



Meeting Agenda

Finance Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8447

Wednesday, June 10, 2015

5:00 PM

Room 207

1. ROLL CALL

2. CALL TO ORDER

3. APPROVAL OF MINUTES

3.A [15-0585](#) Approval of May 13, 2015 Finance Committee Meeting Minutes

Attachments: [Minutes](#)

4. COMMITTEE BUSINESS

4.A [15-0560](#) New City Investment Policy

Attachments: [New Investment Policy](#)

[Old Investment Policy](#)

[Internal Controls](#)

4.B [15-0586](#) Oral Reports - Status Reports and Updates (Prior Year Use of Council Goal Money)

4.C [15-0572](#) Oral Report - Status Reports and Updates (2016 Budget Update)

5. ADJOURNMENT

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City Hall
601 4th Avenue E.
Olympia, WA 98501
360-753-8447

Finance Committee

Approval of May 13, 2015 Finance Committee Meeting Minutes

Agenda Date: 6/10/2015
Agenda Item Number: 3.A
File Number: 15-0585

Type: minutes **Version:** 1 **Status:** In Committee

Title

Approval of May 13, 2015 Finance Committee Meeting Minutes



Meeting Minutes - Draft

Finance Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8447

Wednesday, May 13, 2015

5:00 PM

Room 207

1. ROLL CALL

Present: 3 - Chair Jim Cooper, Committee Member Nathaniel Jones and Committee Member Cheryl Selby

OTHERS PRESENT

Steve Hall, City Manager
Paul Simmons, Parks, Arts & Recreation Director
Jane Kirkemo, Administrative Services Director

2. CALL TO ORDER

Chair Cooper called the meeting to order at 5:05 p.m.

3. APPROVAL OF MINUTES

3.A [15-0476](#) Approval of April 24, 2015 Finance Committee Meeting Minutes

The minutes were approved.

4. COMMITTEE BUSINESS

4.A [15-0474](#) Appropriations Ordinance in the Amount of \$350,000 for The Washington Center for the Performing Arts

City Manager Steve Hall discussed the City's partnership with The Washington Center for the Performing Arts, noting that community enrichment is the focus -- not profit. He recommended transferring \$150,000 from the endowment plus funding an Development Director for two years. Mr. Hall stated the current funding strategy no longer works in the post-recession economy. The Washington Center Chair Sean Padget, Executive Director Jill Barnes, and Vice Chair of Finance Jim Haley were in attendance. They believe this assistance will allow them long-term sustainability.

Committee member Jones made a point to note that The Center is 1) drawing on a finite source (the endowment), 2) is important to the community, but 3) is not a core City service. The Center plays a pivotal role in the success of downtown. Committee member Jones stated he saw no other option than to bring them whole. He cautioned that a long-term solution needs to be found. Mr. Haley responded by stating that hiring an executive director two years ago and re-hiring a fundraising director are steps in

the right direction to achieve long-term sustainability.

Chair Cooper pointed out that with an annual budget of \$1.8 million, The Center is basically asking for one month's worth of revenue. The City is asking them to close down for two months this summer for a sprinkler system upgrade, so he thought the request is justifiable. Chair Cooper inquired about the role of the Development Director. Ms. Barnes replied the Development Director would allow for relationship building with sponsors, greater event planning, and grant writing.

Committee member Jones moved, seconded by Committee member Selby, to recommend to the full Council the transfer of \$150,000 of endowment funds to The Washington Center and further appropriate up to \$100,000 per year for two years for salary and benefits of a Development Director. The motion passed unanimously.

4.B [15-0478](#) Debrief of May 5 Study Session on Developing a Sustainable Budget

Parks, Arts and Recreation Director Paul Simmons presented a preliminary proposal for a Metropolitan Parks District (MPD). An MPD could be formed if approved by voters with a simple majority. Public feedback through meetings, OlySpeaks, and surveys generated three high priority themes. Citizens want land acquisition, maintenance, and an increase in park safety and security. Mr. Simmons went through the various funding proposals. He noted moving the Voted Utility Tax (VUT) debt to the MPD would free up full debt capacity in VUT for acquisition. He recommended a balanced approach by diversifying funding sources:

- 1) MPD - To fund maintenance, security, some development, plus optional capital projects;
- 2) VUT - To fund acquisition;
- 3) Impact/SEPA Fees - To fund development

Without additional funding, Parks will experience the following:

- Limited debt capacity available for acquisitions
- CAMMP will not get caught up on the \$4M backlog
- VUT will not be dedicated to acquisition only without cuts in service
- Currently constrained resources continue to stretch as the park system expands and costs of service increase
- Gradual reduction in levels of service, facility closure becomes a possibility in the future

Mr. Simmons said a proposal could be put to voters in November 2015. Committee member Jones questioned the use of VUT in the proposal. Mr. Simmons replied that staff figured the Parks department needed to catch up on acquisition so it seems reasonable to shift the entire capacity of the VUT to acquisition and worry about development later. Ms. Kirkemo and the Committee advised Mr. Simmons to include discussion of the 1.5% Non-Voted Utility Tax when this topic goes the City Council.

No public hearing is required. Council would need to approve a resolution to place the item on the fall ballot. If the measure passed, the City could begin receiving the additional revenue in 2016.

The additional revenue realized from an MPD is on top of the General Fund commitment of \$4.4 million. Mr. Bob Jacobs emphasized the importance of making clear the issue of supplanting funds should the measure appear on the ballot. Mr. Hall will examine the language used in a recent Seattle measure to establish an MPD and determine how to proceed.

City Manager Steve Hall discussed the City's systematic approach to a sustainable budget and identified funding gaps, the City's responses, and the outcomes. Chair Cooper recommended sending information through the Communications Department to prepare for voter education.

Chair Cooper provided ten minutes to hear from members of the audience.

The proposal was recommended for approval and referred to the City Council for discussion at the June 9 Study Session to decide whether to place a measure establishing a Metropolitan Parks District on the November 2015 ballot.

- 4.C [15-0355](#) Review of Proposed Capital Facilities Element (CFE) Prior to Inclusion in the 2016-2020 Capital Facilities Plan (CFP) Process

Ms. Kirkemo asked if Committee members had any questions about the Capital Facilities Element (CFE). Committee members had no questions. Ms. Kirkemo reminded the Committee a public hearing is needed and the CFE will be adopted by City Council as a part of the Capital Facilities Plan.

The Committee agreed to move the Capital Facilities Element forward to City Council on 5/19/2015.

- 4.D [15-0456](#) Community Planning and Development Request for Additional Staff, with Appropriation Ordinance

Mr. Hall explained that staffing levels in Community Planning and Development (CP&D) depend upon the level of activity and fees generated. Many layoffs occurred during the recession. Recent conversations with staff convinced Mr. Hall that we have returned to a workload level that supports increasing staff. The department is asking to restore two FTEs. Adding staff mid-year requires an ordinance and Council approval. Committee member Jones wants it made clear to the public that these positions are self-sustaining through fees; the City is not incurring any additional expenses.

Committee member Jones moved, seconded by Committee member Selby, to recommend to Council the appropriation of funds for two full-time equivalents and the purchase of a vehicle. The motion passed unanimously.

5. ADJOURNMENT

The meeting adjourned at 7:35 p.m.



Finance Committee

New City Investment Policy

Agenda Date: 6/10/2015
Agenda Item Number: 4.A
File Number: 15-0560

Type: recommendation **Version:** 1 **Status:** In Committee

Title:

New City Investment Policy

Recommended Action

City Manager Recommendation:

Forward the investment policy to the City Council for approval.

Report

Issue:

Update investment policy.

Staff Contact:

Dean Walz, Fiscal Services Director, Administrative Services Department, 360.753.8465

Presenter(s):

Dean Walz, Fiscal Services Director, Administrative Services Department, 360.753.8465

Background and Analysis:

Prudent management of an investment program includes an investment policy. The current policy was originally adopted by the City Council in 1996 and most recently amended in 2011. The investment program has been managed by staff as time allowed along with their other duties.

The City recently contracted with Government Portfolio Advisors (GPA) for investment advisory services to assist the City with its investment program. The firm was selected through a Request for Proposal process. GPA acts in the capacity of a non-discretionary advisor. A non-discretionary advisor does not have access to City funds or investments. They make investment program and specific investment recommendations to the City. Actual decision and placement of investments is made by the City. Although not required to be in an investment policy, an investment policy should address the use of an investment advisor.

The new policy is patterned after best practices recommended by the Government Finance Officers Association.

Neighborhood/Community Interests (if known):

None.

Options:

- 1) Forward the new policy to the City Council for adoption.
- 2) Do not forward the policy to the City Council.

Financial Impact:

The policy in itself does not have a direct financial impact. The use of an investment advisor will increase investments earnings. The exact impact cannot be determined at this time.

INVESTMENT POLICY - 2015

Policy Statement

It is the policy of City of Olympia is to invest public funds in a manner, to provide the maximum security with a market rate of investment return, while meeting daily cash flow requirements, and conforming to all state statutes governing the investment of funds under control of the City of Olympia.

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1.0 INTRODUCTION

This Investment Policy defines the parameters within which funds are to be invested by the City of Olympia ("City"). This policy also formalizes the framework, of the City's Policy and Procedures to provide the authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this policy.

These policies are intended to be broad enough to allow the Fiscal Services Director (Finance Manager) or authorized designee to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

2.0 GOVERNING AUTHORITY

The City of Olympia's investment authority is derived from Chapter 35A.40.050 RCW. The investment program shall be operated in conformance with Washington Revised Statutes and applicable Federal Law. All funds within the scope of this policy are subject to regulations established by the State of Washington.

3.0 SCOPE

This policy applies to activities of the City of Olympia with regard to investing the financial assets of the City. The amount of funds expected to fall within the scope of this policy is \$60MM to \$80MM, including all funds under the control and management of the City of Olympia.

This investment policy applies to all investment transactions involving the financial assets and related activity of all the foregoing funds.

4.0 OBJECTIVES

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. In addition, the objectives, in order of priority, of the investment activities will be as follows:

4.1 Safety: Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified, utilizing highly rated securities, by investing among a variety of securities and financial institutions.

4.2 Liquidity: The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.

4.3 Return on Investment: The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

4.4 Legality: The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

5.0 STANDARDS OF CARE

5.1 Delegation of Authority:

Governing Body: The ultimate responsibility and authority for the investment of City funds resides with the City Council who have the authority to direct the management of the City investment program.

Authority: The overall management responsibility for the investment program is hereby delegated to the Director of Administrative Services, or designee, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Fiscal Services Director (Finance Manager) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Investment Adviser: The City may engage the services of an external investment adviser to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such advisers shall provide recommendation and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments in accordance with this Investment Policy.

5.2 Prudence:

The standard of prudence to be used by the Fiscal Services Director (Finance Manager) or any designees in the context of managing the overall portfolio is the prudent person rule which states: *Investments will 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 in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

5.3 Ethics:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Director of Administrative Services in writing any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Olympia, particularly with regard to the time of purchases and sales.

6.0 SAFEKEEPING, CUSTODY AND CONTROLS

6.1 Delivery vs. Payment:

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

6.2 Third Party Safekeeping:

Prudent treasury management requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by the City, an independent third-party financial institution, or the City's designated depository.

The City's Fiscal Services Director (Finance Manager) shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand shall be held in a segregated account at the issuing financial institution that is reporting to the State's Public Deposit Protection Commission (PDPC).

6.3 Internal Controls:

The Fiscal Services Director (Finance Manager) is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities of marketable securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and
- Review, maintenance and monitoring of security procedures both manual and automated.

7.0 AUTHORIZED FINANCIAL DEALERS

7.1 Broker/Dealers:

The Fiscal Services Director (Finance Manager) shall maintain a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes. Any firm is eligible to make an application to the City. Additions and deletions to the list will be made at the City's discretion. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following: 1) financial

institutions approved by the State of Washington Public Deposit Protection Commission (RCW 39.58) and meet all regulatory capital requirements, 2) primary dealers recognized by the Federal Reserve Bank, 3) non-primary dealers qualified under SEC rule 15C3-1 and a certified member of FINRA. This responsibility can be placed with the investment adviser and the approved list should be provided to the City as updates occur.

7.2 Investment Advisers:

Advisers must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

The adviser may only provide non-discretionary management services, which requires prior authorization from the City on all transactions.

7.3 Bank Institutions:

The City will only place funds, exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Adviser or designated investment officer utilizing the Washington State Treasurer's website (<http://www.tre.wa.gov/government/pdpc.shtml>).

7.4 Competitive Transactions:

Transactions must be executed on a competitive basis and documented, excluding securities and interfund loans issued by the City of Olympia. Competitive prices should be provided from at least three separate brokers, financial institutions or through a nationally online line trading platform. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. If an Adviser handles trade executions then they must provide the competitive documentation as requested.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

8.1 Authorized Investments:

All investments of the City are limited by RCW, principally RCW 35A.40.050 and 39.59.020.

Among the authorized investments are U.S. Treasury and agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve), repurchase and for collateral otherwise authorized for investment, municipal debt of this state with one of the three highest ratings of a national rating agency at the time of investment, debt of the City of Olympia, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Public Deposit Protection Commission at the time of investment, foreign and domestic Bankers Acceptances, Commercial Paper and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

8.2 Suitable Investments:

The City is empowered to invest in the following types of securities:

TYPE	DEFINITION
U. S Treasury Obligation	Direct obligations of the United States Treasury
GSE- Agency Obligations	Government Sponsored Enterprises (<i>GSEs</i>) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (<i>FNMA</i>), the Federal Home Loan Mortgage Corporation (<i>FHLMC</i>), Federal Home Loan Banks (<i>FHLB</i>), and the Federal Farm Credit Bureau (<i>FFCB</i>).
Commercial Paper	Unsecured debt obligations of corporate issuers that are rated at least A1+ by Moody’s and P1 by Standard and Poor’s. Commercial paper holdings may not have maturities exceeding 180 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase must have a minimum rating of AA- by S&P and Aa3 by Moody’s RCW 39.59.020.
Bankers Acceptance	Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are Issued by qualified financial institutions eligible for discount by the Federal Reserve System and by a qualified institution whose long-term letter of credit rating is rated in the highest category AAA.
Local Government Investment Pool	Investment Pool managed by the Washington State Treasury office.
Time deposits and Savings accounts issued by banks	Deposits in PDPC approved banks.
Certificates of Deposit	Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.
Municipal Debt Obligations	Bonds of the State of Washington and any local government in the State of Washington; at the time of investment the bonds must have one of the following ratings: one of the three highest ratings of a national rating agency at the time of investment. Debt of the City of Olympia is not required to be rated.

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8.3 Bank Collateralization:

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under the act, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

8.4 Repurchase Agreement Collateralization:

Collateral will be required on Repurchase Agreements, and will be limited to the suitable investments listed in this policy under 8. Collateral shall be delivered to the City’s safekeeping agent, or through a tri-party arrangement in which the proper documents delineating the responsibilities of the parties have been executed. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

Any required overcollateralization (the amount by which the market value of the securities collateralizing the transaction exceeds the transaction value) will be determined at the time of the transaction, as specified in the Master Repurchase Agreement. Any such overcollateralization shall not be less than 102% of the current market value of the collateral. Such collateral shall be revalued on a periodic basis, but not less than weekly, in order to maintain market protection. The final maturity of the collateral for repurchase agreements may not exceed three years.

9.0 INVESTMENT PARAMETERS

9.1 Diversification:

The City will diversify the investment of all funds by adhering to the constraints by issuer type in accordance with the following table:

Table of Constraints on the Portfolio

ISSUER TYPE	% of Total Portfolio Maximum	Per Issuer Constraints Maximum
U. S Treasury Obligation	100%	100%
GSE-Agency Obligations	100%	35%
Municipal Debt Obligations	15%	5%
Bank Demand Notes	10%	5%
Bankers Acceptance	20%	5%
Local Government Investment Pool	100%	n/a
Time Deposits	20%	10%
Certificates of Deposits	25%	10%
Commercial Paper	15%	5%
City of Olympia Debt Obligations	15%	100%

9.2 Investment Maturity:

9.2.1 Liquidity Funds – Tier 1

Liquidity funds will be defined as those funds that are in the State LGIP City, bank deposits, bank certificates of deposits or money market instruments and will be available for immediate use.

9.2.2 Investment Core Funds – Tier 2

Investment funds will be defined as the funds in excess of liquidity requirements and invested in authorized investments. The investments in this portion of the portfolio are allowed to have maturities out to 5 Years and will be only invested in higher quality and liquid (marketable) securities.

9.2.3 Pension, Endowment and Trust Funds– Tier 3

Investment funds will be defined as the funds needed for long term reserves, pension funds or Trust funds and invested in authorized investments. The investments in this portion of the portfolio are allowed to have maturities out to 10 years and will be only invested in higher quality and marketable securities.

Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of the Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	90%
Under 10 Years	100%

9.3 Strategic Allocations:

9.3.1 Funds and their Allocation

- a. Liquidity fund for the operating account will be targeted to the LGIP fund
- b. Investment core fund for the operating account will be targeted to a market benchmark based on the risk and return targets of the portfolio.
- c. Longer term funds trust funds will have an identified market benchmark to manage risk and return.

9.3.2 Monitoring and Portfolio Adjustment: As a general practice securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- a. A security with a declining credit may be sold early to protect the principal value of the portfolio.
- b. A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- c. A sell of a security to provide for unforeseen liquidity needs.

9.4 Prohibited Investments:

9.4.1 The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

9.4.2 The City shall not invest in mortgage-backed securities.

10.0 REPORTING REQUIREMENTS

10.1 Reporting:

The Fiscal Services Director (Finance Manager) shall be responsible for investment reporting. At a minimum, monthly reporting shall be made to the Director of Administrative Services including but not limited to securities holdings, cash balances, and market values in the investment portfolio will be provided on the month-end reports.

Specific Requirements:

- Book Yield
- Holdings Report including mark to market and security description
- Transactions Report
- Weighted Average Maturity or Duration

10.2 Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during economic cycles, taking into account investment risk constraints and cash flow needs. A market benchmark will be established to compare risk and return of each investment portfolio identified within each tier.

The earnings benchmark will be the Local Government Investment Pool and an appropriate yield comparison.

10.3 Compliance Report

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

11.0 INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by the City Council and reviewed by the Council Finance Committee as needed but not less than every two years.

12.0 GLOSSARY OF TERMS

Agency Securities: Government sponsored enterprises of the US Government.

Bankers Acceptances: A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually. *See* Debenture.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Debenture: Unsecured debt backed only by the integrity of the borrower, not by collateral, and documented by an agreement called an indenture.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "government securities."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Investment Funds: Core funds are defined as operating fund balance, which exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall

portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the District.

LGIP: Local Government Investment Pool run by the State of Washington Treasurer's office established to help cities with short term investments.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation or Quote: A bid to buy or the lowest offer to sell a security in any market at a particular time. See Bid and Ask.

Repurchase Agreement: Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

CITY OF OLYMPIA -- INVESTMENT POLICY

Policy:

It is the policy of the City of Olympia to invest funds in a manner which will provide appropriate security with the highest investment return, while meeting the cash flow demands of the City, conforming to state and local laws governing the investments of public funds, and complying with “The City of Olympia Nuclear Free Zone Act.”

Scope:

This investment policy applies to all financial assets of the City. This policy applies to all Funds of the City included in the Comprehensive Annual Financial Report. This policy does not apply to assets in the custody of a third party trustee for special purposes (e.g. bond refunding proceeds), or assets governed by financial requirements of Federal, State or local law which would prohibit the implementation of this policy.

Prudence:

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.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with established procedures and the

investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

Objective:

The primary objectives, in priority order, of the City’s investment activities shall be:

Safety: Safety of the principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is usually required.

Liquidity: The City’s investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Yield: The City’s investment portfolio shall be designed with the objective of attaining a maximum rate of return throughout budgetary and economic cycles, taking into account the City’s investment risk constraints, the cash flow characteristics of the portfolio and the fact the City utilizes a passive investment program.

Delegation of Authority:

Authority to manage the City’s investment program is derived from Chapter 35A.40.050 RCW. Management responsibility for the investment program is hereby delegated to the Finance Manager who shall establish procedures for the operation of the investment program consistent with this investment policy. Procedures shall include reference to:

safekeeping, master repurchase agreements, wire transfers, and custody agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Manager. The Finance Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Ethics and Conflicts of Interest:

Officers and employees 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Treasurer (Director of Administrative Services) any material financial interest in financial institutions that conduct business with the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

Authorized Financial Dealers and Institutions:

The City Treasurer and Finance Director shall establish a list of authorized financial institutions and broker/dealers to provide investment services. Authorized institutions and broker/dealers shall maintain offices in the Pacific Northwest, except for broker/dealers which may be selected for investments as part of refunding or other structured financing by the City.

No public deposits shall be made except in qualified public depositories as provided in Chapter 39.58 RCW.

Authorized and Suitable Investments:

The City is empowered to invest in those investments authorized in Chapter 35A.40.050 RCW.

Investments can be made in the following without prior approval:

- A) Certificates of Deposits with qualified public depositories.
- B) Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or any corporation wholly owned by the United States whose securities carry full faith and credit guarantees.
- C) Federal Agency Securities, including but not limited to Export-Import Banks, Federal Housing Authority, Government National Mortgage Association, and Tennessee Valley Authority.
- D) Other Agency type securities include but are not limited to, Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Small Business Administration and Maritime Administration.
- E) Repurchase agreements of securities listed above, provided the transaction is structured so the City maintains ownership and control over the underlying securities.
- F) Bankers acceptances purchased on the secondary market.

G) Certificates, notes and bonds of the State of Washington, or its political subdivisions, including L.I.D. warrants, notes or bonds of the City of Olympia.

H) Participation in the State of Washington, Local Government Investment Pool(s), (LGIP).

Investments in items not specifically enumerated above shall be made only with approval of the City Manager.

The City may invest in structured securities of any of the above. Structured securities include but are not limited to, callable, step-up or variable rate securities. Structured securities may be utilized only when the final maturity of the security is within the maximum maturity guidelines.

Collateralization:

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City.

The right of substitution shall be granted only upon approval by the City.

Safekeeping and Custody:

All security transactions including collateral Operating Funds: Amounts within the City's operating reserve requirement may be invested in maturities not to exceed 18 months. Amounts in excess of the City's operating reserve requirement may be invested in maturities not to exceed 36

for repurchase agreements shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the City shall be retained by the City or delivered against payment and held in a custodial safekeeping account with a bank. The safekeeping agent(s) shall be designated by the City Treasurer and all transactions shall be evidenced by safekeeping receipts.

Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and State of Washington LGIP pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

Maximum Maturities:

To the extent possible, the City will attempt to match its investments with cash requirements. Unless matched to specific cash requirements, maturities shall meet the following requirements:

Minimum liquidity requirement. 10% of Operating Funds budgets (excluding Debt Funds) when taken as a whole shall consist of the following:

- Cash.
- Fixed maturities due within 30 days.
- Overnight repurchase agreements.
- Investment pools with daily liquidity.
- Marketable securities with market value equal to or exceeding 100% of cost.

months.

Non-Operating Funds may be invested in maturities not to exceed 10 years.

Other Requirements:

For purposes of determining maturities for pools the maturity for compliance with this section shall be the maximum average life for the pool as established by the pool's investment policy. In the absence of a policy, the actual average life shall be used.

Investments may be made in excess of the above requirements if approved by the City Treasurer, or if the investment is made by the City Treasurer, the investment must be approved by the City Manager.

The City may collateralize repurchase agreements using longer-dated investments as long as the collateralization requirement is maintained.

Internal Controls:

The City Treasurer shall establish a review process (not less than annual). This review shall include compliance with policies and procedures.

Performance Standards:

The City's investment strategy is passive and not speculative. The investment portfolio should be designed to obtain reasonable yields in an environment where safety, return of principal, and cash flow needs are more important than yields. Accordingly, this policy does not establish a yield performance standard although, the combined investment yield on investments should equal or be greater than the State of Washington short term LGIP.

No loss will be deemed to have occurred on the exchange of one security for another unless the proceeds of the sale, plus interest earned on the original and subsequent investment(s), is less than the gross proceeds of the original investment at maturity.

The City recognizes, that in a diversified portfolio, occasional losses may occur and must be considered within the context of the overall portfolio's investment return, provided, adequate diversification has been implemented.

Exchanges of securities and sales of securities prior to maturity shall be reviewed with the City Treasurer, prior to such sale or exchange or, in the absence of the City Treasurer, the City Manager or Assistant City Manager.

Reporting:

The Finance Manager shall report at least monthly to the City Treasurer and annually to the Finance Committee of the City Council.

Investment Policy Adoption:

This policy was adopted by the City Council on May 21, 1996, and amended on May 24, 2011. An annual review of this policy shall be conducted by the Finance Committee.

City of Olympia Investment Program Internal Control

Date: 5-28-2015 Draft

Goals of this process

1. Ensure proper internal controls are in place with regards to the investment program.
2. Ensure compliance with internal controls by authorized persons.
3. Provide tools to establish, properly document, monitor, maintain, and adhere to the organization's system of internal controls.

Internal Control Goals:

- Protect the assets of the City
- Ensure the validity of financial records and reporting
- Promote adherence to policies and procedures, as well as compliance with laws and regulations
- Achieve effective and efficient operations

Components of Internal Controls:

1. Preventative control activities (proactive controls)
2. Detective control activities (monitoring controls)

PREVENTATIVE CONTROLS:

Preventative controls, are controls supported by policies and procedures that attempt to prevent or deter undesirable acts from occurring. They are controls designed to prevent a loss, error or omission from occurring.

- Proper Authorization
- Separation of Duties
- Adequate Documentation
- Custody of Securities

Authorization: The Director of Administrative Services authorizes the Fiscal Services Director (Finance Manager) or designee to perform certain tasks and to execute certain transactions within the parameters of the investment policy. The policy also provides guidance on controls for delegating certain roles of the investment program, including investment transactions.

Investment Officers:

Fiscal Services Director	Dean Walz
Accounting Supervisor	Bill Sampson

In the absence of the investment officers listed above the Director of Administrative Services is authorized to act as an investment officer.

Investment Advisor:

Deanne Woodring, CFA
Dave Westcott, CFA
Luke Schneider, CFA

Government Portfolio Advisors

Cash Manager:

Staff within the Fiscal Services Division assigned to monitor, balance and reconcile banking activity.

Segregation of duties: Given the small size of the City Finance office, no single individual may be authorized to perform more than one task in the chain of cash collection or disbursement unless there are alternate controls which cover the risk.

- An Investment Officer will authorize the Investment Advisor to make specific security transactions.
- The Investment Advisor will seek independent pricing on the security transaction from the approved broker dealer list.
- The Investment Advisor will notify the custodian bank and an Investment Officer on details of the transaction for settlement.
- An Investment Officer will sign off on the transaction and prepare documentation to transfer funds. All banking transfers are reviewed by the Cash Manager (no less than monthly).
- The Investment Advisor will never have control of handling cash or directing the transfer of funds from any of the City's accounts.
- The Investment Advisor shall provide the City with a monthly report on the investment portfolio to the Finance Manager.

- The Finance Manager will provide at minimum quarterly reporting including City bank balances and investments to the Director of Administrative Services.
- The Investment Advisor shall not have direct control of any cash or cash transfers.
- If an Investment Officer makes a specific security transaction, that transaction shall be approved by the Director of Administrative Services. In the case where the transaction is made by the Director of Administrative Services, the transaction shall be approved by the City Manager.
- Any wire transfer prepared by the City shall require a secondary approval.

Adequate Documents: Ensure that documentation is completed in regards to stated policy and procedures.

- The Finance Manager shall have the Investment Advisor provide a compliance report quarterly that compares and confirms the policy guidelines relative to the investment positions.
- An investment Officer shall receive a competitive pricing document with each transaction executed by the Investment Advisor.
- The Investment Advisor shall maintain documents showing the competitive pricing on all transactions. These will be available upon request.
- The Investment Advisor shall maintain a document balancing the portfolio holdings records maintained by the City to the third party custodial bank statements.
- An Investment Officer shall review all documents for accuracy and adequacy.

Custody of Securities: Ensure that securities are held in a third-party custodial bank or by the City.

- The City shall contract with a third party safekeeping agent to hold all marketable investment securities.
- Bank certificates of deposit and debt issued by the City of Olympia may be safe kept by the Treasurer of the City of Olympia.
- The Finance Manager shall have accounts set up at the approved broker/dealers to transact on the Delivery vs Payment (DVP) basis. This provides for the protection of City funds.

- The Finance Manager shall maintain bank deposits only at banks that are either fully insured by the FDIC, or participants of the Public Funds Collateralization Program (PFCP) of the Treasurer of the State of Washington.
- The City shall receive safekeeping statements either electronically or physically on a monthly basis.
- The safekeeping agent will be tied to only one of the City's bank accounts.

DETECTIVE CONTROL ACTIVITIES:

Detective controls are controls supported by policies and procedures that attempt to detect undesirable acts that have already occurred. They are monitoring controls that provide evidence that the preventive controls are functioning and preventing losses. They provide after-the-fact evidence that a loss or error has occurred, but do not prevent them from occurring.

- Reconciliation – statements to reports
- Analytical Reviews – summary data, budgets, reports
- Internal audit – ongoing

Reconciliation: The Investment Advisor reconciles and compares the monthly bank statement to the City's internal securities holding report. All differences in data should be identified and investigations into variances should lead to corrective actions, if necessary. For example: Cash balances at banks and LGIP totals should balance. Security holdings by CUSIP and maturity should match.

Analytical Reviews: The Investment Advisor and Finance Manager shall design an investment strategy plan annually and periodically make adjustments when the investment environment changes. The Investment Advisor will provide an update of the plan compared to the actual portfolio quarterly.

Internal Audit: The Finance Manager shall establish processes and internal control systems with regards to the investment program. When discrepancies are discovered which could jeopardize the safety of City assets they shall be reported to management personnel not involved in the discrepancy.



Finance Committee

Oral Reports - Status Reports and Updates (Prior Year Use of Council Goal Money)

Agenda Date: 6/10/2015
Agenda Item Number: 4.B
File Number: 15-0586

Type: report **Version:** 1 **Status:** In Committee

Title

Oral Reports - Status Reports and Updates (Prior Year Use of Council Goal Money)

Recommended Action

City Manager Recommendation:

N/A

Report

Issue:

How has council goal money been used in past years?

Presenter(s):

Jane Kirkemo, Director of Administrative Services

Background and Analysis:

The use of council goal money in prior years will be discussed.



Finance Committee

Oral Report - Status Reports and Updates (2016 Budget Update)

Agenda Date: 6/10/2015
Agenda Item Number: 4.C
File Number: 15-0572

Type: report **Version:** 1 **Status:** In Committee

Title

Oral Report - Status Reports and Updates (2016 Budget Update)

Recommended Action

City Manager Recommendation:

N/A

Report

Issue:

Status update regarding the 2016 budget.

Presenter(s):

Steve Hall, City Manager

Background and Analysis:

In preparation for the 2016 budget, staff periodically update the Finance Committee regarding status, needs and potential issues related to next year's budget.