

Port of Port Angeles

Port Angeles, Washington

Commissioners' Resolution No. 10-987

RESOLUTION No. 10-987 of the Port of Port Angeles rescinding Resolution No. 884 and revising the Port of Port Angeles Investment Policy.

WHEREAS, the Commission of the Port of Port Angeles (the Port) has statutory authority to adopt from time to time resolutions authorizing the investment of Port District funds which are not required for immediate expenditures and which are in the custody of the Port Treasurer and to specify, subject to statutory constraints, permitted investment of said funds; and

WHEREAS, the Port Commission has from time to time enacted various resolutions for the purposes and uses aforesaid; and

WHEREAS, the Port Commission deems it advisable to enact a new resolution governing the investment policy with regard to funds of the Port District not needed for immediate expenditure; and

WHEREAS, the Port Commission deems it advisable to rescind the current Port of Port Angeles resolution governing investment policy of such funds, to wit: Resolution No. 884 and to replace the same with a new investment policy as hereinafter set forth;

NOW, THEREFORE, BE IT RESOLVED, that the Port Commission of the Port of Port Angeles hereby rescinds Resolution No. 884 and adopts the following investment policy to govern investment of Port funds not needed for immediate expenditure and authorizes the investment of such funds by the Port Treasurer and Deputy Treasurer in accordance with the terms and provisions of this resolution.

Treasury & Investment Policy

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal and Washington State legal requirements, including Revised Code of Washington (RCW) 53.36, 36.29 and 39.58.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from certain bond issues, may be covered by its bond covenants.

1. Pooling of Funds

The Port will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation

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and in accordance with generally accepted accounting principles and bond covenants.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The Port will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Port will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Port will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools such as the Local Government Investment Pool (LGIP) and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

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3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments 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 security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Port Treasurers acting in accordance with written procedures and this investment policy and exercising due diligence shall 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. *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 and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Port.

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3. *Delegation of Authority*

Authority to manage the investment program is granted to Mr. William James, hereinafter referred to as the Port Treasurer and derived from the following: RCW 53.36.010 and Port Resolution 987. Responsibility for the operation of the investment program is hereby delegated to the Port Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Port Treasurer. The Port Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Deputy Treasurer.

V. **Authorized Financial Institutions, Depositories, and Broker/Dealers**

1. *Authorized Financial Institutions, Depositories, and*

A list (such as the Washington State Public Deposit Protection Commission List of Approved Public Treasurer Deposit Institutions) will be maintained of financial institutions and depositories authorized to provide investment services.

2. *Broker/Dealers*

In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the Port's investment policy.
- Evidence of adequate insurance coverage.

The Port Treasurer will conduct an annual review of the financial condition and registration of all qualified financial institutions and broker/dealers that do business with the Port.

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3. Minority and Community Financial Institutions

From time to time, the Port Treasurer may choose to invest in instruments offered by minority and community financial institutions. The Treasurer and Deputy Treasurer shall make reasonable efforts to see that investments are fairly distributed amongst competing financial institutions offering market rates. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state law.

4. Commercial Bank

The Port Treasurer shall lead the selection of the Port's commercial bank. The Treasurer shall seek bids for commercial banking services every three to five years. The Port Treasurer shall seek bids from qualifying banks that have a branch in Clallam County, Washington.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the Port as evidenced by safekeeping receipts in the Port's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The Port Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Port.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the RCW 39.58 state laws concerning investments, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;

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- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of the State of Washington, as long as these instruments carry one of the two highest ratings of a recognized credit rating agency;
- Investment-grade obligations of taxing districts or government entities within the State of Washington, as long as these instruments carry one of the two highest ratings of a recognized credit rating agency; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

2. *Collateralization*

In accordance with RCW 39.58, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

3. *Repurchase Agreements*

The Port may participate in repurchase agreements provided the securities, which collateralize such repurchase agreements permitted by this policy are included in the list contained in section VII.1. As a matter of policy, the Port must take delivery of the securities purchased through a repurchase agreement if the term of the agreement is greater than 14 days. If the term is less than 14 days, and delivery of securities not taken, the securities must be held in safekeeping by an institution having a written "safekeeping agreement" with the Port which is applicable to securities purchased. Repurchase agreements must be based on the market value, not face value, of the underlying securities. When entering a repurchase agreement where delivery is not required, the Port shall obtain a safekeeping receipt for each specific security purchased. Repurchase agreements involving pooled collateral are not authorized.

VIII. Investment Parameters

1. *Diversification*

It is the policy of the Port to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all Port funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the Port Treasurer for all funds.

Any other provision of this resolution notwithstanding, aggregate total investment portfolio is constrained by the following provisions at the time of purchase:

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- a) No more than 25% of the Port's direct portfolio shall be invested in a single financial institution except as noted in Sections (b) and (c) below;
- b) Investment in the Local Government Investment Pool shall be limited to 50% or less of the total portfolio;
- c) U. S. Treasury securities may compose 80% of the total portfolio and U. S. Government agency securities shall be restricted so that no more than 60 % of total portfolio is invested in any one agency;
- d) Repurchase agreements and commercial paper may not compose more than 10% of the total portfolio;
- e) Certificates of deposit shall also be limited to 50% of net worth of the issuing institution.
- f) The Treasurer shall at all times manage the Port's portfolio in a manner that will assure adequate cash flow to meet all reasonably foreseeable circumstances.

2. *Maximum Maturities*

To the extent possible, the Port shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Port will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) and no more than ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. *Competitive Bids*

In general, the Port Treasurer should attempt to obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

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IX. Establish Minimum Amount of Cash and Investments

The Port has established an approach for determining the minimum amount of cash on hand and investments to meet its financial obligations during a period of severe, adverse operating conditions that would substantially impair its revenue stream. It has based the components of this approach on prudent financial management considerations. This minimum amount also serves to guide the Port as to when it needs to borrow for its capital program. The minimum is a dynamic amount, which changes with its components below:

1. Twelve months of cash operating expenses based on the current year Port budget;
2. Any self-insurance reserves (if applicable); and
3. All bond debt service reserve funds per their bond covenants

X. Reporting

1. Methods

The Port Treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the Port to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Port's Executive Director and the Port Commission. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio, which each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

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3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

XI. **Approval of Investment Policy**

The investment policy shall be formally approved and adopted by the Port Commission and reviewed every three years.

XII. **List of Attachments**

The following documents, as applicable, are attached to this policy:

- Listing of authorized broker/dealers and financial institutions, accordingly.

PASSED and ADOPTED this 22nd day of February, 2010.

PORT OF PORT ANGELES
PORT COMMISSION


George Schoenfeld, President


Jim McEntire, Vice President


John M. Calhoun, Secretary