

City of Redmond Investment Policy

1.0 Policy:

It is the policy of the City of Redmond to invest public funds in a manner which will provide the maximum security of the principle, meet the daily cash flow demands of the City, and strive for a high investment return while conforming to all laws and regulations governing the investment of public funds.

2.0 Scope:

This investment policy applies to all financial assets of the City of Redmond other than any Fiduciary funds which include, but are not limited to; The Municipal Employees Benefit Trust and Deferred Compensation Plan funds managed externally; Contractors Deposit funds; and such funds excluded by law or bond covenant.

The applicable funds are accounted for in the City's Comprehensive Annual Financial Report and include:

2.1 Funds:

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Capital Project Funds
- 2.1.4 Enterprise Funds
- 2.1.5 Debt Service Funds* (Monies related to proceeds of municipal securities and/or pledged reserve amounts will be placed separately by the City and not invested through an approved broker/dealer relationship. See Section 10, Diversification, for additional information)
- 2.1.6 Internal Service Funds
- 2.1.7 Any new fund created by Council, unless specifically exempted by Council

*The City contracts with a Municipal Advisor for debt issues, however the scope of responsibilities does not include investment advice.

3.0 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.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures 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 in a timely fashion and appropriate action is taken to control adverse developments.

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4.0 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the City of Redmond. 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.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return given the City's risk constraints and cash flow requirements.

5.0 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Investment Committee, who shall establish and monitor written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5.1 Investment Committee: The investment committee shall consist of the mayor, the chairperson of the PAF Committee and the Finance Director. The committee shall meet quarterly (or as needed, as determined by the committee) and provide overall guidance with regard to investment transactions. The committee will review and authorize financial dealers and institutions as provided for in Section 7.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor any material financial interests in financial institutions that conduct business within 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 transactions to those of the City of Redmond, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions:

The Finance Director will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the city. Authorized broker/dealers and financial institutions will be limited to those that are approved by the Investment Committee and meet one or more of the following:

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- Financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- Primary dealers recognized by the Federal Reserve Bank; or,
- Non-primary dealers qualified under the U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and a certified member of the National Association of Securities Dealers.

Each authorized broker/dealer or financial institution will be selected by creditworthiness, required to maintain an office in the State of Washington, and required to regularly submit annual reports, including audited financial statements when not available online. Additionally, broker/dealers are required to complete a broker/dealer questionnaire or any other information that may be required by the City to assess the qualifications of the firm.

8.0 Authorized Investments:

Authorized investments are securities and investments authorized by state statute as defined in RCW's 39.58 and 39.59. Authorized investments include:

- 8.1 Investment deposits, including certificates of deposit, with qualified public depositories as defined in RCW 39.58.
- 8.2 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 (such as the Government National Mortgage Association).
- 8.3 Obligations of government-sponsored corporations 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, and Federal National Mortgage Association notes, bonds and guaranteed certificates of participation.)
- 8.4 Bankers' acceptances purchased on the secondary market.
- 8.5 Bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
- 8.6 Repurchase agreements for securities listed in 2, 3, and 4 above, provided that the transaction is structured so that the City of Redmond obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the bank or dealer.
- 8.7 State Investment Pool.
- 8.8 Commercial Paper purchased in the secondary market and having received the highest rating by at least two (2) Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase and adhering to the investment policies and procedures adopted by the State Investment Board.

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8.9 Mutual funds, escrow accounts, public fund money market accounts or cash type accounts used specifically for proceeds of municipal securities.

9.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City of Redmond shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director.

Certificates of Deposit in the City's name, or confirmations of them, will be delivered to and held in the Finance Department.

10.0 Diversification:

The City will diversify its investments by security type and institution. The following schedule provides the maximum holdings in any one type of investment or with any one issuer.

Type of Security	Maximum Holdings
Certificates of Deposit	50% of Portfolio 10% per Issuer 20% of Issuer's Net Worth
U.S. Treasury Notes, Bonds or Certificates	100% of Portfolio
U.S. Government Sponsored Corporations	100% of Portfolio
Bankers Acceptances	25% of Portfolio 10% per Issuer
State of Washington or Local Government Bonds	25% of Portfolio 10% per Issuer
Repurchase Agreements	25% of Portfolio 25% per Dealer
State Investment Pool	100% of Portfolio
Commercial Paper	10% of Portfolio 10% per Issuer
Public Fund Money Market Accounts, Escrow Accounts, Cash Type Accounts	Minimum amount to be pledged as debt reserves, or other debt related monies.
Mutual Funds	Arbitrage related only

Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

Monies related to proceeds of municipal securities and/or pledged reserve amounts will be placed separately by the City and not invested through an approved broker/dealer relationship

11.0 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, or restricted by state

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guidelines, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments.

Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

12.0 Internal Control:

The Finance Director shall establish a process of independent review by an external auditor. This review will provide internal control by assuring that policies and procedures are being complied with. Such review may also result in recommendations to change operating procedures to improve internal control.

13.0 Performance Standards:

The City of Redmond's investment portfolio will be designed with the objective of attaining a rate of return commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

13.1 Average Rate of Return: The basis used by the Finance Director to determine whether an average rate of return is being achieved shall be the 2 year average of the 2-Year Treasury Note.

14.0 Reporting:

The Finance Director is charged with the responsibility of including a report on investment activity and returns in the City's Quarterly Financial Report.

15.0 Investment Policy Adoption:

The City of Redmond's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on a biennial basis by the Public Administration & Finance Committee and any modifications made thereto must be approved by the City Council.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill 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.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Redmond. The report includes government-wide and fund financial statements and notes all prepared in conformity with GAAP. The CAFR also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U. S. Treasury bills.

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DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) An independent federal agency that insures deposits in member banks, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): The Federal Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The rotating seats are filled from the following four groups of Banks, one Bank president from each group: Boston, Philadelphia, and Richmond; Cleveland and Chicago; Atlanta, St. Louis, and Dallas; and Minneapolis, Kansas City, and San Francisco. Nonvoting Reserve Bank presidents attend the meetings of the Committee, participate in the discussions, and contribute to the Committee's assessment of the economy and policy options.

FEDERAL RESERVE SYSTEM: An independent agency of the U.S. government that plays a central role in monetary policy, domestic payment systems, and the regulations of financial institutions.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U. S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

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

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 and reinvestment.

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MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written agreement covering all future transactions between the investor and dealer or financial institution. The agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party, and otherwise clarifies issues of ownership.

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PUBLIC DEPOSIT PROTECTION COMMISSION: The Public Deposit Protection Commission provides security for public treasurers in Washington State by protecting public deposits which exceed the amount insured by the FDIC. It also minimizes participating depositories' liability for defaulting institutions

PRIMARY DEALER: 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 (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: 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.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

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REPURCHASE AGREEMENT (RP OR REPO): A transaction between a securities dealer and an investor in which the dealer sells the security to the investor with an agreement to buy the security back at a specific time and price that will result in a predetermined yield for the investor.

SAFEKEEPING: A service provided/contracted with a financial institution for the settling and holding of securities on behalf of the customer. In the case of book entry securities; holding of securities in the customer's name.

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 & 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. 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 ten 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 an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for 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.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.