

TITLE: INVESTMENTS

EFFECTIVE DATE: June 21, 2010

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1.0 GENERAL

1.1 The purpose of this policy is to establish prudent objectives for the City's investment program and delineate the practices used by the City to invest funds and control portfolio risks.

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2.0 DEPARTMENTS/DIVISIONS AFFECTED

This policy shall apply to investments administered by the City Finance Division.

3.0 REFERENCES

SMC section 07.15, 07.15.020 and 07.06.107(C)
RCW sections 35.39.030, 35.39.032, 35.39.034, 36.29.020, and 39.58
City Resolution 2014.0101

4.0 DEFINITIONS

4.1 **Accrued Interest** - (1) The dollar amount of interest accrued on an issue, based on the stated interest rate on that issue, from its issue date to the date of delivery to the original purchaser. This is usually paid by the original purchaser to the issuer as part of the purchase price of the issue; (2) Interest deemed to be earned on a security but not yet paid to the investor.

- 4.2 Agency Security Obligations - U.S. Government backed security that was not issued by the Treasury Department. These issues include: Federal Home Loan Bank Bonds (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), and Student Loan Marketing Association (Sallie Mae).
- 4.3 Amortization - Liquidation of a debt through installment payments.
- 4.4 Average Maturity - A weighted average of the expiration dates for a portfolio of debt securities.
- 4.5 Bankers' Acceptance (BAs) - Bankers Acceptances generally are created based on a letter of credit used in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand. Bankers Acceptances are sold in amounts that vary from one hundred thousand dollars (\$100,000) to one million dollars (\$1,000,000) or more with maturities ranging from thirty (30) to two hundred seventy (270) days. They offer liquidity to the investor, as it is possible to sell BAs prior to maturity at the current market price.
- 4.6 Benchmark - A bond, or fixed income index, whose terms are used for comparison with other bonds, or fixed income securities of similar maturity. The global financial market typically looks to U.S Treasury securities as benchmarks.
- 4.7 Bid - Price at which a buyer is willing to purchase a security.
- 4.8 Bill - A short-term direct obligation of the U.S. Treasury that has a maturity of not more than one year at issuance (for example, thirteen (13), twenty six (26) or fifty two (52) week maturity).
- 4.9 Bond - (1) The written evidence of debt, bearing a stated rate or stated rates of interest, or stating a formula for determining that rate, and maturing on a certain date, on which date and upon presentation a fixed sum of money plus interest is payable to the holder or owner. A municipal bond issue is usually comprised of many bonds that mature over a period of years; (2) A direct obligation of the U.S. Treasury that has a maturity of more than ten (10) years at issuance
- 4.10 Book Entry - U.S. Government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

- 4.11 Book Value - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to the market value of the security.
- 4.12 Certificates of Deposit (CDs) - Certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.
- 4.13 Competitive Quote Process - A process by which two (2) or more institutions are contacted to obtain prices for specific securities (sec 4.58 of this document). Supersedes Procurement and procedures as allowed per SMC 07.06.107(C).
- 4.14 Consolidated Local Improvement Districts (CLID) – a consolidation of numerous local improvement districts and their underlying bonds.
- 4.15 Coupon - The rate of interest paid at a specified time (e.g. annually or semi-annually). Where the coupon is blank, it may indicate that the bond is a "zero-coupon," or a new issue where the coupon has yet to be determined, or that it is a variable-rate bond.
- 4.16 Credit Risk - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third-party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type with any one party.
- 4.17 Delivery - The providing of a security in an acceptable form to the entity or to an agent acting on behalf of the entity and independent of the seller. Acceptable forms can be physical securities or the transfer of book-entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the purchasing entity.
- 4.18 Delivery vs. Payment - There are two (2) methods of delivery of securities: delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange or a signed receipt for the securities.
- 4.19 Depository Bank - A local bank used as the point of deposit for cash receipts.
- 4.20 Derivative - A financial instrument whose value is based on, and determined by, another security or benchmark.
- 4.21 Discount - (1) Amount (stated in dollars or a percent) by which the selling or purchase price of a security is less than its face amount; (2) Amount by

which the amount bid for an issue is less than the aggregate principal amount of that issue.

- 4.22 Diversification - Dividing available funds among a variety of securities and institutions to minimize risk.
- 4.23 Duration - The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates.
- 4.24 Effective Rate - The yield received on a debt security over a period of time taking into account any compounding effect.
- 4.25 Face Value - The par value (i.e., principal, or maturity value) of a security appearing on the face of the instrument; thus, the redemption value at maturity.
- 4.26 Federal Agency Securities - Federal agency securities can be classified by the type of issuer: those issued by Federally Related Institutions, and those issued by Government Sponsored Enterprises.
- 4.27 Federally Related Institutions - Branches of the federal government and generally do not issue securities directly in the marketplace. The major issuers have been the Tennessee Valley Authority (TVA) and the Government National Mortgage Association (Ginnie Mae). Except for securities of the TVA and the Private Export Funding Corporation, the full faith and credit of the United States government back these securities.
- 4.28 Federal Reserve System - The central bank of the United States, which has regulated credit in the economy since its inception in 1913. The system includes the Federal Reserve Bank, twelve (12) district banks and the member banks of the Federal Reserve.
- 4.29 Fiduciary Funds -Assets held in a trustee or agency capacity.
- 4.30 Fund - City monies are separated into various funds. Fund types vary in applicable legal requirements to include, but are not limited to bond, documents, grant terms, contractual obligations, and the ordinance establishing the fund.
- 4.31 General Obligation Bond (GO) - A municipal bond secured by the pledge of the issuer's full faith and credit and backed by their taxing authority.
- 4.32 Government Security - Any debt obligation issued by the U.S. Government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Farm Credit Bank System and Freddie Macs, are backed by the issuing agency.

- 4.33 Government Sponsored Enterprises (GSEs) - Privately owned, publicly chartered entities. They were created by Congress to reduce the cost of capital for certain borrowing sectors of the economy deemed to be important enough to warrant assistance. Today there are five (5) GSEs that issue securities: Federal Farm Credit Bank System (FFCB), Federal Home Loan Bank System (FHLB), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Bank Corporation (Freddie Mac) and the Student Loan Marketing Association (Sallie Mae). These Federal Government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress.
- 4.34 Interest - The compensation paid or to be paid for the use of money, usually expressed as an annual percentage rate. Interest rates change in response to a number of things including revised expectations about inflation, and such changes in the prevailing level of interest rates affects the value of all outstanding bonds.
- 4.35 Inverse Floater - Structured notes or derivatives designed to rise in yield as interest rates fall. Also called a Reverse Floater. These are very volatile securities.
- 4.36 Investment Portfolio - A collection of investment instruments, authorized by the City and State policy, to generate investment earnings.
- 4.37 LIBOR (London Interbank Offered Rate) - The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities.
- 4.38 Limited Tax General Obligation (LTGO) Bonds – a general bond of a municipal government that is backed by constrained revenue sources. Such bonds are also known as “Non-Voted General Obligation Debt” where a municipality levies property taxes to meet the bond’s debt service, but only up to a statutory limit which is not subject to voter approval.
- 4.39 Liquidity - The ease and speed with which an asset can be converted into cash without a substantial loss in value.
- 4.40 Local Government Investment Pool (LGIP) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment.

- 4.41 Local Improvement District (LID) – means of assisting benefiting properties in financing needed capital improvements through the formation of special assessment districts. The process leads to the sale of bonds to investors where such securities are repaid via annual assessments of the property owners within the improvement district.
- 4.42 Loss - The excess of the cost or book value of an asset over its selling price.
- 4.43 Master Agreement - An agreement which is controlling all transactions covered by it on an open-ended basis. A new contract is not required for each new transaction.
- 4.44 Maturity Date - The date when the principal amount of a security becomes due and payable, if not subject to prior call or redemption.
- 4.45 NASD - National Association of Securities Dealers. The largest self-regulatory securities industry organization in the United States.
- 4.46 Notes - 1) Short-term promises to pay specified amounts of money, usually secured by specific sources of future revenues, such as taxes, federal and state aid payments, and bond proceeds. 2) A direct obligation of the U.S. Treasury that has a maturity of more than one (1) year and up to ten (10) years at issuance.
- 4.47 Offer - The price at which a seller will sell a security.
- 4.48 Par Value - The nominal or face value of a debt security; that is, the value at maturity.
- 4.49 Performance - An investment's return (usually total return), compared to a benchmark that is comparable to the risk level or investment objectives of the investment.
- 4.50 Premium - (1) Amount (stated in dollars or a percent) by which the selling or purchase price of a security is greater than its face amount; (2) Amount by which the amount bid for an issue is greater than the aggregate principal amount of that issue.
- 4.51 Primary Dealers - A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker-dealers, banks and a few unregulated firms.
- 4.52 Principal - The invested amount on which interest is charged or earned.

- 4.53 Qualified Public Depository - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.
- 4.54 Realized Gain or Loss - A measurement which represents the difference between the fair market value and the cost of a security, realized when an investment is matured or sold.
- 4.55 Refunding - Sale of a new issue, the proceeds of which are to be used, immediately or in the future, to retire an outstanding issue by essentially replacing the outstanding issue with the new issue. Refundings are done to save interest cost, extend the maturity of the debt, or to relax existing restrictive covenants.
- 4.56 Repurchase Agreement (Repo) - A Repurchase Agreement is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date the financial institution will repurchase the securities at a predetermined price. An "open repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.
- 4.57 Risk - A measure of the degree of uncertainty and/or of financial loss inherent in an investment or decision.
- 4.58 Safekeeping - A service to customers rendered by banks or trust companies for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.
- 4.59 Secondary Market - Ongoing market for bonds previously offered or sold in the primary market.
- 4.60 Securities - Bonds, notes, mortgages or other forms of negotiable or non-negotiable instruments.
- 4.61 Spokane Internal Lending Program (SILP) – an approved function supported by City Resolution 2014.0101, that permits the City of Spokane's Investment Pool to purchase City issued LTGO Bonds to a limit of 15% of the overall pool's portfolio balance. This function is a City internal lending activity that permits City funds to invest in City operations/services within its service area.

- 4.62 Spokane Investment Pool - Established September 30, 2007 in accordance with RCW 35.39.034. The City of Spokane aggregates investment activity to generate interest earnings. The Pool is created by combining Treasurer's cash and Fund invested balances to consolidate resources available to the Portfolio.
- 4.63 Swap - A derivative contract through which two parties exchange the cash flows or liabilities from two different financial instruments.
- 4.64 Syndicate - A group of underwriters formed for the purpose of participating jointly in the initial offering of a new issue of securities. The terms under which a "syndicate" is formed and operates are typically set forth in an "agreement among underwriters." One or more underwriters will act as manager of the "syndicate" and one of the managers will act as lead manager and "run the books." A "syndicate" is also often referred to as an "account" or an "underwriting account."
- 4.65 Third-Party Safekeeping - A safekeeping arrangement whereby the investor has full control over the securities being held. Dealers and/or bank investment departments have no access to the securities being held.
- 4.66 Total Return - Investment performance measure over a stated time period which includes coupon interest, interest on interest, and any realized and unrealized gains or losses.
- 4.67 Treasury Bills - Treasury Bills are short-term debt obligations of the U.S. Government which have no coupon rate, mature at par value, and are generally issued at a discount to par value. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government and commonly called "T-Bills." T-Bills are issued on a regular basis with initial maturities of ninety one (91) days and one hundred eighty two (182) days. They are more popularly referred to as three (3) month and six (6) month Treasury bills. These instruments generally yield the lowest returns of the major money market instruments Treasury bills because they are considered "risk-free".
- 4.68 Treasury Notes and Bonds - Treasury Notes have maturities from one (1) to ten (10) years, and Treasury Bonds have maturities of ten (10) to thirty (30) years. Both Notes and Bonds pay periodic coupons. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the General Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities with similar maturity structures.
- 4.69 Underlying Securities - Securities transferred in accordance with a Repurchase Agreement.
- 4.70 Unrealized Gain or Loss - A measurement, which represents the difference between the fair market value and the cost of a security, taken

while the investment is being held and prior to being sold or matured.

- 4.71 U.S. Government Agency Securities - A variety of securities issued by several U.S. agencies. Some are issued on a discount basis and some are issued with coupons. Some are backed by the full faith and credit guarantee of the U.S. Government, while others are not.
- 4.72 Volatility - A statistical measure of the variance of price or yield over time. Volatility is low if the price does not change very much over a short period of time, and high if there is a greater change.
- 4.73 When-Issued Trades - Typically there is a lag between the time a new bond is announced and sold, and the time it is actually issued. During this interval, the security trades "WI" - "when, as, and if issued."
- 4.74 Yield - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the cash flows the security pays by the price of the security and annualizing the result.

5.0 POLICY

- 5.1 It is the policy of the City of Spokane ("the City") to invest public funds in a manner which will provide the maximum security with the highest investment return, while meeting daily cash flow requirements and conforming to all state and local statutes governing the investing of public funds.
- 5.2 Scope
 - 5.2.1 This investment policy applies to all financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include all funds, except for Employees' Retirement Fund, Police Pension Fund and Fire Pension Fund.
 - 5.2.2 Funds set aside to defease City debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy. Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.
 - 5.2.3 Funds held by the County Treasurer during tax collection periods shall be governed by the County's investment policies to the extent that they do not conflict with this policy and should be invested by the County Treasurer for the benefit of the City as stipulated by the City in accordance with RCW 36.29.020.

5.3 Prudence

- 5.3.1 The Investment Committee and designated staff shall act responsibly and prudently in order to maintain the safety of the public's funds.
- 5.3.2 The standard of prudence that shall be practiced at all times without exception shall be the "Prudent Person Rule" which reads: "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."
- 5.3.3 The Chief Financial Officer or his/her designee acting in accordance with any written procedures, the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Should any such loss occur, however, the Chief Financial Officer or his/her designee shall report it to the Investment Committee, who shall then take appropriate action to prevent any future occurrences.
- 5.3.4 Purchase of securities shall be made for investment and not speculation.

5.4 Objectives

- 5.4.1 The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the primary objectives of safety and liquidity. Core 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:
- a. A security with declining credit may be sold early to minimize loss of principal.
 - b. A security swap that would improve the quality, yield or target duration in the portfolio.
 - c. Liquidity needs of the portfolio require that the security be sold.

5.4.2 Therefore, the primary and secondary objectives, in order of priority, of the City's investment activities will be as follows:

- a. Safety: Safety of principal is the primary objective of the City's investment program. City investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, the City will diversify its investments by investing funds among a variety of securities and financial institutions offering independent returns.
- b. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital spending requirements which might be reasonably anticipated.
- c. Return on Investment: The City's investment portfolio will be structured with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the agencies investment risk constraints and the cash flow characteristics of the portfolio.

5.5 Delegation of Authority

5.5.1 Authority to manage the City's investment program is derived from Spokane Municipal Code chapter 7.15 which delegates responsibility for the City's investment program to the City Investment Committee.

5.5.2 Management responsibility for the investment program is hereby delegated to the Chief Financial Officer or his/her designee who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5.5.3 Daily operational responsibility for the investment program is hereby delegated to the City Finance Treasury and Administration Department who shall establish written procedures for the operation of the investment program consistent with the Investment Policy. Procedures should reference the following: purpose, cash review, investment selection, purchase of an investment, settlement and follow-through, accounting, reporting and auditing.

5.5.4 No one person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer or his/her designee. The Chief Financial Officer or his/her designee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of staff involved in the accounting for investment activities.

5.6 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program or may impair their ability to make impartial investment decisions. Officers and employees shall disclose to the Investment Committee any material financial interests in financial institutions that conduct business with the City, and they shall also disclose any personal financial/ investment positions that could be related to the performance of the City's portfolio. Officer and employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

5.7 Authorized Financial Dealers and Institutions

- 5.7.1 The City Chief Financial Officer or his/her designee shall maintain on file a current listing of financial institutions authorized and prepared by the Washington Public Deposit Protection Commission (PDPC) to provide depository services in the state of Washington. In addition, a list will also be maintained of approved security broker/dealers. These may include primary dealers, or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of local banks. No public deposits shall be made except in qualified public depositories as provided in chapter 39.58 RCW.
- 5.7.2 Approved security broker/dealers will be selected based on the following criteria:
- financial condition, strength and capability to fulfill commitments,
 - regulatory status of the dealer, and
 - background and expertise of the individual representative
- 5.7.3 Prospective broker / dealers must provide the City Chief Financial Officer or his/her designee with the following: National Association of Securities Dealers (NASD) certification, proof of Washington State registration, and written certification that the prospective broker / dealer understands and will adhere to this Investment Policy.
- 5.7.4 An annual review of the financial condition and registrations of the selected qualified financial institutions and broker / dealers will be conducted by the Chief Financial Officer or his/her designee. A current audited financial statement is required to be on file for each

financial institution and broker/ dealer in which the entity invests.

5.7.5 The City shall strive to use a competitive bid process where its selected NASD broker / dealers will compete for investment transactions, but it is recognized that this may not be appropriate for every investment decision.

5.7.6 The City reserves the right to remove any broker/ dealer from the list of approved brokers / dealers if services from them are lacking or if any broker / dealer fails to comply with documentation requirements.

5.8 Authorized and Suitable Investments

5.8.1 Care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment officer(s) are trained and competent to handle. The City is empowered by statute to invest in any of the securities identified as eligible investments as detailed in the Washington State Treasurer's publication titled "Eligible Investments for Public Funds."

5.8.2 The City chooses to invest in the following types of investments:

- Treasury Securities
- Federal Agency Securities (Mortgage-backed securities included)
- Washington State Treasurer's Local Government Investment Pool
- Non-negotiable Certificates of Deposit (Must be with PDPC-qualified public depository)
- PDPC Financial Institution Sponsored Investment Accounts
- Banker Acceptances (Issuing institution's commercial paper credit rating must be A1/P1)
- Repurchase Agreements
- General Obligation Bonds of any state or local government
- Bonds of the City of Spokane, as that term is defined in section 4.9.
- City of Spokane bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund

- Commercial Paper

5.8.3 The City may purchase new issue securities for a delayed settlement. These securities typically are issued at par and are available from most of the dealers in the new issue market. It will be at the Chief Financial Officer's or his/her designee's discretion to wait to purchase these issues after they "break syndicate" (are "free to trade" at negotiable prices) allowing the City to ask dealers to offer the securities at a market price that may differ from the initial offering price of par.

5.8.4 Repurchase agreements are subject to the following limitations:

- a. A signed Public Securities Association (PSA) Master Repurchase Agreement is required.
- b. No security shall be accepted for repurchase agreement transactions whose market value is not readily available.
- c. Collateral shall be required on Repurchase Agreements as described in section 5.9 of this policy.

5.8.5 General obligation bonds of a state or local government must have at the time of investment one (1) of the three (3) highest credit ratings of a nationally recognized statistical rating organization (NRSRO) other than General Obligation bonds of the City of Spokane or "bonds" as that term is defined in section 4.9.

5.8.6 Commercial paper is subject to the following limitations:

- a. Commercial paper must be rated with the highest short-term credit rating of any two (2) NRSROs, at the time of purchase. If the commercial paper is rated by more than two (2) NRSROs, it must have the highest rating from all of the organizations.
- b. Commercial paper holdings may not have maturities exceeding two hundred and seventy (270) days. Commercial paper must also be issued by U.S. corporations and cannot be an obligation of any financial institution.
- c. Any commercial paper purchased with a maturity longer than one hundred (100) days must also have an underlying long-term credit rating at the time of purchase in one (1) of the two (2) highest rating categories of an NRSRO and be asset-backed (collateralized).
- d. The percentage of commercial paper may not exceed ten

percent (10%) of the total assets of the portfolio.

- e. Commercial paper must be purchased in the secondary market and not directly from the issuers.

5.8.7 Derivatives or securities that derive value and/or yield from an underlying asset or an external index are prohibited unless they fall into one (1) of the following categories: zero coupon treasury instruments, zero coupon agency instruments, agency security obligations that have call features, agency security obligations that have step-up features at pre-determined intervals and agency obligations that float with interest rates or external indexes such as treasury bills, LIBOR, COFI, or the Fed Funds rate, and swap debt obligations only as they pertain to the asset liability management program.

- a. Agency obligation inverse floaters are prohibited.
- b. Derivative securities not previously utilized must be approved by Investment Committee.

5.8.8 The City shall only invest in securities when the final maturity date is known at the time of purchase.

5.9 Collateralization

5.9.1 Collateral will be required on Repurchase Agreements, and will be limited to treasury, agency and money market securities. Collateral shall be delivered to the City's safekeeping agent, or through a tri-party arrangement in which the proper documents delineating the responsibilities of the parties have been executed. A clearly-marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

5.9.2 In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be one hundred two percent (102%) of market value of principal and accrued interest. Such collateral shall be revalued on a periodic basis, but not less than weekly, in order to maintain market protection. The right of substitution is granted.

5.10 Safekeeping and Custody

5.10.1 All security transactions, including collateral for repurchase agreements, entered into by the City will be conducted on a delivery versus payment (DVP) basis. Securities will be held by a third-party custodian designated by the Chief Financial Officer or his/her designee and evidenced by safekeeping receipts.

5.11 Diversification

5.11.1 The City will diversify its investments by security type, institution and maturity with the intention to minimize risk.

5.11.2 Investments with any single securities broker/dealer or financial institution will generally not exceed fifty percent (50%) of the total portfolio except for the Washington State Treasurer's Local Government Investment Pool (LGIP) which can be up to one hundred percent (100%).

5.11.3 Security limitations by type will follow these maximum guidelines:

Treasury Securities	100%
Federal Agency Securities	90%
- Individual issues	10%
- Individual Agency	40%
FDIC Guaranteed senior unsecured debt obligations (Under the Temporary Liquidity Guaranteed Program (TLGP) or other federal government guaranteed programs. Must carry the full faith and credit of the United States Government.)	30%
- Individual issuer	10%
Washington State Treasurer's Local Government Investment Pool	100%
Non-negotiable Certificates of Deposit	60%
(Must be with PDPC-qualified public depository)	
- Individual issuing bank	10%
PDPC Financial Institution Sponsored Investment Accts	50%
Banker Acceptances (Must be A1/P1L	10%
Individual banks	2%
Repurchase Agreements	25%
General Obligation bonds of any state or local government.....	10%
Other than "bonds" of the City of Spokane as defined in section 4.9)	
City of Spokane notes, bonds and warrants.....	15%
(Includes CLID or LID and "bonds" as defined in section 4.9)	
Commercial Paper (Must be A1/P1)	10%
Individual issuer	2%

5.12 Maturity Structure

5.12.1 To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. The City shall generally invest in securities maturing five (5) years or less from the date of purchase. The average maturity of all securities owned should be no longer than three (3) years. Exceptions to the five (5)

year maximum and three (3) year average maturity are stated below.

- a. Funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the identifiable funds.
- b. Funds may be invested in the City's CLID or LID bonds and notes with maturities exceeding five (5) years.
- c. Funds may be invested in qualified General Obligation bonds of the City of Spokane or "bonds" as defined in section 4.9 with maturities exceeding five (5) years.

5.13 Internal Control

The Chief Financial Officer or his/her designee shall establish a system of internal controls, which shall be reviewed by the State Auditor. This review will examine internal controls over investment activities for compliance with policies and procedures. Such review may result in recommendations to change operating procedures to improve internal control. Controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

5.14 Performance Standards

5.14.1 The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

5.14.2 Market Yield (Benchmark): The City generally follows an active investment strategy in that it monitors market conditions and positions the portfolio in response to the current interest rate environment. Given this strategy, the basis used by the Investment Committee to determine whether market yields are being achieved shall be to identify a benchmark that is comparable to the related portfolio investment duration (for example if the duration of the portfolio is one (1) year, the one-year Treasury yield would be an appropriate benchmark). The Investment Committee shall periodically review portfolio duration and characteristics to ensure selected benchmarks are relevant and where necessary make appropriate changes.

5.15 Reporting

The Chief Financial Officer or his/her designee presents investment earnings as part of regular reporting on General Fund Revenues. Additional reports shall be provided upon request as needed.

5.16 Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution of the City Council. The policy shall be reviewed by the Finance Committee annually and any significant modification thereto shall be approved by the City Council.

5.17 Investment Allocation - Spokane Investment Pool

5.17.1 Purpose - To establish and explain the investment allocation methodology used to distribute investment portfolio earnings to funds participating in the Spokane Investment Pool.

5.17.2 Investment earnings shall be allocated in accordance with the applicable legal requirement(s) of the underlying fund. Such legal requirements include, but are not limited to, bond documents, grant terms, contractual obligations, or the ordinance establishing the Fund. Absent such legal requirements, the Chief Financial Officer or his/her designee shall establish by resolution, the rate and manner in which investment earnings shall be allocated in accordance with RCW 35.39.034.

5.17.3 It is the policy of City to allocate portfolio earnings to participating Funds on a monthly basis. Participating funds are to receive a proportionate share of all monthly earnings based on their average invested balance. Unrealized gains and losses, realized gains and losses, and amortization of Premium and Discount are to be allocated at least quarterly. For reporting purposes, at the close of the fiscal year, an entry will be made to accrue interest earned but not yet received as of the end of the year.

5.17.4 The Investment allocation methodology applies to all funds participating in the investment pool. These funds are accounted for in the Operation of Cash and Investments report and include all funds except for Fiduciary Funds.

6.0 PROCEDURE

The Chief Financial Officer or his/her designee shall adopt department procedures which shall be in compliance with this policy.

7.0 RESPONSIBILITIES

The City Finance, Treasury and Administration Division shall administer this policy.

8.0 APPENDICES

N/A

APPROVED BY:



City Attorney, Assistant

Johnnie Perkins
Johnnie Perkins (Mar 27, 2023 12:20 PDT)

City Administrator

Tonya Wallace

Chief Financial Officer

Mar 27, 2023

Date









Investments Policy & Procedure

Final Audit Report

2023-03-27

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