



City of Tukwila

Washington

Resolution No. 2034

**A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF TUKWILA, WASHINGTON, ADOPTING AN
INVESTMENT POLICY.**

WHEREAS, the City Council is committed to the highest standard of financial management; and

WHEREAS, the investment of public funds must comply with all applicable state and local requirements; and

WHEREAS, a comprehensive investment policy ensures that public funds are invested in a manner that will provide maximum security with the highest investment return while meeting daily cash flow demands;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1. The Investment Policy attached hereto as Exhibit A is adopted.

Section 2. City Administrative Policy No. 3-17, "Investment Policy," is superceded.

Section 3. The Investment Policy shall be reviewed on at least a biennial basis and updated as necessary.


Section 4. Effective Date. This resolution shall be effective as of January 1, 2022.

PASSED BY THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, at a Regular Meeting thereof this 6th day of December, 2021.

ATTEST/AUTHENTICATED:

eSigned via SeamlessDocs.com
Christy O'Flaherty
Key: 0f283cba24e38a5f1c270be19b75ecb8

Christy O'Flaherty, MMC, City Clerk



Kate Kruller, Council President

APPROVED AS TO FORM BY:



Office of the City Attorney

Filed with the City Clerk: 11-30-21
Passed by the City Council: 12-6-21
Resolution Number: 2034

Attachment: Exhibit A – Investment Policy adopted December 6, 2021



City of Tukwila, Washington

INVESTMENT POLICY

Adopted by the Tukwila City Council

Resolution No. 2034; December 6, 2021

1.0 Policy

It is the policy of the City of Tukwila to invest public funds in a manner that will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City, while conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This policy applies to the investment of all public funds in the custody of the Finance Director. Funds covered by this policy include all City funds created by the Tukwila City Council, and are accounted for in the City's Annual Comprehensive Financial Report (ACFR).

2.1 Fund Types:

- General/Current Expense Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust Funds
- Agency Funds

2.2 Funds relating to debt service will be invested in accordance with appropriate bond documents.

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.

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 the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objectives

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 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.

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

Yield: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. (See 13.0.)

5.0 Delegation of Authority

Management responsibility of the investment program is vested in the City of Tukwila Financial Director under the authority of applicable State law.

- 5.1** The Finance Director may appoint an Investment Officer whose responsibilities will include initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the City.
- 5.2** Investments relating to bond proceeds shall be made consistent with 4.0, "Objectives."
- 5.3** Written procedures shall be established for the operation of the investment program consistent with this investment policy.

6.0 Ethics and Conflict of Interest

- 6.1** Officers and employees involved in the investment process recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.
- 6.2** 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 any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regards to the timing of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

- 7.1** Pursuant to state statutes (RCW 39.58), the deposit of public funds and the placement of "investment deposits" (i.e. time deposits, money market deposit accounts and savings deposits of public funds), will be placed only with institutions approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds. The maximum amount placed with any one depository will not exceed the net worth of the institution as determined by the PDPC

- 7.2 In addition, the Finance Director will maintain a list of approved broker/dealers that are authorized to provide investment services to the City.
 - 7.2.1 Authorized broker/dealers must maintain an office and be currently registered in the State of Washington.
 - 7.2.2 Authorized broker/dealers will be limited to primary dealers or other dealers that qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule.
 - 7.2.3 All approved firms and the individuals that represent them are required to read this policy and certify that they understand and will comply with the City's investment objectives and constraints.
 - 7.2.4 Broker/dealers that have been selected to provide investment services to the City are required to submit an audited financial statement annually to the Finance Director and proof of National Association of Securities Dealers certification.

8.0 Authorized Investments

State statutes and this investment policy limit the types of securities authorized for investment by the City. The principal governing statutes are RCW 39.59 and RCW 39.60. The Finance Director may further restrict eligible investments by this policy at his/her discretion. Authorized investments include (but are not limited to):

- 8.1 U.S. Treasury Securities.
- 8.2 U.S. Agency Securities (i.e. obligations of any government-sponsored corporation eligible for collateral purposes at the Federal Reserve).
- 8.3 Certificates of Deposit, Money Market Deposit Accounts and savings deposits with qualified depositories within statutory limits as promulgated by the PDPC at the time of investment.
- 8.4 Bankers Acceptances (BA's) purchased on the secondary market with a rating of A-1, P-1, its equivalent or better.
- 8.5 General Obligation Bonds of a state or local government which have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency.
- 8.6 The Washington State Local Government Investment Pool (LGIP).

9.0 Safekeeping and Custody

- 9.1 Securities purchased by the Finance Director are to be held in a custodial account in the safekeeping or trust department of a bank acting as third-party custodian for the City of Tukwila.
- 9.2 All security transactions conducted by the custodian on behalf of the City of Tukwila are to be on a delivery-versus-payment (DVP) basis.
- 9.3 Certificates of Deposit, transaction receipts for Money Market Deposit Accounts or savings deposit accounts will be held by the Finance Director.

10.0 Diversification

The City of Tukwila will diversify its investments by security type and institution.

- 10.1** No more than 50% of the City's portfolio, at the time of purchase, shall be in any single financial institution.
- 10.2** Except, that no more than 75% of the City's portfolio, at the time of purchase, shall be invested in the Washington Local Government Investment Pool.
- 10.3** Investment of 100% of the City's portfolio in U.S. Treasury securities shall be allowed; this is a risk-free investment and, in the event of unforeseen circumstances, the City shall have the ability to invest the entire portfolio in a risk free investment.
- 10.4** No more than 75% of the City's portfolio, at the time of purchase, shall be invested in U.S. Treasury or Agency securities.
- 10.5** The City's Council Committee that has oversight of financial matters for the City can authorize a variance to 10.1, 10.2 or 10.4 prior to purchase, if it is deemed in the best overall benefit to the City.

11.0 Maturities

To the extent possible, and to preclude the sale of securities that could result in a loss, investments will be made to coincide with anticipated cash flow requirements.

- 11.1** At the time of investment, a minimum of 30% of the portfolio will be comprised of investments maturing or available within one year.
- 11.2** At the time of investment, 80% of the portfolio will be comprised of investments maturing or available within 5 years and no instruments shall have a maturity exceeding 10 years, except when compatible with a specific fund's investment needs.
- 11.3** To provide for ongoing market opportunity, investment maturities should be laddered or staggered to avoid the risk resulting from over-concentration of portfolio assets in a specific maturity.
- 11.4** The average maturity of the portfolio shall not exceed 3-1/2 years or 42 months.
- 11.5** Any variance to 11.1, 11.2, 11.3 or 11.4 must be communicated to the Council Committee that has oversight of financial matters for the City as soon as practical. Variances to these sections will only occur if it is in the best interest of the City's financial position and adequate liquidity is maintained to meet ongoing expenditure obligations.

12.0 Internal Controls

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. Such reviews may result in recommendations to change operation procedures to improve internal controls. Controls shall be designed to protect against loss of public funds due to fraud, error, misrepresentation, or imprudent actions.

13.0 Performance Standards / Benchmarks

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles which meets or exceeds the average two-year Treasury note rates for the corresponding time period computed without regard to funds set aside for operating liquidity requirements or specific purposes. This performance standard shall take into account the City's investment risk constraints and cash flow needs.

14.0 Reporting

The Finance Director will submit a quarterly report to the City's Council Committee that has oversight of financial matters for the City that summarizes the current portfolio position and performance. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy.

Glossary

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. Federally Sponsored Agencies (FSAs) are backed by each agency with a market perception that there is an implicit government guarantee. (See also "Federal Agency Securities" and "Government Securities".)

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.

Bank Wire - An electronic transfer of funds between two financial institutions.

Bankers Acceptances (BAs) - Bankers Acceptances generally are created on a letter of credit issued in a trade transaction, either foreign or domestic. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Basis Point - A measure of 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 - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

Book Entry Securities - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained at the Federal Reserve Bank.

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 market value.

Certificates of Deposit - A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula.

Credit Risk - The risk that a debtor will fail to make timely payments of principal or interest when due.

CUSIP Number - A nine-digit alpha/numeric combination established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

Custodian - A independent third party (usually a bank or trust company) that holds securities in safekeeping for a client.

Delivery - The providing of a security in an acceptable form to the City or to an agent acting on behalf of the City and independent of the seller. The important distinction is that the transfer accomplishes absolute ownership control by the City.

Delivery vs. Payment (DVP) - The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the purchaser's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

Depository Bank - A local bank used as the point of deposit for cash receipts.

Discount - The amount by which the price of a security is less than its par value.

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

Face Value - The value stated on the "face" of a bond; thus the redemption value at maturity. In debt securities the term is interchangeable with "par".

Federal Agency Securities - Securities issued by a government-sponsored agency. These agencies were created by Congress to undertake various types of financing without tapping the public treasury. In order to do so, Congress gave these agencies the power to borrow money by issuing securities. These securities are backed by the issuing agency and are not direct government obligations, however, there is a market perception that there is an implicit government guarantee. These agencies include the Federal National Mortgage Association (FnMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCB).

Federal Funds - Short-term investments/borrowings between banks. Despite its name, these transactions are not loans to or from the federal government. Nor do they include any guarantee or backing from the federal government. They are called "federal funds" because the parties exchange the funds by transferring balances from the lender's account with its Federal Reserve District Bank to the borrower's account with its Federal Reserve District Bank.

Federal Funds Rate - The rate at which banks borrow from one another, generally, as an overnight loan.

Federal Reserve System - The central bank of the United States which has regulated credit in the economy since its inception in 1913. It includes the Federal Reserve Bank, 14 district banks and member banks of the Federal Reserve, and is governed by the Federal Reserve Board.

Government Securities - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Government National Mortgage Association Notes (GNMA or Ginnie Maes), are backed by the U.S. Government as to principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

Liquidity - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

Loss - The excess of the cost or book value of an asset over its selling price.

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.

Mark-to-Market - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

Market Value - The price at which a security is trading and could presumably be sold.

Master Repurchase Agreement - An agreement between the investor and the dealer or financial institution. This 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.

Offer - The indicated price at which a seller is willing to sell a security or commodity. When buying a security, an offer is obtained. (See "Bid".)

Par Value - The nominal or face value of a debt security; that is, the value at maturity.

Portfolio - Portfolio consists of short- and long-term investments including: LGIP, money market accounts, certificates of deposits, and bonds.

Premium - The amount by which a bond sells above its par value.

Prime Rate - The interest rate a bank charges on loans to its most creditworthy customers. Frequently cited as a standard for general interest rate levels in the economy.

Principal - An amount upon which interest is charged or earned.

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.

Repurchase Agreement (REPO) - A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repurchase agreement from the buyer/lender's point of view.

Safekeeping - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vault 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.

Securities - Bonds, notes, mortgages or other forms of negotiable or non-negotiable instruments.

Settlement Date - The day on which the payment and the security actually change hands. (See "Trade Date".)

Spread - The difference between two prices or two rates. Bankers have many different and highly specific usages of this term. For example, traders use spread to mean the difference between bid and asked prices for a security. Underwriters use spread to mean the difference between the price realized by the issuer and the price paid by the investor. Bank analysts use spread to mean the difference between the average rate paid on a bank's assets and the average rate paid on the bank's liabilities. In asset liability management, spread most often refers to the difference between two rates or yields.

Step-Ups - A form of callable security for which the coupon rate increases if the security is not called.

Strips - Principal and interest cash flows due from any interest-bearing security can be separated into different financial instruments. This is done by a process called "stripping." Each coupon payment is separated from the underlying investment to create a separate security. For example, a five-year note can be separated into 11 pieces: 10 semiannual coupon payments and the final principal payment. Each of those 11 pieces is a separate cash flow that can be purchased or sold just like a Treasury Bill. The cash flows are sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

Trade Date - The day on which a buyer and seller agree upon a transaction.

Third Party Safekeeping - A custodian for the investor holds securities in safekeeping. Under this arrangement, the dealer or bank investment department has no access to the securities being held.

Time Deposit - Interest-bearing deposit at a savings institution that has a specific maturity.

Treasury Bills - Short-term obligations issued by the U.S. Treasury. Bills are issued for maturities of one year or less. They do not pay interest but instead are issued on a discount basis.

Treasury Bonds - Long-term obligations issued by the U.S. Treasury. Bonds are issued for initial maturities greater than 10 years.

Treasury Notes (T-Notes) - Medium term obligations issued by the U.S. Treasury. Notes are issued in maturities for more than one to ten years.

Yield - Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, and the income that can be earned from the reinvestment of income received prior to maturity, call, or sale. While various formulas are used to express yields in different variations, the underlying calculation is made by dividing the amount realized by the cost of the security and annualizing the result.

Yield Curve - A graph (x-axis= time; y-axis= rate) showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities.

Yield Curve Slope - A yield curve that depicts the customary situation where long-term rates are higher than short-term rates is called an upward sloping or positive yield curve. A yield curve depicting the less common occurrence where short-term rates are higher than long-term rates is called a downwardly sloping or inverted yield curve. Yield curves also describe the amount of difference between short-term and long-term rates. When long-term rates are much higher than short-term rates, the yield curve is said to be steep. When long-term rates are virtually identical to short-term rates, the yield curve is said to be flat.

Zero Coupon Bond - A type of debt security that does not pay periodic interest. Zero coupon securities are bought and sold at prices that are less than the par values of the securities. The discount, or difference between the principal paid to purchase the security and the principal returned at maturity, constitutes the investor's return.