



# City of Battle Ground Investment Policy

## Policy

It is the policy of the City of Battle Ground to invest public funds in a manner consistent with the greatest safety and protection of the City's investments. This investing of funds, while protecting the safety of the principal investment, produce the highest return for meeting cash flow requirements of the City and conform to all Washington State statutes, City ordinances and policies governing the investment of public funds.

## Scope

This investment policy applies to all financial assets of the City except it does not include assets held in escrow in order to defease refunded debt, nor does it include retirement funds managed by others such as the state, and deferred compensation plan providers.

City funds are accounted for by the City's Finance Department as represented in the City of Battle Ground's Comprehensive Annual Financial Report and includes:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds, Trust and Agency Funds
- Any new Fund created unless exempt by the City Council

## Prudence

All participants in the investment process will perform their duties in a manner consistent with the standard of a "prudent person", as defined by RCW 43.250.040:

In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the 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 funds considering the probable income as well as the probable safety of the capital.”

Authorized investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

## **Public Trust**

All participants in the investment process will seek to act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public scrutiny and evaluation. In addition, the overall investment program shall be designed and administered with a degree of professionalism worthy of the public trust. Investment officials shall also refrain from any transaction that might knowingly impair public confidence in the City’s ability to govern effectively.

## **Objective**

The funds of the City of Battle Ground will be invested in accordance with the Constitution of the State of Washington, Revised Code of Washington (RCW), City ordinances, and resolutions. The objectives are listed below in order of importance:

- Safety – Safety of the principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is 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 which 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. The basis used by the Finance Director to determine whether market returns are being achieved shall be a benchmark of a composite of the investment portfolio and will be subject to change as the structure of the portfolio changes.

## **Delegation of Authority**

The City Manager may delegate management responsibility for the investment program to the Finance Director who will act as the City’s Investment Officer. The Finance Director shall establish written procedures consistent with this policy. Such procedures shall include explicit delegations of authority to persons responsible for investment transactions. No person may

engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

### **Investment Committee**

There is hereby created an Investment Committee consisting of the City Manager, the Finance Director, and the Accounting Manager. The Investment Committee shall meet periodically to determine general strategies and monitor results.

### **Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Investment Committee any material financial interests in financial institutions that conduct business for the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

### **Authorized Financial Institutions**

Authorized financial institutions will be limited to those that meet one or more of the following:

- Financial institutions approved by the Washington Public Deposit Protection Commission; or
- Primary dealers recognized by the Federal Reserve Bank; or
- Non-primary dealers or institutions qualified under U.S. Securities and Exchange Commission Rule 15c3-1, the Uniform Net Capital Rule, and a certified member of the National Association of Securities Dealers.

The Finance Director will ensure each financial institution meets the above criteria.

### **Eligible Investments**

The City is empowered to invest in the following types of securities (RCW 35.39.034)

- Bank checking accounts, time deposits, or certificates of deposit at commercial banks and savings and loan associations that are approved by the Washington Public Deposit Protection Commission (PDPC).
- U.S. Treasury obligations with maturities of ten years or less.
- Commercial paper purchased in the secondary market and having received the highest rating by at least two (2) nationally recognized statistical rating organizations.
- Bankers acceptances purchased in the secondary market.

- Money market mutual funds that restrict investments to short-term U.S. Treasury and Agency securities, to be used only for funds that are subject to arbitrage provisions, per RCW 39.59.030
- State and other government agency collective investment pools, where the investment policies are compatible with those of the City’s
- Short-term obligations of the U.S. government sponsored agencies and instrumentalities approved for investment purposes by the Investment Committee;
- Bonds or warrants of the State of Washington
- General obligation or utility revenue bonds of counties/cities located within Washington State.

### Payment and Safekeeping

All securities transactions entered into by the City of Battle Ground shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a financial institution designated by the Finance Director as primary agent to serve as a custodian acting on the City’s behalf. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and all other pertinent information. All securities purchased by the City of Battle Ground shall be properly designated as an asset of the City and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Finance Director as authorized herein, or by the Director’s designee.

The City of Battle Ground will execute custodial agreements with its bank or other custodial agents, which are chartered by the United States government or the State of Washington. Such agreements will include letters of authority from the City, details as to responsibilities of each party, notification of security purchases, sales and delivery agreements.

### Diversification

The City of Battle Ground will diversify its investments by security type, institution, and maturity. The average length of the portfolio will not exceed two years. Diversification will include the following limits:

<b>Security Type</b>	<b>Portfolio Maximum</b>	<b>Maturity Maximum</b>
Certificates of Deposit	20%	2 years
U.S. Treasuries	90%	10 years
Commercial Paper	25%	1 year
Bankers Acceptance	20%	2 years
Money Market Funds	100%	n/a
State and local Pools	100%	n/a
U.S. Agencies	90%	Five Years
WA bonds or warrants	10%	Five Years

**Internal Controls**

The process of independent review by an external auditor occurs annually by the Washington State Auditor’s Office. In addition, internal controls shall be available for review by the Investment Committee. These reviews will provide internal control by assuring compliance with policies and procedures.

**Performance Standards**

The investment portfolio will be designated toward an active strategy. The performance shall consider the City’s investment risk constraints and cash flow needs. Maturities of investments shall be kept relatively shorter in periods of rising interest rates and relatively longer in periods of declining interest rates. Given this investment strategy, the City will use as an investment yield benchmarks, the Federal Funds rate, the six-month US Treasury bill rate and the average rate of return from the Washington State Local Government Investment Pool (LGIP) as the benchmarks for performance. The benchmarks will be the weighted average of the following:

<b>Portfolio Component</b>	<b>Benchmark</b>
<b>Certificates of Deposit</b>	LGIP
<b>LGIP</b>	Federal Funds Rate
<b>Other securities</b>	6-month Treasury Bill

**Reporting**

The Finance Director is charged with the responsibility of reporting to the Finance Committee a quarterly market report on the investment activity and returns of the City. Reports will include average balance invested, interest earnings, investment type, and maturities. Performance of the portfolio as compared to benchmarks will be disclosed as well.

**Investment Policy Adoption**

The City of Battle Ground’s investment policy shall be adopted by resolution of the City Council. Staff shall review the policy at least every two years and proposed changes will be submitted to the City Council.

**BANKER'S ACCEPTANCE (BA):** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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

**DELIVERY VERSUS PAYMENT (DVP):** An exchange of money for the securities.

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

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded (bank to bank.) This rate is currently pegged by the Federal Reserve throughout open market operations.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**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.

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

**PORTFOLIO:** Collection of securities held by an investor.

**PRUDENT PERSON RULE:** An investment standard. This is a legal term that means the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities of all types and descriptions are held in the bank's vaults for protection.

**SAFETY:** Protecting the principal amount of a security; ensuring the loss risk is very low.

**SECURITIES & EXCHANGE COMMISSION:** An agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15c3-1:** See Uniform Net Capital Rule.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued at three, six or twelve months.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

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

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price for the security. The yield to maturity is the current income yield minus any premium 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.