



CITY OF ANACORTES

INVESTMENT POLICY

Chapter 3.20 of the Anacortes Municipal Code

Adopted 2/2/2009
Amended 8/6/2012
Amended 6/2/2014
Amended 10/20/2014

3.20.010 POLICY STATEMENT

It is the policy of the City of Anacortes (the City) to invest public funds in a manner which will provide maximum safety with a market rate of return over interest rate cycles, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. Cash may, at the discretion of the City Treasurer, be invested separately by fund or be commingled into a common investment portfolio. The City Treasurer is authorized to manage the investments described herein.

3.20.020 SCOPE

This investment policy applies to all financial assets for the City of Anacortes. These funds are accounted for in the City's annual financial report and include:

- A. General Fund
- B. Special Revenue Funds
- C. Debt Service Funds
- D. Capital Project Funds
- E. Enterprise Funds
- F. Internal Service Funds
- G. Trust and Agency Funds
- H. Any new funds created by the Council unless specifically exempted by the Council

3.20.030 DEFINITIONS

BANKERS' ACCEPTANCES (Bas): Bankers Acceptances are a form of a loan used in import-export financing transactions which become 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.

BROKER: An intermediary who brings buyers and sellers together, handling their orders, and generally charging a commission for their services.

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.

COLLATERAL: Securities evidence of 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 monies.

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.

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

DELIVERY VS PAYMENT: Securities are transferred over the federal wire system from one bank to another. 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.

DEPOSITORY: A bank or financial institution accepting cash deposits and investments.

DERIVATIVES: Derivatives are structured securities whose performance is based on the actions of similar underlying securities. The structured securities "derive" their value from the underlying securities. The structural securities pay interest rates that vary and are based on formula's that can be quite complex.

DIVERSIFICATION: Dividing available funds among a variety of securities and institutions so as to minimize market risk.

FEDERAL AGENCY SECURITIES: The Federal Agency issues most actively traded are interest bearing obligations of four agencies, Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Banks (FHLB) and Federal Farm Credit Banks (FFCB).

Agency issues usually offer higher yields than Treasury issues with comparable maturities. All new issues are now in book entry form only.

FEDERAL FUNDS RATE: The rate of interest at which Federal Funds are traded between banks. Federal funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is influenced through open market operations of the Federal Reserve Board (purchases and sales of government and other securities to stimulate or lessen money growth).

LIQUIDITY: The length of time required to convert any investment to cash.

LOCAL GOVERNMENT INVESTMENT POOL: The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The market value of a security is the price at which the last sale of the same issue was sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due.

PRINCIPAL: The invested amount on which interest is earned.

REPURCHASE AGREEMENT: Range in maturity from overnight to fixed time to open end. Repo's 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.

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.

SECONDARY MARKET: A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their stated maturity date.

TREASURY BILLS: Short-term marketable securities issued by the U.S. Treasury and secured by the Federal Government and have maximum liquidity.

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.

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

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

3.20.050 OBJECTIVE

- A. The primary objectives, in order of priority, for the City of Anacortes' investment activities are as follows:
 - 1. **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
 - 2. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is

required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3. Liquidity: The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
 4. Return on Investments: The City's investments shall 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 of the portfolio.
- B. The investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
1. A security with declining credit may be sold early to minimize loss of principal.
 2. A security swap that would improve the quality, yield or target duration in the portfolio.
 3. Liquidity needs of the portfolio require that the security be sold.

3.20.060 DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the Treasurer, who shall establish written procedures for the operation of the investment program, consistent with the investment policy. The procedures manual will be maintained to provide for overall guidance of investment strategy and portfolio structure. The procedures will be periodically reviewed and updated at the direction of the Treasurer.

The Treasurer alone shall have authority to conduct and approve all investment transactions. The Treasurer may designate an investment officer to coordinate day to day operations of the investment portfolio. Any delegation in authority must be made in writing and approved by the mayor. 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. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment activities.

Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage or necessary financial protection of the City's resources. External service providers shall be subject to Washington Revised Statutes and the provisions of this Investment Policy.

3.20.070 ETHICS AND CONFLICTS OF INTEREST

The Treasurer and all officers/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 to the Mayor and Council any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

- A. The City Treasurer is required by state law (RCW 42.17.245 as amended by Chapter 213, Laws 1983) to annually submit to the State Public Disclosure Commission a statement under oath, that no public funds under the Treasurer's control were invested in any financial institution where the Treasurer held an office, directorship, partnership interest or ownership.

3.20.080 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposits shall be made except in qualified public depositories as provided in Chapter 39.58 RCW.

All brokers/dealers and financial institutions who desire to do business with the City must supply the Treasurer with the following: current annual audited financial statement, proof of National Association of Securities Dealers Certification, proof of registration and broker registration in the State of Washington, certification of having read the City's investment policy and receipt of the City's Trading Authorization.

3.20.090 AUTHORIZED AND SUITABLE INVESTMENTS

- A. All municipal corporations in Washington State, including the City of Anacortes, are empowered by statute to invest in the following securities: (The enabling legislation is RCW 39.58 and, as amended, RCW's 35.39, 39.59, 39.60, 43.84.080 and 43.250). The City has chosen to limit the authorized investments to the following:
1. Obligations of the U.S. government; U.S. Treasury Notes, Bonds and Bills
 2. Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's):
 3. 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. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all the organizations.
 4. Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)); and restricts the purchase of asset backed commercial paper.
 5. Certificates of deposit of financial institutions which are "qualified public depositories" and which are in accordance with the net worth restrictions placed on such deposits (RCW 39.58.130). For state financial institutions that are non-participants in the state's collateral protection pool, investments up to the amount of Federal Deposit Insurance Coverage.
 6. Repurchase Agreements (Provided a Master Repurchase Agreement has been executed).
 7. Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;
 8. Its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty funds law.
 9. Obligations of the State of Washington or its political sub-divisions.
- B. Securities that are not eligible as investments for public funds in the State of Washington:
1. Corporate stocks
 2. Corporate Bonds
 3. Asset Backed Commercial Paper
 4. Foreign government obligations
 5. Futures contracts
 6. Investments in Commodities
 7. Real estate
 8. Limited Partnerships
 9. Negotiable certificates of deposit
 10. Reverse repurchase agreements

11. Rate speculative derivative securities.
12. The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation on interest rates.

3.20.100 INVESTMENT POOLS / MUTUAL FUNDS

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Anacortes Resolution 1812. The City is restricted from investing in mutual funds by State Statute.

3.20.110 COLLATERALIZATION

The City does not actively invest in repurchase agreements for short term investments. However, if a repurchase agreement is utilized collateralization is required. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. Re-pricing of the collateral should occur daily.

The City chooses to limit the collateral to Treasury and GSE Agency securities only, with a maximum maturity of three years.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The right of substitution is granted.

3.20.120 SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City of Anacortes shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

3.20.130 DIVERSIFICATION

The City will diversify its investments by security type and institution and maturity in accordance with the table below.

Diversification by security type:	Max % of Total Portfolio
WA State LGIP	100%
U.S. Treasury bills, notes & bonds	100%
U.S. Government Sponsored Enterprises	90%
Per Issuer: FHLB, FFCB, FHLMC or FNMA	50%
Other GSE's	20%
WA State and Municipal Bonds	30%
Bank Deposits in PDPC qualified Banks	20%
Certificates of Deposit	20%
Bankers Acceptance	10%
Other Legal Investments	10%

Diversification by Issuer:

The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of the Washington State LGIP, US Treasury obligations, and U.S. Governmental Sponsored Enterprises, no more than twenty percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution. Diversification strategies within these general guidelines shall be determined and revised periodically by the Treasurer.

3.20.140 MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase.

Maturity Guidelines:

Minimum maturities under 30 days	10%
Maximum maturity of single investment	5 years

Reserve or Capital Improvement Project monies may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practical with the expected use of the funds, not to exceed ten years from the date of purchase. Investment of the principal portion of endowment funds may also exceed five years not to exceed ten years.

3.20.150 COMPETITIVE TRANSACTIONS

The investment officer will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The investment officer will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The investment officer will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

If the city hires an investment advisor to provide investment management services, the advisor must provide documentation of competitive pricing execution on each transaction. The investment advisor will retain documentation and provide upon request.

For swap or exchange transactions that do not change the average maturity of the investment portfolio by more than two months, the investment officer may forgo the quote process prior to selling and purchasing the swap or exchange securities.

3.20.160 INTERNAL CONTROL

On an annual basis the Treasurer, in conjunction with the State Auditor's Office, will evaluate conformance with the Investment Policy and audit internal controls. The purpose of these examinations shall be to audit the accountability of the City's Investment Portfolio and to verify that Investment Officials have acted in accordance with the investment policies and procedures.

3.20.170 EXTERNAL CONTROL

The City may enter into contracts with third-party investment advisory firms when their services are deemed to be beneficial to the City. The advisor must comply with the investment policy and may have

authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis and is not allowed to invest without the approval of the treasurer or investment officer.

3.20.180 PERFORMANCE STANDARDS

The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow needs.

The weighted average yield of the total portfolio will be compared to the LGIP average yield.

3.20.190 REPORTING REQUIREMENTS

- A. The Treasurer is charged with the responsibility of preparing a consistent periodic report on investment activity and returns. This report shall contain such information as the Treasurer deems appropriate, such as the activity of the investment portfolio as to types of investments, yields, maturities and other related data, provided that the Finance Committee shall have the right to request that specific information be provided in the report. If all or most (>90%) of the City's investments are in the Washington LGIP, the LGIP reports may be submitted in lieu of the Treasurer's report.
- B. Monthly reports will be reviewed by the Treasurer to monitor market value changes and investment income.
- C. Compliance reports will be reviewed periodically by the Treasurer to monitor the investment holdings relative to policy constraints.

3.20.200 INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by Ordinance by the Anacortes City Council. The policy shall be reviewed on a periodic basis by the Treasurer and any modifications made thereto must be approved by the Anacortes City Council.