

---

# KITTITAS COUNTY INVESTMENT POOL (KCIP)

---

## OPERATING TERMS & CONDITIONS

Approved by the Kittitas County

Finance Committee on:

---

**Kittitas County Treasurer**

Amy Cziske

[Amy.cziske@co.kittitas.wa.us](mailto:Amy.cziske@co.kittitas.wa.us)

**Finance Officer**

Kylee Wuesthoff

[Kylee.wuesthoff@co.kittitas.wa.us](mailto:Kylee.wuesthoff@co.kittitas.wa.us)

Effective January 1<sup>st</sup>, 2023

Contents

The Kittitas County Investment Pool (KCIP)..... 3

Participation..... 3

Fees and Expenses ..... 3

Rebate ..... 4

Portfolio Turnover..... 4

Investment Objective..... 4

Principal Investment Strategies ..... 4

Principal Risks of Investing in the KCIP ..... 5

Performance ..... 6

Transactions—Investing and Withdrawing Cash from the KCIP ..... 6

Transaction Limitations..... 7

    Large Withdrawals ..... 7

Closing a KCIP Account..... 7

Investing Cash Outside the KCIP ..... 8

No Deficit Cash Balances..... 8

Valuing Shares..... 9

Earnings and Distribution—Accrued Earnings ..... 9

Monthly Statements and Reporting ..... 9

Management..... 10

Custodian ..... 10

Amendments..... 10

Agreement and Acknowledgement ..... 11

Kittitas County Treasurer Contact information ..... 11

## The Kittitas County Investment Pool (KCIP)

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

The KCIP was established to provide county departments as well as eligible government entities within Kittitas 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 funds. The KCIP portfolio is a combination of high-quality investment with varying maturities designed to control investment risk and maximize earnings. The KCIP seeks to provide current income by investing in fixed income securities that meet defined standards for credit quality and maturity. Please refer to the Kittitas County Investment Policy, available upon request, as well as on the Treasurer's website ([www.co.kittitas.wa.us/treasurer](http://www.co.kittitas.wa.us/treasurer)).

Participants may include, but are not limited to, districts (such as; school, fire, water, cemetery, and irrigation districts) cities, and other public entities located in Kittitas County.

The KCIP seeks to provide income in high-quality, short and long term securities that are eligible for investment in the State of Washington. The KCIP is not designed for participants who wish to make daily withdrawals and contributions.

### Participation

Participation in the investment pool is voluntary and should be considered a long-term commitment. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures.

### Fees and Expenses

The Kittitas 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 Kittitas 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 by the participants. The rate may fluctuate due to the annual average principal balances being maintained in the pool differing from projected balances. The fee will be paid monthly. If there are no earnings, the administrative fee will be deducted from the principal. Because most of the expenses in the KCIP are fixed costs, the fee will be affected by the amount of operating expense and the total assets in the KCIP. Participants will be notified of yearly fee changes in December of the preceding year.

## Rebate

At the end of the calendar year, the KCIP will prepare a final accounting for pool expenses. The KCIP will maintain a reserved rebate fund held on a rolling three-year basis to cover unanticipated and one-time capital expenditures. The participants are rebated administrative fees that are more than the operational requirements. The proportionate share of the rebate is based on the participant's average daily balance for the calendar year in which the rebate was posted.

## Portfolio Turnover

The KCIP does not pay a commission or fee when it buys and sells securities (or "turns over" its portfolio). However, debt securities often trade with a bid/ask spread. Consequently, a higher portfolio turnover rate may generate higher transaction costs that could affect the portfolio's performance.

## Investment Objective

The KCIP will seek to effectively maximize the yield in a manner consistent with preserving principal. In priority order, the objectives are:

1. Safety
2. Liquidity
3. Yield

## Principal Investment Strategies

The KCIP 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 KCIP will strive to have a duration range of between 1.5 years and 2.5 years with a target duration of 2 years. The KCIP may only invest in eligible investments permitted by state law.

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

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

For purposes of evaluating the performance of the KCIP, benchmark comparison indices will be established and will include the Washington State Local Government Investment Pool (LGIP), and a benchmark that closely resembles the characteristics of the portfolio.

## Principal Risks of Investing in the KCIP

### *Interest Rate Risk*

The KCIP invests in longer term securities and will react relatively slower to a rise or drop in interest rates compared to a shorter weighted average maturity fund such as the LGIP. If interest rates rise rapidly, the KCIP may, in the short term, return a lower rate compared to the LGIP. Conversely, if interest rates drop quickly, the KCIP 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 KCIP should outperform the LGIP due to its longer weighted average maturity.

### *Liquidity Risk*

Liquidity risk is the risk that the KCIP can experience significant net pool participation withdrawals at a time when it cannot find willing buyers for its portfolio securities or can sell its portfolio securities at a material loss.

### *Management Risk*

Poor security selection or an ineffective investment strategy could cause the KCIP to underperform relevant benchmarks or other funds with a similar investment objective.

### *Issuer/Credit Risk*

The KCIP is subject to the risk that debt issuers and other counterparties may not honor their obligations. Changes in an issuer's credit rating (e.g. a rating downgrade) or the market's perception of an issuer's creditworthiness could also affect the value of the KCIP's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. Also, a decline in the credit quality of an issuer can cause the price of a security to decrease.

### *Call of Extension Risk*

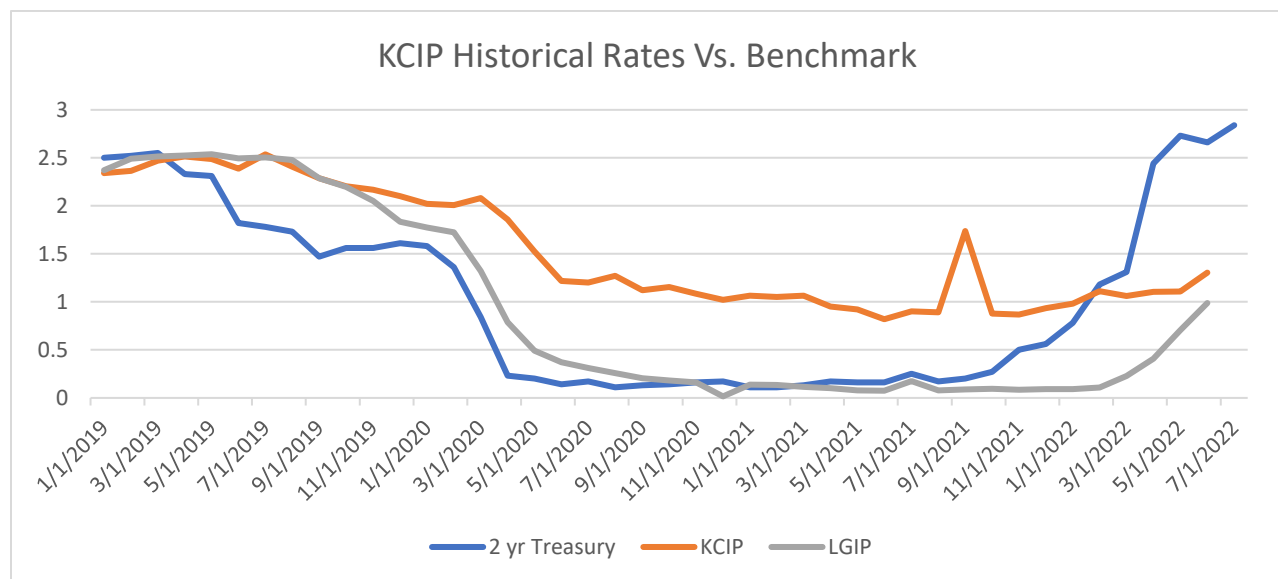
During periods of falling interest rates, an issuer of a callable bond held by the KCIP may "call" or repay the security before its stated maturity, and the KCIP may have to reinvest the proceeds at lower interest rates, resulting in a decline in the KCIP's income. Also, during periods of rising interest rates an issuer of a callable bond held by the KCIP may elect not to call the bond, and the KCIP may have to value the bond on a yield to maturity basis. The ability of an issuer of debt security to repay principal prior to a security's maturity can cause greater price volatility if interest rates change.

***An investment in the KCIP is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any government agency. Although the KCIP seeks to preserve the value of investments, pool participants could lose money by investing in the KCIP. The KCIP is subject to principal risks noted above, any of which may adversely affect the portfolio's return, value, and ability to meet its objectives. There is no assurance that the KCIP will achieve its investment objective.***

## Performance

The following information is intended to address the risks of investing in the KCIP. The information illustrates changes in the performance of the KCIP from year to year. Returns are based on past results and are not an indication of future performance. Updated performance information will be provided to participants on a quarterly basis.

### Investment Earnings Rate Comparison:



## Transactions—Investing and Withdrawing Cash from the KCIP

KCIP participants must submit an investment request via CAMAS (departments) or the Treasurer’s website (districts) within the timeframe outlined below:

- Investment Purchases
  - Investment request submitted by 12:00 PM—Guaranteed same day credit
  - Investment request submitted after 12:00 PM—Guaranteed next business day credit
  - End of Month Requests— Must be received by 3:00 PM, two days prior to the transaction date
- Investment Withdrawals
  - Investment request submitted by 12:00 PM—Guaranteed same day withdrawal within transaction limitations
  - Investment request submitted after 12:00 PM—Guaranteed next day withdrawal within transaction limitations

- End of Month Requests— Must be received by 3:00 PM, two days prior to the transaction date

## Transaction Limitations

The KCIP participant understands and agrees that its investment of funds in the KCIP is considered a long-term investment. Participants will not withdraw and deposit funds for speculative purposes as such actions can negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures.

The County Treasurer reserves the right at their sole discretion to set a minimum and/or maximum transaction amount from the KCIP and to limit the number of transactions, whether contributions, withdrawals, or transfers permitted in a day or any given period. Currently, there is no minimum contribution or withdrawal size for the KCIP.

The County Treasurer also reserves the right at their sole discretion to reject any proposed contribution, and, specifically, to reject any proposed contribution made by a pool participant engaged in behavior deemed by the County Treasurer to be abusive of the KCIP.

### Large Withdrawals

To allow the investment officer to manage cash flows, the following are guidelines for withdrawing large sums of money, other than the **expected** month end payroll:

1. KCIP participants will notify the Treasurer's Office 7 days in advance of disbursements up to \$500,000
2. KCIP participants will notify the Treasurer's Office 30 days in advance of disbursements up to \$2 million
3. KCIP participants will notify the Treasurer's Office 90 days in advance of disbursements exceeding \$2 million

***Participants in the pool are required to provide cash flow projections. In order 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 KCIP. 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.***

### Closing a KCIP Account

For accounts of \$500,000 or less, the department or district must notify the County Treasurer in writing of intent to close the account at least 30 days in advance.

For accounts over \$500,000, the department or district must notify the County Treasurer in writing of intent to close the account. At that time, the County Treasurer will approve a reasonable distribution schedule for the balance of the funds in the account, as proposed by the

department or district and the County Treasurer's Finance Officer. Regardless of the size of the balance in the account, all monies will be distributed to the department or district within one year.

Regardless of account size, if the KCIP holds an impaired investment at the time of account closing, the County will require the exiting pool member to retain sufficient funds in the pool to cover its pro-rata share of any future realized loss on the impaired investment. This amount will remain in the pool until such time that the pool recovers the full par value of the investment or distributes a realized loss.

## Investing Cash Outside the KCIP

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

- The department or district must clearly demonstrate to the County Treasurer that adequate cash flow planning has occurred, and that money will not be needed for at least two years
- External investment must represent new money received by the district, such as bond proceeds
- Investments must comply with all applicable state statutes and policies
- Minimum length of maturity is two years
- Minimum size of external investment is \$1 million
- Department or District is solely responsible for risk of principal loss should there be a need to sell security prior to maturity
- Department or district is solely responsible for monitoring coupon payment, maturity dates and reinvestment of cash

## No Deficit Cash Balances

No public entity may carry deficit cash balances (RCW 36.29.010). If a fund has a deficit cash balance and we have been unable to contact the Investment Officer, the County Treasurer has statutory authority to liquidate investment without the public entity's authorization. The entity will be notified in writing when their investment(s) have been liquidated by the County Treasurer under this rule.

Cash balanced will be verified prior to making any investment. If there are not sufficient funds for the investment to be made, the investment request will not be processed until records indicate proper funds are available.

In the event of an error in investment instructions—specifically, that an entity has over-invested, the investment will be sold. The district may then make a decision regarding a new investment.



## Valuing Shares

The KCIP operates on an amortized cost-book value basis rather than a net asset value (NAV) basis. Earnings distributions, including any realized transactions in the pool, are calculated on the average daily balance of the participant's cash in the pool and distributed monthly.

The KCIP 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.

## 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 Kittitas County. Earnings are calculated on a 365-day basis. Earnings and fees will be calculated by the 5<sup>th</sup> business day of the following month; however, the distribution will be effective as of the first day 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 an investment instrument. Earnings will be posted less the administrative fee and are automatically reinvested into the participants funds.

## Monthly Statements and Reporting

### *Statements*

Every calendar month, each pool participant is provided with a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, fees, earnings, and ending balance for the preceding calendar month. These statements are found on the Treasurer's website or upon request.

### *Reporting*

At least quarterly, a report will be posted to the Treasurer's website summarizing the current position of the KCIP. 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 by type
- Expecting aging of investments
- Performance of portfolio and its appropriate benchmark(s)
- Duration and weighted average maturity of the portfolio
- Portfolio activity

## Management

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

The County Treasurer may utilize outside investment resources from time to time to review and/or develop new investment strategies.

## Custodian

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

## Amendments

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

## Agreement and Acknowledgement

I have read and understand the Terms and Conditions of the Kittitas County Investment Pool. I understand and acknowledge that these terms and conditions represent a memorandum of understanding between this district and the Kittitas County Treasurer.

District Name:	
Signed by:	
Signature:	
Date:	

Treasurer / Finance Officer	Date	New / Updated

## Kittitas County Treasurer Contact information

### Treasurer Contact:

Amy Cziske

[Amy.cziske@co.kittitas.wa.us](mailto:Amy.cziske@co.kittitas.wa.us)

509-962-7630

### Finance Officer Contact:

Kylee Wuesthoff

[Kylee.wuesthoff@co.kittitas.wa.us](mailto:Kylee.wuesthoff@co.kittitas.wa.us)

509-933-8397

### General Office Contact:

Kittitas County Treasurer's Office

205 W. 5<sup>th</sup> Ave STE 102

Ellensburg, WA 98926

Web Address:

[www.co.kittitas.wa.us/treasurer](http://www.co.kittitas.wa.us/treasurer)

[Treasurer@co.kittitas.wa.us](mailto:Treasurer@co.kittitas.wa.us)

509-962-7535