



DEPARTMENT: Finance

AUTHORIZED BY: City Council

Adopted by Resolution No. R-2011-134

EFFECTIVE DATE: 09-06-2011

SUPERSEDES: 03-24-2009

POLICY: INVESTMENT POLICY

PURPOSE

To set forth a policy with regard to the investment of excess cash for the City of Yakima

POLICY

It is the policy at the City of Yakima to invest public funds in a manner which will provide the highest investment return consistent with maximum security; will meet the daily cash flow demands of the Treasury; and will conform to all State of Washington statutes governing the investment of public funds.

SCOPE AND APPLICABILITY

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

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by Council, unless specifically exempted by Council.

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

Objective

The prime objectives, in priority order, of this City's investment activities shall be:

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Yakima 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 so that the potential loss on individual securities do not exceed the income generated for the remainder of the portfolio.
- **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City of Yakima to meet all operating requirements which might be a reasonably anticipated.
- **Return on investment:** The City'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 City's investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Director of Finance and Technology, as specified in Sec. 1.18.080(2)(b) of that Municipal Code, 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 Director of Finance and Technology. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in the financial institutions to conduct business with in this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transaction to those of the City of Yakima, particularly with regard to the time of purchases and sales.

Consistent with general City Policy, officers and employees involved in the investment process may not accept any valuable gift, favor or gratuity which is made on the basis of his or her position in the City's service.

Authorized Financial Dealers and Institutions

The Director of Finance and Technology or his/her designee will maintain a list of broker/dealers, which are authorized to provide investment services. To be eligible to do

business with Yakima, a broker/dealer must maintain an office within the State of Washington. Eligible broker/dealers may be Primary dealers or Regional Dealers.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance and Technology, or his/her designee, with the following: audited financial statements, proof of state registration and certification of having read the City's investment policy. An annual review of the financial condition of qualified bidders will be conducted by the Director of Finance and Technology, or his/her designee. A current financial statement is required to be on file for each financial institution and broker/dealer with whom the City trades.

Authorized Investments

Eligible investments are those securities and deposits authorized by statute RCW 35.39, 39.59, and 43.84.080, but are limited to the following:

- Non-Negotiable Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Certificates, Notes, or Bonds of the United States, or other obligations of the United States or its agencies, or any corporation wholly owned by the government of the United States (such as the Government National Mortgage Association).
- Obligations of government - sponsored entities which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include but are not limited to Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.)
- Bankers' acceptances purchased on the secondary market where the issuing bank's credit rating at the time of investment is not less than one of the three highest ratings as rated by a nationally recognized rating agency and a short term credit rating at the time of investment is not less than P-1 as rated by Moody's and/or A-1 by Standard & Poor's and/or F-1 by Fitch Rating Agency.
- State of Washington Local Government Investment Pool (LGIP).
- Commercial Paper purchased on the secondary market with maturities not exceeding 270 days, and with a short term credit rating at time of investment not less than A-1 by Standard & Poor's Rating Services and/or P-1 by Moody's Investors Service and/or F-1 by Fitch Rating Agency. Furthermore, the long-term credit ratings of the issuer at the time of investment shall not be less than one of the three highest ratings as rated by a nationally recognized rating agency.
- Obligations of the State of Washington or local governments of the state of Washington which at the time of investment have one of the three highest credit ratings of a nationally recognized rating agency.
- 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

Note: Repurchase and Reverse Repurchase Agreements are not eligible investments for the City.

The Director Of Finance and Technology or his/her designee will maintain a list of specific Investment Instruments, of the type described above, that will constitute the only instruments authorized for the investment of funds of the City of Yakima.

Investment Restrictions

To provide for the safety and liquidity of City funds, the investment portfolio will be subject to the following restrictions:

- The average maturity of the portfolio will not exceed 2.5 years. (For the purposes of this calculation, the maturity date of callable securities will be either the most likely date of call, as determined by the Finance Director or her designee, or the final maturity date, as appropriate based on market conditions.)
- The expected and final maturity of any security will ordinarily not exceed 5-years; however, up to 10 % of the portfolio may be invested in securities with maturities of up to eight (8) years when rates and market conditions so warrant.
- Investments in securities shall not exceed the following percentages of the portfolio:

- Bankers Acceptances 15%
- Commercial Paper 15%
- Certificates of deposit 10%
- State/Municipal Securities 15%
- Treasury Securities 100%
- Government Sponsored Agency Securities 100%
- Washington State's Local Government Investment Pool 100%

Collateralization

State law requires that all deposits of public funds over and above federally insured amounts (including Certificates Of Deposit) be collateralized in accordance with regulations of the Washington Public Deposit Protection Commission (RCW 39.58). All collateral is held by the Washington Public Deposit Protection Commission. The amount of collateral varies for different institutions, but is never to be less than 10% of public funds deposited in the institution.

Safekeeping and Custody

Security transactions entered into by the City of Yakima shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by third party custodian designated by the Director of Finance and Technology, or his/her designee, and evidenced by safekeeping reports which will be reconciled monthly to the portfolio.

Internal Control

The Office of the State Auditor has described that in accordance with Revised Code of Washington 43.09.260, the City of Yakima must undergo annual financial examinations performed by State Examiners. As a part of these examinations, internal controls over investments are carefully scrutinized. These examinations may result in recommendations to change operating procedures to improve internal control.

Performance Standards

The City of Yakima investment portfolio will be designed to obtain a market average rate of return during budgeting and economic cycles, taking into account the City's investment risk constraints and cash flow needs.

Reporting

The Director of Finance and Technology is charged with the responsibility of providing City Council with including a quarterly report on investment activity and returns.

Investment Policy Adoption

The City of Yakima investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on a regular basis by the Director of Finance and Technology or his/her designee and any significant modifications made thereto must be approved by the City Council.

DEFINITIONS

Agencies – (See Government Sponsored Entities)

Asked – The price at which securities are offered.

Bankers' Acceptance (BA) – A draft, or bill of goods, or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bid – The price offered for securities.

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 hold a position. In the money market, brokers are active in markets in which banks and institutional investors buy and sell bills, notes or bonds and in interdealer markets.

Collateral – Securities, evidenced by a deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

Comprehensive Annual Financial Report (CAFR) – The official annual report for the City of Yakima. It includes entity-wide financial statements as well as financial statements for major funds and fund types, notes to the financial statements and required schedules.

Certificates of Deposit (CD) – A time deposit with specific maturity and interest rate evidenced by a certificate.

Commercial Paper – Unsecured short-term corporate obligations with maturities less than 270 days.

Coupon – (a) The annual rate of interest that a bond's issuer promises to pay the bondholder as a percentage of the bond's face value.

Dealer – A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

Delivery versus Payment – There are two methods for delivery of securities: delivery versus payment and delivery versus receipt (also called free delivery). Delivery versus payment is a delivery of securities with a simultaneous exchange of money for the securities. (Delivery versus receipt is a 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 its face value. A security selling below original offering price shortly after sale is also 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, i.e., U.S. Treasury and Agency bills.

Diversification – Dividing investment funds among a variety of securities offering independent returns and credit quality.

Federal Credit Agencies – Agencies of the Federal government and guaranteed by the full faith and credit of the US Government set up to supply credit to various classes of institutions and individuals, e.g. Ginnie Mae, Sallie Mae, Tennessee Valley Authority.

Federal Funds Rate – The target rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Open Market Committee.

Federal Open Market Committee (FOMC) – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve funds target rate and guidelines regarding purchases and sales of Governments Securities in an open market as a means of the influencing the volume of bank credit and money supply in the economy.

Federal Reserve System – The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, DC. There are 12 Region Banks and about 5700 commercial banks that are members of the system.

Federal Deposit Insurance Corporation (FDIC) – A Federal Agency that insures bank deposits, currently capped at \$250,000 dollars per deposit.

Government Sponsored Entities – (“Agencies”) Entities chartered by Congress, such as: Fannie Mae (FNMA) Freddie Mac (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and others, whose bonds and notes are eligible as collateral for inter-bank and discount window loans, and that provide liquidity for various banks, S&L's and individuals

through open market operations. These entities are not backed by the Full Faith and Credit of the US Government, but do carry an implicit guaranty of the Government.

Investment Committee – The investment committee was created under 1.73 of the City Code and is comprised of the City Manager, Finance Director and Treasurer. Currently the Finance Director also serves as Treasurer.

Liquidity – A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. And the money market, a security is said to be liquid that the spread between bid and asked prices is narrowed and reasonable size can be done at those quotes.

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

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of an 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 and 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. The above most bills are issued to mature in three months, six months, or one year.

Treasury Bonds – Long-term U.S. Treasury securities having initial maturities of more than 10 years.

Treasury Notes – Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

Yield – the rate of annual income return on investment, expressed as a percentage. (A) *income yield* is obtained by dividing the current dollar income by the face value of 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.