

**RESOLUTION NO. 1115**

**CITY OF LACEY**

A RESOLUTION OF THE CITY OF LACEY, WASHINGTON, AMENDING THE OFFICIAL INVESTMENT POLICY OF THE CITY.

WHEREAS, the stewardship of public funds, their safe-keeping, legal use and proper management, is one of the most important responsibilities entrusted to the officials and managers of the City of Lacey, and

WHEREAS, the City Council authorized an investment advisory services agreement, which requires detailed guidance and parameters for investment activities, and

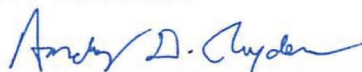
WHEREAS, the City Council adopted Resolution No. 625 on June 9, 1988, Resolution No. 810 on July 22, 1999, Resolution No. 1006 on February 13, 2014, Resolution No. 1055 on January 18, 2018, and Resolution No. 1089 on May 14, 2020, which established and amended the City of Lacey's official investment policy, and

WHEREAS, recent changes to the Revised Code of Washington and Washington State Investment Board investment policy create the need for additions and amendments to said policy,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, that the certain policy set forth in the document entitled "City of Lacey Investment Policy," attached hereto and made a part hereof as though fully set forth at length is hereby approved and adopted as the investment policy to be followed by the City Council and management of the City of Lacey.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, this 17<sup>th</sup> day of February, 2022.

CITY COUNCIL



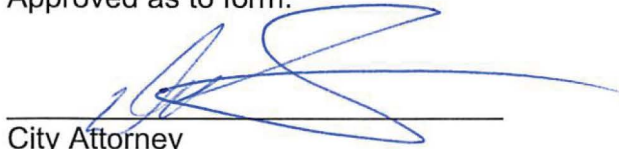
\_\_\_\_\_  
Mayor

Attest:



\_\_\_\_\_  
City Clerk

Approved as to form:

  
\_\_\_\_\_  
City Attorney



# **INVESTMENT POLICY**

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	<b>Finance</b>	
	<b>Policy Title:</b> Investment Policy	<b>Effective:</b> May 14, 2020  <b>Revised:</b> February 22, 2022

## PURPOSE

It is the policy of the City of Lacey (City) to invest public funds in a manner, which will provide the highest investment return with the maximum security while meeting the daily cash flow demands. All investments shall conform to all Washington State statutes governing the investment of public funds.

This investment policy defines the parameters within which funds are to be invested by the City. This policy also formalizes the framework to provide the investment authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this policy.

This policy is intended to be broad enough to allow the City Manager and Finance Director to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets. This policy:

- Sets out guidelines for the prudent management of the City’s funds;
- Describes realistic parameters and goals for safely investing those funds;
- Establishes expectations for generally acceptable returns at a suitable level of risk that matches the purpose of the City's funds;
- Provides the framework within which the City Manager and Finance Director will operate by setting out objectives, guidelines, and structure that include details on the universe of permitted investments and any restrictions of their use.

An amendment of this policy requires City Council approval.

## SCOPE

This investment policy applies to all financial assets of the funds of the City of Lacey, including the Surface Water Utility fund. These funds, presented in the City's Annual Financial Report, include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Debt Service Funds
- Trust and Agency Funds
- Retirement/Pension Funds
- Any new fund created by the City Council, unless specifically exempted

## REFERENCES

Revised Code of Washington:

- Chapter 35A.40
- Chapter 39.58
- Chapter 39.59
- Chapter 43.250
- Chapter 43.84

## INVESTMENT TERMINOLOGY

For investment terminology refer to the Appendix on page 12.

### 1 GOVERNING AUTHORITY

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Authority to manage the City of Lacey's investment program is derived from the following: Revised Code of Washington (RCW), Washington Municipal Treasurer's Association model investment policy, Washington State Auditor's Office's Budgeting, Accounting, and Reporting System (BARS) manual, and Resolution No. 1055 and City of Lacey Policy 1.18.18. Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish procedures for the operation of the investment program consistent with this investment policy.

### 2 OBJECTIVES

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All funds will be invested in a manner that conforms with federal, state and other legal requirements. The objectives, in order of priority, of the investment activities will be as follows:

#### 2.1 SAFETY

Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified utilizing highly rated securities and by investing in a variety of securities and financial institutions. The investment portfolio will be invested in a manner that complies with Washington State statutes and all other legal requirements of the City.

#### 2.2 LIQUIDITY

The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a minimum balance to meet daily obligations.

#### 2.3 RETURN ON INVESTMENT

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, the City's investment objectives and the cash flow characteristics of the portfolio.

### 3 STANDARDS OF CARE

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#### 3.1 DELEGATION OF AUTHORITY

**Governing Body:** The ultimate responsibility and authority for the investment of City funds resides with the City Council who has the authority to establish policy that directs the management of the City investment program.

**Authority:** Pursuant to the LMC 2.16.020, the overall management responsibility for the investment program is hereby delegated to the City Manager and Finance Director, who shall establish written procedures for the operation of the investment program that are consistent with this investment policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

**Investment Advisor:** The City may contract with an external non-discretionary investment advisor (Advisor) to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such Advisors shall provide recommendations and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments by this Investment Policy.

#### 3.2 PRUDENCE

The standard of prudence to be used by the Finance Director or investment officers in the context of managing the overall portfolio is the prudent person rule which states: *Investments will 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 in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.*

Investment officers acting in accordance with 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, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### 3.3 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 officers shall disclose to the City Council 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 Involved in the City Investment program must avoid conflicts of interest.

Association with the investment program in any capacity is considered employee involvement. Employees must avoid personal business activity that may:

- Conflict with the proper execution of the investment program.
- Impair their ability to make impartial investment decisions.

### 3.3.1 Employees Associated with the City Investment Program Must Disclose

**The disclosure should list:**

- Any material interests in financial institutions that conduct business with the City.
- Any personal financial or investment positions that could influence the performance of the City's investment portfolio, particularly with regard to the timing of purchases and sales.

## 4 SAFEKEEPING, CUSTODY, AND CONTROLS

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### 4.1 DELIVERY VS. PAYMENT

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

### 4.2 THIRD PARTY SAFEKEEPING

Prudent treasury management requires that all purchased securities be bought on a DVP basis and be held in safekeeping by an independent third-party financial institution or the City's designated depository.

The Finance Director shall designate all safekeeping arrangements and an agreement of the terms shall be executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand deposits shall be held in accordance with the State of Washington's Public Deposit Protection Commission (PDPC).

### 4.3 INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transfers;
- Staff training; and
- Review, maintenance and monitoring of security procedures both manual and automated.

#### 4.4 EXTERNAL CONTROLS

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

## 5 AUTHORIZED FINANCIAL DEALERS

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### 5.1 BROKER/DEALERS

The Finance Director shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes. The City shall follow Government Finance Officers Association (GFOA) best practices for evaluating and selecting financial institutions and broker/dealers.

The Finance Director or designee may utilize the investment advisor's approved broker/dealer list in lieu of the City's own approved list. The Advisor must submit the approved list to the City annually and provide updates throughout the year as they occur. The Advisor shall follow GFOA best practices for evaluating and selecting financial institutions and broker/dealers. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include but are not limited to:

- a. FINRA Certification check:
  - i. Firm profile
  - ii. Firm history
  - iii. Firm operations
  - iv. Disclosures of arbitration awards, disciplinary and regulatory events
  - v. State Registration Verification
- b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

The Advisor may be authorized through the contracted agreement to open accounts on behalf of the City with the broker/dealers on the approved broker/dealer list.

### 5.2 INVESTMENT ADVISORS

Advisors must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

### 5.3 BANK INSTITUTIONS

The City will only place funds in qualified depositories in the State of Washington as provided in Chapter 39.58 RCW and as regulated by the Washington State Finance Director's Public Deposit Protection Commission (PDPC). Listings with the PDPC will be verified by the Advisor or designated investment officer annually.



## 5.4 COMPETITIVE TRANSACTIONS

Transactions must be executed on a competitive basis and documented. Competitive prices should be provided from at least three separate brokers, financial institutions or through a national electronic trading platform. If the purchased security is only offered by one broker then other securities with similar structure may be used for documentation purposes. When an Advisor handles trade executions, they must provide the competitive documentation as requested.

# 6 AUTHORIZED AND SUITABLE INVESTMENTS

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## 6.1 AUTHORIZED INVESTMENTS

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080).

Additional specifications:

- The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.
- This policy recognizes S&P, Moody's, and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).
- Minimum credit ratings and percentage limitations apply to the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.
- Securities rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.
- Interfund loans issued by the City may also be included as investments.

## 6.2 SUITABLE INVESTMENTS

The City is empowered to invest in the following types of securities:

- **US Treasury Obligations:** Direct obligations of the United States Treasury.
- **US Agency Obligations:** US Government Agency Obligations and US Government Sponsored Enterprises (GSEs) which may include, but are not limited to the following: Federal Farm Credit Banks Funding Corporation (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Tennessee Valley Authority (TVA).
- **Supranational Bonds:** United States dollar denominated bonds, notes or other obligations that are issued or guaranteed by supranational institutions, provided, that at the time of investment, the institution has the United States as its largest shareholder. These include: International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB).
- **Municipal Debt Obligations:** Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds outside the State of Washington; at the

time of investment the bonds must have one of the three highest credit ratings of a nationally recognized rating agency. City of Lacey long-term interfund loans may be included as investments of municipal debt and are not required to be rated.

- **Corporate Notes:** Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated at least weak single A (A-) or better by all the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio. The maturity must not exceed 5.5 years and the maximum duration of the corporate note portfolio cannot exceed 3 years. The percentage of corporate notes that may be purchased from any single issuer rated AA- or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single A (A-) category from all the major rating agencies that rate the security is 2% of the total portfolio. The individual country limit of non-U.S. and non-Canadian exposure is 2% of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.
- **Commercial Paper:** Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the three highest rating categories of an NRSRO. The percentage of commercial paper that may be purchased from any one issuer is 3% of the market value of the total portfolio. Issuer constraints will apply to the combined holdings of corporate notes and commercial paper holdings.
- **Certificates of Deposit:** Non-negotiable Certificates of Deposit of financial institutions that are qualified public depositories as defined in RCW 39.58.010(2) and by the restrictions within.
- **Bank Time Deposits and Savings Accounts Issued by Banks:** Deposits in PDPC approved banks.
- **Bankers' Acceptance:** Bankers' Acceptances generally are created based on a letter of credit issued to finance transactions. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions and must be purchased on the secondary market.
- **State Local Government Investment Pool:** Investment Pool managed by the Washington State Finance Director's Office.

### 6.3 BANK COLLATERALIZATION

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under RCW 39.58.240, all public Finance Directors and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

## 7 INVESTMENT PARAMETERS

### 7.1 DIVERSIFICATION

The City will diversify the investment of all funds by adhering to the constraints by issuer type in accordance with the following table:

Table of Portfolio Constraints

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.5 years
US Agency Obligations	100%	35%	N/A	5.5 years
Supranational Agency Notes	10%	5%	AA- / Aa3	5.5 years
Municipal Obligations	30%	5%	AA- / Aa3	5.5 years
City of Lacey Interfund Loans	15%	None	N/A	N/A
Corporate Notes	25%	3%* for AA- 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%*	A1 / P1 Long Term A-/A3	270 days
Certificates of Deposit	20%	5%	Deposits in PDPC approved banks	5.5 years
Bank Time Dposits/Savings Accounts	20%	None	Deposits in PDPC approved banks	N/A
Banker's Acceptance	10%	5%	N/A	N/A
State LGIP	100%	None	N/A	N/A

\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

### 7.2 INVESTMENT MATURITY

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five and a half (5.5) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 2 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, PDPC bank deposits, or cash matched securities.
- Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5.5 years and will be only invested in high quality and liquid securities.

- Interfund loan maturities are excluded from the maturity constraint rules.
- Specific dedicated funds such as bond reserves and designated perpetual funds may be excluded from the maturity constraints.

Total Portfolio Maturity Constraints:

<b>Maturity Constraints</b>	<b>Total Portfolio Minimum</b>
Under 30 days	10%
Under 1 year	25%
Under 5.5 years	100%

<b>Maturity Constraints</b>	<b>Total Portfolio Maximum</b>
Weighted Average Maturity	2 years
Duration of Corporate Note Portfolio	3 years

<b>Security Structure Constraint</b>	<b>Total Portfolio Maximum</b>
Callable Agency Securities	25%

### 7.3 STRATEGIC ALLOCATIONS

#### 7.3.1 Funds and their Allocation

The City has two classifications of investment funds: Liquidity and Core.

- Liquidity funds for the operating account will be allocated to LGIP, CD's, PDPC Bank Deposits, Bankers Acceptances, and Commercial Paper.
- The structure of the Investment Core Fund will be targeted to a selected market benchmark based on the risk and return objectives of the portfolio.

#### 7.3.2 Monitoring and Portfolio Adjustment

As a general practice, securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- A security with a declining credit may be sold early to protect the principal value of the portfolio.
- A security may be sold to bring the portfolio duration or maturity in alignment with the structure of the underlying benchmark portfolio.
- A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- A sale of a security to provide for unforeseen liquidity needs.

## 7.4 PROHIBITED INVESTMENTS

The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

The City shall not invest in:

- a. Mortgage-backed securities
- b. Derivative Products
- c. Securities that leverage the portfolio or are used for speculation of interest rates
- d. Mutual Funds
- e. Repurchase Agreements
- f. Reverse Agreements

## 8 REPORTING REQUIREMENTS

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### 8.1 REPORTING

The Finance Director shall be responsible for investment reporting. At a minimum, quarterly reporting shall be made to the City Manager and annual reporting shall be made to the City Council including, but not limited to; securities holdings, cash balances, and market values in the investment portfolio.

Specific reporting requirements:

- Book Yield
- Holdings Report including mark-to-market and security description
- Transactions Report
- Weighted Average Maturity
- Performance in relation to established benchmarks

### 8.2 PERFORMANCE STANDARDS

The portfolio shall be managed to obtain a fair rate of return and earnings rate that incorporates the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, "earnings rate" will be the composite rate of both the Liquidity and Core funds and be compared to the LGIP rate. The goal is for the total portfolio, to generally perform better than the LGIP due to the longer weighted average maturity and the earnings rate is expected to trend in a similar manner as interest rates change.

The investment portfolio performance may be tracked against a market index such as the US treasury 0-3 year index or US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio.

### 8.3 COMPLIANCE REPORT

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

### 8.4 ACCOUNTING METHOD

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB).

**Pooling of Funds:** Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation in the investment program and in accordance with generally accepted accounting principles.

## 9 INVESTMENT POLICY ADOPTION

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The City's Investment Policy and amendments shall be adopted by resolution by the City Council. The Policy shall be reviewed annually by the Finance Director or the Finance Committee when applicable, and any modifications made to the Investment Policy must be approved and adopted by the City Council.

## APPENDIX - INVESTMENT TERMINOLOGY

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**Accrued Interest:** The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**Agency:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Government Sponsored Enterprises (GSEs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

**Agency Securities:** Government sponsored enterprises of the US Government.

**Amortization:** In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

**Asset:** Available property, as for payment of debts

**Average Maturity:** A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

**Bankers Acceptances:** A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

**Bank Wire:** A virtually instantaneous electronic transfer of funds between two financial institutions.

**Basis Points:** A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

**Bid:** The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security, a bid is obtained. (See Offer)

**Bond:** An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

**Broker:** An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

**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 or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by corporations.

**Current Maturity:** The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

**CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

**Dealer:** An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

**Delivery:** Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is the delivery of securities with an exchange of money for the securities.

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

**Duration:** A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

**Full Faith and Credit:** Indicator that the unconditional guarantee of the United States government backs the repayment of debt.

**General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

**Government Bonds:** Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "governments."

**Interest:** Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

**Investment Core Funds:** Core funds are defined as operating fund balance and other fund balances that exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

**Investment Securities:** Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

**Liquidity:** The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

**Liquidity Component:** A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

**LGIP:** Local Government Investment Pool run by the State of Washington Finance Director's office established to help cities with short-term investments.

**Mark to Market:** Adjustment of an account or portfolio to reflect actual market value rather than book price, purchase price or some other valuation.

**Market Value:** The market value of a security is the price at which can be sold on that date.

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

**Municipals:** Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.



**Non-Discretionary Investment Advisor:** Non-discretionary investment advisor services may include investment management oversight, investment research, portfolio analysis, portfolio reporting and portfolio recommendations based upon the specific investment policy and investment objectives of each client. Clients must approve any such recommendations before the securities are purchased or sold in their accounts.

**Par Value:** The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

**Portfolio:** A collection of securities held by an individual or institution.

**Principal:** The cost of an instrument on which interest is earned.

**Prudent Person Rule:** A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Quotation or Quote:** A bid to buy or the lowest offer to sell a security in any market at a particular time.

**Repurchase Agreement:** Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer 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 Bill (T-Bill):** An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

**Treasury Bonds and Notes:** Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

**Yield:** The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Yield to Maturity:** The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

**Ratings Table – Long-Term**

<b>Three Highest Rating Categories</b>	<b>S&amp;P</b>	<b>Moody’s</b>	<b>Fitch</b>	<b>Definition</b>
	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

**Ratings Table – Short-Term**

<b>Highest Rating Category</b>	<b>S&amp;P</b>	<b>Moody’s</b>	<b>Fitch</b>	<b>Definition</b>
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	<b>Municipal Commercial Paper</b>			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality