



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Tom Mikesell, Financial Planning Manager

Date: November 25, 2014

Subject: **2015-2016 BUDGET ADOPTION**

RECOMMENDATION:

Council approves the attached ordinance adopting the budget for the 2015-2016 biennium and the related resolutions on the consent calendar.

BACKGROUND DISCUSSION:

In addition to formal adoption of the 2015-2016 Budget, the Council will need to act on resolutions covering a number of topics, including:

- Suspending reserve replenishment requirements;
- Authorizing the City Manager to deploy additional development services resources during the biennium contingent upon the commencement of development activity at the Totem Lake Mall and/or Parkplace projects; and,
- An update to the City's Investment Policy.

The resolutions (attached) to implement these policy changes are on the consent calendar and are explained in more detail below. The Final Budget ordinance and Exhibit A to the ordinance are also included as attachments at the end of this memorandum.

Suspending Reserve Replenishment Requirements

The City's current fiscal policies require a high percentage of (up to all) uncommitted funds available at the end of a biennium to be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Furthermore, once these thresholds are met, policy dictates that 50% of additional funds be directed to reserves until they meet 100% of target. The fiscal policies also permit the Council to suspend the requirements to replenish reserves under special circumstances. The 2015-2016 Budget as proposed by the City Manager and amended by the Council assumes the suspension of the 2014 year-end replenishment due to the following special conditions:

- Continuation of the past practice of funding some programs with one-time funds (ARCH Trust Fund, Kirkland Performance Center support, and others) given the discretionary nature of the funding levels and the absence of reliable ongoing resources for those purposes;
- One-time investment needed to establish the Public Safety/Information Technology sinking funds; and
- The objective of addressing some of the high-priority recommendations from the recently completed Fire Strategic Plan and Standard of Cover Study.

This action reduces reserve contributions from uncommitted 2014 General Fund ending balances below 50%. However, even with this change, reserves are projected to exceed the 80% level in the 2015-16 biennium (with the revenue stabilization reserve at 100%). In order to suspend the reserve replenishment requirements, staff recommends that Council adopts the attached resolution, R-5085.

Contingent Authorization of Development Services Resources

Subsequent to finalizing the Preliminary Budget, the City received information indicating the increasing likelihood that either or both of the Totem Lake Mall and Parkplace redevelopment projects would begin in earnest during the biennium. In light of this possible near-term need, staff prepared two service packages including the staffing resources necessary to facilitate the development review of each project. The service packages for Parkplace and Totem Lake Mall, which would both be supported by development permit revenues from the projects, total \$606,953 and \$558,247, respectively.

Due to the possibility that either project could commence during the biennium, and given that the current development services staffing resources in the 2015-16 Preliminary Budget are not sized sufficiently to meet the development review, permitting and inspection demands of projects of this scope, staff recommends Council authorization of a Resolution to allow the City Manager to add resources quickly in the event that either or both projects commence during the biennium. Any potential appropriation increases resulting from this process would be presented to Council for approval at the next regularly scheduled budget adjustment.

To allow this ability to swiftly respond to these development projects should they commence activity, staff recommend that Council adopts the attached resolution, R-5086.

Investment Policy Update to Reflect Advisory Services

The City contracted with an investment advisor in August to provide non-discretionary investment advisory services to support the administration of the City's investment portfolio. The investment advisor provides investment analysis, recommendations and reporting while the City retains all decision making authority over investment transactions. Housekeeping revisions to the Investment Policy to acknowledge the use of an investment advisor are required. The Council Finance and Administration Committee reviewed the revised policy at their November 25, 2014 meeting and recommended forwarding the policy to the full Council for approval. The Committee also reviewed the City's Debt Management Policy fulfilling the 4 year review policy requirement. No changes to the Debt Management Policy are recommended at this time.

To revise the Investment Policy to reflect use of an investment advisor, staff recommends that Council adopts the attached resolution, R-5087.

2015-2016 Budget Adoption

The attached ordinance (Ordinance 4466) adopts the 2015-2016 Budget as proposed by the City Manager and amended by the City Council. By state law, the budget must be adopted by December 31, 2014. The budget is adopted at the fund level which sets the total expenditure authority for the biennium for each fund. The table below summarizes the changes to the 2015-16 Preliminary Budget.

	2015-16 Cost		
	Ongoing	One-time	Total
Preliminary 2015-16 Budget			583,025,422
General Fund			
Council Directed Actions			
Human Services Option 3	-	116,226	116,226
School Resource Officer	224,118	15,843	239,961
Northshore Public Health Center Set-Aside	-	80,000	80,000
Leadership Eastside Scholarships ¹	-	24,000	24,000
KAN Request	-	10,202	10,202
Social Worker at John Muir Elementary	-	23,504	23,504
Cultural Organization Grant Matching	-	10,000	10,000
Totem Lake Development Agreement	-	75,000	75,000
<i>Subtotal Council Directed Action</i>	<i>224,118</i>	<i>354,775</i>	<i>578,893</i>
Annexation Street Lights adjusted to June 15	(142,500)	-	(142,500)
General Fund Housekeeping	(1,324)	12,500	11,176
Subtotal General Fund	80,294	367,275	447,569
Special Revenue Funds			
Property Tax Adjustments	44,755	29,196	73,951
Annexation Street Lights adjusted to June 15	(142,500)	-	(142,500)
Subtotal Special Revenue Funds	(97,745)	29,196	(68,549)
General Capital Fund			
General Capital Contingency Replacement from GF	-	793,843	793,843
Wireless in Parks Phase 2	-	200,000	200,000
Green Kirkland	-	50,000	50,000
Subtotal General Capital Fund	-	1,043,843	1,043,843
Grand Total All Funds	(17,451)	1,440,314	1,422,863
Less Use of Unallocated Year End Resources			(386,454)
Net Appropriation Impact			1,036,409
Final 2015-16 Biennial Budget			584,061,831

These adjustments represent both transfers between line items in the budget as well as increases to the total appropriation. The net appropriation increases \$1.04 million as a result of these changes. In addition to the Council-directed changes listed at the top of the table, the following major adjustments are included:

- Adjusting Special Revenue fund budgets to account for higher property tax new construction estimates;

- Removing half of the 2015 appropriation in the General Fund and Street Fund for Street Lights in the annexation area to coincide with availability of the Annexation Sales Tax Credit, which is already fixed for half of 2015 based on the state fiscal year, which ends in June;
- Contribution to the General Capital Contingency from unallocated General Fund year end resources (these funds were identified as available in the preliminary budget, but not shown as transferred to the General Capital Fund);
- Development of wireless internet access in select City parks funded from outside contributions; and,
- Private contributions to support forestry projects in the Green Kirkland program.

Note that a portion of these needs are one-time in nature and funded through the use of unallocated year-end resources (386,454) and, therefore, do not require an adjustment to the total budget appropriation.

A summary of the 2015-2016 Final Budget by fund type including all adjustments, as compared to the 2013-2014 Amended Budget as of June 30, 2014, is included in the table below.

	2013-14 Amended Budget	2015-16 Final Budget	% Change
General Government			
General Fund	178,638,538	194,798,557	9.0%
Other Operating	30,399,499	31,384,551	3.2%
Internal Service Funds	69,527,520	77,886,892	12.0%
Non-Operating Funds	146,657,455	114,948,995	-21.6%
Utilities			
Water/Sewer	80,092,537	89,148,000	11.3%
Surface Water	44,112,640	41,966,491	-4.9%
Solid Waste	32,339,121	33,928,345	4.9%
Total Budget	581,767,310	584,061,831	0.39%

The 2015-2016 Final Budget totals \$584.06 million which represents an increase of 0.39% (\$2.3 million) from the Amended 2013-2014 Budget (as of June 30, 2014). This will be the comparison in the Final 2015-2016 Budget document.

Copies of the final budget document will be available during the first quarter of 2015.

RESOLUTION R-5085

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND FINDING THAT SPECIAL CONDITIONS EXIST AND SUSPENDING THE RESERVE REPLENISHMENT PRINCIPLE RESTRICTING THE USE OF UNPLANNED FUNDS.

WHEREAS, in October 2011, the City Council passed Resolution R-4900 establishing Reserve Replenishment Principles; and

WHEREAS, one of the Reserve Replenishment Principles provides that once reserves reach 80 percent of target and the revenue stabilization reserve is at 100 percent of target, unplanned ending fund balances available at the end of the biennium may be used to meet other one time or ongoing needs; and

WHEREAS, one of the Reserve Replenishment Principles provides that once reserves reach 80 percent of target and the revenue stabilization reserve is at 100 percent of target, that 50% of unplanned ending fund balances be used for additional reserve replenishment and the remainder is available for other needs; and

WHEREAS, there is a need to use some of the available ending fund balances for one time needs during the 2015-2016 biennium; and

WHEREAS, projected reserve levels will pass 80% during the 2015-16 biennium; and

WHEREAS, the preliminary 2015-2016 Budget recommends using more than 50% of unplanned fund balances for one-time purposes; and

WHEREAS, the Reserve Replenishment Principles provide that the City Council may take action to suspend Reserve Replenishment Principles if the City Council finds that special conditions exist warranting such action; and

WHEREAS, the City Council makes the findings set forth below;

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

Section 1. Findings.

- A. There is a need to continue the City Council practice of funding some programs with one-time funds, such as the ARCH Trust Fund, enhanced Human Services grants, and the Kirkland Performance Center, given the importance of these programs to the quality of life of the community, the discretionary nature of the funding levels and the absence of reliable ongoing resources for those purposes.

- B. A one-time revenue investment is needed to augment the Public Safety/Information Technology sinking funds which are critical to the health and well being of the community and the safe and reliable operations of the government.
- C. There is a need to use one-time funds to address some of the high priority recommendations from the recently completed Fire Strategic Plan and Standard of Cover Study, including siting a new fire station in north Kirkland, to enhance the public safety of the residents of the City.

Section 2. Suspension. Based upon the special conditions described in Section 1, "Findings," the City Council suspends the Reserve Replenishment Principle restricting the use of unplanned funds during the 2015-2016 biennium.

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

RESOLUTION R-5086

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND APPROVING TWO CONTINGENT SERVICE PACKAGES RELATED TO STAFFING NEEDS FOR THE ANTICIPATED REDEVELOPMENT OF PARKPLACE AND TOTEM LAKE MALL AND AUTHORIZING THE EXPENDITURE OF FUNDS.

WHEREAS, following the finalization of the Preliminary 2015-2016 Budget, the City received information that made the anticipated redevelopment of Parkplace and/or Totem Lake Mall appear more likely to occur during the 2015-2016 biennium; and

WHEREAS, separate contingent service packages related to the staffing needs for the anticipated redevelopment of Parkplace and Totem Lake Mall were provided to the City Council as part of the October 30, 2014, 2015-2016 Budget Study Session; and

WHEREAS, the recommended service packages for resource needs for the anticipated redevelopment of Parkplace and Totem Lake Mall are in the amounts \$606,953 and \$558,247, respectively; and

WHEREAS, both of these service packages would advance the City Council's Economic Development goal and would be supported by new development permit revenues; and

WHEREAS, the need to fund these service packages is contingent upon one or both of these redevelopment projects going forward; and

WHEREAS, contingent approval of these service packages would allow the City Manager to add resources quickly if one or both of these redevelopment projects occur, with the related appropriation change to be brought back to the City Council with the next budget adjustment.

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

Section 1. The City Manager's recommendation of two service packages related to staffing needed for the anticipated redevelopment of Totem Lake Mall and Parkplace as provided to the City Council at the 2015-2016 Budget Study Session are contingently approved.

Section 2. The City Council acknowledges that the need to fund these service packages is contingent upon one or both of these redevelopment projects going forward.

Section 3. The City Council authorizes the City Manager to manage the expenditure of these additional resources and to seek additional appropriation authority, as necessary, at the next scheduled budget adjustment.

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

RESOLUTION R-5087

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ADOPTING A REVISED POLICY FOR INVESTMENT OF CITY FUNDS.

WHEREAS, the City Council of the City of Kirkland desires to have City funds invested in secure depositories and maximize returns on these investments; and

WHEREAS, the City Council of the City of Kirkland desires to develop an investment policy to guide the investment of City funds to meet these objectives; and

WHEREAS, the Kirkland City Treasurer (Deputy Director of Finance and Administration) has recommended revisions to the policy for investment of City funds; and

WHEREAS, the City of Kirkland investment policy has been written in accordance with the Washington Public Treasurers Model Investment Policy;

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

Section 1. The policy for investment of City funds set forth in the document entitled "City of Kirkland Investment Policy December 9, 2014" which is attached as Attachment A and incorporated by this reference is adopted as the official policy for investment of City funds.

Section 2. That the document entitled City of Kirkland Investment Policy December 9, 2014, replaces all previous City of Kirkland Investment Policies.

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

CITY OF KIRKLAND INVESTMENT POLICY

December 9, 2014

1.0 Policy Statement

It is the policy of the City of Kirkland, ("the City") to invest public funds in a manner which provides a market rate of return while meeting safety objectives, the daily cash flow requirements and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all financial assets for the City of Kirkland. These funds are accounted for in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds

Any new funds created by the Finance Director unless specifically exempted.

3.0 Objective

The primary objectives, in order of priority, for the City of Kirkland's investment activities are as follows:

- 3.1 **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
- 3.2 **Liquidity:** The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
- 3.3 **Safety:** Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from other investments.
- 3.4 **Yield:** The City's investments will be designed with the objective of attaining a market rate return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

Investment Core Fund is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. A security swap that would improve the quality, yield or target duration in the portfolio.
- c. Liquidity needs of the portfolio require that the security be sold.

4.0 Delegation of Authority

In accordance with City of Kirkland Municipal code, Ordinance No.1020, an Investment Committee was created consisting of the City Manager and Finance Director. Authority is granted to these individuals to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Finance Director may designate a person or a non-discretionary investment advisor to coordinate the day to day operations of the investment portfolio.

5.0 Prudence

Investments will be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes (Prudent Person Standard).

The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to Investment Committee any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

7.0 Authorized Financial Dealers and Institutions

Financial Institutions

The Investment Committee will maintain a list of financial institutions as required by the Public Deposit Protection Commission (PDPC), authorized to provide investment services as outlined in R.C.W. 39.58.080. No public deposits will be made except in a qualified public depository in the State of Washington.

Broker/Dealers

A list will also be maintained of approved security broker/dealers selected by credit worthiness. The Finance Director will review the FINRA (Financial Industry Regulatory Authority) report on both the firm and the broker and maintain documentation of the review. A certification of having read the City's investment policy and receipt of the City's Trading Authorization must be completed by all brokers prior to transacting business. The Brokers Dealers may include "primary" dealers or "secondary" regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule). The Finance Director can assign the responsibility of broker/dealer due diligence process to the Investment Adviser and the Broker/Dealer List will be provided by the Investment Adviser to the investment committee annually.

8.0 Broker Allocation

Investment transactions will be based upon the financial institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc. the Finance Director or the Deputy Director has the authority to waive this. Generally all brokers will not have the same inventory of agency securities available to sell, but should be able to offer comparable alternatives. Banker's acceptances and Certificates of Deposit (other than a compensating balance CD) also require the acquisition of at least three bids, and acceptance of the most attractive rate from among comparable alternatives. Where two or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City. The City's investment adviser that is providing transactional services must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

9.0 Authorized and Suitable Investments

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

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

- Obligations of the U.S. government;
U.S. Treasury Notes, Bonds and Bills
- Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's)

Specific listing:

Federal Home Loan Bank - FHLB Federal

Farm Credit Bank - FFCB

Federal Home Loan Mortgage Corporation - FHLMC

Federal National Mortgage Association - FNMA Federal

Agricultural Mortgage Corporation - FAMC

Tennessee Valley Authority - TVA

* Other issuers may qualify if they meet the above criteria.

- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all the organizations. Banker's Acceptances are considered illiquid as there is no active secondary market for these securities.
- Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)), including the following:
 - Must have the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1.
 - Must be approved by the Investment Committee.
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;
- Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;
- Obligations of the State of Washington or its political sub-divisions with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Obligations of a state other than the State of Washington or its political sub-divisions, with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Repurchase Agreements. The City does not actively invest in repurchase agreements for short term investments. However, if a repurchase agreement is utilized collateralization is required. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. Re-pricing of the collateral should occur daily.

The City chooses to limit the collateral to Treasury and GSE Agency securities only, with a maximum maturity of three years.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

If the City chooses to invest in repurchase agreements, only primary dealers are to be used as counterparties to repurchase agreements, short term credit rating must be the highest credit rating, A-1 or the equivalent and a long term rating of A or the equivalent, the approved Bond Market Association's master repurchase agreement must be executed and on file prior to entering into these transactions and the maximum term for a repurchase agreement shall be limited to 30 days.

10.0 Prohibited Securities

- Mortgage Backed Securities including CMO's are prohibited.
- Derivative Products are prohibited
- The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation of interest rates
- Purchases of any security on negative credit watch are prohibited.
- Purchases in Mutual Funds are prohibited

11.0 Investment Pools

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Kirkland Resolution 3370.

12.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian.

13.0 Diversification

The City will diversify its investments by security type and institution so that reliance on any one issuer or financial institution will not place an undue financial burden on the City. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

The following table provides maximum portfolio and issuer limit guidelines for the eligible securities which shall be complied with at the time of a security purchase, unless an exception waiver is approved by the Investment Committee. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

Investment	Percent of Fund	Percent Per Issuer	Maturity
US Treasury Obligations	100	100	5 Years
US Agency Obligations	100	30	5 Years
Callable Agency Securities	50	30	5 Years
State or Political Subdivision	20	5	5 Years
Certificates of Deposits	10	5	5 years
Bankers Acceptances	5	5	180 days
A-1/P-1 Commercial Paper	5	5	180 days

14.0 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or estimated to cash flow needs, the City will not directly invest in securities maturing more than five (5) years from the date of settlement.

The maximum weighted average maturity (WAM) of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive market exposure. The WAM refers to the final WAM not the effective WAM.

Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

15.0 Internal Control

On an annual basis, the Investment Committee, in conjunction with the State Auditor's Office, will evaluate conformance with the Investment Policy and audit internal controls. The purpose of these examinations shall be to audit the accountability of the City's Investment Portfolio and to verify that Investment Officials have acted in accordance with the investment policies and procedures. Should the Investment Procedures be in conflict with the Investment Policy, the Investment Policy is the final authority.

16.0 External Control

The City will have an external review of the investment policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

17.0 Performance Standards

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

For purposes of this policy, "fair rate of return" will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

In addition, the Investment Core component duration may be tracked against a market index such as the US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio.

18.0 Reporting Requirements

18.1 The Finance Director shall prepare a quarterly and annual investment report summarizing the activity of the investment portfolio as to types of investments, yields, maturities and other related data.

18.2 Monthly reports will be submitted to the Investment Committee that report market value changes and investment income.

18.3 A Compliance report will be provided to the Investment Committee on at least a quarterly basis.

18.4 Additional reporting requirements are outlined in the Investment Procedures.

19.0 Investment Policy Adoption

The City's investment policy shall be adopted by City Council. The policy shall be reviewed annually by the Investment Committee. Any modifications shall be submitted and approved by City Council.

GLOSSARY

BANKERS' ACCEPTANCES (Bas) – Bankers Acceptances are a form of a loan used in import-export financing transactions which becomes negotiable when accepted by a bank. The issuing bank is liable for the payment at its maturity. Terms vary but normally they are under six months and are purchased on a discount basis.

BROKER – A middleman who brings buyers and sellers together and handles their orders generally charging a commission for their services.

CERTIFICATES OF DEPOSIT – Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

COMMERCIAL PAPER - A short – term promissory note issued by a bank holding company, for the purpose of financing current transactions. Issues are sold on a discount basis with maturities up to 270 days.

DELIVERY VS PAYMENT – Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.

DEPOSITORY – A bank or financial institution accepting cash deposits and investments.

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

DURATION - The number of years required to receive the present value of future payments, both of interest and principle, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.

FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL HOME LOAN BANKS (FHLB) - The 12 Federal Home Loan Banks are a system of regional banks from which local lending institutions everywhere in America borrow funds to finance housing, economic development, infrastructure and jobs. About 80 percent of U.S. lending institutions rely on the Federal Home Loan Banks. Because the Federal Home Loan Banks are cooperatives, their low costs are passed on to consumers and communities.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA, or Fannie Mae) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of

Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT SPONSORED ENTERPRISES (GSE's) - A group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSE's operate in.

LIQUIDITY - The length of time required to convert any investment to cash.

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.

MARKET VALUE – The market value of a security is the price at which the last sale of the same issue was sold.

MATURITY – The date upon which the principal or stated value of an investment becomes due.

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

PRINCIPAL – The cost of an instrument on which interest is earned.

REPURCHASE AGREEMENT – Range in maturity from overnight to fixed time to open end. Repo's involve a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest.

SAFEKEEPING – An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

SECONDARY MARKET – A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their state maturity date.

TREASURY BILLS – Short-term marketable securities issued by the U.S. Treasury and secured by the Federal Government and have maximum liquidity.

TREASURY NOTES AND BONDS – These are direct obligations of the U.S. Government

with maturities from one to ten years on the notes and 10 to 30 years on the bonds.

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 called 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.

WEIGHTED AVERAGE MATURITY - The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer a bond is held, the greater the opportunity for interest rates to move up or down and affect the performance of the bonds in the portfolio.

EFFECTIVE WEIGHTED AVERAGE MATURITY - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer.

For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond's maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called.

YIELD – The rate of annual return on an investment expressed as a percentage.