☒ ADOPTED BY COUNCIL:	JANUARY 25, 2016	EFFECTIVE DATE:	JANUARY 25, 2016

I. PURPOSE

The purpose of this policy is to present the City of Sequim's approach to managing investments. Adherence to the policy is essential to ensure that the City protects public funds, meets daily cash flow demands, conforms to all legal requirements and receives a reasonable investment return.

II. POLICY

A. Policy Scope

1. This investment policy applies to all financial assets for the City of Sequim. These funds are accounted for in the City's annual financial report and include:
   i) General Fund
   ii) Special Revenue Funds
   iii) Capital Project Funds
   iv) Enterprise Funds
   v) Trust and Agency Funds
   vi) Debt Service Funds
   vii) Any new funds created by the City unless specifically exempted.
2. This investment policy shall apply to all investment activities taken on behalf of other agencies for which the City has agreed to act as investment manager (e.g., Transportation Benefit District).
3. This investment policy applies to all funds invested by the city including all cash balances from all city managed funds. Investment income is to be allocated to the various funds based on their respective total cash and investment balances.
   i) A special fund (such as specific capital improvement project monies) may be invested outside the "pool" in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

B. Summary Policy Statement

1. It is the policy of the City of Sequim ("City") to invest public funds in a manner which provides the highest investment return with maximum security while meeting the daily cash flow requirements and conforming to all state and local statutes governing the investment of public funds.

C. Policy Objectives
   1. The primary objectives, in order of priority, for the City of Sequim's investment activities are as follows:
      i) Legality: The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
      ii) Liquidity: The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
      iii) Safety: Investments of the City will 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 other investments.
      iv) Yield: The City's investments will be designed with the objective of attaining a market rate return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

D. Delegation of Authority
   1. The City Manager is responsible for monitoring the City's compliance with the Investment Policy.
   2. The Administrative Services Director or his/her designee is authorized to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Administrative Services Director may designate a person to coordinate the day to day operations of the investment portfolio.
      i) Alternatively, the City may delegate the portfolio management to an investment firm. In this case, the Administrative Services Director shall provide a copy of this investment management policy to the designated investment manager(s). The Administrative Services Director shall monitor the investment manager's compliance with the policy.
   3. All staff directly involved in the investment process shall be required to obtain a bond and such bonding requirements shall apply to those individuals authorized to place orders to purchase or sell investment instruments. The City shall consult with its insurance carrier to establish specific bonding levels.

E. Prudence
   1. Investments will be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes (Prudent Person Standard). The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will 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.

F. Ethics and Conflicts of Interest
   1. Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests in financial institutions that conduct business within the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's investment portfolio.

G. Performance Standards
   1. The portfolio shall be managed to obtain a fair rate of return, keeping in mind the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs. For purposes of this policy, "fair rate of return" will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

H. Investment Transactions
   1. Investment transactions will be based upon the financial 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 Administrative Services Director has the authority to waive this requirement. Where two or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City.

I. Authorized and Suitable Investments
   1. Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments include:
      i) Obligations of the U.S. government; U.S. Treasury Notes, Bonds and Bills.
      ii) Obligations of U.S. government agencies, 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.
      iii) Banker's 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. A-1+, A1+, or P-1. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all the organizations.

Banker's Acceptances are considered illiquid as there is no active secondary market for these securities.

iv) Commercial Paper provided that the Administrative Services Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7).

v) Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;

vi) The Washington State Local Government Investment Pool;

vii) Obligations of the State of Washington or its political sub-divisions with the following guidelines:

(1) Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys

(2) Purchases of any security on negative credit watch are prohibited.

viii) Obligations of a state other than the State of Washington or its political subdivisions, with the following guidelines:

(1) Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and an Aa3 by Moodys.

(2) Purchases of any security on negative credit watch are prohibited.

ix) Repurchase Agreements. Although an allowable investment the City will not invest in repurchase agreements.

J. Safekeeping and Custody

1. All security transactions, including collateral, will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated by the Administrative Services Director or his/her designated portfolio manager.

K. Diversification

1. The City will diversify its investments by security type. The following table provides maximum portfolio guidelines for the eligible securities which shall be complied with at the time of a security purchase, unless an exception waiver is approved by the Administrative Services Director. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

		Maximum Distribution
i)	Local Government Investment Pool (LGIP)	100%
ii)	US Treasury Debt Obligations	100%
iii)	US Government Agency Notes/Bonds	70%
iv)	Certificates of Deposit	40%
v)	Money Market Funds of US Government Securities	40%

vi) State, County, Municipal, or School District Bonds 25%

L. Maximum Maturities

1. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or estimated cash flow need, the City will not directly invest in securities maturing more than ten (10) years from the date of settlement. The maximum weighted average maturity (WAM) of the total portfolio shall not exceed 5 years. This maximum is established to limit the portfolio to excessive market exposure. The WAM refers to the final WAM not the effective WAM. The intent is to balance liquidity, rate and market risk, while noting the expected cash flow needs as identified in the City's long range financial plan.

M. Internal Controls

1. The Administrative Services Director shall establish a system of internal controls, which shall be documented in writing. The internal controls will be subject to review by the State Auditor's Office. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions.

N. Reporting Requirements

1. The Administrative Services Director shall prepare an annual investment report summarizing the activity of the investment portfolio as to types of investments, yields, maturities and other related data. The annual report will also identify all investments held by the City including their maturity and yield. The annual report will be submitted to the Sequim City Council.
2. The Administrative Services Director will receive and review quarterly reports that show the market value of all investment, changes in market value from the prior quarter and investment income.

O. Investment Policy Adoption

1. The City's investment policy shall be adopted by City Council. The policy shall be reviewed annually by the Administrative Services Director. Any modifications shall be submitted and approved by City Council.

III. PROCEDURE

A. City Council

1. Approve Investment Management policy.
2. Review annual investment report.

B. City Manager

1. Oversee implementation of the Investment Policy by the Administrative Services Director.

C. Administrative Services Director

1. Ensure the City is in compliance with the Investment Management policy.
2. Complete all review and reporting requirements included in the Investment Management policy.
3. Provide an annual investment report to City Council.

IV. REFERENCES

A. Sequim Municipal Code
   1. SMC 3.20 Investment of Inactive Funds

B. Revised Code of Washington
   1. RCW 35A.40.050 Fiscal – Investment of Funds
   2. RCW 35.39.030 – Excess or inactive funds – Investment
   3. RCW 35.58.510 – Obligations of corporation are legal investments and security for public deposits
   4. RCW 35.81.070 – Powers of municipality
   5. RCW 35.82.070 – Powers of authority
   6. RCW 36.29.020 – Counties Custodian of moneys – Investment of funds not required for immediate expenditures – Service fee
   7. RCW 39.58.020 – Public funds – Protection against loss
   8. RCW 39.58.080 – Deposit of public funds in public depositary required – Deposits in institutions located outside the state
   9. RCW 39.58.130 – Investment deposits – net worth of public depositary
   10. RCW 39.60.010 – Investment of public and trust funds authorized
   11. RCW 39.60.020 – Exchange of securities for federal agency bonds
   12. RCW 41.16.040 – Firefighters' relief and pensions – 1947 act Powers and duties
   13. RCW 68.52.060 – Public cemeteries and morgues Care and investment of fund
   14. RCW 68.52.065– Public cemeteries and morgues Approval of investments
   15. RCW 72.19.120 – State institutions Juvenile correctional institution in King County General obligation bond issue to provide buildings – Bonds legal investment for state and municipal corporation funds.

C. Washington State Auditor's Office Budgeting, Accounting Reporting System (BARS) Manual
   1. Volume 1, Part 3, Chapter 6, Cash and Investments

V. GLOSSARY

A. BANKERS' ACCEPTANCES (Bas) – Bankers Acceptances are a form of a loan used in import-export financing transactions which becomes negotiable when accepted by a bank. The issuing bank is liable for the payment at its maturity. Terms vary but normally they are under six months and are purchased on a discount basis.
B. BROKER – A middleman who brings buyers and sellers together and handles their orders, generally charges a commission for their services.
C. CERTIFICATES OF DEPOSIT – Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.
D. COMMERCIAL PAPER - A short – term promissory note issued by a bank holding company, for the purpose of financing current transactions. Issues are sold on a discount basis with maturities up to 270 days.
E. DELIVERY VS PAYMENT – Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.
F. DEPOSITORY – A bank or financial institution accepting cash deposits and investments.
G. DIVERSIFICATION – Dividing available funds among a variety of securities and institutions so as to minimize market risk.
H. DURATION - The number of years required to receive the present value of future
I. payments, both of interest and principle, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.
J. FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.
K. FEDERAL HOME LOAN BANKS (FHLB) - The 12 Federal Home Loan Banks are a system of regional banks from which local lending institutions everywhere in America borrow funds to finance housing, economic development, infrastructure and jobs. About 80 percent of U.S. lending institutions rely on the Federal Home Loan Banks. Because the Federal Home Loan Banks are cooperatives, their low costs are passed on to consumers and communities.
L. FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA, or Fannie Mae) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also

highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

M. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE) - Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.
N. GOVERNMENT SPONSORED ENTERPRISES (GSE's) - A group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSE's operate in.
O. LIQUIDITY - The length of time required to convert any investment to cash.
P. 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.
Q. MARKET VALUE – The market value of a security is the price at which the last sale of the same issue was sold.
R. MATURITY – The date upon which the principal or stated value of an investment becomes due.
S. PRINCIPAL – The cost of an instrument on which interest is earned.
T. REPURCHASE AGREEMENT – Range in maturity from overnight to fixed time to open end. Repurchase agreements involve a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest.
U. SAFEKEEPING – An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.
V. SEC RULE 15c3-1 - An SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker dealer may face restrictions on soliciting new business or on keeping existing business. See UNIFORM NET CAPITAL RULE.
W. SECONDARY MARKET – A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their state maturity date.
X. TREASURY BILLS – Short-term marketable securities issued by the U.S. Treasury and secured by the Federal Government and have maximum liquidity.
Y. TREASURY NOTES AND BONDS – These are direct obligations of the U.S. Government with maturities from one to ten years on the notes and 10 to 30 years on the bonds.

Z. UNIFORM NET CAPITAL RULE - Securities & Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

AA. WEIGHTED AVERAGE MATURITY - The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer a bond is held, the greater the opportunity for interest rates to move up or down and affect the performance of the bonds in the portfolio.

1. EFFECTIVE WEIGHTED AVERAGE MATURITY - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer. For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond's maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called.

BB. YIELD – The rate of annual return on an investment expressed as a percentage.