



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 Funds;
 - e. Special Revenue Funds; and
 - f. Agency (Student Activity) Funds.
2. This Administrative 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 risk-adjusted rate of return through budgetary and economic cycles, taking into account statutory constraints and risk parameters.

- i. While the total return of the portfolio is a valuable metric to measure investment managers' performance, the District also believes a focus on the book yield (the yield to maturity at book value) of investments is equally important and should be measured against benchmarks as well.
 - ii. Recognizing the cyclical nature of the capital markets, the District maintains a preference towards maintaining a reasonable long-term yield and locking in higher-yielding investments for the long-term when possible. The District recognizes this can affect the portfolio's total return and, therefore, reviews of investment managers' performance should take into consideration this goal and the possible impact on total returns.
 - iii. Consistent with the above goal, the District and its investment manager(s) should strive to defensively protect downside risk of reduced investment income by locking in historically attractive yields when prudent. The District is therefore willing to give up some upside potential returns in order to take a defensive investment posture.
- d. The District's portfolio should be actively managed. While instruments will generally be purchased with the intent of holding them until maturity, securities may be sold at either a gain or loss prior to maturity if the investment manager deems the sale to be in the best interest of the overall portfolio.

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. 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.
- c. No District employee shall execute an investment transaction except for investments of surplus monies for Student Activity Fund accounts and for Collateralized Investment Contracts for bond accounts.
- d. 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.
- e. 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 external personnel authorized to make investments on behalf of the District shall be the "prudent investor" standard as applied in the context of managing the overall portfolio. The prudent investor rule as described in the Uniform Prudent Investor Act is a

standard to guide those with responsibility for investing the money of others. Such fiduciaries must act as a prudent investor would, with care, skill, caution, and diligence under the circumstances then prevailing, and should consider investments not in isolation but in the context of the entire portfolio and overall investment strategy.

- b. The standard of prudence to be used by internal personnel authorized to shall be the "prudent person" standard. This standard states that "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 12, no more than 5% of general (other than bond proceeds) assets shall be invested in a single corporate, asset-backed or municipal credit. This does not include Treasuries, US Agencies, US Agency mortgage-backed securities, repurchase agreements, 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 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 the table on page 12 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
 - iii. 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. Negotiable Certificate of Deposit (NRS 355.170 1(g)):
 - 1) Issued by commercial banks, credit unions, or savings and loan associations with a maximum term of 5 years, ;

- 2) At the time of purchase has a remaining term to maturity of no more than 5 years;
 - 3) Is rated "A-1", "P-1" or equivalent or better by at least one NRSRO; and
 - 4) May not exceed 20% as determined on the date of purchase.
- iv. Nonnegotiable Certificate of Deposit (CD's) or Time Deposits (NRS 355.170 1(i)):
- 1) 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
 - 2) At the time of purchase has a term to maturity of no more than 5 years;
 - 3) May not exceed 20% as determined on the date of purchase.
- v. 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, which prohibit investments in debt issued by the District or interim warrants from any source; and
 - 2) Obligations of all other state and local governments of states other than Nevada rated "A-" or higher by one or more Nationally Recognized Statistical Rating Organization (NRSRO).
- vi. 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.
- 5) 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 as soon as possible.

vii. 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)).

viii. 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.
- ix. 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 as soon as possible.
- x. 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
- CMOs may not exceed 20% as determined on the date of purchase.
- xi. 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
 - xii. ABS may not exceed 20% as determined on the date of purchase.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. However, derivative investments are prohibited. 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. This definition and prohibition do not include callable bonds with embedded options or floating rate notes, which 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 12 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. Permissible Investments

| General Funds Investment Type | Maximum Maturity | Maximum Asset Class | Maximum % per Issuer* | Minimum Rating** |
|---|---------------------|----------------------------------|----------------------------------|----------------------|
| U.S. Treasury Bonds and Debentures | 10 years | 100% | 100% | N/A |
| Federal Agency or government sponsored entity Debentures and Mortgage-Backed Securities | 10 years | 50% | 50% | N/A |
| Negotiable Certificates of Deposit | 5 years | 20% | 5% | A-1, P-1 or equiv*** |
| Nonnegotiable Certificates of Deposit | 5 years | 20% | 5% | N/A |
| Municipal obligations of other local governments within Nevada | None | 25% | 5% | N/A |
| Municipal obligations of other states and other local governments outside Nevada | None | 25% | 5% | A- |
| Commercial Paper | 270 days | 25% | 5% | A-1, P-1 or equiv*** |
| Money Market Funds (Treasury or Government Obligations Funds only) | None | 100% | 100% | AAAm |
| Repurchase Agreements (102% Collateralized) | 90 days | 20% | 20% | N/A |
| Medium-Term (Corporate) Notes | 5 years | 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 |
| Bond Proceeds | | | | |
| 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 (Treasury or Government Obligations Funds only) | None | 100% | 100% | AAAm |
| Collateralized Investment Contracts | None | 100% | 25% | N/A |
| Student Activity Funds | | | | |
| Non-negotiable Certificates of Deposit | None | 100% | 100% | N/A |
| Savings and checking accounts | None | 100% | 100% | N/A |
| Money Market Accounts | None | 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.

15. Reporting

- a. The CFO will provide a report of investments to the Board of Trustees 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. The investment advisor will report any rating change that causes the rating of any security to fall below the minimum rating requirement in state law, to the CFO as soon as possible.

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 .

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, market price volatility is inevitable and should be considered within the context of the overall portfolio's investment return.
- b. Unrealized, or "paper", losses occur during periods when yields in the capital market rise. Unrealized losses are almost inevitable in such a scenario, and the investment manager should not forego purchasing intermediate or longer term securities solely for the purpose of minimizing unrealized losses. Losses on a security are not realized unless securities are sold prior to maturity.
- c. As noted above, the District's portfolio should be actively managed. Selling securities prior to maturity at a loss is acceptable if the total interest earnings over the holding period of that security plus the loss, measured on a cash basis, are positive and the loss is less than 5% of book value. Documentation of the rationale for the trade shall be provided to the CFO.
- d. 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.
- e. If a security does not meet the criteria for sale at a loss to book value, as defined in item 18-c above and the investment manager deems the security to pose a significant risk of future loss, it may still be sold with the approval of the CFO.

LEGAL REQUIREMENTS AND ASSOCIATED DOCUMENTS

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

2. This Administrative 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 |

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| 11-6-23 | 13.0 | Revised: various changes based on changes to permissible investments authorized by AB33 (2023) and to clarify a number of matters. |
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