

**PORT OF EVERETT
FINANCIAL MANAGEMENT GUIDELINES
May 2014 Adopted**

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General Financial Management Guidelines

I. Purpose and Background:

The stewardship of public funds is one of the primary responsibilities given to elected officials of the Port of Everett. Critical to managing these responsibilities are the establishment of financial policies which enable Port officials to manage the Port's financial resources in a prudent manner that meets its current obligations while planning for future financial needs. This document summarizes existing financial policies in place and establishes guidelines for fiscal management decisions. It is recognized that this document cannot encompass or anticipate all financial decisions and it is intended that these policies be applied broadly and yet be flexible to meet special circumstances as they arise.

II. Financial Philosophy

It shall be the goal of the Port to achieve a strong financial condition that provides the necessary financial resources to:

- Sustain operations.
- Withstand downturns in the local, regional and global economy
- Ensure the timely payment of all fiscal obligations.
- Provide resources adequate to pay for unanticipated emergencies.
- Meet all debt covenants.
- Maintain financial benchmarks.

III. Financial Management Priorities

The Chief Financial Officer is directed to manage the Port's financial assets and liabilities with the following priorities:

1. To provide financial means to meet all legal and mandated obligations.
2. To provide resources to maintain the existing primary infrastructure and other assets of the Port.
3. To provide for the operating costs of port-owned and operated amenities and programs.
4. To provide for the replacement of port-owned real assets and equipment.
5. To provide for investment in new assets, amenities and programs to advance policy goals.

All Port decisions should reflect both immediate and long-term costs, including on-going operational costs. The Port will seek, promote, and support intergovernmental and public/private partnerships looking to leverage local community investments with contributions from federal, state, and private sources.

The Port of Everett's financial guidelines, compiled below, set forth the basic framework for the overall fiscal management of the Port. These recommendations provide a financial platform for evaluating both current activities and proposals for future programs. From time to time it is anticipated that these guidelines will be modified to provide financial guidance for issues and situations which were not previously anticipated.

Definitions

For purposes of this document the following definitions apply:

Cash is any cash equivalent which can be converted into cash readily.

Cash Reserves is defined as the net amount of cash that can be reasonably expected to be available for use within the current rolling 12 month period after payment of those short-term liabilities that are reasonably expected to be paid during the same period.

Operating Activities are those activities of the Port which are directly related to the users of Port facilities and include Marine Terminals, Marina Services and Property Development and Leasing.

Operating Revenues are those revenues generated from activities by users of Port facilities. "Operating Activities".

Operating Expenses are those expenses which occur due to the daily operating activities of the Port including all direct costs, all administrative overhead costs, and allocated maintenance costs.

Non-Operating Revenues include all revenues generated from sources other than from the Operating Activities. These include tax receipts, interest earnings, revenues generated by public access activities and most grant related revenues.

Non-Operating Expenses include all interest costs and miscellaneous fees not directly related to the Port's operations, as well as expenditures to operate and maintain public access facilities and assets.

Capital Budgets and Purchases are expenditures for physical assets which are utilized over a period of several years and consequentially depreciated over its useful life. Examples include major construction projects, buildings, equipment, office furniture, etc.

Public Access Activities include facilities available to the public such as the boat launch and meeting venues. It also includes infrastructure available to the public such as walkways, restrooms and trails. Programs that promote the use of port facilities such as festivals, events and public meetings are also included within the public access budgets.

Public Access Investments are those divisional activities which have been determined by the Port Commission as to be of such public benefit that the activities should be primarily funded through the use of specific Property Tax receipts. Examples of Public

Investments include environmental re-mediations and capital infrastructure projects such as trails and walkways.

Public Access Revenues and Expenses are receipts and expenses from divisional activities determined to be supportive of Public Access activities.

Revenue Guidelines

1. The Port will attempt to maintain a diversified and stable stream of operating revenues to shelter it from short-run fluctuations in any one revenue source.
2. On any agreement for services or property provided by the Port to Port clients which will total in excess of \$25,000 in any one year, Port staff will conduct an adequate review of prospective client's financial position and projections to ascertain the ability of the client to pay the fees within its agreement. Should Port management, through its review, conclude that the prospective user of Port property does not have sufficient financial resources to assure continued payments of the revenues, the Executive Director will direct Port management to secure additional security backing the agreement, or if this is not possible, recommend that the agreement not be consummated.
3. The Port will charge tariffs, fees, and lease rates which will, at a minimum, generate sufficient revenue to cover all proportionate direct costs of operations associated with the use of that asset, as well as sufficiently cover all maintenance costs, a prorate portion of the Port's general and administrative costs and any financing costs (or equivalent cost of capital). The Port will further strive to establish tariffs, fees, and lease rates which, at a minimum, will provide for the full value of Port assets within a defined schedule of replacement.

For Operating Activities which include public infrastructure such as breakwaters, roads, dredging and parking lots, Port staff shall determine the appropriate allocation of such infrastructure to the overall costs of the those Operating Activities and include the replacement of such infrastructure into the rates and tariffs of those operations. When accounting for the value of operating assets, all ancillary costs of development including environmental mitigation and remediation, planning, legal, and any other development cost should be calculated and included in the cost basis for determining tariffs, fees and lease rates.

4. For projects in which the Port is entering into a long term agreement (10 years or longer) staff will have the authority to negotiate tariffs, fees and lease rates which are below the financial returns required in section 3 above, as long as the overall revenue streams meet the following minimum requirements:
 - A. A calculation of a Present Value of all Revenue streams for the period of the agreement exceeds the present value of the annual debt service by 35%.
 - B. That in no instance does the projected cash flow (calculated as Project Revenues less Expenses) in any one year fall below the annual debt service required to support the project.
 - C. That the debt service for projects not being financed by the issuance of debt but through reduction of cash reserves will be calculated at the net interest cost

available if the project would have been financed through the issuance of debt.

- D. Returns for projects requiring nominal or no direct Port investment (land and existing buildings) rates and tariffs shall be negotiated with a positive net present value return (over the life of the agreement) assuming a discount rate that approximates the Port's current borrowing rate.
 - E. For those projects which include both a Port-owned land component and a new capital investment into a Port-owned building, the lease rate should calculate the present value returns assuming that the Port desires a rate of return on the fair market value of the land of 6-8%, and the new investment in the building component of 8-10%.
 - F. Agreements which are negotiated at rates below the expected returns calculated in Section 4.A-E above will be at or above the expected returns required within seven years after consummation of the agreement.
5. When projected revenues from a project do not meet the minimum threshold over the life of a project as calculated in either Section 3 or 4 above, staff must bring forward the recommendation for Commission approval by clearly stating that the project "does not meet the financial guidelines." and articulating the non-financial benefits of the proposal.
 6. Port management staff has the authority to negotiate terms, conditions, and charges for services which deviate from the published Marine Terminals tariffs and fees without prior Commission approval when, in the course of business, it is deemed necessary to do so to capture new revenues or retain existing business relationships. All such changes shall be promptly reported to the Commission. Any revenue transaction which commits the Port to additional capital expenditures or to a financial or contractual commitment which extends past the current budget year may only be approved directly through presentation to the Commission.
 7. To assess what asset values should be used to establish appropriate pricing of services and leases, the Executive Director will ensure that all leasable assets (land, buildings, and related infrastructure) are appraised as to current value and that the replacement values of such assets be ascertained at the minimum every five years.
 8. The Port will also periodically survey market rates within the Port district for lease and rental of real assets to ascertain the appropriate rental rates that will not adversely compete with the real asset investments made by the private sector.
 9. It is acknowledged that the Port operates its public marina's primarily for the benefit of local boaters. The Port Commission has established a separate rate structure for calculating the tariffs for moorage. Absent other mitigating circumstances the Port will strive to set Marina tariffs that meet these guidelines.

Expenditure Guidelines:

Operating expenses:

1. The Port is committed to managing its expenses within annually approved budgets. The expenses shall be in conformance with State law and provide for the following priorities of the Port;
 - a. Meet all legal and environmental requirements of the Port.
 - b. Provide for the physical safety and security of the customers, users, employees and tenants of the Port of Everett
 - c. Provide professional services for the benefit of Port customers and clients.
 - d. Provide services that will assure the continuity of services in the event of an emergency or natural disaster.
 - e. To maintain and service the physical assets of the Port.
 - f. Provide for collaborative ways to participate in trade, economic development and general enhancement of the economy of the Port district.
 - g. Provide for recreational opportunities and public access to Everett's waterfront
2. All operating expenditures will be made only after appropriate approvals have been attained and within purchasing standards as established by the Port and within Washington State law. Any expenditure made outside of the Port's established purchasing standards cannot be paid. In the event of a declared emergency, approval procedures may be temporarily waived or modified.
3. The Port shall establish contracting procedures that meets all state and federal requirements. Contracts for services shall be periodically reviewed, as per policy, to assure that competitive pricing for services is paid. Generally, services contracts shall not be signed for an initial period of longer than three years and shall include language that provides for annual re-appropriation for the services through the formal budget process.

Capital expenditures

1. The Port will develop a multi-year capital improvement plan that will be updated annually, incorporated into the Comprehensive Scheme of Harbor Improvements and be adopted by the Commission as part of the annual budget process. Efforts will be made to make investments in capital assets based on the details of the plan. When Port staff determine that projects not contained in the capital improvement plan are of sufficient urgency to be proposed for completion in the current fiscal year, the Executive Director will provide to the Commission the details of the project as well as a recommendation as to how the current capital improvement plan should be modified to address the costs of the proposed project.
2. Capital Improvements for operating activities will generally be made from cash generated from operations. Revenue bonds or other debt instruments can be used

to finance an operating activity capital project if after fiscal review it is determined that the proposed capital project can generate sufficient cash flow to support the debt service payment requirement of the borrowing. When a project is determined to have insufficient revenues to support a specific revenue debt financing, staff shall articulate to the commission specific options for potentially mitigating the financial shortfall.

3. The Port will maintain its physical assets at a level adequate to protect the Port's capital investments and minimize future maintenance and replacement costs. A comprehensive maintenance and replacement schedule will be developed and maintained.

Budget Guidelines

1. The Executive Director will present to the Port commission a detailed Operating and Capital budget that includes the following components:
 - a. One year detailed budget for all revenues and expenditures
 - b. Five year forecast of revenues and expenditures
 - c. A five year capital investment plan
 - d. A summary budget for all contingent liabilities
 - e. A one year cash flow forecast and a five-year funding plan
 2. The budget process will comply with all state statutes and debt covenants and shall be formally adopted after public input prior to the year end.
 3. Once approved, the Executive Director shall administer the budget within the total expenditures adopted by the Port Commission. The Executive Director shall make adjustments to the budget as appropriate during the year. Any additions to the total operating or non-operating expenditures or increases to the total current year capital plan shall be approved by the Port Commission. The Executive Director will ensure that appropriate financial controls are in place and that the financial condition of the Port is protected. A quarterly financial review of Operating Results will be presented to the Commission. At any quarterly review, should the Executive Director determine that total expenses (before depreciation) at any year end will be higher than total revenues or that the financial condition of the Port will not be in compliance with any and all bond covenants, the Executive Director is directed to initiate a financial plan that will mitigate for the variance. Such plan will be presented to the Commission within 90 days.
 4. The Port will attempt to negotiate all wages and benefits in a manner that will provide salaries, wages and benefits which are competitive within the local job marketplace.
 5. The Port shall support a scheduled level of maintenance and replacement of its assets. The Port has prioritized maintenance expenses to be budgeted in the following priority:
 - A. Maintenance of facilities to ensure the safety of all port employees, tenants and users of Port facilities.
 - B. Maintenance of facilities that provide for the proper preventative work to minimize future maintenance or capital costs.
 - C. Maintenance of facilities to maintain the usability and quality of the asset.
- All financial budgets will include the planned schedule of maintenance and an analysis of how cash will be generated to support the schedule of maintenance and replacement.
6. Any property tax levied shall be used first to pay all scheduled interest costs on

General Obligation Bonds, secondly to the scheduled retirement of all General Obligation Bonds, thirdly for expenditures required for the mitigation and restoration of legacy environmental contamination and finally to the support of Public Access Activities which shall be specifically identified within the annual budget of the Port. Any remaining property tax levy shall be available to provide funding for capital projects that support the general port infrastructure. No property tax levy shall be used to support operating expenditures of the port or for capital projects incurred for specific tenant or port facilities used for private activities.

7. The Port shall maintain a financial forecast of projected revenue sources and for all expenditures. The forecast shall be extended for a period of the current budget year plus five additional years. The forecast for the current year shall be updated at least quarterly and the long-term forecast will be updated annually. The Port will measure its forecasts against actual results and ascertain whether or not the current forecasting tools utilized are adequately tracking the actual results. Where the forecasts are found to significantly deviate from the actual financial results the Chief Financial Officer is charged with reviewing the existing forecasting methodology. The long-term goal is to continually evaluate the forecasts to actual results to assure that all forecasts are timely and reflect the financial operations of the Port.

Cash/Management Investment Guidelines

1. All cash receipts will be accumulated and invested promptly. All funds will be promptly deposited into the Port's depository account and be invested in a manner consistent with the formally adopted Investment Policy which will maximize the interest earnings while maintaining adequate liquidity sufficient to meet all projected port cash flow needs. Investment strategies shall provide for sufficient liquidity to meet the cash flow needs projected within the five year financial forecast including in the adopted budget.
2. Investments made by the Port Treasurer will be made in conformance with Investment Guidelines as stated within the laws of the State of Washington and stated in the Port adopted Investment Policy.
3. The Port will collect all receivables in a manner which will provide for timely receipt of funds owed to the Port. When a receivable is deemed to be uncollectible, the receivable will be referred to the Port's attorney or to a collection agency for collection. All collections of accounts receivable shall be made consistent with "best practices" as determined by the Chief Financial Officer and port policy, including the Executive Director's delegation of powers. An estimated reserve for uncollectible accounts shall be recorded annually on the balance sheet for the estimated amount of receivables deemed to be uncollectible.
4. Port staff shall actively consider funding from other agencies and pursue such funding when appropriate. Staff will make reasonable effort to determine eligibility and make application for any grants and/or low cost loans which may support the financing of a Port activity. No grant funds which are to be used to hire personnel shall be accepted unless funding for the position can be identified for a minimum of three years.

Cash Reserves

The Port shall maintain sufficient cash reserves to assure the following:

1. The Port shall maintain an investment portfolio with cash liquidity sufficient to pay an average of three months of operating expenses to outside vendors and employees.
2. An amount of \$1 million shall be maintained for purposes of financing emergencies. This amount shall be available for costs which have resulted from natural disasters, accidents or to address environmental emergencies.
3. Cash reserves necessary to meet all debt covenants.

When it is apparent that the Port will not be in compliance with these cash flow guidelines, a detailed plan on increasing the cash flow either through raising of revenues, reduction of expenses, or a combination of both, to meet these requirements shall be promptly submitted by the Executive Director to the Commission.

Debt Guidelines

1. The Port will not borrow on a short-term basis to cover routine operations. In no instance should short term borrowing be considered as a financing option unless a detailed plan for repayment of the borrowing is presented to the Commission prior to the issuance of the debt.
2. Debt payments should not exceed the anticipated useful life of an improvement and in no case should exceed 30 (thirty) years. When long term debt is being considered to finance a capital investment the Port staff shall have developed a written project financial plan which at a minimum shows the proposed cash flows which will be utilized to service the principal and interest of the debt.
3. Efforts should be made by the Executive Director to maintain or improve the Port's bond rating. Should the Port fall below an "A" rating as measured by either "Moody's", "Fitch" or "Standard and Poor's," management shall develop an action plan which will attempt to raise the rating back to an "A" in the shortest possible amount of time.
4. The Port may utilize general obligation property tax supported bonding to finance those capital improvements and long term assets which have been determined to be essential to the maintenance of, or improvement to the infrastructure required for the Port's public access activities or for the investment in strategic initiatives requiring the purchase of land and/or other property which do not have revenue sources sufficient to support repayment of the debt.
5. General Obligation debt may be issued for the replacement of infrastructure supporting Port general operations in circumstances when the operating division directly benefiting by the capital improvement is deemed to not be able to raise the operating revenues sufficiently to support the debt issuance.
6. Generally, debt (other than General Obligation Bonds) should be used only to finance specific improvements that can generate operating cash flows sufficient to service the debt. When debt is used to finance specific capital projects, the means of repayment must be reasonably certain prior to the debt being issued. All repayment schedules must be submitted to the Commission, with a detailed analysis of the repayment sources provided to them in writing.
7. The Port may utilize revenue supported bonds to finance public improvements which can be shown to be self-liquidating and to be needed for purposes of economic development within the Port district and for the benefit of its citizens. Financial feasibility studies shall be presented for each project to show evidence of the self-liquidating nature of the project.
8. The Port will maintain its finances in a manner which will generate cash flows from all sources (before capital projects and long term debt service payments) sufficient

to provide cash to cover all debt covenants required by outstanding bond issues. The Port will strive to maintain cash flows which are at least 2.0 times greater than the maximum amount of future annual debt service of all outstanding bonds, giving consideration to the refinancing options of any debt structured with a balloon payment.

9. The Port will not enter into any bond refunding unless the present value of the cash flow savings exceed at least 3% of the principal of the bonded debt.

Appendix A to the Port of Everett's Financial Guidelines Debt Policy

Background:

The Port of Everett maintains conservative financial policies to assure strong financial health both in the short and long-term. The Port, although an infrequent issuer of debt, does recognize the importance of debt management as a tool to finance large capital investments such as property acquisitions and the construction of new and replacement infrastructure.

Maintaining the Port's access to long term financing is an important objective of the Port's financial policies. The Port is committed to having strong financial policies, accounting controls, detailed budgets and on-going forecasts. Together, these tools provide for prudent management of the Port's finances and provide for its financial health.

Purpose:

This policy sets forth the criteria for issuance and repayment of debt. The primary objective of the Debt Policy is to establish criteria that will protect the Port's financial integrity while providing a funding mechanism to meet the Port's capital needs. The underlying approach of the Port is to borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. The Port will not issue long-term debt to finance current operations. Any proposal to provide financial liquidity through a line of credit or another form of financing shall be formally explained to the port commission as to purpose and to the details of the terms and conditions of such a borrowing.

All debt issued will be in compliance with this policy, title 35 and 39 of the Revised Code of Washington (RCW), as well as all applicable Port, State, and Federal laws, rules, and regulations.

Scope:

This Policy provides general guidance for the issuance and management of all Port debt as well as any debt issued by component units guaranteed by the Port. In addition, it includes the management of all debt obligation of the Port which resulted from any interlocal agreement or contractual obligation with another government.

Responsibility:

Authority to issue debt is solely authorized through a formal action of the Port Commission. The Commission provides for administrative management and payment of all debt obligations through the Finance Department and has authorized the Chief Financial Officer

in the capacity as the Port Treasurer to administer these duties.

This section also authorizes the Chief Financial Officer to appoint a subordinate employee from the Department to assist in the performance of the duties of Port Treasurer. The Chief Financial Officer is responsible for ensuring that all reporting requirements have been met and that debt management procedures are in place.

The Chief Financial Officer shall also be responsible for monitoring external circumstances and situations that may affect the Port's overall debt capacity and external bond rating. The Chief Financial Officer shall have primary responsibility for maintaining relationships with all contracted service providers that assist with debt issuance and management. These include:

- Bond counsel
- Financial Advisors
- Debt Underwriters
- Bond Rating agencies
- Bond issuers
- Fiscal agents

Financial Communication and Reporting:

The Chief Financial Officer shall also be designated as the primary contact within the Port for purposes of speaking on behalf of the Port regarding any debt issuance. The Port is committed to providing accurate and timely information as part of its debt obligations. All pertinent financial and budget documents will be posted promptly on the Port's website.

As part of the Port's investor relations program, the Port has also committed to filing all financial documents required under disclosure requirements for each bond issue through the Electronic Municipal Marketing Access (EMMA) system which has been established by the Municipal Securities Rulemaking Board.

Budgeting and Capital Planning within Financial Management:

The Port shall develop and maintain a capital planning process to inform and develop the Comprehensive Scheme of Harbor Improvements. Such plans shall be brought forward annually for consideration and adoption by the Port Commission as part of the Port's budget process. The Finance Department is responsible for coordinating and analyzing the debt requirements of such a capital plan. This will include timing of debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens and current revenue requirements.

Prior to issuance of debt, the Port will prepare revenue projections to ensure that there is

adequate revenue over the life of the debt issuance to make principal and interest payments.

Types of Debt:

The following is a description of the types of long-term debt the Port may issue:

1. General Obligation Debt

This debt is backed by the full faith and credit of the Port. General obligation debt has a pledge of the Port's taxing authority and debt issued in this category can be used for any purpose allowed by law.

The Port Commission may authorize the issuance of general obligation debt without a vote of the public as long as there is an available sources of funding to pay the debt service.

The funding source for repayment can be the diversion of an existing revenue source or new revenue coming from the enactment of a new revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

2. Revenue Debt

Revenue bonds are generally payable from a designated source of revenue generated by the project that was financed. No taxing power pledge is provided as security. Unlike General Obligation bonds, revenue bonds are not subject to the Port's statutory debt limitation nor is voter approval required. These bonds are limited by the debt covenant of previously issued revenue bonds.

3. Local Improvement District (LID) Debt

LID bonds are used for infrastructure projects and are payable solely from assessments of property owners within the local improvement district. Similar to revenue debt, no taxing power or general fund pledge is provided as security, and LID bonds are not subject to statutory debt limitations.

The LID debt is backed by the value of the property within the local improvement district and a LID Guaranty Fund. The LID Guaranty Fund is required by State law. LID's are typically formed through a formal agreement with the primary government where the project is to be built and is secured through a formal lien being filed on the property or properties benefitting from the improvement.

4. Short-Term Debt and Interim Financing

The Port may utilize short-term borrowing in anticipation of long-term bond issuance or to fund cash flow needs in anticipation of tax or other revenue sources. Under no

circumstances is the Port to utilize short-term derivative contracts to provide “hedging” of interest costs for longer term debt.

With Port Commission approval, the Chief Financial Officer may enter into short-term financing arrangements with Washington State qualified lenders. These arrangements may be used for financing equipment or as a line of credit to provide temporary liquidity facilities.

Industrial Development District (IDD) Levies

A special six year property tax levy of \$.45 per thousand of valuation for selected projects within an Industrial Development District is authorized by state law. This one-time levy can be issued without a vote of the people. The Port of Everett has previously collected this levy. A second six year IDD levy is available to the Port but may only be levied with a vote of the citizens within the Port district.

The Chief Financial Officer shall establish credit benchmarks, which measure the Port’s key economic and debt indicators and compare those indicators using industry standards. This benchmark comparison shall be submitted as a written report and supplied annually to the Port Commission.

Structure and Term of Debt

1. Debt Repayment

The Port shall contract with the fiscal agent selected by the Washington State Treasurer’s Office for management of the payment of debt service on all outstanding bond issues. The Port shall pay all interest and repay all debt in accordance with the terms of the bond ordinance.

The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued. The Port shall strive to issue debt in a manner that does not jeopardize the financing of current period operating costs and maintains the Port’s reserve balances. No debt should be issued without a financial analysis provided to the Commission of the source of repayment for such debt.

The Chief Financial Officer shall strive to create a debt service repayment schedule that provides for level or declining debt repayment schedules. As the debt manager, the Chief Financial Officer shall prepare an annual report to the Port Commission describing all existing debt issues with summary descriptions of debt repayment schedules and the Port debt capacity of each of the major funds.

2. Variable-Rate Securities

When appropriate, the Port may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. However, the Port will avoid overuse of variable-rate debt due to the potential interest rate volatility of such instruments. No variable rate debt shall be issued without a clear analysis of the risks factors that are implicit in variable rate securities.

Professional Services

The Finance Department shall be responsible for the solicitation and selection of personal services that are required to administer the Port's debt program. Any services supplied shall be through the use of a Personal Services contract. All service contracts should be authorized only after a Request For Proposal has been issued and a selection process completed.

1. Bond Counsel

All debt issued by the Port will include a written opinion by bond counsel affirming that the Port is authorized to issue the proposed debt. The opinion shall include confirmation that the Port has met all Port and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.

2. Financial Advisor

At the discretion of the Chief Financial Officer, Financial Advisor(s) may be used to assist in the issuance of the Port's debt. The Financial Advisor could provide the Port with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt and preparing official statements of disclosure.

3. Underwriters

An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing the debt and reselling the debt to investors.

The services of a Financial Advisor and Underwriter may be combined when, in the opinion of the Chief Financial Officer, the overall costs of the issuance of debt is likely to be lower and that there is no actual or perceived conflict of interest.

4. Fiscal Agent

A Fiscal Agent will be used to provide accurate and timely securities processing

and timely payment to bondholders. In accordance with RCW 43.80, the Port will use the Fiscal Agent that is appointed by the State.

Method of Sale

Capital will be raised at the lowest possible net cost, balancing the terms and conditions of the financing with the interest rate charged, the issuance costs and the timing of the issuance relative to the marketplace.

The Port will generally issue its debt through a competitive process but may use a negotiated process under the following conditions:

1. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
2. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
3. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
4. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

Credit Ratings

The Port will maintain regular communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the Port's general financial condition, as well as, coordinating meetings and presentations in conjunction with a new issuance. The Port will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts and the financial health of the Port.

Should the Port's existing bond rating be at risk of a downgrade by one of the three major bond rating agencies, the Executive Director will immediately work directly with the Chief Financial Officer, to develop a plan to address the specific issues raised by the rating agency in an attempt to forestall any such downgrade.

Credit enhancements may be used to improve or establish a credit rating on a Port debt obligation. Credit enhancements should only be used if a formal analysis show the enhancement to be cost effective.

Refunding Debt

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, a debt refunding will require a net present value savings of three percent of the principal amount of the refunding debt being

issued.

Spending and Investing Bond Proceeds

The Port is committed to meeting all debt covenants as stated within Bond documents, contracts and ordinances.

The Port will invest and spend bond proceeds within the established criteria presented within the bond ordinance, contract or other documents. The Port shall endeavor to use its best efforts to avoid the rebate of earned arbitrage to the Federal Government. The Port will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation.

For each bond issue, the recordkeeping shall include:

- Tracking the use of bond proceeds,
- The maintenance of a bond debt service fund (if required),
- The investment earnings attributable to bond proceeds, and
- Calculating any arbitrage rebate payments and remittance of any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

Appendix B

Port of Everett Investment Policy



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1.0 POLICY

It is the policy of the Port of Everett to invest public funds in a manner which will provide the market rate of return with the maximum security while meeting the daily cash flow demands on the Treasury and conforming to all Washington statutes governing the investment of public funds.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements and custodial procedures necessary for the prudent management and investment of the funds of the Port of Everett.

2.0 SCOPE AND OBJECTIVES

2.1 Scope:

This investment policy applies to all financial assets of the Port of Everett. These assets are accounted for in the Port's Annual Financial Report and may include:

2.3 Objectives:

The primary objectives, in priority order, of the Port's investment activities shall be safety, liquidity, legality and return:

Safety:

Safety of principal is the foremost objective of the Investment Policy of the Port of Everett. Investments of the Port shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity:

The Port's investment portfolio will remain sufficiently liquid to enable the Port to meet all operating requirements which might be reasonably anticipated.

Legality of Investments:

The Port's investment holdings shall be in conformance with federal, state and other legal requirements.

Return on Investment:

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

3.0 STANDARDS OF CARE

3.1 Prudence:

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

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

3.2 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Chief Financial Officer serving as the Port's Treasurer, who shall establish written procedures for the operation of the investment program, consistent with the 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 Chief Financial Officer. In addition, a procedures manual will be maintained to provide for overall guidance of investment strategy and portfolio structure. The procedures will be periodically reviewed and updated at the direction of the Chief Financial Officer.

3.3 Ethics and Conflict 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 Executive Director 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 Port's portfolio.

4.0 AUTHORIZED INVESTMENTS, DIVERSIFICATION, MATURITIES AND COLLATERALIZATION

4.1 Authorized Investments:

This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).

In the case of split ratings, where the major NRSROs issue different ratings, the higher rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.

All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

All municipal corporations in Washington State, including the Port of Everett, are empowered by statute to invest in the following securities: (The enabling legislation is RCW 39.58 and, as amended, RCW's 35.39, 39.59, 39.60, 43.84.080 and 43.250). The Port has chosen to limit the authorized investments to the following:

U. S Treasury Obligation: Direct obligations of the United States Treasury

GSE – Primary Agency Obligations: Government Sponsored Enterprises (GSEs) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB).

GSE – Secondary Agency Obligations: Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation, (Farmer Mac).

Supranational Bonds: The institution must have the U.S. government as its largest shareholder. International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB).

Municipal Debt Obligations: General Obligation and Revenue bonds in any local government in the State of Washington and General Obligation bonds only on government issuers outside the State of Washington. At the time of investment the bonds must have at a minimum rating of AA- from S&P, Aa3 from Moody's or AA- from Fitch.

Corporate Notes: Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. At the time of purchase corporate notes must have a minimum rating of AA- by S&P, or Aa3 by Moody's or AA- by Fitch. Corporate notes must be purchased on the secondary market through a broker dealer and cannot be purchased directly through the issuer. Issuer constraints for AA- or better issuers will be limited to 3% of market value at the time of purchase. Only U.S. or Canadian domiciled issues are allowable.

Commercial Paper: Unsecured debt obligations of corporate issuers that are rated at least A1+ by S&P, P1 by Moody's and F1+ by Fitch. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase with a minimum rating of AA- by S&P, Aa3 by Moody's or AA- by Fitch. Issuer constraints for commercial paper combined with corporate notes will be limited to 3% of market value per issuer.

Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

Time deposits and Savings Accounts issued by banks: Deposits in PDPC approved banks.

Banker's Acceptance: Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions.

Local Government Investment Pool: Investment Pool managed by the Washington State Treasury office.

4.2 Diversification:

The Port will diversify its investment by security type and institution. The constraints will provide for a disciplined guide in making investment decisions.

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's	Ratings Fitch
US Treasury Obligations	100%	None	N/A	N/A	N/A
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	35%	N/A	N/A	N/A
US Agency Secondary Securities FICO, FARMER MAC etc.	10%	5%	AA-	Aa3	AA-
Supranational Agency Notes	10%	5%	AA-	Aa3	AA-
Municipal Bonds	30%	5%	AA-	Aa3	AA-
Corporate Bonds - US/CDN	25%*	3% for AA-	AA-	Aa3	AA-
Commercial Paper		3%	A1+ Long Term: AA-	P1 Long Term: Aa3	F1+ Long Term: AA-
Certificates of Deposit	20%	5%	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Bank Time Deposits/Savings Accounts	20%	None	Deposits in PDPC approved banks	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Banker's Acceptance	10%	5%	N/A	N/A	N/A
State LGIP	100%	None	N/A	N/A	N/A

*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

4.3 Maturities:

The Port will invest in securities with maturity dates seven (7) years from the date of purchase or less.

- The maximum weighted maturity (modified duration) of the total portfolio shall not exceed 3.0 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, bank deposits or in money market instruments maturing six months or less.
- The investment portfolio will have securities that mature between 1 day and 7 years.

Minimum % of Total Portfolio	
Maturity Constraints	
Under 30 days	10%
Under 1 year	25%
Under 7 years	100%
Maximum of Total Portfolio in Years	
Maturity Constraints	
Weighted Average Maturity	3.00
Maximum % of Total Portfolio	
Security Structure Constraint	
Callable Agency Securities	25%

Exception to 7-year-maturity maximum: The Port of Everett may invest in securities exceeding seven (7) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds or where deferred payment to the Port are matched to the maturity date.

5.0 DEALERS AND INSTITUTIONS, SAFEKEEPING AND CUSTODY, INTERNAL AND EXTERNAL CONTROL

5.1 Authorized Financial Dealers and Institutions:

The Chief Financial Officer will limit banking transactions to designated banking relationships and will refer to the financial institutions list provided by the Public Deposit Commission of banks authorized to provide investment services (RCW 39.58.080).

In addition, the Port will approve security broker/dealers by credit worthiness, and understanding of the Port's requirements and policy. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public 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 Port invests.

5.2 Safekeeping and Custody:

All security transactions entered into by the Port of Everett shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Chief Financial Officer and approved by the State Treasurer.

5.3 Internal Control:

The Chief Financial Officer shall establish a process of periodic review by the Accounting/Finance Staff. This review will provide internal control monitoring by assuring that policies and procedures are being complied with.

5.4 External Control:

The Chief Financial Officer may engage the services of outside professionals as necessary for the efficient management of the investment program. External service providers shall be subject to the provisions of this Investment Policy.

6.0 PERFORMANCE MEASUREMENT AND REPORTING REQUIREMENTS

6.1 Performance Standards:

The Port's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Port's investment risk constraints and cash flow needs. A market benchmark may be utilized and will be established through the Chief Financial Officer's procedures manual. The return shall be based on the net yield after accounting for the fair value of the discounts or premiums paid.

6.2 Reporting:

The Chief Financial Officer shall provide the Commission with consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. At a minimum these reports will be presented quarterly and such reports will include:

- Total investment portfolio yield and earnings rate.
- Percentage of the portfolio in each investment category.
- Summary of securities by investment type held at the end of the reporting period.
- Average term and yield by investment type.
- Investment yield comparison to various benchmarks.

7.0 POLICY ADOPTION

The Port of Everett's investment policy shall be adopted by resolution of the Port Commission. The policy shall be reviewed on an annual basis and any modifications made thereto must be approved by the Port Commission.

GLOSSARY

AGENCIES: Federal agency securities.

ANNUAL REPORT: The official annual report for the Port of Everett. It includes basic financial statements for the Port and is prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed Statistical Section.

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

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

CALLABLE: Bonds that are purchased with the right to the seller to redeem or "call" the bonds at a specified date or dates prior to the final maturity date of the bond.

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

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

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

COMMERCIAL PAPER: Short-term, negotiable, unsecured promissory notes. The credit of the issuer stands behind the paper. There are some issuers that put up assets as security for the issue, these are asset-backs. The risk in this paper is that the assets will be worth less than the outstanding CP program; therefore, the Port is excluding these issue types.

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

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

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

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

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

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., savings and loans, mortgage originators, small business firms, students, farmers, farm cooperatives and exporters.

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

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

FEDERAL HOME LOAN MORTGAGE CORPORATION: A public chartered Agency that buys residential mortgages from lenders, packages them into new Securities backed by those pooled mortgages, provides certain guarantees and then, resells the mortgage-backed securities on the open market. Shares of FHLMC stock are publicly traded on the New York Stock Exchange. The Corporation, is also known as Freddie Mac

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 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, 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.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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 a 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, money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

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

PRUDENT PERSON RULE: An investment standard. The trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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

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

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use of 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.

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.

SEC RULE 15c3-1: See Uniform Net Capital Rule.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

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

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** 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; this is 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.