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Investment Policy of the City of Yakima

Proposed for Review by City Council
January , 2019

Adopted:

City of Yakima
Finance Department
129 North 2nd Street
Yakima, WA 98901

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**City of Yakima
Administrative Policies**

Policy Number: FB- 800



Department: Finance

Authorized by: City Council
Adopted by Resolution No.

Effective Date: 01/xx/19

Supersedes: Policy Dated 09/06/11

Policy: Investment Policy

I. Purpose

~~The purpose of this Policy is: To set forth a policy with regard to the investment of excess cash for the City of Yakima.~~ [vague]

- To establish investment objectives and parameters necessary to safeguard public funds entrusted to the City of Yakima,
- To articulate City Council's intent for the governance over city investments
- To communicate clear policy and strategy guidelines for city investment administration
- To demonstrate to citizens, taxpayers and voters a transparent and accountable stewardship plan.

The City's manageable cash ranges from \$70 to \$85 million, of which about \$55 is invested in a laddered portfolio, cyclical liquidity is kept in the Washington State Treasurer's Local Government Investment Pool and operating cash is maintained in depository bank accounts.

II. Policy [was incomplete]

~~It is the policy of the City of Yakima to invest public funds in a manner that, giving first regard to safety, suitability and liquidity, will maximize long-term yield in conformance with State Statutes and Federal Regulations, and City Charter. 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.~~

III. Governing Authority

Enabling Legislation [was absent]

All investments shall be managed in a manner responsive to the public trust, consistent with state and local law, including the Revised Code of Washington (RCW), the City Charter and Municipal Code (RCW 39.59.020, MC 1.18.080). City Council retains governance-level fiduciary responsibility for the city investment portfolio, through the executive control of the City Manager.

Delegation of Authority [was incomplete]

City of Yakima
Investment Policy

The City Council authorizes an Investment Committee (MC § 1.73.010) comprised of the City Manager or their designee, and Finance Director or their designee, to engage in investment-related transactions without prior approval. This policy provides for accountability and transparency to city council. Management responsibility for the investment program is hereby delegated to the Finance Director of Finance and Technology, as specified in (MC §. 1.18.080), who shall establish 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 to provide adequate redundancy by properly trained and informed staff. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance 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. All staff engaging in investment transactions shall attend public investment training. Staff shall not engage in any policy-allowed investment transaction that they cannot articulate a rationale for.

Contracted Management [was absent]

Any external investment manager engaged to assist in the management of the city's investment portfolio will be held to the prudent investor standard of care (RCW 11.100.020).

IV. Scope and Applicability [was incomplete]

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.

Investments of City Funds may be made on a pooled basis across all funds, with principal and interest apportioned for the benefit of the various participating funds or for the benefit of the general fund. (RCW 35.39.034)

V. Objective [was incomplete or unclear]

The prime objectives of this City's investment activities shall be the suitability of every investment to the financial requirements of the city, considering, in priority order:

- 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 principal capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid principal loss arising from security default, institution default, broker-dealer default, safekeeping fraud, or the avoidable loss on the premature sale of an investment. 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 be structured to meet all expected obligations in a timely manner, to avoid premature sale of an investment at a loss of principal. This is to be achieved by comparing investment maturities with forecasted cash flows and maintaining sufficient liquidity for contingencies across all funds. A 3- to 5-year historical liquidity trend history, combining the city's main checking accounts, LGIP, and the investment portfolio, will clearly indicate annual seasonal low cashflows will remain sufficiently liquid to enable the City of Yakima to meet all operating requirements which might be a reasonably anticipated.
- **Yield, or Return on investment:** The City's investment portfolio shall be designed with the objective of attaining as high a market rate of return as prudently possible having first satisfied the objectives of Safety and Liquidity. throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

VI. Prudence [was not the right standard]

~~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 investor standard," which, as enacted by State Statute (RCW 11.100.020), says:

- 1) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
- 2) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

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.

Ethics and Conflicts of Interest [don't prohibit staff from personal investing, just disclose]

Officers and employees involved in the investment process shall refrain from, or disclose, 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.

The intent of “disclosure:” an employee is unlikely to personally own a controlling interest in a security that becomes the best investment for the city such as a highly rated Microsoft or Coca-Cola medium-term note and should not have to sell their personal position in order to serve the city).

Employees and officers shall refrain from, or disclose, any personal investment transactions with the same agents with whom business is conducted on behalf of the city and shall avoid, or disclose, transactions that might impair public confidence.

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.

VII. Authorized Financial Dealers and Institutions [wasn’t as specific on basics]

The Finance 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 provide a Broker/Dealer Questionnaire that includes the following: audited financial statements, current securities-related licensing; proof of registration and licenses held with the Financial Industry Regulatory Authority (FINRA); proof of registration with the State of Washington Securities Division; provide current active municipal client references; and certification of having read the City’s current investment policy. An annual review of the financial condition of qualified bidders will be conducted by the Finance 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.

VIII. Authorized Investments [to match RCWs clearly]

State statutes permit local governments in the state of Washington only the specific investments permitted by state law, 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:

A. The primary investment instruments expected to be utilized in the City of Yakima’s Investment Portfolio are:

- State of Washington Local Government Investment Pool (LGIP). “... the public funds investment account for investment and reinvestment by the state treasurer. RCW 43.250.040
- Agencies. Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system; RCW 39.59.040 (5) 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.)~~

- ~~Treasuries. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; RCW 39.59.040 (4) 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).~~
- Corporate notes purchased on the secondary market; with a minimum credit quality rating of upper medium investment grade - at least A by Standard and Poor's, A2 by Moody's, or A by Fitch - on the date of purchase. RCW 39.59.040 (8)

B. The following secondary investment instruments are not expected to be routinely utilized in the City of Yakima's Investment Portfolio but are also authorized by State Statute and should be disclosed and explained on council quarterly reporting:

- ~~Bonds of the state of Washington and any local government in the state of Washington;" RCW 39.59.040 (1) 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 RCW 39.59.040 (2)
- "Registered warrants of a local government in the same county as the government making the investment;" RCW 39.59.040 (3) [was absent]
- ~~"Bankers' acceptances purchased on the secondary market." 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. RCW 39.59.040 (6)
- ~~"Commercial paper purchased in the secondary market." 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. RCW 39.59.040 (7)

- Non-Negotiable Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission. (RCW 39.58.130)

Prohibited Investments [adding specific examples]

Note: Equities (stocks), Collateralized mortgage obligations, Money market mutual funds, Inverse Floaters, Negotiable Certificates of Deposit, Repurchase and Reverse Repurchase Agreements and any investment type not expressly permitted by City Council in this policy 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 [split up into "Diversification" and "Maturities"]

IX. Diversification [needed per-issuer limits]

Investments in securities shall not exceed the following percentages of the portfolio at time of purchase:

Washington State's Local Government Investment Pool 100%
Government Sponsored Agency Securities 100%, (40% per issuer)
Treasury Securities 100%
Corporate notes - 15%, (the lesser of 2% or \$1 million per issuer)
Bankers Acceptances 15%
Commercial Paper 15%, (the lesser of 2% or \$1 million per issuer)
Same-State/Local Securities 15%, (the lesser of 2% or \$1 million per issuer)
Certificates of deposit 10%, (the lesser of 2% or \$1 million per issuer)
Other-State/Local Securities 5%, (the lesser of 2% or \$1 million per issuer)
Same-county local government issuer – only by city council resolution

Staggered maturities are to be a component of the diversified investment strategy, employed to minimize reinvestment risk due to rate fluctuations building a reasonably laddered maturity schedule.

X. Maximum Maturities [8 years is unusually long, 5 years is more typical]

~~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.

XI. 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 **Finance** Director of Finance and Technology, or his/her designee, and evidenced by safekeeping reports which will be reconciled monthly to the portfolio. **Third-party custodial reports shall be required monthly, to list, at a minimum, each individual security, CUSIP, purchase date, cost, market value, par value, and maturity date.**

XII. Collateralization **[Washington handles in an interesting way]**

State statute (RCW 39.58) requires that all deposits of public funds be made with qualified public depositories, protected through the actions of the Public Deposit Protection Commission (PDPC), comprised of the State Treasurer, Governor and Lieutenant Governor. 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 **PDPC** Washington Public Deposit Protection Commission (RCW 39.58). All collateral is held by the Washington Public Deposit Protection Commission **PDPC**. ~~The amount of collateral varies for different institutions, but is never to be less than 10% of public funds deposited in the institution.~~ **The PDPC ensures public funds deposited in banks are protected should a financial institution become insolvent. The names of authorized public depositories may be found at: <https://tre.wa.gov/pdpc-banks/>**

XIII. 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.~~ **[this was nearly meaningless]**

Benchmark. **[was missing]**

The City's cash management portfolio shall be managed using a comparison object of the yield of LGIP, the Washington State Treasurer-administered local governmental investment pool which is typically the next investment choice for available cash if not invested for longer. The City portfolio will have a longer average maturity than the 60- to 90-day average portfolio of the benchmark so it will be less volatile. This means it can be expected that the city portfolio's average yield will be trail the benchmark's yield in times of rising interest rates and lead the benchmark's yield in times of falling interest rates.

Downgraded Securities. **[was missing. This is really important when it arises]**

The city may, from time to time, be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this policy, the Finance Director will review and recommend an appropriate plan of action to the City Manager and City Council. If the city utilizes an Investment Advisor, that Investment Advisor shall notify the city and recommend a plan of action within one month. The city may continue to hold a downgraded investment to maturity if a probable outcome is the eventual realization of full value, rather than a realized loss if divested prior to maturity.

XIV. 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. [this conflicts with RCW]~~

Monthly Reports

The Finance Director shall make a monthly report of all investment transactions to the city council. (RCW 35.39.032) [agrees to RCW]

Quarterly Reports. [necessary elements were missing]

The Finance Director shall prepare a quarterly investment report to City Manager and City Council that provides a summary of the current investment portfolio and the individual transactions executed to show holdings and activities during the reporting period conform to the investment policy. The report should include the following:

- An asset listing showing par value, cost and market value, type of investment, issuer, days to maturity and interest rate of each security;
- Average days to maturity of the portfolio;
- Maturity distribution of the portfolio and distribution by type of investment.
- Credit quality of portfolio holdings; and,
- Average weighted yield to maturity of portfolio on investments
- Performance comparison to benchmark

XV. INVESTMENT STRATEGY [was absent]

Buy and Hold. [because city has no staff dedicated to credit analysis]

As a strategy, the City of Yakima's investments will not be actively traded, meaning that no attempt to "buy low and sell high" or "time the market" will be made. Investments purchased with the intent of providing investment income shall be intended to be held to maturity, relying on following a prudent course of action for income rather than predicting market direction. Securities may be sold before they mature if market conditions present an opportunity for the City to capture a benefit or to avoid a risk but the strategy will be primarily buy-and-hold.

Portfolio Segmenting. [this is just fundamentals made clear to guide future staff]

In keeping with the priorities of Safety, Liquidity then Yield, the first considerations of investing will be the immediate operational needs and scheduled disbursements of capital expenditures and debt service payments.

- The **Safety Segment** of the Portfolio is held primarily in the State LGIP. This will allow for seasonal fluctuations, primarily the April/October inflows of Property Tax and outflows of capital projects.
- The **Liquidity Segment** of the portfolio is held primarily in the City's depository bank, and will be maintained at adequate levels to ensure availability.
- This **Yield Segment** of the portfolio is the portion of the city's cash reserves which, based on historical analysis, long-term budgetary planning or council-approved reserve policy, will not be subject to seasonal spending and can be invested comfortably long-term. This segment is invested in a laddered portfolio comprised of Agencies, Treasuries and other authorized investments.

XVI. Internal Controls

The Office of the State Auditor **requires** ~~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. **Investment management is to be included as part of the annual independent audit to assure compliance with this investment policy.** ~~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.~~

XVII. Investment Policy **Review, Approval and Adoption [Council Review/approval]**

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

Addendum: Glossary

Accrued Interest – Interest earned but not yet received.

Active Investment Management – the active trading of securities, selling prior to maturity and purchasing secondary issues, in an effort to earn higher portfolio yield by the continual monitoring of financial markets, spreads and pricing opportunities of individual securities. Requires substantially more staff time than passive investing. (see also Passive Investment Management)

Agencies – (See Government Sponsored Entities) Entities chartered by Congress, such as: Fannie Mae (FNMA) Freddie Mac (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB). These entities carry an implicit guaranty of the federal government.

Amortization – a mathematical calculation that pays off a balance evenly while at the same time adding interest for every period.

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.

Bullet (Non-callable Bond) – a bond issue in which all of its outstanding principal amount may not be redeemed before maturity by the issuer, therefore assuring interest earnings through to the end maturity date.

Callable Bond – a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer

Certificate of Deposit (CD) – a deposit of funds for a specified period of time that earns interest at a specific interest rate.

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 **independently-audited** 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.

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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.

Custody – (Safekeeping) A service to customers rendered by banks for a fee whereby securities are held by an independent third party for protection from fraud or theft.

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 (DVP) – ~~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 **used in conjunction with a third-party custodian to assure integrity of the exchange and to prevent fraud or misdirection, similar to an escrow process in real estate.** (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. **This can be the normal mathematically equalizing of the stated rate of an investment with prevailing market rates.**

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.

Fannie Mae – **The trade name for the Federal National Mortgage Association (FNMA), a U.S. GSE (government-sponsored entity).**

Farmer Mac – **The trade name for the Federal Agricultural Mortgage Corporation (FAMC), a GSE (government-sponsored entity).**

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

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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.

Financial Industry Regulatory Authority, Inc. (FINRA) - a private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange.

Freddie Mac – The trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a GSE (government-sponsored entity).

Ginnie Mae – the trade name for the Government National Mortgage Association (GNMA), a GSE (government-sponsored entity).

Government Sponsored Entities (GSEs) – (“Agencies”) Entities chartered by Congress, such as: Fannie Mae (FNMA) Freddie Mac (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB). These entities carry an implicit guaranty of the federal government.

Interest Rate Risk – the risk associated with declines or rises in interest rate that cause an investment in a fixed-income security to increase or decrease in market value.

Investment Committee – Comprised of the City Manager and Finance Director or their designees. The committee is authorized to make investments of city funds, as authorized by law, and, at any time, to liquidate investments, and to engage in all such transactions without prior consent of city council, but subject to investment policy reporting requirements.

Leverage - Increasing the output compared to the input. In investments, a negative application would be multiplying the yield on investable funds by investing using borrowed funds in addition to cash on hand; the risk is that when a loss is experienced, the borrowed funds must be repaid in full, multiplying the loss to the investor.

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.

Liquidity Risk – the risk that an entity (i.e. the city) may be unable to meet short term financial demands due to the inability to convert investments to cash without a loss of principal and/or interest income.

Market Risk – the risk that the value of a security will rise or decline as a result of changes in market conditions, typically interest rates.

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

Maturity – the date upon which the principal of an investment is due and paid.

New Issue – An investment available at the time of issuance, and therefore not subject to the secondary market that would involve competitive bidding or price uncertainty.

Non-callable Bond (Bullet) – a bond issue in which all of its outstanding principal amount may not be redeemed before maturity by the issuer, therefore assuring interest earnings through to the end maturity date.

Par Value – (face value) the amount of principal that must be paid at maturity.

Passive Investment Management- investing methodically, managing primarily diversification and maturities, with the intention of holding to maturity rather than seeking to make gains through market price fluctuations.

Principal - the original sum of money put into an investment at time of purchase.

Reinvestment Risk - the risk that the proceeds from the payment of principal and interest would have to be reinvested at a lower rate than the original investment. This is a risk of all investments regardless of maturity date or call feature because of the uncertainty of future interest rates. Call features increase reinvestment risk because of the added uncertainty; issuers typically call their bonds in a declining interest rate environment.

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 Bond – 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.

Addendum – Text of Washington Statutes (RCW)
Governing Investments of Public Funds by Local Governments

RCW 11.100.020

Management of trust assets by fiduciary.

- 1) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
- 2) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
- 3) Among the circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:
 - a) General economic conditions;
 - b) The possible effect of inflation or deflation;
 - c) The expected tax consequences of investment decisions or strategies;
 - d) The role that each investment or course of action plays within the overall portfolio, which may include financial assets, interests in closely held enterprises, tangible and intangible personal property, and real property;
 - e) The expected total return from income and the appreciation of capital;
 - f) Other resources of the beneficiaries;
 - g) Needs for liquidity, regularity of income, and preservation or appreciation of capital; and
 - h) An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.
- 4) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.
- 5) A trustee may invest in any kind of property or type of investment consistent with the standards of this section.
- 6) A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

RCW 35.39.030

Excess or inactive funds—Investment.

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

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

RCW 35.39.032

Approval of legislative authority—Delegation of authority—Reports.

No investment shall be made without the approval of the legislative authority of the city or town expressed by ordinance: PROVIDED, That except as otherwise provided by law, the legislative authority may by ordinance authorize a city official or a committee composed of several city officials to determine the amount of money available in each fund for

investment purposes and make the investments authorized as indicated in RCW 35.39.030 as now or hereafter amended and the provisions of RCW 35.39.034, without the consent of the legislative authority for each investment. The responsible official or committee shall make a monthly report of all investment transactions to the city legislative authority. The legislative authority of a city or town or city official or committee authorized to invest city or town funds may at any time convert any of its investment securities, or any part thereof, into cash.

RCW 35.39.034

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

Moneys thus determined available for this purpose may be invested on an individual fund basis or may, unless otherwise restricted by law be commingled within one common investment portfolio for investment. All income derived from such investment shall be apportioned and used for the benefit of the various participating funds or for the benefit of the general or current expense fund as the governing body of the city of [or] town shall determine by ordinance or resolution: PROVIDED, That funds derived from the sale of general obligation bonds or revenue bonds or similar instruments of indebtedness shall be invested, or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

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

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

RCW 39.58.020

Public funds—Protection against loss.

All public funds deposited in public depositories, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in this chapter.

RCW 39.58.030

Public deposit protection commission—State finance committee constitutes—Proceedings.

The Washington public deposit protection commission shall be the state finance committee. The record of the proceedings of the public deposit protection commission shall be kept in the office of the commission and a duly certified copy thereof, or any part thereof, shall be admissible in evidence in any action or proceedings in any court of this state.

RCW 39.58.050

Collateral for deposits—Segregation—Eligible securities.

(1) Every public depository shall complete a depository pledge agreement with the commission and a trustee, and shall at all times maintain, segregated from its other assets, eligible collateral having a value at least equal to its maximum liability and as otherwise prescribed in this chapter. Eligible securities used as collateral shall be segregated by

deposit with the depository's trustee and shall be clearly designated as security for the benefit of public depositors under this chapter.

(2) Securities eligible as collateral shall be valued at market value, and the total market value of securities pledged in accordance with this chapter shall not be reduced by withdrawal or substitution of securities except by prior authorization, in writing, by the commission.

(3) The public depository shall have the right to make substitutions of an equal or greater amount of eligible securities at any time.

(4) The income from the securities which have been segregated as collateral shall belong to the public depository without restriction.

(5) Each of the following enumerated classes of securities, providing there has been no default in the payment of principal or interest thereon, shall be eligible to qualify as collateral:

(a) Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States;

(b) State, county, municipal, or school district bonds or warrants of taxing districts of the state of Washington or any other state of the United States, provided that such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations;

(c) The obligations of any United States government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;

(d) Bonds, notes, or other securities or evidence of indebtedness constituting the direct and general obligation of a federal home loan bank or federal reserve bank;

(e) Revenue bonds of this state or any authority, board, commission, committee, or similar agency thereof, and any municipality or taxing district of this state;

(f) Direct and general obligation bonds and warrants of any city, town, county, school district, port district, or other political subdivision of any state, having the power to levy general taxes, which are payable from general ad valorem taxes;

(g) Bonds issued by public utility districts as authorized under the provisions of Title 54 RCW, as now or hereafter amended;

(h) Bonds of any city of the state of Washington for the payment of which the entire revenues of the city's water system, power and light system, or both, less maintenance and operating costs, are irrevocably pledged, even though such bonds are not general obligations of such city.

(6) In addition to the securities enumerated in this section, the commission may also accept as collateral a letter of credit from a federal home loan bank or a federal reserve bank on behalf of a public depository, naming the commission as beneficiary. Such letters are not subject to a completed depository pledge agreement. As such, the commission must act as the safekeeping agent for letters of credit.

(7) A public depository may also segregate such bonds, securities, and other obligations as are designated to be authorized security for public deposits under the laws of this state.

(8) The commission may determine by rule or resolution whether any security, whether or not enumerated in this section, is or shall remain eligible as collateral when in the commission's judgment it is desirable or necessary to do so.

RCW 39.58.135

Limitations on deposits.

Notwithstanding RCW 39.58.130, (1) aggregate deposits received by a public depository from all treasurers and the state treasurer shall not exceed at any time one hundred fifty

percent of the value of the depository's net worth, nor (2) shall the aggregate deposits received by any public depository exceed thirty percent of the total aggregate deposits of all public treasurers in all depositories as determined by the commission. However, a public depository may receive deposits in excess of the limits provided in this section if eligible collateral, as prescribed in RCW 39.58.050, are pledged in an amount equal to one hundred percent of the value of deposits received in excess of the limitations prescribed in this section.

RCW 39.59.010

Definitions.

Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Bond" means any agreement which may or may not be represented by a physical instrument, including but not limited to bonds, notes, warrants, or certificates of indebtedness, that evidences an obligation under which the issuer agrees to pay a specified amount of money, with or without interest, at a designated time or times either to registered owners or bearers.

(2) "Local government" means any county, city, town, special purpose district, political subdivision, municipal corporation, or quasi-municipal corporation, including any public corporation, authority, or other instrumentality created by such an entity.

(3) "State" includes any state in the United States, other than the state of Washington.

RCW 39.59.020

Authorized investments—Local government authority.

(1) Local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment, in investments authorized by this chapter.

(2) Nothing in this section is intended to limit or otherwise restrict a local government from investing in additional authorized investments if that local government has specific authority to do so.

RCW 39.59.040

Authorized investments—Bonds, warrants, certificates, and other investments.

Any local government in the state of Washington may invest in:

(1) Bonds of the state of Washington and any local government in the state of Washington;

(2) General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;

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

(4) Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder;

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- (5) Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
- (6) Bankers' acceptances purchased on the secondary market;
- (7) Commercial paper purchased in the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere to the investment policies and procedures adopted by the state investment board; and
- (8) Corporate notes purchased on the secondary market, provided that any local government of the state of Washington that invests in such notes must adhere to the investment policies and procedures adopted by the state investment board.

RCW 43.250.040

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

If authorized by statute, local ordinance, resolution, or other appropriate official action, the state treasurer, a government finance official or financial officer or his or her designee, or authorized tribal official, may place funds into the public funds investment account for investment and reinvestment by the state treasurer in those securities and investments set forth in RCW 43.84.080 and chapter 39.58 RCW. The state treasurer shall invest the funds in such manner as to effectively maximize the yield to the investment pool. In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

Addendum – Text of City Municipal Code

1.73.010 Investment committee created—Authority.

There is created an investment committee composed of the city manager and the city's director of finance and his/her designees as may be assigned by the city manager and/or the director of finance from time to time. The committee is authorized to make investments of city funds, as authorized by law, and, at any time, to convert investments, or any part thereof, into cash, and to engage in all such transactions without the consent of the city council being first obtained for each such transaction.

1.73.020 Officers of investment committee.

The city manager is appointed as chairman of the investment committee to preside at all meetings thereof; provided, that the city manager shall designate some other member of the investment committee as chairman thereof to preside at any meeting from which the city manager may be absent.

The finance director, or her designee, is appointed as secretary of the investment committee, and shall maintain a record of the minutes of each meeting of the investment committee, together with a record of all strategy decisions.

1.73.030 Meetings of investment committee.

The investment committee shall meet at least semi-annually, at a time designated by the city manager. Additional meetings may be called by the city manager, from time to time, as he deems necessary or desirable for the best interests of the city; provided, the function of the investment committee is deemed to be continual so that the city manager may direct that any two members of the committee may perform functions of the investment committee at any time without a special meeting being called for that purpose.

1.73.040 Report to city council.

The finance director shall submit to the city council a quarterly report of all investment transactions of the city of Yakima during the quarter. The report shall be in writing, and shall be submitted to the city council at a regular city council meeting.

1.18.080 Department of finance and budget.

The department of finance and budget, under the general direction of the director of finance and budget, shall perform the responsibilities and duties generally described as follows:

- 1) Financial Services. Under the supervision of the financial services manager, this office shall:
 - a) Compile estimates for the annual budget;
 - b) Maintain a general accounting system for the city government and exercise budgetary control over all expenditures by offices and departments;
 - c) Perform internal audits of all city financial affairs;
 - d) Prepare a monthly report of the fiscal activities of all funds for the preceding month and such other reports as may be required by the city manager;
 - e) Determine the structure and operational characteristics of all accounting systems used in the city government;

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- f) Maintain control and a running inventory of all fixed assets of the city;
- g) Maintain a uniform utility accounting system for the water and sewer utilities as required by state law;
- h) Be responsible for the **receipt, custody and disbursement of all city funds**, all local improvement district funds, and other trust funds, keeping accurate accounts of all collections and disbursements for each fund;
- i) *Be the custodian of **all city investments and bank collateral**, investing idle funds as may be prudent and lawful;*
- j) Prepare and submit all financial statements and reports required by law;
- k) *Prescribe the times at and manner in which monies received by the several offices and departments of the city shall be paid **into the treasury or deposited in a bank**;*
- l) *Make **deposits of city funds** in banks in the manner prescribed by law;*
- m) Purchase and sell bonds for the benefit of local improvement district funds and the local improvement district guaranty fund;
- n) Maintain and supervise a risk management program covering city buildings, equipment and personnel;
- o) Maintain an office for the purpose of receiving all money paid as bail for nonmoving traffic violation citations;
- p) Perform such other services as may be required by law or by the director of finance and budget.

Addendum – Broker/Dealer Questionnaire

The Central Washington city of Yakima, incorporated in 1886, provides a full range of municipal services, including general government, public safety (police and fire), streets, community development, planning and zoning, code enforcement, airport, cemetery, parks and recreation, and municipal services such as water treatment, wastewater, refuse and public transit. Roughly 800 employees serve about 93,000 residents covering about 70 square miles with an annual operating budget of around \$250 million. The City's manageable cash ranges from \$70 to \$85 million of which about \$55 is invested principally in GSE medium term notes with remaining liquidity maintained in the Washington State Treasurer's Local Governmental Investment Pool LGIP. The City has adopted a written Investment Policy that regulates the standards and procedures used in its cash management activities. The most current policy is publicly available on the city website and should be reviewed prior to completing this form.

Firm Name: _____

Year Founded: _____

Corporate office address: _____

Telephone #s: _____

Principal, Managing Director or Partner:

Name _____

Title _____

Direct phone _____

E-mail address _____

Is your firm a broker (does not own securities being offered) _____

Is your firm a dealer (does own securities being offered)? _____

Local office address: _____

Please attach a bio or resumé of the primary and secondary representatives covering this account, including securities-related employment history, licensing, certificates, complaints, disciplinary action, arbitration, litigation:

Primary Representative:

Name _____

Title _____

Direct phone _____

E-mail address _____

Secondary Representative:

Name _____

Title _____

Direct phone _____

E-mail address _____

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Provide proof of registration with State of Washington	<input type="checkbox"/> attached <input type="checkbox"/> NA
Provide proof of Financial Industry Regulatory Authority (FINRA)	<input type="checkbox"/> attached <input type="checkbox"/> NA
Provide documentation that your firm is qualified under SEC rule 15C3-1 (Uniform Net Capital Rule)	<input type="checkbox"/> attached <input type="checkbox"/> NA
Provide most recent audited financials	<input type="checkbox"/> attached <input type="checkbox"/> NA

Is your firm is examined by and subject to rules and regulations of:

FDIC	<input type="checkbox"/> Yes <input type="checkbox"/> No
SEC	<input type="checkbox"/> Yes <input type="checkbox"/> No
NYSE	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comptroller of Currency	<input type="checkbox"/> Yes <input type="checkbox"/> No
Federal Reserve System	<input type="checkbox"/> Yes <input type="checkbox"/> No

List three current, active, comparable, municipal client references:

Entity Name	_____
Contact	_____
Address	_____
Phone / E-mail	_____
Entity Name	_____
Contact	_____
Address	_____
Phone / E-mail	_____
Entity Name	_____
Contact	_____
Address	_____
Phone / E-mail	_____

What market sectors are you and your firm currently involved? (Please feel free to provide additional information regarding specialization in any of the following market sectors).

	<u>Firm Involvement</u>	<u>Broker Involvement</u>
US Treasuries	_____	_____
US Agency Bonds	_____	_____
Washington State Bonds	_____	_____
Municipal Bonds	_____	_____
Corporate Bonds	_____	_____
CDARS	_____	_____
Commercial Paper	_____	_____
Other	_____	_____

Please provide your normal custody and delivery process, including specific banking relationships.

What was your firm's total volume in US Government and agency securities trading last year?

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Has this firm, or the representatives assigned to this account, been subject to a regulatory agency, state or federal investigation for alleged improper, disreputable, unfair or fraudulent activities related to the sale of securities or money market instruments that resulted in a suspension or censure? ☐ Yes (attached) ☐ No

Is there outstanding litigation which would materially affect your financial stability? ☐ Yes (attached) ☐ No

Do you provide any fixed income research and economic commentary? ☐ Yes (attached) ☐ No

Describe the precautions taken by your firm to protect the interests of the public when dealing with a local public entity. ☐ Attached ☐ NA

Has any client sustained a loss on a securities transaction engendered from a misunderstanding or misrepresentation of the risk characteristic of a financial instrument by your firm? ☐ Yes (attached) ☐ No

Please confirm that you are:

(1) familiar with the Revised Code of Washington (RCW) Sections 39.59.010 et al.

(2) have read, understand and agree to comply with the provisions of City of Yakima's current investment policy by signing below.

Name: _____ Signature: _____

Title: _____ Date: _____

Name: _____ Signature: _____

Title: _____ Date: _____

Name: _____ Signature: _____

Title: _____ Date: _____

Approved Broker/Dealer List

(Pending)

This revision of the City's Investment Policy institutes a Broker/Dealer Questionnaire process. This page will list those that have submitted complete BDQs and are approved qualified firms.

Addendum – Acknowledgement of Receipt/Adherence to Current Policy

City of Yakima requires an annual certification from authorized Financial Dealers and Institutions of having read the current investment policy. It is the intent of the City of Yakima to pro-actively contact current existing financial institutions annually, or at any change in the city's investment policy, and to maintain the current investment policy on the city's public website.

This is to acknowledge receipt of the City of Yakima's current Investment Policy adopted by City Council on / / .

Entity name: _____

Name: _____ Title: _____

Signature: _____ Date: _____

Please sign and submit via mail or email to:

City of Yakima
129 North 2nd Street, Finance Department
Yakima, WA 98901

Current staff contact information is available on the City Website:
<https://www.yakimawa.gov/services/finance/>