and student activity funds)

- a. Investments made by or on behalf of the District shall be limited to the following security types according to applicable statutes and limitations defined. Note - the District's limitations are more restrictive than NRS. Please refer to table on page 11 for maturity and percentage limitations. Limitations in this section apply to the total market value of all the General Investment Fund portfolios.
  - i. U.S. Treasury Bonds, Debentures, Bills and Notes (NRS 355.170 1(a) & 1(e)).

- ii. Obligations of the following agencies/instrumentalities of the United States of America including both debentures and mortgage-backed securities (NRS 355.170 1(f)):
  - 1) Federal National Mortgage Association (FNMA);
  - 2) Federal Home Loan Mortgage Corporation (FHLMC);
  - 3) Federal Home Loan Bank (FHLB);
  - 4) Federal Farm Credit Bank (FFCB); and
  - 5) Other departments and agencies of the United States including but not limited to the US Small Business Administration (SBA), Government National Mortgage Association (GNMA) and FDIC, as long as the payment of such debt is guaranteed by the United States.
- iii. Certificate of Deposit (CD's) (NRS 355.170 1(i) & 1(g)):
  - 1) Negotiable certificates of deposit issued by commercial banks, credit unions, or savings and loan associations;
  - 2) Nonnegotiable certificates of deposit issued by insured commercial banks, insured credit unions, or insured savings and loan associations. Certificates above the limits of FDIC insurance must be collateralized pursuant to NRS 356.133; and
  - 3) Certificates of deposit may not exceed 20% as determined on the date of purchase.
- iv. Municipal Obligations (NRS 355.170 1(j) & 1(l)):
  - 1) Obligations of local governments within the State of Nevada pursuant to NRS 350.087 to 350.095, inclusive. Subject to limitations contained in NRS 355.177; and
  - 2) Obligations of all other state and local governments of states other than Nevada if the interest on the obligation is federally tax exempt and rated "A-" or higher by one or more Nationally Recognized Statistical Rating Organization (NRSRO).

v. Commercial Paper (NRS 355.170 1 (m)):

- 1) Issued by a corporation organized and operating in the U.S. or by a depository institution licensed by the U.S. or any state operating in the U.S.;
- 2) At the time of purchase has a remaining term to maturity of no more than 270 days;
- 3) Is rated "A-1", "P-1" or equivalent or better by at least one NRSRO; and
- 4) Commercial paper may not exceed 25% as determined on the date of purchase. If the rating of an obligation is reduced to a level that does not meet the requirements, it must be sold as soon as possible.

vi. Money Market Mutual Funds (NRS 350.658 1 (b)):

- 1) Use of money market mutual funds are limited to funds which are registered with the Securities and Exchange Commission (SEC), are rated "AAA" by a NRSRO and invest only in securities issued by the federal government or agencies of the federal government or repurchases agreements fully collateralized by such securities in accordance with NRS 350.658 1 (b)). *Note:* the District has chosen to adopt the more restrictive code section governing bond proceeds for all money market funds.

vii. Repurchase Agreements (Repos) (NRS 355.170 2 through 8):

- 1) The market value of the purchased securities (collateral) must exceed 102% of the repurchase price. If the market value of collateral falls below 102% of the repurchase price, the Investment Manager will require either cash or additional securities to meet the margin pursuant to the counterparty (PSA) agreement;
- 2) Acceptable collateral must be backed by the full faith and credit of the U.S. and not have a term to maturity at the time of purchase in excess of 10 years;

- 3) Collateral must be held by a Custodian Bank chosen by the CFO. The Custodian agrees to hold collateral on behalf of the District according to the guidelines outlined in statutes. The custodian bank will mark to market and the District's Controller will review the collateral market value weekly;
  - 4) Repurchase agreements are only permitted under the conditions as set forth in a Master Repurchase Agreement executed with a broker/dealer or bank that is also a "primary dealer" as defined by the Federal Reserve Bank of New York; and
  - 5) Repurchase agreements may not exceed 20% as determined on the date of purchase.
- viii. Notes, bonds, and other unconditional obligations for the payment of money issued by corporations organized and operating in the United States (Corporates) (NRS 355.171 1 (a)):
- 1) Are purchased from a registered broker-dealer;
  - 2) At the time of purchase have a remaining term to maturity of no more than 5 years;
  - 3) Are rated by at least one nationally recognized rating service as "A-" or its equivalent, or better;
  - 4) Purchases of corporates may not exceed 25% on day of purchase;
  - 5) Not more than 25% of such investments may be in notes, bonds, and other unconditional obligations issued by any one corporation (no more than 5% per counterparty); and
  - 6) If the rating of an obligation is reduced to a level that does not meet the requirements of that paragraph, the investment manager(s) through the CFO shall report that reduction of the rating to the Board of Trustees.

- ix. Collateralized Mortgage Obligations (CMOs) (NRS 355.171 1(b)):
    - 1) Must be rated "AAA" or equivalent by an NRSRO. If the rating is reduced to a level not meeting the requirement, the obligation must be sold as soon as possible; and
    - 2) CMOs may not exceed 20% as determined on the date of purchase.
  - x. Asset-Backed Securities (ABSs) (NRS 355.171 1(c)):
    - 1) Must be rated "AAA" or equivalent by an NRSRO. If the rating is reduced to a level not meeting the requirement, the obligation must be sold as soon as possible; and
    - 2) ABS may not exceed 20% as determined on the date of purchase.
  - xi. State of Nevada Local Government Investment Pool (LGIP) (NRS 355.167).
- b. Prohibited Investments: NRS 355.170 does not specifically address the use of derivatives. For the purpose of this regulation and the District's investment program, a derivative is a financial instrument created from or whose value depends on the value of one or more underlying assets or basket of assets and is prohibited. This definition and prohibition do not include some investments, such as callable bonds with embedded options and floating rate notes, that are allowable under NRS 355.170.

## 11. Bond Proceeds

- a. Investment of Bond Proceeds made by or on behalf of the District shall be limited to the following security types according to applicable statutes and limitations defined. Please refer to table on page 11 for maturity and percentage limitations:
  - i. U.S. Treasury Bonds, Debentures, Bills and Notes (NRS 350.658 1(a));
  - ii. Obligations of the following agencies/instrumentalities of the United States of America (NRS 350.658 1(a)):
    - 1) Federal National Mortgage Association (FNMA);



- 2) Federal Home Loan Mortgage Corporation (FHLMC);
  - 3) Federal Home Loan Bank Securities (FHLB);
  - 4) Federal Farm Credit Bank (FFCB); and
  - 5) Other departments and agencies of the United States including but not limited to the US Small Business Administration (SBA), Government National Mortgage Association (GNMA) and FDIC, as long as the payment of such debt is guaranteed by the United States.
- iii. Money market mutual funds (NRS 350.658 1(b)):
- 1) Registered with the SEC;
  - 2) Rated "AAA" or its equivalent by an NRSRO; and
  - 3) Invests only in securities issued or guaranteed as to payment of principal and interest by the Federal Government, or its agencies or instrumentalities, or in repurchase agreements that are fully collateralized by such securities.
- iv. Collateralized Investment Contracts (NRS 350.659):
- 1) Issuances of \$5,000,000 or more;
  - 2) Collateralized with securities issued by the Federal Government or agencies of the Federal Government;
  - 3) Collateral has a market value of at least 102% of the amount invested and any accrued unpaid interest thereon;
  - 4) The market value of the collateral is determined not less frequently than weekly and sufficient additional collateral is deposited within two business days after a determination is made that the required ratio is not met; and
  - 5) The party with whom the investment contract is executed must meet the requirement of NRS 350.659.

## 12. Student Activity Funds

- a. This regulation and Chapters 355 and 356 permits the investment of student activity funds under the supervision of the principal of the school. Investment of these funds are limited to:
  - i. Certificates of Deposit (CD's) with commercial banks insured by the FDIC;
  - ii. Certificates of Deposit (CD's) with savings and loan associations insured by FSLIC;
  - iii. District Investment through the Transfers Fund and the Scholarship Fund;
  - iv. Savings Account (limit one per school) at a commercial bank insured by the FDIC or a credit union insured by NCUSIF or a savings and loan association insured by FSLIC;
  - v. Interest-bearing checking accounts; and
  - vi. Money market accounts with no check writing.
- b. Investments must be made by the principal whenever the reported aggregate account balance in any one financial institution of all student activity funds under his/her jurisdiction exceeds the FDIC insurance limit, currently \$250,000. Business Office employees shall review the monthly school financial reports and report any balances exceeding the limit to the CFO who will advise the principal of the requirements of this administrative regulation.

### 13. WCSD Permissible Investments

<b>General Funds Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Asset Class</b>	<b>Maximum % per Issuer*</b>	<b>Minimum Rating**</b>
U.S. Treasury Bonds and Debentures	10 years	100%	100%	N/A
Federal Agency or government sponsored entity (restricted to FNMA, FHLMC, FHLB, FFCB)	10 years	50%	50%	N/A
Certificates of Deposit	None	20%	5%	N/A
Municipal obligations of other local governments within Nevada (subject to NRS 355.177)	None	25%	5%	A
Commercial Paper	270 days	25%	5%	A-1, P-1 or equiv***
Money Market Funds	Govt Only	100%	100%	AAAm
Repurchase Agreements (102% Collateralized)	90 days	20%	20%	N/A
Medium-Term (Corporate) Notes	5 year	25%	5%	A-
Collateralized Mortgage Obligations	None	20%	5%	AAA
Asset-backed Securities	None	20%	5%	AAA
Nevada LGIP (only for Workers Compensation Fund)	N/A	Max permitted by State Treasurer	Max permitted by State Treasurer	N/A
<b>Bond Proceeds</b>				
U.S. Treasury Bonds and Debentures	None	100%	100%	N/A
Other Federal Agency Debt	None	100%	100%	N/A
Federal Agency or government sponsored entity (restricted to FNMA, FHLMC, FHLB, FFCB)	None	100%	100%	N/A
Money Market Funds	Govt Only	100%	100%	AAAm
Collateralized Investment Contracts	None	100%	25%	N/A
<b>Student Activity Funds</b>				
Non-negotiable Certificates of Deposit	None	100%	100%	N/A
Savings and checking accounts	None	100%	100%	N/A
Money Market Funds	Govt Only	100%	100%	AAAm

\*Percentages are in compliance if within limits at time of purchase; Combine issuer types to determine maximum counterparty risk.

\*\*Rating category must be A-, or equivalent, or better from at least one NRSRO

\*\*\*Issued by a corporation organized and operating in the U.S. or by a depository licensed in the U.S. or any state and operating in the U.S.

#### 14. Review of Investment Portfolio

- a. The CFO or designee will monitor investment activities and will strive to review the District's portfolio with the District's investment manager(s) at least monthly.
- b. The CFO will meet with the Investment Committee at least annually or as often as deemed necessary by the call of any member. The purpose of the Investment Committee is to review, discuss, and provide guidance to the Business Office regarding general strategies for investment of district funds.

#### 15. Reporting

- a. The CFO will provide a report of investments to the Board of Trustees and Investment Committee quarterly. The report will include but not be limited to:
  - i. Summary of portfolio holdings – par value, book value, market value, book yield, ratings;
  - ii. Portfolio performance and comparison to appropriate benchmarks; and
  - iii. Portfolio compliance with investment policy.
- b. If the rating of any security falls below the minimum rating requirement in state law, the CFO shall report that reduction of the rating to the Investment Committee.

#### 16. Performance Standards

- a. The CFO shall set an appropriate benchmark(s) for each of the District's portfolios based on the risk constraints and investment horizons for each Fund and after a review of historical returns and risks for different benchmarks and durations. Customized benchmarks are allowed.
- b. The benchmark for each portfolio and a comparison of actual returns against those benchmarks will be reported quarterly to the Board of Trustees and Investment Committee.

## 17. Internal Controls

- a. The CFO shall establish a system of internal controls, which shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties; and designed to minimize losses due to unanticipated changes in financial markets or imprudent actions by school district employees involved in investment activities.
- b. Controls and managerial emphasis deemed most important that shall be used where practical are:
  - i. Control of collusion;
  - ii. Separation of duties;
  - iii. Delegation of authority;
  - iv. Reconcilements and comparisons of security receipts and investment records with the accounting system; and
  - v. Compliance with this investment regulation.

## 18. Risk of Loss

- a. The Board of Trustees recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return.
- b. If the rating of any security falls below the minimum rating requirement in state law, the investment manager shall notify the CFO and the security shall be evaluated to determine whether the security shall be sold or held. It is generally preferred to sell such a security if there is no book loss. In the event of a potential book loss upon sale, the CFO and investment manager will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.

## **LEGAL REQUIREMENTS AND ASSOCIATED DOCUMENTS**

1. This regulation reflects the goals of the District's Strategic Plan, and aligns with the governing documents of the District, to include:
  - a. Board Policy 3100, Financial Services.

2. This regulation complies with Nevada Revised Statutes (NRS) and Nevada Administrative Code (NAC), and specifically:
  - a. Chapter 350, Authorized Investment of Bond Proceeds.
  - b. Chapter 355, Public Investments.
  - c. Chapter 356, Depositories of Public Money and Securities.

**REGULATION HISTORY**

Date	Revision	Modification
6-19-1990	1.0	Adopted
5-12-1992	2.0	Revised
10-22-1996	3.0	Revised
11-11-1997	4.0	Revised
7-25-2000	5.0	Revised
2-10-2004	6.0	Revised
6-21-2005	7.0	Revised
10-02-2007	8.0	Revised
12-14-2011	9.0	Revised
4-19-2019	10.0	Revised: updated investment language; added investment chart
3-25-20	11.0	Revised: additional information re: securities, review of portfolio, and reporting
4-27-21	12.0	Revised: additional information re: securities, review of portfolio, and reporting