

RESOLUTION NO. 74

**A RESOLUTION OF THE CITY OF
WOODINVILLE, WASHINGTON, ESTABLISHING
INVESTMENT MANAGEMENT POLICIES**

WHEREAS, the City Council finds it in the best interest of the citizens to establish policies to ensure sound investment management; and

WHEREAS, the Finance Committee of the City Of Woodinville has reviewed the Investment Management Policies and supports the adoption of them as written; and

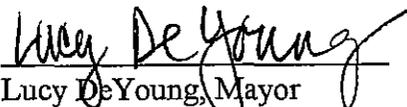
WHEREAS, the City Council will regularly review existing policies and establish additional policies to promote fiscal responsibility and the efficient management of City funds; NOW, THEREFORE

**THE CITY COUNCIL OF THE CITY OF WOODINVILLE, WASHINGTON,
DOES RESOLVE AS FOLLOWS:**

Section 1. The City Council hereby adopts the policies attached as the Investment Management Policies of the City of Woodinville.

Section 2. The Investment Policies hereto attached shall become part of the Financial Management Policies.

ADOPTED BY THE CITY COUNCIL THIS AND SIGNED INTO AUTHENTICATION OF ITS PASSAGE THIS 9TH DAY OF MAY, 1994.


Lucy DeYoung, Mayor

ATTEST:



James K. Katica
City Clerk/Treasurer

INVESTMENT POLICY

1.0 Policy. It is the policy of the City of Woodinville to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands. All investments shall conform to all Washington statutes that govern the investment of public funds.

2.0 Scope. This investment policy applies to all financial assets of the funds of the City of Woodinville, including the Surface Water Utility fund. These funds, presented in the City's Annual Financial Report, include:

The General Fund (001)

Special Revenue Funds (100 series of fund numbers), to account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds (200 series of fund numbers), to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, including debt service, LID and LID reserve funds.

Capital Project Funds (300 series of fund numbers) to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure (other than those financed by proprietary funds and trust funds) that include the construction project funds.

Enterprise Funds (400 series of fund numbers), to account for operations (a) that are normally financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned expenses incurred, and /or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds (500 series of fund numbers), to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis, represented by the Equipment Replacement, Equipment Rental, and Unemployment reserve Funds.

Any new fund created by the Council unless specifically exempted by the Council.

3.0 Prudence. Investments shall be made with discretion and care, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1 The standard of prudence to be used by investment officials should be the "prudent person", and shall be applied in the contexts of managing an overall portfolio. Investment officers acting in accordance with the written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective. The primary objectives in priority order of the City's investment activity shall be safety, liquidity, and return on investment.

4.1 **Safety:** Safety of principal is the foremost objective of the City of Woodinville. 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 required so that potential losses on an individual security do not exceed the income generated from the remainder of the portfolio.

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

4.3 **Return on Investment:** The City's investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Management Responsibility. Management responsibility for the investment program is hereby delegated to the Treasurer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include reference to safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, and explicit delegation 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 Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

6.0 Ethics and Conflicts of Interest. Officers and employees involved in 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 City Manager any material financial interest in financial institutions that conduct business within this jurisdiction and they

shall further disclose any large personal financial/investment positions that could be regulated to the performance of the City's portfolio.

7.0 Authorize Financial Dealers Institutions. The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved Security Brokers/Dealers selected by credit worthiness and who maintain an office in the State of Washington. These may include primary dealers or regional dealers that qualify under the SEC Rule 15 C3-1, Uniform Net Capital Rule. No public deposit may be made except in a qualified depository in the State of Washington. A current financial statement is required to be on file for each financial institution and broker dealer in which the City invests.

8.0 Authorize Investments. The City of Woodinville is empowered to invest in any of the securities as defined by RCW 35A.40.050 "Fiscal - Investment of Funds". In general, these include:

8.1 Investment deposits, including certificates of deposit, with qualified depositories as defined in Chapter 39.58, RCW.

8.2 Certificate notes or bonds of the United States, or other obligations of the United States, or its agencies, or any corporation owned by the government of the United States, such as the Government Natural Mortgage Association.

8.3 Obligations of government sponsored corporations which are eligible as collateral for advances to member banks, as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, Federal Home Loans, Bank notes and bonds, Federal Farm Credit Bank consolidation notes and bonds, Federal National Mortgage Association Notes, dispensers, and guaranteed certificates of participation.

8.4 Bankers acceptances purchased on the secondary market.

8.5 Repurchase agreements for securities listed in 2, 3 and 4 above, provided that the transaction is structured so that the City of Woodinville obtains control over the underlying securities, and a master repurchase agreement has been signed with the bank or dealer.

8.6 State Investment Pool.

9.0 Safekeeping and Custody. All security transactions, including collateral for repurchase agreements entered into by the City of Woodinville, shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Treasurer.

10.0 Diversification. The City will diversify its investments by security type institution, with the exception of U.S. Treasury Securities and the State Investment Pool. No more than fifty

percent (50%) of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

11.0 Maturities. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched with specific flow, the City will not directly invest securities maturing in more than two years from the date of purchase. However, the City may collaterally repurchase agreements using the longer dated investments. Reserve or construction in progress funds may be invested in securities exceeding five years at maturity if such investments are made to coincide as nearly as practicable with the expected use of the fund's 12.0 internal control. The Treasurer shall establish a process of independent review by an external auditor. This review will assure the policies and procedures are being complied with by providing internal control. Such review may also result in recommendations to change operating procedures to improve internal control.

12.0 Performance Standards. The City of Woodinville investment portfolio will be designed to obtain a market average rate of return in budgetary and economic cycles, taking into account the City's investment risk constraints in cash flow needs.

12.1 Market Yield. The basis used by the Treasurer to determine whether the market yields are being achieved shall be the six month U.S. Treasury bill and the average of said fund rates.

13.0 Reporting. The Treasurer is charged with the responsibility of including a report on investment activity and returns in the City's quarterly reports.

14.0 Adoption of Policy. The City of Woodinville investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed on an annual basis by the Treasurer, or the Finance Committee when applicable, and any modifications made to the Investment Policy must be approved and adopted by the City Council.

GLOSSARY

Agencies. Federal Agency Securities, the price at which the securities are offered.

Bankers Acceptance (BA). A draft or bill in exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer bid.

Commission. 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 have a position in the money market. Brokers are active in markets in which banks buy and sell money and enter dealer markets.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

Coupon. An annual rate of interest that a bond issuer promises to pay the bond holder on the balance of the face value.

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

Debenture. A bond secured only by the general credit of the issuer.

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.

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 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.

Duration. The measurement of sensitivity of a security's market value or price. It is the average time until receipt of the weighted present value of the cash flows, expressed in years.

Factor. The decimal number representing the proportion of the outstanding principal balance of a security to its original certificate amount currently remaining.

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 Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

Federal Funds Rate. The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

Federal Home Loan Banks (FHLB). The institutions that regulate and 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.

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.

Float. The amount of money represented by checks outstanding and in the process of collection.

Freddie Mac. Mortgage-backed issuer created in July, 1970.

Full Faith and Credit. A pledge of the general taxing power of a government to repay debt obligations (typically used in reference to bonds).

General Obligation Bonds. When a government pledges its full faith and credit to the repayment of the bonds it issues, then those bonds are general obligation (GO) bonds.

Sometimes the term is used to refer to bonds which are to be repaid from taxes and other general revenues.

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.

Internal Control. A plan of organization for purchasing, accounting, and other financial activities which, among other things, provides that:

- the duties of employees are subdivided so that no single employee handles a financial action from beginning to end;
- proper authorizations from specific responsible officials are obtained before key steps in the processing of a transaction are completed; and
- records and procedures are arranged appropriately to facilitate effective control.

Investment. Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals or base payments.

Investment Instrument. The specific type of security which a government purchases and holds.

Limited Liability Bonds. When a government issues bonds which do not pledge the full faith credit of the jurisdiction, it issues limited liability bonds. Typically, pledges are made to dedicate one specific revenue source to repay these bonds, or some other special repayment arrangements are made.

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.

Performance Measures. Specific quantitative measures of work performed within an activity or program (e.g., total interest earned). Also, a specific quantitative measure of results obtained through a program or activity (e.g., comparison of portfolio yield to six month treasury bill).

Premium. The amount by which a security is selling above par.

Portfolio. Collection of securities held by an investor.

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 insight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

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.

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.

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.

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 vaults for protection.

Secondary Market. A market made for the purchase and sale of outstanding issues following the initial distribution.

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 security deposits of public monies.

Securities & Exchange Commission. Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Tax Anticipation Notes. Notes issued in anticipation of taxes which are retired usually from taxes collected.

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.

Weighted Average Life. The weighted average number of years from the security's issuance until each principal dollar is returned to the investor.

Yield. The rate of annual income return on an investment, expressed as a percentage.

- **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 purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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 into cash.