

# INVESTMENT POLICY - 2015

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## 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
<b>U. S Treasury Obligation</b>	Direct obligations of the United States Treasury
<b>GSE- Agency Obligations</b>	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> ).
<b>Commercial Paper</b>	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.
<b>Bankers Acceptance</b>	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.
<b>Local Government Investment Pool</b>	Investment Pool managed by the Washington State Treasury office.
<b>Time deposits and Savings accounts issued by banks</b>	Deposits in PDPC approved banks.
<b>Certificates of Deposit</b>	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.
<b>Municipal Debt Obligations</b>	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**

<b>ISSUER TYPE</b>	<b>% of Total Portfolio Maximum</b>	<b>Per Issuer Constraints Maximum</b>
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.