

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 for repurchase agreements shall be conducted 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 months.

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.

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.