

# Washington Municipal Treasurers' Association

## *Model Investment Policy*

### 1. Policy

It is the policy of (*the entity*) to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of (*the entity*) and conforming to all state and local statutes governing the investment of public funds.

### 2. Scope

This investment policy applies to all financial assets of (*the entity*). These funds are accounted for in (*the entity's*) **Comprehensive Annual Financial Report** and include (*specifically designate, the following is a sample list*):

*General Fund  
Special Revenue Funds  
Capital Project Funds  
Enterprise Funds  
Trust and Agency Funds  
Retirement/Pension Funds  
Any new fund created by the legislative body, unless specifically exempted*

### 3. Prudence

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.

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. Investment officers acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

### 4. Objective

The primary objectives, in priority order, of (*the entity's*) investment activities shall be:

- **Safety:** Safety of the principal is the foremost objective of the investment program. Investments of (*the entity*) shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- **Liquidity:** (*The entity's*) investment portfolio will remain sufficiently liquid to enable (*the entity*) to meet all operating requirements that might be reasonably anticipated.
- **Return on Investment:** (*The entity's*) investment portfolio shall be designed

with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account (*the entity's*) investment risk constraints and the cash flow characteristics of the portfolio.

## **5. Delegation of Authority**

Authority to manage (*the entity's*) investment program is derived from the following: (e.g., *policy adopted by the County Treasurer, ordinances, resolution statutes, etc.*). Management responsibility for the investment program is hereby delegated to (*the designated official*), who shall establish written procedures for the operation of the investment program consistent with this investment policy.

Procedures should include reference to: safekeeping, PSA master repurchase agreements, wire transfer agreements, custody agreements and investment related banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by (*the designated official*). (*The designated official*) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **6. 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 (*County Treasurer, chief executive officer,*

*city administrator, etc.*) 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 entity's*) portfolio. Employees and officers shall subordinate their personal investment transactions to those of (*the entity*), particularly with regard to the timing of purchases and sales.

## **7. Authorized Financial Dealers and Institutions**

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposits shall be made except in qualified public depositories as provided in Chapter 39.58 RCW.

All brokers/dealers and financial institutions who desire to do business with (*the entity*) must supply the Treasurer with the following: (e.g., annual audited financial statements, quarterly financial statements, proof of National Association of Securities Dealers certification, certification of having read the entity's investment policy). The Treasurer will conduct an annual review of the financial condition of firms. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom (*the entity*) invests.

## **8. Authorized and Suitable Investments**

(*The entity*) is empowered to invest in the following types of securities.

*(List types of investments authorized by approving authority; cite appropriate RCW. Consider appending copies of these specific statutes to the investment policy.)*

### **8.1 Master Repurchase Agreement**

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

## **9. Collateralization**

Collateralization is required on repurchase agreements. 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.

*(The entity)* chooses to limit collateral to the following:

*List the securities that are acceptable as collateral.*

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.

The right of substitution is granted.

## **10. Safekeeping and Custody**

All security transactions, including collateral for repurchase agreements, entered into by *(the entity)* shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities purchased by the entity will be delivered against payment and held in a custodial safekeeping account. The Treasurer will designate a third party custodian and safe-

keeping receipts will evidence all transactions.

## **11. Diversification**

*(The entity)* will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than *(show as a percentage, e.g., 50%)* of the entity's total investment portfolio will be invested in a single security type or with a single financial institution.

## **12. Maximum Maturities**

To the extent possible, *(the entity)* will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, *(the entity)* will not directly invest in securities maturing more than (\_\_\_\_) years from the date of purchase. However, *(the entity)* may collateralize repurchase agreements using longer-dated investments not to exceed ( ) years to maturity.

Reserve funds may be invested in securities exceeding (\_\_\_\_) years if the maturity of such investments are made to coincide as nearly as practical with the expected use of the funds.

## **13. Internal Controls**

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## **14. Performance Standards**

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs.

*(The entities) investment strategy is (passive or active). Given this strategy, the basis used by the Treasurer to determine performance levels will be (a defined benchmark). For example, the six-month Treasury bill and the average Fed Funds rate.*

## **15. Reporting**

The Treasurer shall provide *(the governing body)* consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. Quarterly reports will include:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.

## **16. Investment Policy Adoption**

*(The entity's) investment policy shall be adopted by resolution of the entity's statutory governing body (i.e., City council, County Finance Committee, etc.). The policy shall be reviewed on an annual basis by the approving authority and the same authority must approve any modifications.*