

RESOLUTION NO. 524

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GIG HARBOR, WASHINGTON, ADOPTING AN INVESTMENT POLICY TO GOVERN THE INVESTMENT OF PUBLIC FUNDS IN A MANNER WHICH WILL PROVIDE MAXIMUM SECURITY FOR PUBLIC FUNDS WITH THE HIGHEST INVESTMENT RETURN WHILE MEETING THE DAILY CASH FLOW DEMANDS OF THE CITY.

WHEREAS, the City Council of the City of Gig Harbor seeks at all times to maintain the highest fiscal integrity with respect to its administration of public funds; and

WHEREAS, RCW 35A.40.050 allows the investment of inactive City funds; and

WHEREAS, the budget of the City also includes a certain percentage of idle funds which are intended to be invested in order to balance the City's cash requirements for ongoing operations with the opportunity for the highest, prudent investment potentials to insure a reasonable return on idle funds with the highest investment return with maximum security; now, therefore,

THE CITY COUNCIL OF THE CITY OF GIG HARBOR, WASHINGTON, HEREBY RESOLVES, AS FOLLOWS:

Section 1. The City Council hereby adopts the Investment Policy attached hereto as Exhibit A and incorporated herewith by this reference as the investment Policy for the City of Gig Harbor.

Section 2. Any act consistent with the authority of this resolution and taken prior to the effective date of this resolution is hereby ratified and affirmed.

Section 3. If any section, sentence, clause or phrase of this resolution should be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause or phrase of this resolution.

Section 4. This resolution shall be effective immediately upon passage by the Gig Harbor City Council.

RESOLVED this 12th day of October, 1998.

APPROVED:

GRETCHEN A. WILBERT, MAYOR

ATTEST/AUTHENTICATED:

MOLLY M. TOWSLEE, CITY CLERK

APPROVED AS TO FORM
OFFICE OF THE CITY ATTORNEY:

BY: _____
CAROL A. MORRIS

FILED WITH THE CITY CLERK: 10/7/98
PASSED BY THE CITY COUNCIL: 10/12/98
RESOLUTION NO. 524

Exhibit 'A'
TABLE OF CONTENTS

1. Policy
2. Scope
3. Prudence
4. Objective
5. Delegation of Authority
6. Ethics and Conflicts of Interest
7. Authorized Financial Dealers and Institutions
8. Authorized and Suitable Investments
9. Safekeeping and Custody
10. Diversification
11. Maximum Maturities
12. Internal Control
13. Performance Standards
14. Reporting
15. Investment Policy Adoption

Glossary

CITY OF GIG HARBOR INVESTMENT POLICY

1. Policy:

It is the policy of the City of Gig Harbor to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

2. Scope:

This investment policy applies to all financial assets of the City. These funds are accounted for in the City's annual financial report and include the following funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Any New Funds Created By Council Unless Specifically Exempted

3. Prudence:

Investments shall be made with judgement 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 written 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, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The Finance Director acting in accordance with 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, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. Objective:

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

Safety: Safety of the principal is the foremost objective of the investment program. Investments of the City of Gig Harbor shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The City of Gig Harbor's investment portfolio will remain sufficiently liquid to enable the City of Gig Harbor to meet all operating requirements which might be reasonably anticipated.

Yield: The City of Gig Harbor's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City of Gig Harbor's investment risk constraints and the cash flow characteristics of the portfolio.

Legality: The City of Gig Harbor's investments shall be in compliance with all statutes regulating the investment of public monies.

5. Delegation of Authority:

The Finance Director is authorized, by Ordinance 757, to invest all funds of the City of Gig Harbor. The Finance Director shall establish written procedures for the operation of the investment program consistent with this investment policy. 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 Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6. Ethics and Conflicts of Interest:

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 Mayor 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 of Gig Harbor'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.

7. Authorized Financial Dealers and Institutions:

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Washington. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in qualified public depositaries as provided in Chapter 39.58 RCW.

All financial institutions and broker/dealers who desire to do business with the City must supply the following:

1. Annual audited financial statements;
2. Quarterly or semi annual financial statements;
3. Proof of National Association of Securities Dealers certification, and proof of Securities Investors Protection Corporation (SIPC) coverage;
4. Certification of having read this investment policy;

The Finance Director will conduct an annual review of the financial condition of firms.

A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the City invests.

8. Authorized Investments:

The City is empowered by RCW 35A.40.050, 36.29.020 and 39.58.080 to invest in the following types of securities.

- Investment deposits, including certificates of deposit, with qualified public depositaries as defined in RCW 39.58.
- Certificates, notes, bonds or other obligations of the United States. RCW 43.84.080, 36.29.020. (Treasury bills, bonds).
- Obligations of United States agencies or of any corporation wholly owned by the government of the United States. RCW 43.84.080, 36.29.20. (Government National Mortgage Association bonds and Small Business Administration bonds).
- Federal Home Loan Bank notes and bonds. RRCW 43.84.080, 36.29.020.
- Federal Land Bank bonds. RCW 43,84,080, 36.29.020.
- Federal National Mortgage Association notes, debentures and guaranteed certificates of participation. RCW 43.84.080, 36.29.020.
- Notes or bonds secured by mortgage that the Federal Housing Administrator has insured or made a commitment to insure in obligations of national mortgage associations. RCW 39.60.010.
- Debentures issued by the Federal Housing Administrator. RCW 39.60.010.
- Bonds of the Home Owner's Loan Corporation. RCW 39.60.010.

- Obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system. RCW 43.84.080, 36.29.020. (Federal Farm Credit Banks consolidated system-wide bonds and discount notes, Federal Home Loan Mortgage Corporation bonds and discount notes, Student Loan Marketing Association bonds and discount notes, Export-Import Bank bonds, and Maritime Administration bonds).
- State of Washington Local Government Investment Pool, as authorized in City of Gig Harbor Resolution No. 197.

In the event that any state, federal or city regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy.

9. Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities purchased by the City will be held by a third party custodian.

10. Diversification:

The City will diversify its investments by security type and institution. With the exception of U. S. Treasury securities and authorized pools, no more than 30% of the entity's total investment portfolio will be invested in a single security type or with a single financial institution.

11. Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments.

Reserve funds may be invested in securities exceeding two years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

12. Internal Control:

The Finance Director shall establish a system of internal controls designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions. The system of internal controls is reviewed by the State Auditor during their annual audit of the City's annual financial report. This review will provide additional internal control by assuring adherence to the City's investment policy and procedures.

13. Performance Standards:

The City of Gig Harbor investment portfolio will be designed to obtain a market average rate of return equal to or greater than that obtained by the State of Washington Local Government Investment Pool.

14. Reporting:

The Finance Director shall include an investment report with the quarterly financial report, summarizing the types of investments, yields and maturities. This report shall be presented to the City Council at the second council meeting following the end of each budget quarter.

15. Investment Policy Adoption:

The City's investment policy shall be adopted by resolution of the Council. The policy shall be reviewed by the Finance Director on an annual basis and any modifications made thereto must be approved by the City Council.

ADOPTED _____ BY RESOLUTION _____

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U. S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set **up to** supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D. C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U. S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term passthroughs is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all **funds** from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state-the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vault for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SEC RULE 15C3-1: See uniform net capital rule.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted to cash.

WASHINGTON PUBLIC DEPOSIT PROTECTION COMMISSION - Consists of the State

Treasurer, as chairman, the Governor, and the Lieutenant Governor.

The Commission is empowered to request a qualified public depository to furnish information on its public deposits and the exact status of its net worth. The Commission is further empowered to take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from loss.

In the event of the default of a qualified public depository, the Commission establishes the amount of public fund loss. After the application of federal insurance coverage and the failed depository's pledged collateral against public deposits, each participating depository is assessed for its proportionate share based on the ratio that its total public deposits bear to the statewide total.

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