



MEMORANDUM

TO: The Honorable Mayor and Members of City Council
Cliff Moore, City Manager

FROM: Steve Groom, Finance Director

DATE: January 28, 2019

RE: Proposed Investment Policy Update

The most recent City investment policy was last approved in 2011. Having 15 years' municipal investing experience and having been an investment policy reviewer for other cities for many years, this policy update is simply applying best-practice experience. The intent is also to add clear language to position the city well for future possibly less-experienced staff, as well as improving our transparency and accountability to citizens.

The main reasons for the update are:

1. Improving weaknesses and fixing omissions:
 - a. Current policy only mentioned City Manager/Investment Committee (MC §1.73.010) in the glossary; this committee now meets to review and document all purchases;
 - b. Adding in-line RCW citations for non-financial, non-legal readers;
 - c. Correcting misstated RCW-authorizing language for Authorized Investments
 - d. Adding per-issuer diversification limits (in October the portfolio had 40% (\$21M out of \$54M) by one issuer);
 - e. Adding a benchmark by which to measure our performance;
 - f. Adding a policy for handling downgraded securities;
 - g. Adding the articulation of an intended investment strategy (active/passive, tiers). This could also be helpful guidance for future inexperienced Finance staff;
 - h. Adding definition of required reporting (cost, market value, maturity distribution, credit quality, issuer limits, etc.).
2. Removing conflict with RCW – our current policy requires reporting of investments to council quarterly; RCW (§35.39.032) requires reporting monthly.
3. Requiring our financial dealers and institutions to complete a Broker/Dealer Questionnaire that requires them to document to us their SEC, FINRA standing, their licensing, and such and to certify that they've read our current investment policy. Staff recommends that it be a policy requirement as a component of council governance.
4. Adding RCW and Municipal Code text excerpts as an addendum no longer makes readers go look them up separately.

One minor change that staff could add, but probably requires quite a bit of explanation, is that the current policy allows maximum maturities of 8 years, which is not typical for municipalities. The typical maximum maturity is 5 years, which staff has no intention of exceeding. Staff is in favor of reducing this policy limit from 8 to 5 and can explain this verbally if council wishes to consider. Nevertheless, the policy will be very much improved and should pass certification with all other changes proposed.