

CITY OF OLYMPIA -- INVESTMENT POLICY

Policy:

It is the policy of the City of Olympia to invest funds in a manner which will provide appropriate security with the highest investment return, while meeting the cash flow demands of the City, conforming to state and local laws governing the investments of public funds, and complying with “The City of Olympia Nuclear Free Zone Act.”

Scope:

This investment policy applies to all financial assets of the City. This policy applies to all Funds of the City included in the Comprehensive Annual Financial Report. This policy does not apply to assets in the custody of a third party trustee for special purposes (e.g. bond refunding proceeds), or assets governed by financial requirements of Federal, State or local law which would prohibit the implementation of this policy.

Prudence:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with established 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.

Objective:

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

Safety: Safety of the 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 obtain this objective, diversification is usually required.

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

Yield: The City’s investment portfolio shall be designed with the objective of attaining a maximum rate of return throughout budgetary and economic cycles, taking into account the City’s investment risk constraints, the cash flow characteristics of the portfolio and the fact the City utilizes a passive investment program.

Delegation of Authority:

Authority to manage the City’s investment program is derived from Chapter 35A.40.050 RCW. Management responsibility for the investment program is hereby delegated to the Finance Manager who shall establish procedures for the operation of the investment program consistent with this investment policy. Procedures shall include reference to: safekeeping, master repurchase agreements,

wire transfers, and custody agreements. 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 Manager. The Finance Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the 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 Treasurer (Director of Administrative Services) any material financial interest in financial institutions that conduct business with the City, and they shall further disclose any 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, particularly with regard to the timing of purchases and sales.

Authorized Financial Dealers and Institutions:

The City Treasurer and Finance Director shall establish a list of authorized financial institutions and broker/dealers to provide investment services. Authorized institutions and broker/dealers shall maintain offices in the Pacific Northwest, except for broker/dealers which may be selected for investments as part of refunding or other structured financing by the City.

No public deposits shall be made except in qualified public depositories as provided in Chapter 39.58 RCW.

Authorized and Suitable Investments:

The City is empowered to invest in those investments authorized in Chapter 35A.40.050 RCW.

Investments can be made in the following without prior approval:

- A) Certificates of Deposits with qualified public depositories.
- B) 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 United States whose securities carry full faith and credit guarantees.
- C) Federal Agency Securities, including but not limited to Export-Import Banks, Federal Housing Authority, Government National Mortgage Association, and Tennessee Valley Authority.
- D) Other Agency type securities include but are not limited to, Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Small Business Administration and Maritime Administration.
- E) Repurchase agreements of securities listed above, provided the transaction is structured so the City maintains ownership and control over the underlying securities.
- F) Bankers acceptances purchased on the secondary market.
- G) Certificates, notes and bonds of the State of Washington, or its political subdivisions,

including L.I.D. warrants, notes or bonds of the City of Olympia.

H) Participation in the State of Washington, Local Government Investment Pool(s), (LGIP).

Investments shall comply with “The City of Olympia Nuclear Free Zone Act,” section 5. Specifically the City may not invest in industries and institutions which are knowingly and intentionally engaged in the development, testing, evaluation, production, maintenance, storage, transportation and/or disposal of nuclear weapons or their components. This provision shall not apply to the government of the United States, its agencies, departments, boards and commissions.

Investments in items not specifically enumerated above shall be made only with approval of the City Manager.

The City may invest in structured securities of any of the above. Structured securities include but are not limited to, callable, step-up or variable rate securities. Structured securities may be utilized only when the final maturity of the security is within the maximum maturity guidelines.

Collateralization:

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest.

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

The right of substitution shall be granted only upon approval by the City.

Safekeeping and Custody:

All security transactions including collateral for repurchase agreements shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the City shall be retained by the City or delivered against payment and held in a custodial safekeeping account with a bank. The safekeeping agent(s) shall be designated by the City Treasurer and all transactions shall be evidenced by safekeeping receipts.

Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and State of Washington LGIP pools, no more than 50% of the City’s total investment portfolio will be invested in a single security type or with a single financial institution.

Maximum Maturities:

To the extent possible, the City will attempt to match its investments with cash requirements. Unless matched to specific cash requirements, maturities shall meet the following requirements:

Minimum liquidity requirement. 10% of Operating Funds budgets (excluding Debt Funds) when taken as a whole shall consist of the following:

- Cash.
- Fixed maturities due within 30 days.
- Overnight repurchase agreements.
- Investment pools with daily liquidity.
- Marketable securities with market value equal to or exceeding 100% of cost.

Operating Funds: Amounts within the City's operating reserve requirement may be invested in maturities not to exceed 18 months. Amounts in excess of the City's operating reserve requirement may be invested in maturities not to exceed 36 months.

Non-Operating Funds may be invested in maturities not to exceed 10 years.

Other Requirements:

For purposes of determining maturities for pools the maturity for compliance with this section shall be the maximum average life for the pool as established by the pool's investment policy. In the absence of a policy, the actual average life shall be used.

Investments may be made in excess of the above requirements if approved by the City Treasurer, or if the investment is made by the City Treasurer, the investment must be approved by the City Manager.

The City may collateralize repurchase agreements using longer-dated investments as long as the collateralization requirement is maintained.

Internal Controls:

The City Treasurer shall establish a review process (not less than annual). This review shall include compliance with policies and procedures.

Performance Standards:

The City's investment strategy is passive and not speculative. The investment portfolio should be designed to obtain reasonable yields in an environment where safety, return of principal, and cash flow needs are more important than yields. Accordingly, this policy does not establish a yield performance

standard although, the combined investment yield on investments should equal or be greater than the State of Washington short term LGIP.

No loss will be deemed to have occurred on the exchange of one security for another unless the proceeds of the sale, plus interest earned on the original and subsequent investment(s), is less than the gross proceeds of the original investment at maturity.

The City recognizes, that in a diversified portfolio, occasional losses may occur and must be considered within the context of the overall portfolio's investment return, provided, adequate diversification has been implemented.

Exchanges of securities and sales of securities prior to maturity shall be reviewed with the City Treasurer, prior to such sale or exchange or, in the absence of the City Treasurer, the City Manager or Assistant City Manager.

Reporting:

The Finance Manager shall report at least monthly to the City Treasurer and annually to the Finance Committee of the City Council.

Investment Policy Adoption:

This policy was adopted by the City Council on May 21, 1996, and amended on October 10, 2006. An annual review of this policy shall be conducted by the Finance Committee.

CITY OF OLYMPIA

INVESTMENT PROCEDURES & GUIDELINES

Scope:

These procedures and guidelines are for the general administration of the Investment Policy.

Investment Authority:

The Finance Manager is the principal investment officer of the City. The City Treasurer may also conduct investment activity for the City.

Additionally, the Finance Manager may appoint staff who are authorized to transfer funds to the State of Washington, Local Government Investment Pool (LGIP) for the purpose of investing surplus cash. They are also authorized to have funds transferred from the LGIP to the City as needed to meet cash flow requirements of the City.

Authorized Financial Dealers and Institutions:

The following are approved financial institutions and broker/dealers (and their successor) to provide investment services:

- Dain Rauscher
- Government Perspectives, LLC
- Paine-Webber
- Bank of America
- Montgomery Securities LLC
- Seattle Northwest Securities
- US Bank
- Key Bank
- Vining-Sparks
- Piper Jaffary

Additionally any qualified public depository may provide certificates of deposit.

Safekeeping and Custody:

The following are designated as safekeeping agents:

- US Bank
- SeaFirst Bank

Reporting:

The Finance Manager shall provide the following reports monthly (m) or quarterly (q):

- List of outstanding investments (m)
- Amount in LGIP (m)
- Minimum liquidity requirement (q)
- Operating Funds investments (q)

Annual reports shall include the above plus:

- Yield performance
- Total Investment Earnings
- Investments Marked to Market

The City Treasurer will at a minimum annually review the investment procedures, guidelines and processes including compliance with the investment policy.

Internal controls:

The Finance Manager shall maintain records of all investments. These records include transaction trade information and safekeeping receipts, except for funds with the LGIP.

Each investment officer shall provide to the accounting section purchase, maturity, call and liquidation information regarding all investments transactions, excluding funds with the LGIP. Investment information should not be entered into the City

accounting system by the investment officer. In cases where the investment officer does enter transaction into the accounting system, such transactions shall be review by the Accounting section team leader.

The Finance Manager shall provide the Accounting Section team leader monthly information as to the amount of investments by fund. The Accounting Section team leader shall reconcile this information with the general ledger of the City on a monthly basis. Any unresolved reconciliation differences shall be reported to the City Treasurer.

Investments with the LGIP shall be maintained in a log which will include information regarding all additions and withdrawals for the LGIP and the current balance invested with the LGIP.

General procedures and guidelines:

A: Safekeeping instructions will be in writing, although verbal instructions may be given if followed with confirming written instructions. This requirement does not apply if an investment is safe kept at the same institution from which the investment was purchased or to which the investment was sold.

B: Repurchase agreements shall be made only with institutions which have signed a Master Repurchase Agreement, or as part of the City’s banking services arrangement.

C: Investments may be settled by wire transfers. The City Treasurer and Finance Manager are authorized to transfer funds for investment purposes. Investments settled on a delivery versus payment basis will be by wire transfer, such transfer is considered

approved when the city notifies the safekeeping agent of the pending settlement of the investment. In addition, the Finance Manager may appoint staff who are authorized to transfer funds from the general City bank account to the State of Washington, LGIP for investments purposed with the LGIP.

D. Bidding of Investments. Investments shall be placed through an informal bidding process. Generally, price quotes should be obtained from more that one institution. Although the City desires to award bids to the highest bidder, subjective judgment may be required in awarding the bid for such things as; size of the investment, cost of placing the investment, time available to place the investment, Prudent Person Standard, the general guidelines of the Investment Policy.

Investment procedures and guidelines adoptions:

These procedures and guidelines are hereby adopted by the City Treasurer and Finance Manager on October 20, 2006 and supersedes all previous procedures and guidelines.

(City Treasurer)

(Finance Manager)