RESOLUTION NO. 132

A RESOLUTION OF THE CITY OF UNIVERSITY PLACE, WASHINGTON, ESTABLISHING AN INVESTMENT POLICY

WHEREAS, it is the policy of the City of University Place to invest public funds in a manner that will provide the highest investment return with maximum security;

WHEREAS, the primary objectives of the city's investment activities shall be safety, liquidity, and return on investment;

WHEREAS, it is necessary to establishment an investment policy of the City to insure the city's policy and primary objectives relating to the investment of public funds are accomplished: NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF UNIVERSITY PLACE, WASHINGTON, AS FOLLOWS:

Section 1. Investment Policy Adopted. The City of University Place Investment Policy is hereby adopted, attached as Exhibit A to this Resolution.

Section 2. Effective Date. This Resolution shall become effective immediately upon its adoption.

ADOPTED BY THE CITY COUNCIL ON DECEMBER 3, 1996.

Ronald L. Williams, Mayor

ATTEST:

Susan Matthew, City Clerk

CITY OF UNIVERSITY PLACE

INVESTMENT POLICY

(Adopted December 3, 1996 by the City Council as Exhibit A to Resolution No. 132)

POLICY

It is the policy of the City of University Place to invest public funds in a manner that will provide the highest investment return with maximum security, while meeting the daily cash flow demands on the treasury and conforming to all Washington statutes governing the investment of public funds.

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:

1) General Fund
2) Special Revenue Funds
3) Capital Project Funds
4) Enterprise Funds
5) Trust and Agency Funds
6) Any new fund created by Council, unless specifically exempted by Council.

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

OBJECTIVES

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 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 the investment office will be the "prudent person" and shall be applied in the context of managing an overall portfolio. The investment officer acting in accordance with this 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 manner and appropriate action is taken to control adverse developments.

STRATEGY AND OBJECTIVES

The primary investment strategy will be to invest excess idle cash within the constraints of this policy in order to maximize interest earnings. This will be done in a manner that supports the city's primary purpose of providing services to the public.

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

Safety: Safety of principal is the foremost objective of the city. Investments of the City of University Place shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity: The city's investment portfolio will remain sufficiently liquid to enable the city to meet all operating and debt service requirements that might be reasonably anticipated.

Return on Investment: The city's investment portfolio will be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the city's investment risk constraints and the cash flow characteristics of the portfolio. Investment of tax exempt borrowing proceeds and of any debt service funds will comply with the "arbitrage" restrictions of Section 148 of the Internal Revenue Code of 1986.

DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the Finance Manager. The Finance Manager will be responsible for all transactions undertaken and will establish a system of controls and standard operating procedures to regulate the activities of subordinate officials. The Finance Manager shall appoint an alternate to manage these transactions in his/her absence.

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 Council 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 University Place, particularly with regard to the time of purchases and sales.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

It is the intent of the Finance Manager to conduct his/her investment transactions with several competing, reputable investment securities broker/dealers and financial institutions.

The Finance Manager will maintain a list of financial institutions, as required by the Public Deposit Commission, authorized to provide investment services (RCW 39.58.080). In addition a list will also be maintained of approved security broker/dealers who maintain an office in the State of Washington. No public deposit shall be made except in a qualified depository in the State of Washington. Total deposits may not exceed that depository's net worth (RCW 39.58.130).

AUTHORIZED INVESTMENTS

- Certificates, notes, bonds or other obligations of the United States. RCW 43.84.080; 36.29.020. (Treasury bills, bonds.)

- Obligations of US agencies or of any corporation wholly owned by the government of the United States. RCW 43.84.080; 36.29.020. (Government National Mortgage Association bonds. Small Business Administration bonds.)

- Federal Home Loan Bank notes and bonds. RCW 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. Maritime Administration bonds.)

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency. RCW 39.59.010.

- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government other than the State of Washington, which bonds have at the time of investment one of the three highest ratings of a nationally recognized rating agency. RCW 39.59.010.

- Bonds or other obligations issued by a housing authority pursuant to the housing authorities' law of this state or issued by any public housing authority or agency in the United States. RCW 35.82.220.

- Bonds or warrants of the State of Washington. RCW 35.39.030.

- Washington State Housing Finance Commission bonds. RCW 43.180.190.

- Port district revenue bonds and notes issued under authority of Chapter 54.34 RCW. RCW 53.34.150.

- Bonds or other obligations issued by a metropolitan corporation pursuant to Chapter 35.58 RCW. RCW 35.58.510.

- State, county, municipal, or school district bonds, or warrants of taxing districts of the state. Such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations. RCW 43.84.080.

- General obligation or utility revenue bonds or warrants of any city or town in the state. RCW 35.39.030.

- The city's own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law. RCW 35.39.030.

- The city's own local improvement installation notes that are within the protection of the local improvement guaranty fund law. RCW 35.45.150.

- Interim financing warrants of a local improvement district that is within the protection of the local improvement guaranty fund law for the benefit of the General Fund. RCW 35.39.034.

- Subject to the arbitrage provisions of Section 148 of the federal Internal Revenue Code or similar provision concerning the investment of state and local money and funds (applicable only to bond proceeds), the following mutual funds and money market funds:

1) Shares of mutual funds with portfolios consisting of only United States government or United States government guaranteed bonds issued by federal agencies with average maturities of less than 4 years, or bonds described in RCW 39.59.020 (1) or (2), except that bonds otherwise described in RCW 39.59.020 (1) or (2) shall have one of the four highest ratings of a nationally recognized rating agency;

2) Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognizes rating agency;

3) Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments. RCW 39.39.030.

- Bankers' acceptances purchased on the secondary market. RCW 43.84.080, 36.29.020.

- Any investments authorized by law for the treasurer of the State of Washington or any local government of the State of Washington but, except as provided in Chapter 39.58 RCW, such investments shall not include certificates of deposit (CD) of banks or bank branches not located in the State of Washington. RCW 39.59.020.

APPORTIONMENT OF INTEREST AND INVESTMENT EARNINGS

Investments shall be made with excess funds and the interest earnings will be distributed as follows: Monies determined by the Finance Manager to be available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common fund called the Treasury Account. All income derived from Treasury Account investments shall be used for the benefit of the General Fund of the City. Funds derived from the sale of general obligation bonds or revenue bonds or similar instruments of indebtedness shall be invested, or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

SAFEKEEPING AND CUSTODY

Security transactionsentered into by the City of University Place shall be conducted on a delivery-versureceipt (DVR) basis, unless otherwise determined by the Finance Manager. Delivered securities will be held by a third party custodian designated by the Finance Manager,and approved by the Assistant City Manager.

DIVERSIFICATION

It is the policy of the city to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

***Diversification by Instrument*:**	**Maximum % of Portfolio**
US Treasury Obligations (Bills, notes and bonds)	100%
US Government Agency Securities and Instrumentalities of Government Sponsored Corporations	100%
Municipal Bonds	50%
Bankers' Acceptances (BA's) ($100,000 minimum each)	20%
Certificates of Deposits (CD's) (qualified depositories only; $100,000 minimum)	
*Commercial Banks	100%
*Savings and Loan Associations	10%
Local Government Investment Pool	100%
Federated Money Market Fund (Sweep account at Security State Bank)	25%

Diversification by Financial Institution:

Bankers' Acceptances (BA's) - no more than 20% of total portfolio with one institution.

Certificates of Deposit (CD's), Commercial - no more than 33% of total portfolio with one institution.

Certificates of Deposit (CD's), Savings and Loan Associations - no more than 10% of total portfolio with one institution.

Local Government Investment Pool - no more than 100% of the portfolio.

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 four years from the date of purchase.

INTERNAL CONTROL

The Finance Manager shall establish a process of independent review by the Assistant City Manager and the City Finance Committee.,. This review will provide internal control by assuring that policies and procedures are being followed. Such review may also result in recommendations to change operating procedures to improve internal control.

PERFORMANCE STANDARDS

The City of University Place investment portfolio will be designed with the objective of regularly exceeding the average return onthe State of Washington Local Government Investment Pool, or the average on Fed funds, whichever is higher. These indices are considered benchmarks for riskless investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

The Finance Manager's goal is to have 100% of the city's idle cash invested at all times.

REPORTING

The Finance Manager will provide the Assistant City Manager with a monthly report of investment holdings for his/her review and approval, and will rerpot no less frequently than quarterly to the finance Committee regarding portfolio performance.

MONITORING AND ADJUSTING THE PORTFOLIO

The Finance Manager will routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments.

INVESTMENT POLICY ADOPTION

The city's investment policy was adopted by Resolution by the City Council on December 3, 1996. The policy shall be reviewed annually by the Finance Committee of the council and any modifications made thereto must be approved by the council as a whole.

GLOSSARY

Agencies: Federal agency securities.

Amortization: The reduction of principal (of debt) at regular intervals.

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.

Basis Points: The smallest measure used in quoting the yield of bonds. One basis point equals .01% of yield. For example, a bond that changed from 3% to 3.25% changed twenty-five basis points. One basis point for one year on one million dollars would earn $100.

Bid: The price offered for securities.

Bond: A written promise to pay (debt) a specified sum of money (called principal or face value) at a specified future date (called the maturity date{s}) along with the periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt.

Bond Anticipation Notes: Short-term interest bearing notes issued in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

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

Cash Flow Budget: A projection of the cash receipts and disbursements anticipated during a given time period. Typically, this projection covers a year and is broken down into separate projections for each month, week and/or day during the year.

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 that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Coupon: (1) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (2) 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.

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

Delivery Versus Payment (DVP): There two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery 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 is also 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, i.e., US 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., savings and loans, 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-à-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 and Urban Development, HUD. 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 Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, DC, 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 that 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 the full faith and credit of the US 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 transaction 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 an 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 that 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.

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.

Par: The face amount of an instrument of value (as a check or note).

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

Pool: A group of mortgages underlying a specific mortgage backed security (MBS) issue.

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

Portfolio: Collection of securities held by an investor.

Prudent Person Rule: An investment standard. This rule assumes investments will be made with the judgment and care 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 probably income to be derived.

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 Public Deposit Protection Commission (PDPC) eligible collateral having a value of not less than its maximum liability and which has been approved by the PDPC 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 (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.

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 & Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Stated Maturity: A predetermined final maturity date that cannot be altered by prepayments.

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

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

Treasury Bond: Long-term US Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing US Treasury securities having initial maturities of 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 the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.