Council Meeting: 05/20/2014
Agenda: Other Business
Item #: 8. h. (2).

CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Michael Olson, Deputy Director

Date: May 5, 2014

Subject: RESOLUTION AUTHORIZING CITY OF KIRKLAND PARTICIPATION IN THE LOCAL GOVERNMENT INVESTMENT POOL

Recommendation

Council adopts the attached resolution authorizing City of Kirkland's participation in the Local Government Investment Pool.

Background

The Local Government Investment Pool (LGIP) is a voluntary investment vehicle operated by the State Treasurer. Over 530 local governments have participated in the pool since it was started in 1986 to provide safe, liquid, and competitive investment options for local government pursuant to RCW 43.250. The City of Kirkland first authorized participation in the LGIP with Resolution No. R-3370 in April 1987.

In an effort to provide more clarity with respect to how the Local Government Pool operates, and a result of recently amended WAC's, the State Treasurer's office has created a prospectus which is attached to this memo for reference as Attachment A.

The prospectus provides a description of the funds available for investment, fees, investment objectives and strategies, risks, transaction rules, earnings calculation, reporting and management structure.

The City of Kirkland utilizes the LGIP for a portion of the liquidity component of the City's Investment Portfolio. The most recent external review of the investment portfolio, completed in 2013, recommended that the City maintain a liquidity component at 25%-50% of overall portfolio balances.

The Director and Deputy Director of Finance and Administration and the Accounting Manager have reviewed the prospectus and are authorized to make deposits and withdrawals.

LOCAL GOVERNMENT

INVESTMENT POOL

Prospectus

January 2014

James L. McIntire

Washington State Treasurer

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I. The LGIP

The Local Government Investment Pool (the "LGIP") is an investment pool of public funds placed in the custody of the Office of the Washington State Treasurer (the "State Treasurer") for investment and reinvestment as defined by RCW 43.250.020. The purpose of the LGIP is to allow eligible governmental entities to participate with the state in the investment of surplus public funds, in a manner that optimizes liquidity and return on such funds. In establishing the LGIP, the legislature recognized that not all eligible governmental entities are able to maximize the return on their temporary surplus funds, and therefore it provided a mechanism whereby they may, at their option, utilize the resources of the State Treasurer to maximize the potential of their surplus funds while ensuring the liquidity of those funds.

The State Treasurer has established a sub-pool within the LGIP whose shares are offered by means of this Prospectus: The LGIP-Money Market Fund (the "LGIP-MMF" or the "Fund"). The State Treasurer has the authority to establish additional sub-pools in the future.

The Fund offered in this Prospectus seeks to provide current income by investing in high-quality, short term money market instruments. These standards are specific to the Fund, as illustrated in the following table. The LGIP-MMF offers daily contributions and withdrawals.

FUND SNAPSHOT

The table below provides a summary comparison of the Fund's investment types and sensitivity to interest rate risk. This current snapshot can be expected to vary over time.

Fund	Investment Types	Maximum Dollar-Weighted Average Maturity for LGIP-MMF
LGIP-Money Market Fund	Cash	60 days
Current Investments (as of November 1, 2013)	Bank Deposits US Treasury bills Repurchase agreements US Government agency obligations	

Fees and Expenses

Administrative Fee. The State Treasurer charges pool participants a fee representing administration and recovery costs associated with the operation of the Fund. The administrative fee accrues daily from pool participants' earnings prior to the earnings being posted to their account. The administrative fee will be paid monthly. In the event that there are no earnings, the administrative fee will be deducted from principal.

The chart below illustrates the operating expenses of the LGIP-MMF for past years, expressed in basis points as a percentage of fund assets.

Local Government Investment Pool-MMF
Operating Expenses by Fiscal Year (in Basis Points)

	2006	2007	2008	2009	2010	2011	2012	2013
Total Operating Expenses	*1.12*	*0.96*	*0.84*	*0.88*	*0.64*	*0.81*	*0.68*	*0.87*

(1 basis point = 0.01%)

Because most of the expenses of the LGIP-MMF are fixed costs, the fee (expressed as a percentage of fund assets) will be affected by: (i) the amount of operating expenses; and (ii) the assets of the LGIP-MMF. The table below shows how the fee (expressed as a percentage of fund assets) would change as the fund assets change, assuming an annual fund operating expenses amount of $800,000.

Fund Assets	$6.0 bn	$8.0 bn	$10.0 bn
Total Operating Expenses (in Basis Points)	1.33	1.0	.80

Portfolio Turnover: The Fund does not pay a commission or fee when it buys or sells securities (or "turns over" its portfolio). However, debt securities often trade with a bid/ask spread. Consequently, a higher portfolio turnover rate may generate higher transaction costs that could affect the Fund's performance.

II. Local Government Investment Pool – Money Market Fund

Investment Objective

The LGIP-MMF will seek to effectively maximize the yield while maintaining liquidity and a stable share price of $1.

Principal Investment Strategies

The LGIP-MMF will seek to invest primarily in high-quality, short term money market instruments. Typically, at least 55% of the Fund's assets will be invested in US government securities and repurchase agreements collateralized by those securities. The LGIP-MMF means a sub-pool of the LGIP whose investments will primarily be money market instruments. The LGIP-MMF will only invest in eligible investments permitted by state law. The LGIP-MMF will not be an SEC-registered money market fund and will not be required to follow SEC Rule 2a-7. Investments of the LGIP-MMF will conform to the LGIP Investment Policy, the most recent version of which will be posted on the LGIP website and will be available upon request.

Principal Risks of Investing in the LGIP-Money Market Fund

Counterparty Credit Risk. A party to a transaction involving the Fund may fail to meet its obligations. This could cause the Fund to lose the benefit of the transaction or prevent the Fund from selling or buying other securities to implement its investment strategies.

Interest Rate Risk. The LGIP-MMF's income may decline when interest rates fall. Because the Fund's income is based on short-term interest rates, which can fluctuate significantly over short periods, income risk is expected to be high. In addition, interest rate increases can cause the price of a debt security to decrease and even lead to a loss of principal.

Liquidity Risk. Liquidity risk is the risk that the Fund will experience significant net withdrawals of Fund shares at a time when it cannot find willing buyers for its portfolio securities or can only sell its portfolio securities at a material loss.

Management Risk. Poor security selection or an ineffective investment strategy could cause the LGIP-MMF to underperform relevant benchmarks or other funds with a similar investment objective.

Issuer Risk. The LGIP-MMF is subject to the risk that debt issuers and other counterparties may not honor their obligations. Changes in an issuer's credit rating (e.g., a rating downgrade) or the market's perception of an issuer's creditworthiness could also affect the value of the Fund's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. Also, a decline in the credit quality of an issuer can cause the price of a money market security to decrease.

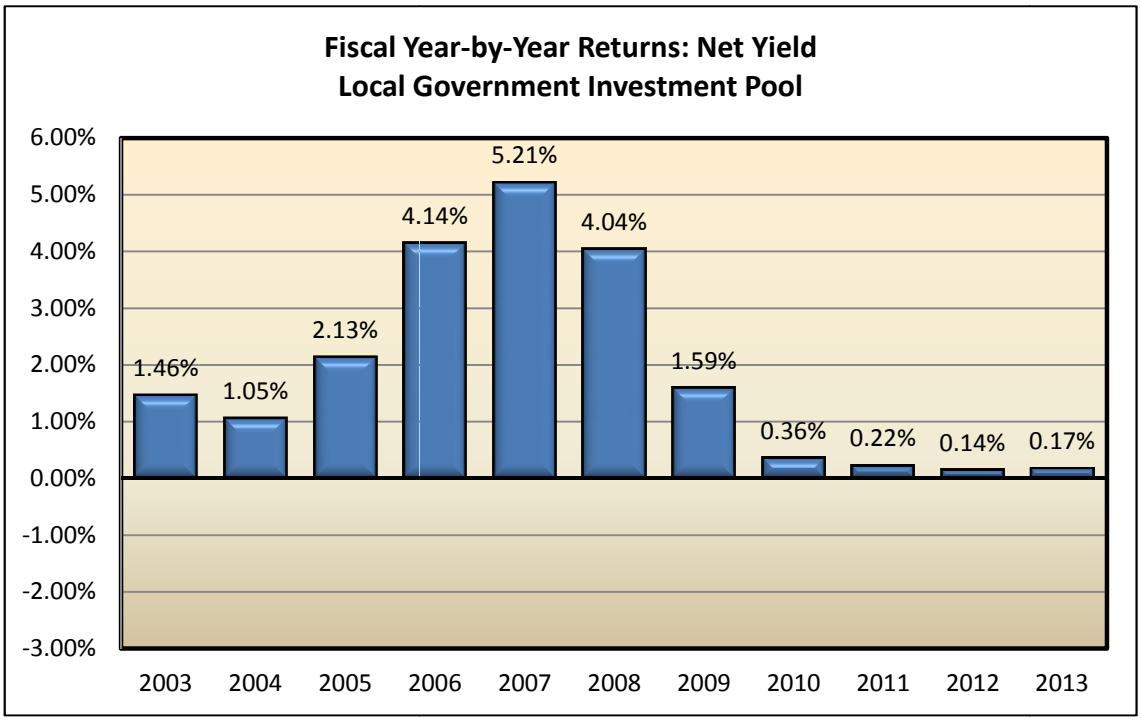
Securities Lending Risk and Reverse Repurchase Agreement Risk. The LGIP-MMF may engage in securities lending or in reverse repurchase agreements. Securities lending and reverse repurchase agreements involve the risk that the Fund may lose money because the borrower of the Fund's securities fails to return the securities in a timely manner or at all or the Fund's lending agent defaults on its obligations to indemnify the Fund, or such obligations prove unenforceable. The Fund could also lose money in the event of a decline in the value of the collateral provided for loaned securities or a decline in the value of any investments made with cash collateral.

Risks Associated with use of Amortized Cost. The use of amortized cost valuation means that the LGIP-MMF's share price may vary from its market value NAV per share. In the unlikely event that the State Treasurer were to determine that the extent of the deviation between the Fund's amortized cost per share and its market-based NAV per share may result in material dilution or other unfair results to shareholders, the State Treasurer may cause the Fund to take such action as it deems appropriate to eliminate or reduce to the extent practicable such dilution or unfair results.

An investment in the LGIP-MMF is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of investments at $1 per share, pool participants could lose money by investing in the LGIP-MMF. There is no assurance that the LGIP-MMF will achieve its investment objective.

Performance

The following information is intended to address the risks of investing in the LGIP-MMF. The information illustrates changes in the performance of the LGIP-MMF's shares from year to year. Returns are based on past results and are not an indication of future performance. Updated performance information may be obtained on our website at *www.tre.wa.gov* or by calling the LGIP toll-free at 800-331-3284.



Local Government Investment Pool-Money Market Fund

Average Accrued Net Yield

1 Year	3 years	5 years	10 years
0.17%	0.19%	.52%	1.94%

Transactions: LGIP-MMF

General Information

The minimum transaction size (contributions or withdrawals) for the LGIP-MMF will be five thousand dollars. The State Treasurer may, in its sole discretion, allow for transactions of less than five thousand dollars.

Valuing Shares

The LGIP-MMF will be operated using a net asset value (NAV) calculation based on the amortized cost of all securities held such that the securities will be valued at their acquisition cost, plus accrued income, amortized daily.

The Fund's NAV will be the value of a single share. NAV will normally be calculated as of the close of business of the NYSE, usually 4:00 p.m. Eastern time. If the NYSE is closed on a particular day, the Fund will be priced on the next day the NYSE is open.

NAV will not be calculated and the Fund will not process contributions and withdrawals submitted on days when the Fund is not open for business. The time at which shares are priced and until which contributions and withdrawals are accepted is specified below and may be changed as permitted by the State Treasurer.

To the extent that the LGIP-MMF's assets are traded in other markets on days when the Fund is not open for business, the value of the Fund's assets may be affected on those days. In addition, trading in some of the Fund's assets may not occur on days when the Fund is open for business.

Transaction Limitation

The State Treasurer reserves the right at its sole discretion to set a minimum and/or maximum transaction amount from the LGIP-MMF and to limit the number of transactions, whether contribution, withdrawal, or transfer permitted in a day or any other given period of time.

The State Treasurer also reserves the right at its sole discretion to reject any proposed contribution, and in particular to reject any proposed contribution made by a pool participant engaged in behavior deemed by the State Treasurer to be abusive of the LGIP-MMF.

A pool participant may transfer funds from one LGIP-MMF account to another subject to the same time and contribution limits as set forth in WAC 210.10.060.

Contributions

Pool participants may make contributions to the LGIP-MMF on any business day. All contributions will be effected by electronic funds transfer to the account of the LGIP-MMF designated by the State Treasurer. It is the responsibility of each pool participant to pay any bank charges associated with such electronic transfers to the State Treasurer. Failure to wire funds by a pool participant after notification to the State Treasurer of an intended transfer will result in penalties. Penalties for failure to timely wire will be assessed to the account of the pool participant responsible.

Notice. To ensure same day credit, a pool participant must inform the State Treasurer of any contribution over one million dollars no later than 9 a.m. on the same day the contribution is made. Contributions for one million dollars or less can be requested at any time prior to 10 a.m. on the day of contribution. For all other contributions over one million dollars that are requested prior to 10 a.m., a pool participant may receive same day credit at the sole discretion of the State Treasurer. Contributions that receive same day credit will count, for earnings rate purposes, as of the day in which the contribution was made. Contributions for which no notice is received prior to 10:00 a.m. will be credited as of the following business day.

Notice of contributions may be given by calling the Local Government Investment Pool (800-331-3284) OR by logging on to State Treasurer's Treasury Management System ("TMS"). Please refer to the LGIP-MMF Operations Manual for specific instructions regarding contributions to the LGIP-MMF.

Direct deposits from the State of Washington will be credited on the same business day.

Pricing. Contribution requests received in good order will receive the NAV per unit of the LGIP-MMF next determined after the order is accepted by the State Treasurer on that contribution date.

Withdrawals

Pool participants may withdraw funds from the LGIP-MMF on any business day. Each pool participant shall file with the State Treasurer a letter designating the financial institution at which funds withdrawn from the LGIP-MMF shall be deposited (the "Letter"). This Letter shall contain the name of the financial institution, the location of the financial institution, the account name, and the account number to which funds will be deposited. This Letter shall be signed by local officials authorized to receive and disburse funds, as described in WAC 210-10-020.

Disbursements from the LGIP-MMF will be effected by electronic funds transfer. Failure by the State Treasurer to wire funds to a pool participant after proper notification to the State Treasurer to disburse funds to a pool participant may result in a bank overdraft in the pool participant's bank account. The State Treasurer will reimburse a pool participant for such bank overdraft penalties charged to the pool participant's bank account.

Notice. In order to withdraw funds from the LGIP-MMF, a pool participant must notify the State Treasurer of any withdrawal over one million dollars no later than 9 a.m. on the same day the withdrawal is made. Withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of withdrawal. For all other withdrawals from the LGIP-MMF over one million dollars that are requested prior to 10 a.m., a pool participant may receive such withdrawal on the same day it is requested at the sole discretion of the State Treasurer. No earnings will be credited on the date of withdrawal for the amounts withdrawn. Notice of withdrawals may be given by calling the Local Government Investment Pool (800-331-3284) OR by logging on to TMS. Please refer to the LGIP-MMF Operations Manual for specific instructions regarding withdrawals from the Fund.

Pricing. Withdrawal requests with respect to the LGIP-MMF received in good order will receive the NAV per unit of the LGIP-MMF next determined after the order is accepted by the State Treasurer on that withdrawal date.

Suspension of Withdrawals. If the State Treasurer has determined that the deviation between the Fund's amortized cost price per share and the current net asset value per share calculated using available market quotations (or an appropriate substitute that reflects current market conditions) may result in material dilution or other unfair results, the State Treasurer may, if it has determined irrevocably to liquidate the Fund, suspend withdrawals and payments of withdrawal proceeds in order to facilitate the permanent termination of the Fund in an orderly manner. The State Treasurer will distribute proceeds in liquidation as soon as practicable, subject to the possibility that certain assets may be illiquid, and subject to subsequent distribution, and the possibility that the State Treasurer may need to hold back a reserve to pay expenses.

The State Treasurer also may suspend redemptions if the New York Stock Exchange suspends trading or closes, if US bond markets are closed, or if the Securities and Exchange Commission declares an emergency. If any of these events were to occur, it would likely result in a delay in the pool participants' redemption proceeds.

The State Treasurer will notify pool participants within five business days of making a determination to suspend withdrawals and/or irrevocably liquidate the fund and the reason for such action.

Earnings and Distribution

LGIP-MMF Daily Factor

The LGIP-MMF daily factor is a net earnings figure that is calculated daily using the investment income earned (excluding realized gains or losses) each day, assuming daily amortization and/or accretion of income of all fixed income securities held by the Fund, less the administrative fee. The daily factor is reported on an annualized 7-day basis, using the daily factors from the previous 7 calendar days. The reporting of a 7-day annualized yield based solely on investment income which excludes realized gains or losses is an industry standard practice that allows for the fair comparison of funds that seek to maintain a constant NAV of $1.00.

LGIP-MMF Actual Yield Factor

The LGIP-MMF actual yield factor is a net daily earnings figure that is calculated using the total net earnings including realized gains and losses occurring each day, less the administrative fee.

Dividends

The LGIP-MMF's dividends include any net realized capital gains or losses, as well as any other capital changes other than investment income, and are declared daily and distributed monthly.

Distribution

The total net earnings of the LGIP-MMF will be declared daily and paid monthly to each pool participant's account in which the income was earned on a per-share basis. These funds will remain in the pool and earn additional interest unless withdrawn and sent to the pool participant's designated bank account as specified on the Authorization Form. Interest earned will be distributed monthly on the first business day of the following month.

Monthly Statements and Reporting

On the first business day of every calendar month, each pool participant will be sent a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, administrative charges, earnings rate, earnings, and ending balance for the preceding calendar month. Also included with the statement will be the monthly enclosure. This report will contain information regarding the maturity structure of the portfolio and balances broken down by security type.

III. Management

The State Treasurer is the manager of the LGIP-MMF and has overall responsibility for the general management and administration of the Fund. The State Treasurer has the authority to offer additional sub-pools within the LGIP at such times as the State Treasurer deems appropriate in its sole discretion.

Administrator and Transfer Agent. The State Treasurer will serve as the administrator and transfer agent for the Fund.

Custodian. A custodian for the Fund will be appointed in accordance with the terms of the LGIP Investment Policy.

IV. Miscellaneous

Limitation of Liability

All persons extending credit to, contracting with or having any claim against the Fund offered in this Prospectus shall look only to the assets of the Fund that such person extended credit to, contracted with or has a claim against, and none of (i) the State Treasurer, (ii) any subsequent sub-pool, (iii) any pool participant, (iv) the LGIP, or (v) the State Treasurer's officers, employees or agents (whether past, present or future), shall be liable therefor. The determination of the State Treasurer that assets, debts, liabilities, obligations, or expenses are allocable to the Fund shall be binding on all pool participants and on any person extending credit to or contracting with or having any claim against the LGIP or the Fund offered in this Prospectus. There is a remote risk that a court may not enforce these limitation of liability provisions.

Amendments

This Prospectus and the attached Investment Policy may be amended from time to time. Pool participants shall receive notice of changes to the Prospectus and the Investment Policy. The amended and restated documents will be posted on the State Treasurer website: www.tre.wa.gov.

Should the State Treasurer deem appropriate to offer additional sub-pools within the LGIP, said sub-pools will be offered by means of an amendment to this prospectus.

LGIP-MMF Contact Information

Internet: www.tre.wa.gov Treasury Management System/TMS

Phone: 1-800-331-3284 (within Washington State)

Mail:

Office of the State Treasurer
Local Government Investment Pool
PO Box 40200
Olympia, Washington 98504
FAX: 360-902-9044

LOCAL GOVERNMENT INVESTMENT POOL

Investment Policy

November 2010

James L. McIntire
Washington State Treasurer

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Office of the Washington State Treasurer

LOCAL GOVERNMENT INVESTMENT POOL

INVESTMENT POLICY

I. STATEMENT OF PURPOSE

This statement is intended to *describe the policies* that the State Treasurer has established as useful and prescribed guidelines for the prudent management of the funds in the Local Government Investment Pool (LGIP). This statement also lists and describes realistic parameters and goals in investing those public funds.

It aims to *establish reasonable expectations, objectives and guidelines in the investment process*. It will set forth an investment structure detailing the universe of permitted investments and restrictions for their utilization. Creating this framework will lessen confusion as it sets expectations of generally acceptable returns at a level of risk suitable to the stated funds.

The goal of this investment policy and the corresponding investment function is to *clarify the prescribed duties* delegated to the State Treasurer with regards to the investment of LGIP funds.
This statement is *intended to be an abstract of the investment philosophy* that serves as a general guidance to individuals so authorized. The Treasurer has liberty to make amendments as deemed necessary.

II. IDENTIFICATION OF FUNDS

This policy applies to all public funds on deposit with the Local Government Investment Pool (LGIP) as defined by RCW 43.250.020.

III. OBJECTIVES

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be: safety, liquidity, and return on investment.

1. Safety: Safety of principal is the primary objective of the State Treasurer. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective the OST portfolio manager will :
   - limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in Section VII of this policy.
   - Maintain a Weighted Average Maturity (WAM) of 60 days or shorter, as described in Section VII.3
   - Maintain a Weighted Average Life (WAL) of 120 days, as described in Section VII.3
   - Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies; and,
   - Prepare regular reports of portfolio activity.

2. Liquidity: The investment portfolio will remain liquid to enable the State Treasurer to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.
   - OST will have an understanding of historical cash flow patterns to manage expectations.
   - OST will hold securities that can be converted to liquid cash to be incorporated in liquidity structure

3. Return on Investment: The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

IV. STANDARDS OF CARE

1. Delegation of Authority.

The State Treasurer is an executive officer of the state, as established by the Constitution of the State of Washington (Article III, Section 1), and "will perform such duties as will be prescribed by law" (Article III, Section 19).

As prescribed by the Revised Code of Washington (RCW), "The legislature finds and declares that the public interest is found in providing maximum prudent investment of surplus funds, thereby reducing the need for additional taxation. The legislature also recognizes that not all political subdivisions are able to maximize the return on their temporary surplus funds. The legislature therefore provides in this chapter a mechanism whereby political subdivisions may, at their option, utilize the resources of the Office of the State Treasurer (OST) to maximize the potential surplus funds while ensuring the safety of public funds" (RCW 43.250.010).

To "ensure effective cash management of public funds," (RCW 43.08.015) the State Treasurer may designate investment officers who will have the authority to perform the duties of the state treasurer, and will maintain a current list (available upon request) of those individuals so authorized.

2. Prudence.

The State Treasurer and authorized investment officers 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 the 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.

3. Ethics and Conflicts of Interest.

The State Treasurer, assistant treasurer, and authorized investment officers will adhere to standards of conduct as stipulated by the following:

- Public Disclosure Act, RCW 42.16;
- Ethics in Public Service Act, RCW 42.52 and section 292-110-010 Washington Administrative Code; and,
- Standards of Conduct for Executive Branch Employees, Executive Order 93-02.

All authorized investment officers will file personal financial disclosure forms with the Public Disclosure Commission consistent with the provisions of RCW 42.17.

V. CONTROLS

1. Custody.

Safekeeping and Custody: Prudent treasury management dictates that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution. Deposits will only be made in depositories approved by the Washington Public Deposit Protection Commission.

The State Treasurer's shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the State Treasurer listing at a minimum each specific security, description, maturity date, market value, par value, purchase date, and cusip number.

2. Authorized Financial Dealers and Institutions.

The State Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the state. Authorized broker/dealers and 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 (RCW 39.58); or,
- primary dealers recognized by the Federal Reserve Bank; or,
- non-primary dealers 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.

Each authorized dealer or institution will make available annual reports, including audited financial statements, and other information as determined by the State Treasurer.

3. Competitive Transactions

- It will be the policy of the state treasurer to transact securities purchases or sales through appropriately competitive processes.

- Electronic trading is the preferred option for the purchase and sale of investment instruments, when appropriate.

- Offers or bids for securities may be received from approved broker/dealers by the following means:
  a. by phone
  b. by e-mail or other electronic communication
  c. through electronic trading platform
  d. from inventory listings supplied by approved broker/dealers for underwritten new issues.

4. Share Price Calculation

The current price per share, for purposes of distribution, redemption and repurchase, will be computed by use of the Amortized Cost Method. It is the intent to manage the portfolio to maintain a stable net asset value at $1.00, like 2a7 funds. However maintenance of a stable net asset value at 1.00 is not guaranteed.

5. Internal Controls

The State Treasurer will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

- the use of third party custody and safekeeping;
- the execution of all securities transactions on a DVP basis;
- the clear delegation of investment authority;
- the separation of transaction authority from record keeping;
- the use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state; and,
- the use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

Daily reports monitoring investment operations to ensure compliance with the terms of this policy will be produced and provided to staff responsible for oversight of the LGIP.

6. External Controls

As prescribed by RCW 43.09.050, the state auditor will "audit the accounts" and "inspect the books" of the State Treasurer to determine the compliance of investment activities with state statutes and this policy. In addition, the LGIP will contract for an outside independent audit of LGIP financial statements.

The market value of the portfolio will be calculated monthly by the master custodian or by an independent pricing service under contract with the State Treasurer's Office.

This policy will be reviewed/revised at least annually. The State Treasurer will formally approve any changes to this policy after consultation with the LGIP Advisory Committee.

VI. ELIGIBLE AND SUITABLE INVESTMENTS

1. Eligible Investments

Eligible investments are only those securities and deposits authorized by statute. (RCW 39.58, 39.59, and 43.84.080) Eligible investments include, but are not limited to:

- obligations of the U.S. government;
- obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government;
- obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve;
- banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two designated Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the bankers acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations;
- commercial paper, provided that the OST adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7));
- certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission and made in accordance with the provisions RCW 39.58.
- obligations of the state of Washington or its political subdivisions.

VII. INVESTMENT PARAMETERS

To provide for the safety and liquidity of LGIP funds, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy and there may be separate guidelines containing additional, more restrictive limitations for certain investment instruments. All restrictions are based on a settlement date basis.

The investments of cash collateral and securities accepted as collateral by a securities lending agent are subject to the restrictions and limits of sections VI and VII of this policy.

Maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded, e.g., due to fluctuations in fund balances. Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made.

I. Liquidity Provisions

The fund will be structured to maintain a sufficient degree of liquidity necessary to meet reasonably foreseeable redemption requests and reduce the likelihood that a fund will have to meet redemptions by selling portfolio securities into a declining market.

- 10% will be maintained in "daily liquid assets" and that includes (i) cash (ii) direct obligations of the US Government, (iii) demand deposits, (iv) overnight repurchase agreements and (v) securities that mature that day.

- 30% of the portfolio will be maintained in "weekly liquid assets" —and includes (i) cash, (ii) direct obligations of the US Government, (iii) Government Agency discount notes that have remaining maturity of 60 days or less and (iv) securities that will mature, or have a demand feature exercisable and payable within 5 business days.

2. Diversification and Percentage Limitations

Cash raised as a result of securities lending or reverse repurchase agreement transactions will not increase the dollar amount of the following limitations.

a. Government Securities

Investments in government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Floating and Variable Rate Notes (aggregate total)	30%
Other Structured Notes	10%

For the purposes of this policy the following definitions shall apply:

Floating Rate Note: securities which at all times can reasonably be expected to have a market value that approximates their amortized cost. This would include those who reset based on indices such as Fed Funds or the prime lending rate. Floating Rate Notes that reset based on any other index must be approved by either the state treasurer or the assistant state treasurer prior to purchase.

Variable Rate Notes: securities which on any reset date can reasonably be expected to have a market value that approximates their amortized cost. This would include those who reset based on indices such as LIBOR or US Treasury Bills. Variable Rate Notes that

reset based on any other index must be approved by either the state treasurer or the assistant state treasurer prior to purchase.

Other Structured Notes: all other debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and which may have embedded forwards or options.

- Structured notes whose cash flows can no longer fluctuate will not count against the 10% limitation.

b. Non-government Securities

Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Bankers Acceptances	20%
Commercial Paper	25%
Certificates of Deposit	10%
Demand Deposit Accounts	50%

The aggregate amount for Commercial Paper and Bankers Acceptances will not exceed 35% of the portfolio. Additionally, individual issuers of commercial paper or bankers acceptances will be limited to no more than 5% of the portfolio.

3. Investment Maturity

A. Maximum Final Maturity The maximum final maturity of any security will not exceed 397 days, with the following exceptions:

- The maximum maturity of the variable rate and floating rate securities meeting the requirements listed above will not exceed 762 days; and
- Securities utilized in repurchase agreements

B. Weighted Average Maturity (WAM)

The weighted average maturity (WAM) of the portfolio will not exceed 60 days. For the purposes of calculating the WAM:

- A variable rate security meeting the requirements listed above will be deemed to have a maturity equal to the period remaining to the next reset date, provided that on any reset date such security can be reasonably expected to have a market value that approximates its amortized cost; and
- A floating rate security meeting the requirements listed above will be deemed to have a remaining maturity of one day, provided that at any time prior to maturity such security can reasonably be expected to have a market value that approximates its amortized cost.

C. Weighted Average Life (WAL)

The weighted average life (WAL) of the portfolio shall not exceed 120 days. For the purpose of calculating the WAL:

- A variable rate security will be calculated using its final maturity; and
- A floating rate security will be calculated using its final maturity

D. Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements will be subject to the following additional restrictions:

- transactions will be conducted only with primary dealers, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement approved by the Public Securities Association;
- repurchase agreements with any single primary dealer or financial institution will not exceed 20% of the portfolio;
- the maximum term of repurchase agreements will be 180 days;
- the share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30% of the total portfolio;
- the maximum term of reverse repurchase agreements will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and,
- the maximum portion of the portfolio allocated to reverse repurchase agreements or engaged in a securities lending program will not exceed 30% of the total portfolio.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

- securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced at least weekly;
- all substitutions will be approved by the OST before the existing purchased security is released to the broker/dealer;
- the market value, plus accrued income, of treasury, agency and money market securities utilized in repurchase agreements will be 102% of the value of the repurchase agreement;
- the market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105% of the value of the repurchase agreement;
- collateralized mortgage obligation (CMO) securities utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or will not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency; and,
- only securities authorized in statute for the investment of public funds will be utilized in repurchase agreements.

Additional operating guidelines will provide details relating to the frequency of security pricing, substitutions, and margin calls.

VIII. PROFESSIONAL SERVICES

The State Treasurer may contract for professional services as necessary for the efficient management of investments.

1. Appointment of Master Custodian

The State Treasurer may select one or more firms to provide the state with master custodial services. Master custodial services will include, but not be limited to:

- executing transactions involving all securities held in custody, including on-line security clearing, settlement of securities on a delivery-versus-payment basis (DVP), and settlement of physically-held securities;
- providing regular reports on the activity and value of the securities in custody; and,
- providing for the safekeeping of all documents and financial instruments physically held in custody.

2. Appointment of Securities Lending Agent

The State Treasurer may select one or more firms to provide securities lending management services. Securities lending services will include, but not be limited to:

- ensuring all loans of coupon-bearing securities are supported by collateral valued at not less than 102% of market value of the securities, including accrued income;
- ensuring all loans of non coupon-bearing securities supported by cash collateral, shall not be valued at less than 102% of market value, but not to exceed par;
- ensuring all loans of non coupon-bearing securities supported by non-cash collateral, shall not be valued at less than 102% of market value;
- ensuring the average maturity of securities on loan and of the securities purchased are for 14 days or less;
- ensuring that the investment of cash collateral be only in securities authorized in this policy, and that the restrictions on investments found in sections V and VI of this policy also apply to investments made by a securities lending agent;
- providing next day liquidity for all securities on loan; and,
- providing monthly accounting, performance, compliance, and management reports.

The services of a master custodian and securities lending agent will be obtained through an evaluation of competitive proposals submitted in response to a regularly issued request for proposals.

Securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department.

Collateral is to be similarly held or held by an independent third party with whom the office has a current master repurchase agreement.

All securities transactions are to be conducted on a DVP basis only, and a trade confirm/safekeeping receipt is to be provided to the Treasurer's Office.

IX. ADVISORY COMMITTEE

The State Treasurer created the LGIP Advisory Committee to provide advice on the operation of the pool. Of the committee members, all of whom are active LGIP participants, some members are

appointed by participant associations, and some members are appointed by the State Treasurer. The LGIP Advisory Committee will meet quarterly or at the discretion of the State Treasurer.

X. PERFORMANCE BENCHMARK

A performance benchmark provides an appropriate comparison of risk and return based on a investment funds policy criteria. The imoney.net, Govt Only Institutional Index is an index that is comprised of 2a7 government only portfolios and represents the LGIP investment objectives. Therefore, this index will be used as a comparison for risk and return results.

XI. REPORTING REQUIREMENTS

The State Treasurer will prepare regular reports summarizing characteristics and holdings in the fund. In accordance with Washington Administrative Code 210-01-110, each pool participant will be provided a monthly statement of account. In accordance with RCW 43.250.080, the State Treasurer will submit an annual summary of LGIP activity to the governor, the state auditor, and the Joint Legislative Audit and Review Committee.

James L. McIntire

Approved by James L. McIntire, State Treasurer

11-15-10

Date

Effective Date: November 10, 2010

Council Meeting: 05/20/2014
Agenda: Other Business
Item #: 8. h. (2).

RESOLUTION R-5052

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND AUTHORIZING INVESTMENT OF CITY OF KIRKLAND MONIES IN THE LOCAL GOVERNMENT INVESTMENT POOL (LGIP) AND AUTHORIZING THE DIRECTOR OF FINANCE AND ADMINISTRATION TO CONTRIBUTE AND WITHDRAW MONIES TO AND FROM THE LGIP.

WHEREAS, pursuant to Chapter 294, Laws of 1986, the Legislature created a trust fund to be known as the public funds investment account commonly referred to as the Local Government Investment Pool (LGIP) for the contribution and withdrawal of money by an authorized governmental entity for purposes of investment by the Office of the State Treasurer; and

WHEREAS, from time to time it may be advantageous to the City of Kirkland to contribute funds available for investment in the LGIP; and

WHEREAS, the investment strategy for the LGIP is set forth in its policies and procedures; and

WHEREAS, any contributions or withdrawals to or from the LGIP made on behalf of the City shall be authorized by the Director of Finance and Administration or any designees of the Director of Finance and Administration pursuant to this resolution or a subsequent resolution; and

WHEREAS, the City will file a certified copy of this resolution with the Office of the State Treasurer; and

WHEREAS, the Director of Finance and Administration and any designees appointed by the Director of Finance and Administration with authority to contribute or withdraw funds of the City will receive and read a copy of the prospectus and understand the risks and limitations of investing in the LGIP; and

WHEREAS, the City Council is empowered to authorize the Director of Finance and Administration to execute the LGIP Transaction Authorization form and further empowered to designate the Director of Finance and Administration to direct the contribution or withdrawal of monies, and to delegate authority to make adjustments to the incorporated transactional forms.

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The Director of Finance and Administration is authorized to execute the LGIP Transaction Authorization Form and to contribute and withdraw City monies to and from the LGIP in the manner prescribed by law, rule, and prospectus.

Section 2. The City Council approves the Local Government Investment Pool Transaction Authorization Form (Form) as completed by the Director of Finance and Administration attached as Exhibit A, and incorporated by this reference.

Section 3. The City Council designates the Director of Finance and Administration as the "authorized individual" to authorize all amendments, changes, or alterations to the Form or any other documentation including the designation of other individuals to make contributions and withdrawals on behalf of the City.

Section 4. This delegation ends upon the written notice, by any method set forth in the prospectus, from the City that the authorized individual's delegation has been revoked. The Office of the State Treasurer will rely solely on the City to provide notice of such revocation and is entitled to rely on the authorized individual's instructions until such time as said notice has been provided.

Section 5. The Form as incorporated into this resolution or amended by delegated authority, or any other documentation signed or otherwise approved by the authorized individual shall remain in effect after revocation of the authorized individual's delegated authority, except to the extent that the authorized individual whose delegation has been revoked shall not be permitted to make further withdrawals or contributions to the LGIP on behalf of the City. No amendments, changes, or alterations shall be made to the Form or any other documentation until the City passes a new resolution naming a new authorized individual; and

Section 6. The City Council agrees that the prospectus as provided by the Office of the State Treasurer shall be received, read, and understood by the Director of Finance and Administration. In addition, the City Council agrees that a copy of the prospectus will be provided to any person delegated or otherwise authorized to make contributions or withdrawals into or out of the LGIP and that said individuals will be required to read the prospectus prior to making any withdrawals or contributions or any further withdrawals or contributions if authorizations are already in place.

Passed by majority vote of the Kirkland City Council in open meeting this _____ day of _____, 2014.

Signed in authentication thereof this ____ day of _____, 2014.

_____
MAYOR

Attest:

_____
City Clerk

LOCAL GOVERNMENT INVESTMENT POOL
TRANSACTION AUTHORIZATION FORM

R-5052 Exhibit A

Please fill out this form completely, including any existing information, as this form will replace the previous form.

Name of Entity: City of Kirkland	Mailing Address: City of Kirkland 123 5th Ave Kirkland, WA 98033
Fax Number: 425-587-3110	
E-mail Contact: Finance-Operations@kirklandwa.gov	

Do you wish to have your monthly LGIP statements faxed to the number listed above?

Please note – if you choose to receive statements via fax, you will not receive another copy via U.S. mail.

☒ **YES**, please fax statements ☐ **No**, please send statements via U.S. mail

Bank account where funds will be wired when a withdrawal is requested.
(Note: Funds **will not** be transferred to any account other than that listed).

Bank Name: Bank of America
Branch Location: Seattle
Bank Routing Number: 125000024
Account Number: 000016754004
Account Name: City of Kirkland General Account

Persons authorized to make deposits and withdrawals for the entity listed above.

Name	Title	Signature	Telephone Number
Tracey Dunlap	Director of Finance and Administration	Tracey Dunlap	425-587-3101
Michael Olson	Deputy Director	Michael Olson	425-587-3146
Teresa Levine	Accounting Manager	Teresa Levine	425-587-3115

By signature below, I certify I am authorized to represent the institution/agency for the purpose of this transaction.

Tracey Dunlap	Director of Finance and Administration	5-6-2014
(Authorized Signature)	*(Title)*	*(Date)*
Tracey Dunlap	**TDunlap@kirklandwa.gov**	**425-587-3101**
(Print Authorized Signature)	*(E-mail Address)*	*(Telephone number)*

Any changes to these instructions must be submitted in writing to the Office of the State Treasurer. Please mail this form to the address listed below:

OFFICE OF THE STATE TREASURER
LOCAL GOVERNMENT INVESTMENT POOL
PO BOX 40200
OLYMPIA, WA 98504-0200
FAX: (360) 902-9044

Date Received: ____ / ____ / _____
Fund Number: _____
(for LGIP use only)

LETA B. SANTANGELO
COMMISSION EXPIRES
NOTARY
PUBLIC
12-19-2017
STATE OF WASHINGTON

State of Washington)
County of King) ss.
Signed or attested before me by Tracey Dunlap.
Dated this 6th day of May, 2014.

Leta B Santangelo
Signature of Notary

SEAL OR STAMP

Leta B Santangelo
Typed or printed name of Notary

Notary Public in and for the State of Wash.
My appointment expires: 12-19-2017