INFORMATIONAL MEMORANDUM

TO: **Finance & Governance Committee**

CC: **Mayor McLeod**

FROM: **Aaron Be Miller, Finance Director**

By: **Tony Cullerton, Deputy Finance Director**

DATE: **March 24, 2025**

SUBJECT: **Investment and Debt Policies**

SUMMARY

The Finance Department remains dedicated to identifying opportunities to enhance the quality of service it provides. A key priority is the evaluation and optimization of both new and existing revenue streams. Historically, the Treasury program has been underutilized due to previous leadership priorities. To address this, the Finance Department is taking proactive steps by developing comprehensive investment and debt policies. These policies will serve as strategic frameworks to guide the City in strengthening its investment portfolio and financial management practices.

Discussion

Effective treasury investing is a key part of sound financial management for local governments. By wisely investing surplus funds, the City of Tukwila can create additional revenue, improve cash flow, and secure better returns while managing risks. These careful investments help ensure long-term financial stability, allowing the City to navigate economic challenges and invest in important public services and infrastructure. A strong treasury investment strategy not only meets the City's immediate fiscal needs but also builds a foundation for sustainable economic growth and community resilience. This strategy begins with clear investment and debt policies. The City recently received a Certificate of Excellence for its Investment Policy from the Washington Public Treasurers Association (WPTA), an honor that will be recognized at this year's WPTA conference. Additionally, the City's Debt Policy has been submitted for consideration for this same prestigious award.

Summary

This is currently for discussion only. Our primary objective is to secure certification of the Debt Policy before proceeding with a formal review of both the Investment and Debt Policies. At a later date, we intend to move both policies through the official process by resolution to repeal and replace the existing Investment Policy (Resolution 2034) and Debt Policy (Resolution 1840), ensuring they are updated and aligned with current standards.

Attachments

- Attachment A - City Investment Policy
- Attachment B - City Debt Policy
- Attachment C - Press Release

Attachment A

City of Tukwila

Investment Policy

2025

DRAFT

Table of Contents

DRAFT

1. Introduction

This Investment Policy defines the parameters within which funds are to be invested by the City of Tukwila ("City"). This policy also formalizes the framework, of the City's Policy and Procedures to provide the authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this policy.

These policies are intended to be broad enough to allow the Finance Director or authorized designee to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

2. Governing Authority

The City of Tukwila's investment authority is derived from RCW Chapters 35A.40.050 and 35.39.032. The investment program shall be operated in conformance with Washington Revised Statutes and applicable Federal Law. All funds within the scope of this policy are subject to regulations established by the State of Washington.

3. Policy Statement

This policy establishes standards and guidelines for the direction, management and oversight for all of the City of Tukwila's investable cash and funds. Funds must be invested prudently to assure preservation of principal, provide needed liquidity for daily cash requirements, and provide a market rate of return. All investments must conform to federal, state, and local statutes governing the investment of public funds.

4. Scope

This policy applies to activities of the City of Tukwila with regard to investing the financial assets of the City. The City commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP). Principal and interest is apportioned for the benefit of the various participating funds or for the benefit of the general fund. (RCW 35.39.034) The city maintains the right to separate certain funds and exclude them from the scope of this policy. Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

5. Objectives

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

DRAFT

A. Safety

Safety of principal is the primary objective of the City. To mitigate credit and interest rate risk, investment decisions shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, the following steps will be taken:

i. Credit risk. This is the risk of loss due to the financial failure of the security issuer or backer. The city will minimize credit risk by:
   1. Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
   2. Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
   3. Actively monitoring the investment portfolio holdings for rating changes, changing economic market conditions, etc.
   4. Credit rating downgrade. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Finance Director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold after further analysis of the credit rating on an ongoing basis. The Finance Director will apply the general objectives of safety, liquidity, and return to make the decision.

ii. Interest rate risk. This is the risk that the market value of securities in the portfolio will fall due to increases in general interest rates. The city will mitigate the interest rate risk by:
   1. Structuring the investment portfolio so that securities mature to meet cash requirements, when known, for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
   2. Investing liquidity funds primarily in short-term instruments (i.e., investments maturing in less than one year); and
   3. Investing excess liquidity funds in a manner that is consistent with the established risk/return objectives of this policy within the stated maximum weighted average maturity constraint.

DRAFT

B. Liquidity

The investment portfolio will be structured to meet all expected obligations in a timely manner, to avoid premature sale of an investment at a loss of principal. The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. This will be accomplished by either maintaining a portion of the portfolio in investment vehicles offering daily liquidity at face value, such as the Washington State Local Government Investment Pool (LGIP) or structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

C. Return on Investment

The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

D. Legality

The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

6. Standards of Care

A. Delegation of Authority and Responsibilities

i. Governing Body

The City Council, as the governing body of the City, will retain ultimate fiduciary responsibility for the portfolio. The Council will designate an investment officer to manage the investment program in accordance with RCW sections 35A.40.050, 35.39.032, 36.29.020 and City policy and will review and adopt any changes to the investment policy.

ii. Delegation of Authority

The City Council designates the City's Finance Director, or their designee, as the Investment Officer of the City. No person may initiate investment transactions on behalf of the Investment Officer without the express written consent of the Investment Officer. Both the City and the investment advisor shall maintain record of individuals granted consent to initiate transactions by the Investment Officer.

iii. Training: Such procedures shall include explicit delegation of authority to persons responsible for investment transactions to provide adequate redundancy by properly trained and informed staff. All staff engaging in investment transactions shall attend public investment training. Staff shall not engage in any allowable investment transaction for which they cannot articulate a rationale for having done so.

iv. Finance Committee:

The Finance & Governance Committee shall meet at least annually to receive a report on investment performance and investment compliance.

v. Registered Investment Advisor

The City may engage the services of an external registered investment adviser 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 advisers shall provide recommendation and advice regarding the City investment program including but not

DRAFT

limited to advice related to the purchase and sale of investments in accordance with this Investment Policy. Such advisers must be registered under the Investment Advisers Act of 1940.

B. Prudence

The standard of prudence to be used by the Finance Director or any designees in the context of managing the overall portfolio is the prudent person rule enacted by State Statute (RCW 11.100.020) 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.*

The Finance Director and authorized investment officers and employees who act in accordance with the Finance Director's written procedures and the City's Investment Policy, and who exercise due diligence, shall be relieved of personal responsibility for the credit risk or market price change of an investment, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

C. Ethics and Conflicts of Interest

Officers and designated 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 Manager in writing 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 Tukwila, particularly with regard to the time of purchases and sales.

Persons authorized to invest shall not accept gifts form the institutions with which the City places investments. Occasional business meals are acceptable and must be reported to the Finance Director and Finance Committee.

7. Safekeeping, Custody and Controls

A. 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.

DRAFT

B. Third-Party Safekeeping

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

The City's Finance Director shall designate all safekeeping arrangements and an agreement of the terms executed in writing. All securities will be receipted and recorded based on the terms in the custodial contract. The third-party custodian shall be required to provide a monthly 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. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

All collateral securities pledged to the City for certificates of deposit or demand shall be held in a segregated account at the issuing financial institution that is reporting to the State's Public Deposit Protection Commission (PDPC).

C. Performance Standards / Benchmark

The investment portfolio is expected to provide similar returns to the benchmark over interest rate cycles but may underperform or outperform in certain periods. The City's cash management portfolio shall be managed using as comparison for market yield of [Name a specific benchmark, i.e. 3-Year Constant Maturity US Treasury Index, 0-3 year Treasury Index, etc.].

D. Downgraded Securities

The City may, from time to time, be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this policy, the Finance Director will review and recommend an appropriate plan of action to the Council via the Finance Committee. If the City utilizes an Investment Advisor, that Investment Advisor shall notify the Finance Director and recommend a plan of action within one month. The City may continue to hold a downgraded investment to maturity if a probable outcome is the eventual realization of full value, rather than a realized loss if divested prior to maturity.

E. 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. Specifics for the internal controls shall be documented in an investment procedures manual.

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 a 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:

DRAFT

i. Control of collusion
ii. Separation of transaction authority from accounting and recordkeeping
iii. Custodial safekeeping
iv. Avoidance of physical delivery securities of marketable securities
v. Clear delegation of authority to subordinate staff members
vi. Written confirmation of transactions for investments and wire transfers
vii. Dual authorizations of wire transfers
viii. Staff training and
ix. Review, maintenance and monitoring of security procedures both manual and automated.

F. External Controls

The Office of the State Auditor requires that in accordance with Revised Code of Washington 43.09.260, the City must undergo annual financial examinations performed by State Examiners. Investment management is to be included as part of the annual independent audit to assure compliance with this investment policy.

8. Authorized Financial Dealers

A. Broker/Dealers

The Finance Director or designee 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. Any firm is eligible to make an application to the City. Additions and deletions to the list will be made at the City's discretion. All broker/dealers and financial institutions who desire to do business with the City must supply the Finance Director with the following:

i. Annual audited financial statements.
ii. Proof of FINRA (Financial Industry Regulatory Authority) certification.
iii. Proof of registration with the State of Washington.
iv. A completed Broker/Dealer questionnaire and a certification of having read the City Investment Policy.

B. Investment Advisors

The City may contract with an external investment 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. 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.

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 must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include:

DRAFT

i. FINRA Certification check
- Firm Profile
- Firm History
- Firm Operations
- Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
- State Registration Verification

ii. Financial review of acceptable FINRA capital requirements 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. The City will receive documentation directly from the brokers for account verification and regulatory requirements.

C. Depositories

The City will only place funds exceeding the current FDIC insurance limits with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Finance Director or designee annually.

D. Competitive Transactions

Transactions must be executed on a competitive basis and documented, excluding securities and interfund loans issued by the City of Tukwila. 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. If an Advisor handles trade executions, then they must provide the competitive documentation as requested.

9. Authorized and Suitable Investments

A. Authorized Investments

All investments of the City are limited by RCW, principally RCW 35A.40.050 and 39.59.020.

Additional Specifications:

- 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.

DRAFT

- 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.

B. Suitable Investments

U. S 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. Debt of the City of Tukwila is 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.

DRAFT

Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

Bank Time Deposits and Savings Accounts: Deposits in PDPC approved banks.

Local Government Investment Pool: Investment Pool managed by the Washington State Treasury Office.

C. 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 the act, all public treasurers 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.

D. Prohibited Investments

i. The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
ii. The City shall not invest in mortgage-backed securities.
iii. The City shall not invest in Equities
iv. The City shall not invest in Cryptocurrency

10. Investment Parameters

A. Diversification

The City will diversify the investment of all funds by adhering to the constraints listed in the following table. Investments in securities shall not exceed the following percentages of the total portfolio at the time of purchase.

DRAFT

Total Portfolio Diversification Constraints

DRAFT

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings, S&P, Moody's, or Equivalent NR SRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	10 years
US Agency Obligations	100%	35%	N/A	10 years
Supranational Agency Notes	10%	5%	AA-/Az3	10 years
Municipal Bonds (GO Outside WA	30%	5%	A-/A3 Short Term	10 years
City of Tukwila Debt Obligations	15%	None	N/A	N/A
Corporate Notes	25%	3% for AA- 2% for A-, AA+	A-/A3 Short Term	5.5 year
Commercial Paper	25%	3%	A1{1 Long Term A-/A3	270 days
Bank Time Deposits/Savings	20%	10%	Deposits in PDPC approved banks	N/A
Certificates of Deposit	25%	10%	Deposits in PDPC approved banks	5 years
State LGIP	100%	None	N/A	N/a
Issuer constraints apply to the combined issues in corporate and commercial paper holdings. Sort Term Ratings: Moody's - P1MIG1/VMIG1, S&P - A-1/SP-1, Fitch - F1 Note: Individual country limit of non-US/non-Canadian exposure is 2% of total portfolio				

B. Investment Maturity

i. Liquidity Funds – Tier 1

Liquidity funds will be defined as those funds that are in the State LGIP City, bank deposits, bank certificates of deposits or money market instruments and will be available for immediate use.

ii. Investment Core Funds – Tier 2

Investment funds will be defined as the funds in excess of liquidity requirements and invested in authorized investments and maturity structure listed below.

iii. Total Portfolio Maturity Constraints:

Maturity Constraints	**Minimum % of Total Portfolio**
Under 30 days	10%
Under 1 year	25%
Under 5 years	90%
Under 10 years	100%
Maturity Constraints	**Total Portfolio Maximum**
Weighted Average Maturity	2.0 years
Duration of Corporate Note Portfolio	3.0 years
Security Structure Constraint	**Maximum % of Total Portfolio**
Callable Agency Securities	25%

DRAFT

C. Strategic Philosophy

The primary investment philosophy of the City is to match investment maturities with expected cash outflows. Securities shall generally be held until maturity, with the following exceptions:

i. A security with a declining credit may be sold early to protect the principal value of the portfolio.
ii. The portfolio duration or maturity buckets should be adjusted to better reflect the structure of the underlying benchmark portfolio.
iii. A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
iv. A sell of a security to provide for unforeseen liquidity needs.

11. Reporting Requirements

A. Reporting

The Finance Director or designee shall be responsible for investment reporting. At a minimum, monthly reporting (RCW 35.39.032) shall be made available providing detailed information on the investment portfolio.

Specific Requirements:

- Book Yield
- Holdings Report including mark to market and security description
- Transactions Report
- Weighted Average Maturity or Duration

B. Performance Standards/Evaluation

i. 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.

ii. The investment portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum duration (average maturity) and will have the objective to achieve market rates of returns over long investment horizons. The purpose of a benchmark is to appropriately manage the risk in the portfolio through interest rate cycles. The investment portfolio is expected to provide similar returns to the benchmark over interest rate cycles but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be the US treasury 0–3-year index or US treasury 0–5-year index and comparisons will be calculated monthly and reported quarterly.

iii. The liquidity component yield will be compared quarterly to the LGIP average yield.

DRAFT

C. Compliance Report

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

The Investment Policy sets forth concentration constraints and minimum credit ratings for each type of security. These limits apply to the initial purchase of a security and do not automatically trigger the sale of a security as the portfolio value fluctuates or in the event of credit rating downgrade. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

D. 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.

12. Policy Adoption

The City's Investment Policy shall be adopted by the City Council and reviewed by the Council Finance Committed as needed but not less than every two years. This Policy has been adopted by the City Council on ____________, 2025.

DRAFT

Glossary of Terms

Agency Securities: Government sponsored enterprises of the US Government.
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.
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. See Debenture.
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.
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 own 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.
Debenture: Unsecured debt backed only by the integrity of the borrower, not by collateral, and documented by an agreement called an indenture.
Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities.
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 a 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 Funds: Core funds are defined as operating fund balance, which 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.

DRAFT

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 Treasurer's office established to help cities with short term investments.
Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.
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.
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.
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.
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

	S&P	**Moody's**	**Fitch**	**Definition**
Three Highest Rating Categories	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

DRAFT

Ratings Table – Short-Term

	S&P	Moody's	Fitch	Definition
Highest Rating Category	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	Municipal Commercial Paper			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality

DRAFT

Attachment B

City of Tukwila

Debt Policy

DRAFT

Adopted [DATE]

<u>TABLE OF CONTENTS</u>

DRAFT

Section I. Introduction

Purpose and Overview

The objective of this policy is to provide general guidance for the issuance and management of all City of Tukwila (the City) debt. Further, this policy establishes criteria to protect the City's financial integrity while providing a mechanism to fund the City's capital needs prudently and cost effectively. Adherence to this policy is essential to ensure that the City Council (Council) maintains a debt position which allows the Council to protect the City, its functionality, and the credit quality of its obligations.

The City's Finance Department is charged with ensuring compliance with all debt policy requirements.

Capital Planning

The City shall integrate its debt issuance with its Capital Improvement Program (referred to herein as CIP or Capital Facilities Plan) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects.

Long-term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. The issuance of debt to fund operating deficits is not permitted except in emergencies as adopted by formal action by the City Council. For all capital projects under consideration, the City shall budget and set aside sufficient revenue from operations to fund ongoing maintenance needs and to provide reserves for periodic replacement and renewal. The source of funds for the project should reflect the intended use of bond financing.

DRAFT

Section II. Governing Principles

In the issuance and management of debt, the City shall comply with the State of Washington (State) constitution and with all other legal requirements imposed by federal, State, and local rules and regulations, as applicable. The following section highlights the legal framework for debt issuance.

Governing Law

State Statutes. The City issues debt in accordance with the Revised Code of Washington (RCW), in particular chapters 39.36, 39.46, and 39.53, the State constitution along with all other City, State, and federal laws, rules, and regulations.

Federal Rules and Regulations. The City shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations, including but not limited to, Internal Revenue Code of 1986, as amended, and Treasury Department Regulations thereunder (Tax Law), and the Securities Acts of 1933 and 1934 (Securities Law).

Local Rules and Regulations. The City shall issue and sell debt in accordance with the limitations and constraints imposed by the Tukwila Municipal Code (TMC), including but not limited to Title 3 (Revenue and Finance) and City ordinances, resolutions, policies, procedures, and bond covenants.

Legal Debt Limits for GO Debt

State law (RCW 39.36.020) allows for the issuance of general obligation (GO) debt, through a public vote, of up to 7.5% of the City's assessed property valuation. The limit of 7.5% of assessed valuation for GO debt is divided between three different use types: 1) 2.5% for municipally owned water, sewer, or electric facilities; 2) 2.5% for open space and parks; and 3) 2.5% for general government purposes. Within the 2.5% limit for general government purposes, State law allows the Council to issue debt without a vote of the people. This non-voted debt (also called councilmanic debt) cannot be greater than 1.5% of the assessed property valuation of the City.

Section III. Roles and Responsibilities

Responsibilities of City Council

- Approve this policy and any updates/changes to this policy to help ensure compliance with all applicable rules and regulations for debt issuance.
- Approve projects to be financed as part of the City Capital Facilities Plan.
- Adopt an ordinance authorizing the issuance and sale of debt, and, as applicable, setting forth the delegation requirements provided for in RCW 39.46.040 when appointing a designated representative, the City Finance Director or their designee, to approve the final terms of the debt.
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt.

Responsibilities of the Finance Director

- Apply and promote prudent fiscal practices.
- Oversee any debt issuance including sale of bonds and review and approval of disclosure documents.
- Approve the issuance of debt at the lowest acceptable cost and risk within the parameters authorized by City Council in the bond ordinance.
- Provide for the timely payment of principal and interest payment on all debt and ensure the fiscal agent receives funds for payment of debt service on or prior to the payment date.
- Ensure compliance with all Tax Laws, Securities Laws, contractual requirements, and other rules and regulations governing the issuance of debt.
- Ensure compliance with all terms, conditions, post-issuance requirements, and Tax Law requirements imposed by law and/or the legal documents governing the debt issued.
- Ensure any annual disclosure reports and notices regarding the occurrence of certain events are timely posted to the EMMA (Electronic Municipal Market Access) system in accordance with continuing disclosure undertakings of the City pursuant to Securities Law.
- Maintain records for all outstanding debt.
- Oversee all aspects of debt management.
- Solicit and select professional services providers as necessary, to administer debt financing.
- Consult with the City's contracted municipal advisor to determine the method of sale best suited for each issue of debt (competitive sale, negotiated sale, or bank/direct placement).
- Select the manner of sale of debt.
- Monitor opportunities to refund debt and recommend such refunding as appropriate.

DRAFT

- Provide pertinent information to credit rating agencies when issuing debt and as routine credit reviews occur.

IV. Professional Services

The City's Finance Director will be responsible for the solicitation and selection of professional services as necessary to administer the City's debt program. Professional service providers necessary to issue debt may include, but are not limited to bond counsel, disclosure counsel (which may be bond counsel), municipal advisor, underwriters, banks, rating agencies, and fiscal agent. Selection of the service providers will consider availability, professional knowledge, accountability, cost, as well as successful partnerships in previous debt issuances. The City will issue debt considering cost and associated risk.

<u>Professional Service Providers</u>

Bond Counsel – Debt issued by the City will generally include a written opinion by bond counsel affirming that the City is legally authorized to issue the proposed debt. The opinion shall provide that the obligation is legal, valid and binding, and enforceable against the City. In the case of tax exempt financing, the legal opinion will address the treatment of interest for purposes of Tax Law.

Municipal Advisor – A Municipal Advisor may be used to assist in the issuance of the City's debt. The Municipal Advisor will provide the City with objective advice and analysis on debt issuance. This includes, but is not limited to, coordinating of finance team, monitoring of market opportunities, structuring and pricing of debt, competitive sale execution, and reviewing the preliminary and final official statements.

Disclosure Counsel - The Disclosure Counsel (which may be bond counsel) plays a critical role in ensuring that the City's preliminary and final official statements comply with Securities Laws and disclosure requirements. Disclosure Counsel provides legal guidance on the accuracy, completeness, and transparency of the information presented to investors, helping to mitigate the risk of material misstatements or omissions. Working closely with the City's finance team, bond counsel, and municipal advisor, Disclosure Counsel reviews financial and operational disclosures, drafts legal sections of the official statements, and provides legal advice in connection with the City's obligations under SEC Rule 15c2-12 and other applicable regulations. Their expertise helps protect the City from potential legal and regulatory risks while maintaining investor confidence in the bond issuance process.

Underwriters – An Underwriter will be selected in advance for all debt issued in a negotiated sale method. The Underwriter is responsible for purchasing debt and reselling the debt to investors.

Arbitrage Rebate Consultant – As necessary, the City may engage with an arbitrage rebate consultant to ensure the City is compliant with Tax Law on tax-exempt bonds by calculating potential arbitrage rebate liabilities. The consultant will analyze investment earnings, determine rebate amounts owed under IRS Code 148(f), and assist with documentation, deadlines, and best practices to minimize exposure and avoid penalties.

DRAFT

Fiscal Agent – A fiscal agent may be used to provide accurate and timely securities processing and payment to bondholders. As provided under RCW 43.80, the City will work with the Fiscal Agent that is determined by the State.

Section V. Transaction-Specific Policies

For any City project planned to be funded through debt, an analysis will be done to consider: (a) other potential ways to finance the project; (b) future operating and maintenance costs, including debt repayment; (c) expected cash inflows that could help offset the amount borrowed; and (d) anticipated cash outflows for construction or equipment to ensure compliance with arbitrage rules.

Method of Sale

The Finance Director, in consultation with the City's municipal advisor, will determine the method of sale best suited for each issue of debt (competitive sale, negotiated sale, or bank/direct placement). The type of debt to be issued and manners of the sale will be submitted to the City Council for approval in the bond ordinance. The bond ordinance will authorize the issuance and sale of debt, and, as applicable, set forth the delegation requirements provided for in RCW 39.46.040 when appointing a designated representative, the City Finance Director or their designee, to approve the final terms of the debt.

Bond Insurance

For each issue, the City, in conjunction with its municipal advisor, will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City must be competitively procured in a manner deemed reasonable by the City Finance Director.

Bond Ballot Measures

Prior to any unlimited tax general obligation bond (described below) proposition being placed before the voters, the capital project under consideration must, unless otherwise justified and have found to be in the best interest of the City, have been included in the City's Capital Facilities Plan. The source of funds for the project should reflect the intended use of bond financing.

DRAFT

Investor and Rating Agency Relations

The City will maintain good communications with bond rating agencies and investors about its fiscal condition. The City will provide full, accurate and complete disclosure on financial reports and in disclosure documents to comply with the anti-fraud requirements of Securities Laws.

Short-term debt

The City may use short-term debt, defined as a period not to exceed three years, to fund cash flow needs, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not issue short-term debt for current operations, except in the event of an emergency.

The City may issue interfund loans rather than issuing outside debt to meet short-term cash flow needs. The issuance of an interfund loan will be permissible only after an analysis of the loaning fund(s) indicate(s) that excess funds are available, and the use of these funds will not impact the loaning fund(s) current operations or constitute a permanent diversion of funds. All interfund borrowing will bear interest based upon at least the prevailing LGIP (Local Government Investment Pool) rate.

Council authorizes the City's Finance Director to approve short-term interfund loans for a period not to exceed three calendar months and the City Administrator to approve short-term interfund loans for a period not to exceed 12 calendar months. See long-term debt section below for policy on loans exceeding 12 calendar months. The Finance Director shall notify the Finance & Governance Committee and/or City Council of any use of directorial or administrator approved interfund loans at the first reasonable opportunity.

Interfund loans are not considered "debt" for purposes of State law, Securities Law, or Tax Law.

Long-term debt

The City will issue long-term debt, defined as a period greater than three years, for capital projects which cannot reasonably be financed on a pay-as-you-go funding strategy from anticipated cash flows. Acceptable uses of bond proceeds are one-time capital projects that can be capitalized and depreciated in accordance with the City's accounting principles. (Refunding debt is also an acceptable use. See refunding debt section below.)

The City Council may issue long-term interfund loans rather than issuing outside debt instruments as a means of financing capital improvements. The issuance of an interfund loan will be permissible only after an analysis of the loaning fund(s) indicate that excess funds are available, and the use of these funds will not impact the loaning fund(s) current operations or constitute a permanent diversion of funds. All interfund borrowing will bear interest based upon at least the prevailing LGIP (Local Government Investment Pool) rate.

The decision to use an interfund loan rather than outside debt to fund capital projects will be based on which is deemed to be the most cost-effective approach to meet City capital needs. The City's Finance Department is responsible for making such an assessment. Interfund loans are not considered "debt" for purposes of State law, Securities Law, or Tax Law.

The City will not issue long-term debt for current operational needs, except in the event of an emergency.

Types of long-term debt the City may issue:

Limited Tax General Obligation (LTGO) Bonds: LTGO debt is secured by a pledge of the full faith and credit of the City and is payable from regular property taxes and other legally available funds. These bonds can be issued without a vote of registered voters but are limited in that debt service payments must be paid from legally available City revenue sources. The amount of LTGO outstanding debt cannot exceed the threshold stated above.

Unlimited Tax General Obligation (UTGO) Bonds: UTGO debt is secured by a pledge of the full faith and credit of the City and is payable from excess property taxes and other legally available funds. These bonds can only be issued when authorized by a 60% majority vote of registered voters (meeting the minimum voter turnout requirement). As part of the ballot proposition, voters will approve the issuance of the UTGO debt and an excess property tax levy, as a completely new and dedicated source of revenue, to pay the debt service. The amount of UTGO debt cannot exceed the thresholds stated above. Proceeds of UTGO debt are limited to capital purposes only and not the replacement of equipment.

DRAFT

Revenue Bonds: Revenue bonds are used to finance construction of and/or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Facilities Plan and are payable from and secured by a pledge of revenue of the enterprise. No taxing power or general fund pledge is provided as security, with the exception of double-barrel bonds. Double-barrel bonds are a type of municipal bond that are backed by enterprise funds and the full faith and credit of the City. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required. Revenue bonds may contain certain covenants and obligations of the City, including but not limited to, future parity bond tests, annual debt service coverage requirements, restrictions on disposal of the enterprise facility/utility, and other terms to protect the stream of revenue pledged to the repayment of the revenue bonds.

Reserve accounts may be created on a transaction-by-transaction basis. Any reserve account created shall be maintained and funded as required by bond ordinances and as deemed advisable by the City Council or the designated representative on behalf of the City. The City shall structure any debt service reserve fund to not violate the Tax Code.

The City will strive for annual revenue bond debt coverage of at least 1.5 times the annual debt service paid in such year. Additional bonds issued may be subject to additional bonds tests as described in bond ordinances.

Special Assessment Bonds: Also referred to as Local Improvement District (LID) bonds, this type of debt is used to finance capital improvements that benefit property owners within the LID. LID debt is repaid from annual assessments paid to the City by property owners within the LID. LIDs are formed by City Council following the process outlined in State statutes and chapter 13.04 TMC. The cost is borne only by those who receive a special benefit from the improvements. LID debt is not part of the debt capacity calculation.

Other Debt Instruments: Instruments such as Public Works Trust Fund loans or other financing contracts issued through the State of Washington, federal grant loans, bond anticipation notes (BAN), tax anticipation notes (TAN), bank loans, and/or other legal debt issues may be incurred as allowed by law.

DRAFT

Refunding Debt

Refunding debt may be issued by the City in accordance with chapter 39.53 RCW. Refunding debt is typically issued to take advantage of lower interest rates for overall cost savings, restructure debt, or modify bond covenants. Refunding bonds are an acceptable use of bond proceeds provided that, and unless otherwise justified and found to be in the best interest of the City, a) the net present value (NPV) of the overall savings (not by maturity) is at least 3% and b) the final maturity date of the obligation is not extended.

Other Considerations

The following terms shall be applied to the City's debt transactions, as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

- Maturity –The City shall issue debt with an average life less than or equal to the average life of the assets being financed. Unless otherwise stated in law, the final maturity of the debt shall be no longer than 40 years (RCW 39.46.110).
- Debt Service Structure – Unless otherwise justified, debt service should be structured on a level basis (i.e., level annual payments). Refunding bonds should be structured to produce equal savings by fiscal year. Unless otherwise justified, debt shall not have capitalized interest. If appropriate, debt service reserve funds may be used for revenue bonds.
- Price Structure – The City's long-term debt may include par, discount, and premium bonds. Call Provisions – For each transaction, the City shall evaluate the costs and benefits of call provisions. In general, the City shall opt for a call date no later than 10 ½ years from the date of the bonds.
- Tax-exemption – Unless otherwise justified and deemed necessary, the City shall issue its debt on a tax-exempt basis.
- Reimbursement declaration – Must be made prior to bond issuance if the City intends to be reimbursed out of tax exempt bond proceeds for capital costs paid prior to the closing date.
- The City will not use derivatives in connection with any new financings.
- The City will not become obligated for any new City debt or otherwise be involved in any new financing that would include a variable rate of interest or variable debt service (excluding of any additional rent payable under a financing lease or other obligation for ongoing transaction fees).

Section VI. Compliance Policies

The City will comply with all federal, State, contractual restrictions and City policies regarding the investment of bond proceeds and associated funds subject to debt-related investment limitations. Such requirements may include restrictions on the type of securities allowed the yield on such securities, and the length of time that such proceeds and funds may be invested.

For refunding escrows, the City may invest funds in State and Local Government Series (SLGS) securities issued by the U.S. Treasury, or, after satisfying requirements of Tax Law and if determined advisable after consultation with the City's municipal advisor and bond counsel, in open-market securities as permitted under State law and relevant bond covenants.

The City will maintain a system for tracking bond proceeds, including how proceeds are invested, when they are spent, and for what purpose. Bond proceeds shall, unless otherwise permitted, be tracked separately from other City funds and on an issue by issue basis.

The City shall maintain records related to the bonds for the life of the bonds (plus any refunding bonds) plus three years.

The City will, unless otherwise permitted, spend at least 85% of tax-exempt bond proceeds within three years from the date of issuance pursuant to Tax Law, and take such steps as necessary to avoid or manage arbitrage. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS (Internal Revenue Service, IRC 148) regulation. For each bond issue, the recordkeeping will include tracking the yield and investment earnings on bond proceeds, calculating rebate payments, and remitting any rebate earnings to the federal government in a timely manner to preserve the tax-exempt status of the outstanding debt obligation. Any bond proceeds invested will comply with the City's investment policy and strategies, unless further restricted by bond covenant. The

DRAFT

City may, when determined to be in the best interest of the City or required, contract with an arbitrage rebate consultant to assist with the arbitrage rebate calculation.

The City will repay principal plus interest in accordance with the payment terms of the bond or contract. Furthermore, the City will comply with all bond or contract covenants. This includes, but is not limited to, any undertakings to provide ongoing disclosure and notice of certain listed events under Securities Laws. Annual disclosure will take the form of the City's audited annual financial statements as well as other information required by the bond or contract that is not reasonably contained in the annual report. The City Finance Director will develop and comply with all post-issuance compliance policies and procedures related to Tax Law and policies and procedures relating to initial and ongoing disclosure under Securities Laws.

The Finance Director and bond counsel will coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with State and federal legal and regulatory requirements by the State law, Tax Law, Securities Law, rules and regulations.

The Finance Director may institute procedures to implement this policy and other bond covenants and provisions related to State law, Tax Law, Securities Law, rules and regulations applicable to the City's debt.

No derivative products shall be used in connection with City debt.

Section VII. Other Policies

Periodic Review

This debt policy must be adopted by Council. The policy will be reviewed at least every four years by the Finance Department and modifications must be submitted to and approved by the Council.

DRAFT

Attachment C

Washington Public Treasurers Association

www.WPTA.us
1712 6th Avenue
Suite 100, PMB 1334
Tacoma WA 98405

NEWS RELEASE

FOR IMMEDIATE RELEASE

March 5, 2025

For more information contact:
WPTA Investment Policy Certification Chair:
City of Federal Way Finance Director Steve Groom
Phone: (253) 835-2520
Email: Steve.Groom@FederalWayWA.gov

(Tukwila, WA) – **Washington Public Treasurers Association has awarded a Certificate of Excellence to City of Tukwila for its Investment Policy**, judged by an impartial statewide panel as meeting the high standards of the Investment Policy Certification Program.

The Washington Public Treasurers Association (WPTA) has assisted local governments with investment policies since 1988. Effective investment policies can help protect taxpayer funds entrusted to investment officers, assist governing bodies desiring to approve worthy policies, articulate investment priorities clearly, and guide staff in good stewardship best practices.

Founded in 1983, WPTA has provided the local governments of Washington with opportunities for education, networking, and working to improve and promote the public treasury management profession. WPTA's policy review committee evaluates vital elements covering 23 criteria categories that should be addressed in a thorough and effective policy.

Tukwila's Deputy Finance Director Tony Cullerton will be recognized formally at the up-coming WPTA Annual Conference in Chelan, Washington, for putting in the hard work to elevate the agency's policy to best-practice level, and for making its policy an example that others might emulate. Excellence in public treasury is furthered when we all help each other, elevating our profession and better serving our citizens and taxpayers.

Washington Public Treasurers Association (WPTA) seeks to advance the profession of public treasurers in the state of Washington through education, mutual support, professional recognition, and legislative advocacy, serving its membership who in turn serve cities, counties, special districts and state agencies in the State of Washington.