

RESOLUTION NO. 2015-20

A RESOLUTION of the City Council of the City of Lakewood,
Washington, approving investment policies.

WHEREAS, it is in the City's best interest 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; and,

WHEREAS, it is in the City's best interest to formalize its investment policies in writing.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LAKEWOOD,
WASHINGTON HEREBY RESOLVES as follows:

Section 1. That the City of Lakewood hereby adopts the City of Lakewood Investment Policy, as set forth in Attachment A to this Resolution and incorporated by reference.

Section 2. Repealer. Resolution 1996-33 is repealed in its entirety.

Section 3. Severability. 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. Ratification. Any act consistent with the authority and prior to the effective date of the resolution is hereby ratified and affirmed.

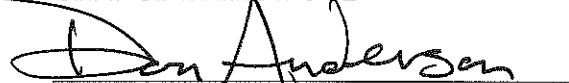
Section 5. Effective Date. This resolution shall be effective immediately upon passage.

PASSED by the City Council this 6th day of July, 2015.

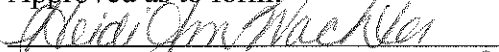
Attest:


Alice M. Bush, MMC, City Clerk

CITY OF LAKEWOOD


Don Anderson, Mayor

Approved as to form:


Heidi-Ann Wachter, City Attorney ^{PK}

CITY OF LAKEWOOD INVESTMENT POLICY

I. Policy

It is the policy of the City of Lakewood 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.

II. Scope

The investment policy applies to all financial assets of the City of Lakewood. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General fund
- Special revenue funds
- Capital project funds
- Debt service funds
- Enterprise funds
- Internal service funds

Except for funds in certain restricted and special funds, the City of Lakewood commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. Objectives

The primary objectives, in priority order, of investment activities shall be:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the safest types of securities;
- Prequalifying the financial institutions and broker/dealers with which the City will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

The City will minimize interest risk, the risk that the market value of securities in the portfolio will fall due to changes in general market rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
- Investing operating funds primarily in short-term securities, money market mutual funds or similar investment pools.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary market or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in the Local Government Investment Pool which offers same-day liquidity for short-term funds.

3. Yield

Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent for the City to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates.

IV. Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Assistant City Manager for Administrative Services, who 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 Assistant City Manager for Administrative Services. The Assistant City Manager for Administrative Services shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Prudence

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 this investment policy and exercising due diligence shall be relieved of personal liability 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 "prudent person" standard states that,

“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.”

VI. 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 authorized to place or approve investments shall not personally, nor through a close relative, maintain any accounts, interest, or private dealings with any firm with which the City places investments, except for regular savings accounts, checking accounts, money market accounts, or other similar transactions which are offered on a non-negotiable basis to the general public.

All persons authorized or approved for investments shall disclose to the City Manager any material financial interest in financial institutions that conduct business within the City.

All personnel involved in the investment function shall adhere closely to the City's Code of Ethics.

VII. Internal Controls

The Assistant City Manager for Administrative Services 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. 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.

Accordingly, the Assistant City Manager for Administrative Services shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

VIII. Reporting

The Assistant City Manager for Administrative Services is charged with the responsibility of including a report on investment activity in the City's quarterly financial report that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This report will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy.

Quarterly reports will include but not limited to:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.

IX. Authorized Investments

The City may only invest in those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.84.080 and 43.250). Authorized investments include:

- Obligations of the U.S. government (U.S. Treasury Notes, Bonds and Bills).
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's) with the exception of mortgage backed securities (MBS), which are prohibited. These include but are not limited to: Federal Home Loan Bank (FHLB); Federal Farm Credit Bank (FFCB); Government National Mortgage Association (GNMA); Federal Home Loan Mortgage Corporation (FNMA); and Federal Agricultural Mortgage Corporation (FAMC).
- Bankers' acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the bankers' acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations. Bankers' Acceptances are considered illiquid as there is no active secondary market for these securities.
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Commercial Paper provided that the City adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Washington State Local Government Investment Pool; and
- Bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
- Repurchase agreements provided that the transaction is structured so that the City of Lakewood obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the financial institution or broker/dealer. Collateralization will be required on all repurchase agreements at a minimum level of 102% of the market value of principal and accrued interest. This is to anticipate any market changes and to provide an adequate level of security for all funds.

X. Authorized Financial Institutions and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting

a process of due diligence. These may include 'primary' dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

Selection of financial institutions and brokers/dealers authorized to engage in transactions with the City of Lakewood shall be at the sole discretion of the City.

All broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of FINRA certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read, understood and agreeing to comply with the City of Lakewood's investment policy.

All financial institutions who desire to become depositories must supply the following as appropriate:

- Audited financial statements
- Proof of state registration

A periodic review of the financial condition and registration of all qualified financial institutions and brokers/dealers will be conducted by the investment officer.

XI. Selection of Investment Instruments

Investment transactions will be based upon the final institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc., the Assistant City Manager has the authority to waive this. Generally all brokers will not have the same inventory of agencies available to sell, but should be able to offer comparable alternatives.

The City will also make its best effort to obtain three bids for bankers' acceptances and certificates of deposits (other than a compensating balance CD). Where two or more institutions or brokers have offered the same low bid, allocation will go to the first lowest bid received by the City.

When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

XII. Diversification

It is the policy of the City of Lakewood to diversify its investment portfolio. Assets held in the common cash fund shall be diversified to avoid incurring unreasonable risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The following diversification limitations shall be imposed on the portfolio:

- *Maturity* – Not more than 20% of the portfolio may be invested beyond 12 months, and average maturity of the portfolio may not exceed two years. The maximum stated final maturity of individual shall be five years.
- *Default Risk* – No more than 5% of the portfolio may be invested in the securities of a single issuer, except for the U.S. Treasury, to which no limits apply. No more than 30% of the portfolio may be invested in bankers' acceptances and certificates of deposit.
- *Liquidity Risk* – At least 20% of the portfolio may be invested in overnight instruments or in marketable instruments can be sold to raise cash in one day's notice.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

XIII. 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 to ensure that securities are deposited in an eligible financial institution prior to the release of funds. To protect against potential fraud and embezzlement, securities will be held by a third party custodian with whom the City has executed a safekeeping agreement. The delivery of these securities will be evidenced by safekeeping receipts.

XIV. Performance Standards

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs. The City of Lakewood's investment strategy is passive. Given this strategy, the basis used by the Investment Officer will be the average 6-month Treasury bill and the average Local Government Investment Pool rate for the quarter.

XV. Investment Policy Adoption

The City of Lakewood's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Assistant City Manager for Administrative Services to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. Proposed amendments to this policy shall be prepared by the Assistant City Manager for Administrative Services, and after review and approval by the City Manager, shall be forwarded to the City Council for consideration and approval.

GLOSSARY

Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the US Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

Amortization - The systematic reduction of the amount owed on a debt issue through period payments of principal.

Bankers' Acceptances (BAs) - A short-term debt instrument issued by a firm that is guaranteed by a commercial bank. These instruments are similar to Treasury Bills and are frequently used in money market funds. BAs trade at a discount from face value on the secondary market. The date of maturity typically ranges between 30 – 180 days from the date of issue.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield (e.g. $\frac{1}{4}$ of 1 percent equals 25 basis points).

Bid - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained (see Offer)

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in market.

Callable Security - A security with an embedded call provision that allows the issuer to repurchase or redeem the security by a specified date. Since the holder of a callable security is exposed to the risk of the security being repurchased, the callable security is generally less expensive than comparable securities that do not have a call provision.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Certificates of Deposits (CDs) - Certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Risk - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

Custodian - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the investor.

Delivery vs Payment - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchase or his/her custodian.

Discount - The price of a bond that is lower than par. The discount equals the difference between the price paid for a security and the security's par value.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration - A measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates means falling bond prices, while declining interest rates mean rising bond prices. The greater the duration, the greater the interest-rate risk or reward for bond prices.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation of sale.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Reserve Bank of New York - The Federal Reserve Bank that is responsible for the second district and is located in New York City. The Federal Reserve Bank of New York has developed the capacity to conduct reverse purchase agreement transactions with an expanded set of counterparties.

Federal Reserve System - The central bank of the United States which has regulated the US monetary and financial system since its inception in 1913. It is composed of a central governmental agency (the Board of Governors) and twelve regional Federal Reserve Banks.

Financial Industry Regulatory Authority (FINRA) - A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. The FINRA is responsible for governing business between brokers, dealers and the investing public. By consolidating these two regulators, FINRA aims to eliminate regulatory overlap and cost inefficiencies.

Floating Rate Note - A debt instrument with a variable interest rate tied to a benchmark such as the US Treasury bill, LIBOR, the fed funds or the prime rate. Floaters are mainly issued by financial institutions and governments, typically with one- to three year maturities.

Government Sponsored Enterprise (GSE) - A privately held corporation with public purposes created by the US Congress to reduce the cost of capital for certain borrowing sectors of the economy. GSEs carry the implicit backing of the US Government but are not direct obligations of the US Government. Examples of GSEs include: Federal Home Loan Bank; Federal Home Loan Mortgage Corporation; Federal Farm Credit Bank; and Federal National Mortgage Association. Securities issued by GSEs are known as agency securities.

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls – An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points.

Control of Collusion – Collusion is a situation where two or more employees are working in conjunction to defraud their employer

Separation of transaction authority from accounting and record keeping – By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

Custodial safekeeping – securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Avoidance of physical delivery securities – Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Clear delegation of authority to subordinate staff members – Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Written confirmation of transactions for investments and wire transfers – Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions shall be supported by written communications and approved by the appropriate person. Written communications may also be electronic if on letterhead and if the safekeeping institution has a list of authorized signatures.

Development of a wire transfer agreement with the lead bank and third-party custodian – The designated official should ensure that the agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Liquidity - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

Loss - The excess of the cost or book value of an asset over selling price.

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.

Mark-to Market - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

Market Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

Market Value - The price at which a security is trading and could presumably be sold.

Master Repurchase Agreement - An agreement between the investor and the dealer or financial institution. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

Maturity - The time when a security becomes due and at which time the principal and interest of final coupon payment is paid to the investor.

Offer - The indicated price at which a seller is willing to sell a security or commodity. (See Bid) When buying a security an offer is obtained.

Par Value - The nominal or face value of a debt security; that is, the value at maturity.

Portfolio - Collection of securities held by an investor.

Premium - The amount by which the price paid for a security exceeds its par value.

Primary Dealers - Primary government dealers are a group of banks and investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its executing of Federal Open Market Operations. Such dealers must be qualified in terms of reputation, capacity and adequacy of staff and facilities.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are tied to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prudence - The ability to govern and discipline oneself by use of reason; shrewdness in the management of affairs; application of skill and good judgment in the use of resources. Also refers to the suitability of investments for the risk and return profile and the time horizon of a given investor.

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 prior 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.

Reverse Repurchase Agreement (Reverse REPO) - An agreement of one party to purchase securities at a specified price from a secondary party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

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

Securities - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

Securities & Exchange Commission (SEC)

An agency created by Congress to protect investors in securities transactions by administering securities legislation.

Settlement Date - The day on which payment is due for a securities purchase. Fixed income securities typically settle one business day after the trade date.

Term Bonds - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Third Party Safekeeping - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period: Price Appreciation + Dividends Paid + Capital Gains = Total Return

Treasury Bills - Treasury bills are short-term debt obligations of the US Government with maturities of less than one year. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bill" account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered to be very low risk, these instruments generally yield the lowest returns among the money market instruments.

Treasury Bonds - Long-term US government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Treasury Notes - A marketable US government debt security with a fixed interest rate and a maturity between one and ten years. Treasury notes are considered low-risk since they are backed by the full faith

and credit of the US government. Because they are lower risk and highly liquid they generally deliver a lower return than other securities having comparable maturities.

Volatility - A degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM) - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening lengthening the average maturity of its portfolio.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principals of the security and is payable at par upon maturity.

RCW CITATIONS

RCW 35.39.030

Excess or inactive funds – Investment.

Every city and town may invest any portion of the moneys in its inactive funds or in other funds in excess of current needs in:

- (1) United States bonds;
- (2) United States certificates of indebtedness;
- (3) Bonds or warrants of this state;
- (4) General obligation or utility revenue bonds or warrants of its own or of any other city or town in the state;
- (5) Its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and
- (6) In any other investments authorized by law for any other taxing districts.

RCW 35.39.032

Approval of legislative authority – Delegation of authority – Reports.

No investment shall be made without the approval of the legislative authority of the city or town expressed by ordinance: PROVIDED, That except as otherwise provided by law, the legislative authority may by ordinance authorize a city official or a committee composed of several city officials to determine the amount of money available in each fund for investment purposes and make the investments authorized as indicated in RCW 35.39.030 as now or hereafter amended and the provisions of RCW 35.39.034, without the consent of the legislative authority for each investment. The responsible official or committee shall make a monthly report of all investment transactions to the city legislative authority. The legislative authority of a city or town or city official or committee authorized to invest city or town funds may at any time convert any of its investment securities, or any part thereof, into cash.

RCW 35.39.034

Investment by individual fund or commingling of funds – Investment in United States securities - Validation.

Moneys thus determined available for this purpose may be invested on an individual fund basis or may, unless otherwise restricted by law be commingled within one common investment portfolio for investment. All income derived from such investment shall be apportioned and used for the benefit of the various participating funds or for the benefit of the general or current expense fund as the governing body of the city of [or] town shall determine by ordinance or resolution: PROVIDED, That 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.

Any excess or inactive funds on hand in the city treasury not otherwise invested, or required to be invested by this section, as now or hereafter amended, may be invested by the city treasurer in United States government bonds, notes, bills, certificates of indebtedness, or interim financing warrants of a local improvement district which is within the protection of the local improvement guaranty fund law for the benefit of the general or current expense fund.

All previous or outstanding investments of city or town funds for the benefit of the city's or town's general or current expense fund which have been or could be made in accordance with the provisions of this section, as now or hereafter amended, are declared valid.

RCW 39.58.080

Deposit of public funds in public depository required — Deposits in institutions located outside the state.

(1) Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, funds deposited pursuant to a custodial bank contract with the state's custodial bank, and funds deposited pursuant to a local government multistate joint self-insurance program as provided in RCW 48.62.081, no public funds shall be deposited in demand or investment deposits except in a public depository located in this state or as otherwise expressly permitted by statute: PROVIDED, That the commission, or the chair upon delegation by the commission, upon good cause shown, may authorize, for such time and upon such terms and conditions as the commission or chair deem appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington solely for the purpose of transmitting money received to public depositories in the state of Washington for deposit.

(2) Notwithstanding subsection (1) of this section, the commission, or the chair upon delegation by the commission, upon good cause shown, may authorize, for that time and upon the terms and conditions as the commission or chair deems appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington for deposit of certain higher education endowment funds, for a specified instructional program or research project being performed outside the state of Washington. RCW 43.250.040

RCW 39.59.020

Authorized investments — Bonds, warrants, and other investments

In addition to any other investment authority granted by law and notwithstanding any provision of law to the contrary, the state of Washington and local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment, in:

(1) 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;

(2) General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than 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;

(3) Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment; or

(4) Any investments authorized by law for the treasurer of the state of Washington or any local government of the state of Washington other than a metropolitan municipal corporation but, except as provided in chapter 39.58 RCW, such investments shall not include certificates of deposit of banks or bank branches not located in the state of Washington.

RCW 43.250.040**Authority of official to place funds in the public funds investment account – Investment of funds by state treasurer – Degree of judgment and care required.**

If authorized by statute, local ordinance, resolution, or other appropriate official action, the state treasurer, a government finance official or financial officer or his or her designee, or authorized tribal official, may place funds into the public funds investment account for investment and reinvestment by the state treasurer in those securities and investments set forth in RCW 43.84.080 and chapter 39.58 RCW. The state treasurer shall invest the funds in such manner as to effectively maximize the yield to the investment pool. In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the 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.

RCW 43.84.080**Investment of current state funds.**

Wherever there is in any fund or in cash balances in the state treasury more than sufficient to meet the current expenditures properly payable therefrom, the state treasurer may invest or reinvest such portion of such funds or balances as the state treasurer deems expedient in the following defined securities or classes of investments:

- 1) Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States;
- (2) In state, county, municipal, or school district bonds, or in 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. The state treasurer may purchase such bonds or warrants directly from the taxing district or in the open market at such prices and upon such terms as it may determine, and may sell them at such times as it deems advisable;
- (3) In motor vehicle fund warrants when authorized by agreement between the state treasurer and the department of transportation requiring repayment of invested funds from any moneys in the motor vehicle fund available for state highway construction;
- (4) In federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the 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;
- (5) Bankers' acceptances purchased on the secondary market;
- (6) Negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the United States: PROVIDED, That the treasurer shall adhere to the investment policies and procedures adopted by the state investment board;
- (7) Commercial paper: PROVIDED, That the treasurer shall adhere to the investment policies and procedures adopted by the state investment board.