FINANCIAL MANAGEMENT GUIDELINES

2024

Endorsed by Bellingham City Council, Resolution #2024-08

Contents

Financial Management Guidelines

Purpose and Background

The stewardship of public funds is one of the primary responsibilities given to elected officials of the City of Bellingham. Strong financial policies enable City officials to manage the City's financial resources in a prudent manner that meets current obligations and plans for future needs. This document outlines financial policies, which provide a framework for fiscal management decisions. Current policies cannot encompass or anticipate all financial decisions and it is intended these policies be applied broadly and be flexible to meet specific circumstances as needed.

Financial Philosophy

The City's financial goal is to maintain a strong financial condition that provides the necessary resources to:

- Sustain essential services;
- Ensure the timely payment of all fiscal obligations;
- Withstand economic downturns;
- Pay for unanticipated emergencies; and
- Meet all debt covenants.

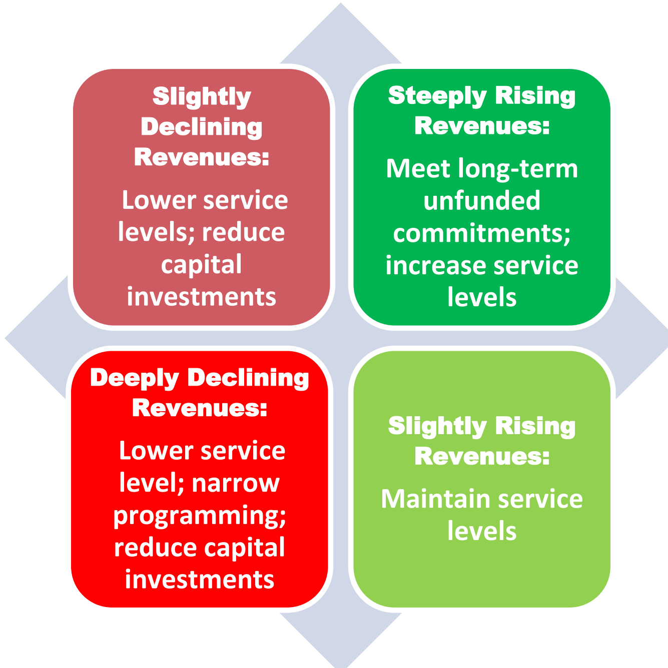
Financial Management Priorities

The City of Bellingham will allocate its resources consistent with the following services priorities:

Priority 1	Ensure public safety. Meet all legal and mandated obligations.
Priority 2	Provide general city governance. Maintain the existing infrastructure of the City. Operate City-owned or operated amenities and programs.
Priority 3	Replace existing City-owned real assets and equipment.
Priority 4	Invest in new assets, amenities, and/or programs to advance policy goals.

City Management Guidelines

The City of Bellingham strives to provide a balance of services to promote a high quality of life for residents through ethical and equitable provision of services. While recognizing the importance of all programs to promote this goal, it is understood that the City's ability to provide services can vary according to shifts in the economy. During periods of flat or declining revenues, the City will strive to meet obligations listed as higher priorities. During periods of increasing revenues, the City will work to establish financial strength for future periods before focusing on the enhancement of program areas.



All City decisions should reflect both immediate and long-term costs, including ongoing operational costs. The City will seek, promote, and support intergovernmental and public/private partnerships looking to leverage local community investments with contributions from federal, state, and private sources.

General Budget Policies

The City of Bellingham budgets annually. The budget process is governed, and its policies superseded by the Revised Code of Washington (RCW) 35.34. The Budget Policy is attached as Addendum C.

Revenue Guidelines

The City must balance present and future needs for services with the City's ability to raise fees, charges, and taxes to support those services.

Mix of Revenues

The City shall strive to maintain a diverse mix of revenues and balance the sources of revenue among taxpayers to provide ongoing stability and predictability. The City's overall revenue structure should be designed to accrue to the City some of the financial benefits resulting from the City’s economic and community development investments while striving to avoid regressive application.

Charges for Services

Charges for services benefiting specific users should be established at a rate that recovers full costs, including all direct, and capital costs. Departments imposing fees or service charges should prepare and periodically update cost-of-service studies for such services. A subsidy of the costs for such services may be considered when the Council determines it is in the public interest. Any subsidy of service costs shall be specifically identified to Council prior to presentation for approval of fees or service charges.

One-Time Revenues

The City will not use revenues received that are one-time or available only for a limited time to fund ongoing operational costs. When considering the use of new revenues for funding ongoing employment costs, staff will ensure that the source of revenue is available for at least three years.

Grant Agreements

Prior to application and again prior to acceptance, grant agreements will be reviewed by the appropriate Finance Department staff to ensure matching requirements are reasonable and attainable and compliance with regulatory requirements is possible.

Operating Expenditure Guidelines

Approvals of Expenditures

Prior to any expenditures, the City requires that appropriate approvals are made, all state and City purchasing requirements are met, and budget appropriations exist. Any expenditure made without authorized budget authority and appropriate approval cannot be paid. Any such expenditure *may* cause the claim for payment to be the personal obligation of the individual implicitly or explicitly providing the payment approval. In the event of a declared emergency, approval procedures may be temporarily waived or modified.

Public Stewardship

In all operating expenditures the City will strive to balance prudent decision making with fair market considerations to receive optimal value for the funds being expended. Purchases should be made in a cost-effective manner but should also reflect the City's stated goal of achieving "triple bottom line" returns as reflected through the filter of financial, social, and environmental measurements of performance.

Financial Planning & Forecasting Guidelines

The City maintains a financial forecast of revenues, reserves, and expenditures for five years beyond the current budget. This forecast is updated semi-annually providing the City's policymakers with an indication of the long-term fiscal impact of current policies and budget decisions. The City will regularly test both its planning and forecasting methodology and use planning and forecasting tools to provide information that is timely and accurate.

Reserve Policies

The City will maintain sufficient reserves to meet the following needs:

- Provide adequate liquidity;
- Provide for unanticipated economic downturns;
- Maintain credit ratings;
- Provide for services and costs during a declared emergency;
- Provide for long-term capital needs; and
- Meet mandated reserve requirements.

The City has specific reserve requirements for most funds. These detailed requirements can be reviewed in the table attached as Addendum A.

The City defines budgetary reserves as the difference between short-term assets that can reasonably be expected to be available for use within the year or shortly thereafter and liabilities that were incurred during the period and due as of year-end.

Fund reserves shall be used to help financially manage the various services provided by the fund. The City prohibits the transfer of funds from one reserve fund to another unless allowed by state law, accepted accounting practices, and authorized by Council.

The budget may use economic reserves to balance a fund. When the budget uses economic reserves, the Finance Director shall provide Council a plan for balancing the budget without the future use of economic reserves and for the replenishment of reserves to the minimum reserves within three years.

If fund reserves are projected to fall below its minimum reserve at year-end, the Finance Director shall present to Council a financial plan to restore the fund reserve balance to the minimum standard within the shortest period feasible or in no case longer than three budget years.

Fund reserves in excess of emergency and economic reserve targets are “undesignated reserves”. The budget can use undesignated reserves as one-time revenues as allowed by accounting standards and state law.

Investment & Debt Policies

Asset Preservation

Preservation and safety of assets is a higher priority than return on investments. Therefore, the City will seek a reasonable return on its investments while also preserving the original capital investment. For more information regarding investments please see the City’s Investment Policy, Addendum D.

Interfund Loans

With Council approval the City will use interfund loans when possible to provide cash flow coverage. Interfund loans shall conform to the interfund loan policy.

Debt Issuance

The City strives to maintain a strong bond rating by monitoring and improving its financial stability. The current established bond rating measurement shall be the bond rating assigned to the City by either Moody’s Investor Services or Standard and Poor’s Rating Service. Before debt is issued consideration will be given to:

- Whether a sufficient revenue stream is available to repay the debt;
- Alternate methods of financing; and
- Whether it would be cost effective to delay issuing debt.

For more information regarding the management of City issued debt please see the attached Debt Policy, Addendum B.

Capital Investment Policy

Relationship to Long-Range Plans

Capital projects will typically be based on City Council approved long-range plans, including the City’s Legacies and Strategic Commitments, Capital Facilities portion of the Comprehensive Plan, the Transportation Improvement Program, and/or other supporting plans or studies. Each project will be evaluated based on its relative contribution to meeting the stated goals and objectives of these studies.

Types of Projects Included in the Capital Investment Program

To be included within the Capital Investment Program, a project must meet the following criteria:

> Involve design, physical construction, reconstruction, repair or replacement of a major component of City infrastructure, or acquisition of land or structures;
>
> AND
>
> Have an existing preliminarily scoping for cost which exceeds $250,000;
>
> OR
>
> Use Real Estate Excise Tax or Park Impact Fees as a funding source.

Project Tracking

Each Capital Project is required to be tracked with a job cost project number.

Budget

When possible, capital projects should be budgeted with projected annual spending. Unspent funds when the project is completed or abandoned shall lapse.

Calculation of Operating Impact

Any future operating and maintenance cost impacts of new capital assets and facilities will be calculated and considered prior to the authorization of the project.

Accounting, Audit, and Financial Reporting Policies

Budget Monitoring

The Finance Department will maintain a system for monitoring the City's budget performance. At least quarterly, the Finance Director will provide the Mayor and Council a financial report showing the relation between the estimated income and expenses and actual income and expenses to date. The Finance Department will make available monthly reports for Department Heads and staff. The Department Heads will have primary responsibility for ensuring that their departments and/or funds stay within their annual adopted budget.

ADDENDUM A: Fund Minimum Reserve Table

Reserve balances are an approximate measure of liquidity in any given fund. The Finance Department projects reserve balances for subsequent years during the budget process. Once the fiscal year is completed, reserves are calculated based on actual expenses. At the beginning of each year, the City Council adopts those actual reserves into the revised budget.

The Finance Department calculates reserves by establishing the actual cash balance at fiscal year-end, adding in receivables that are known and reasonably expected to be collected in a relatively short period of time, and removing known expenses related to the previous year that have not yet impacted cash (for example, the final pay period of the year is accrued in one year and paid out in the next year).

Funds not listed in the table below do not have target reserves but must maintain sufficient reserves to ensure cashflow of any operations budgeted in the fund.

General Fund

Due to its unique nature as the City's most flexible and critical fund, the City has established more specific fund reserve targets for the General Fund.

The General Fund reserve has two specific purposes, each with a required floor and an optimal target, stated as a percent of annual budgeted ongoing operating expenditures:

1. Emergency Reserve – 15% floor; 18% target.
    - This reserve ensures adequate liquidity and provides a measure of insurance against a major disaster. Fifteen percent equates to approximately eight weeks of operations. This reserve may only be accessed in times of critical emergency as determined by the City Council.
2. Economic Reserve – 5% floor; 10% target.
    - This reserve is intended to mitigate economic downturns and allow the City to maintain levels of service longer when revenues are diminishing. This reserve may be accessed when revenues are short of projections or when revenues are projected to fall as determined by the City Council.

In the case that the reserve total is less than the 28% cumulative target above, reserve accumulation will be prioritized as follows:

1. Emergency Reserve floor
2. Economic Reserve floor
3. Emergency Reserve target
4. Economic Reserve target

The City will seek to accumulate additional reserves for known significant, future one-time expenses. The budget may include those reserves for use as one-time revenues.

Other Funds

Certain other funds shall also maintain reserves consistent with the reserves section found in the City's Financial Management Guidelines as specified below:

Fund Type/Name	Reserve Minimum
100 Special Revenue Funds (HUD Funds Excluded)	10% of budgeted operating expenditures
200 Debt Funds	None, except for sinking funds: contributions will establish the appropriate reserve to repay the debt when needed
400 Enterprise Funds	10% of current year budgeted Operating Expenditures plus 5% of total budgeted five-year capital plan, except as noted below
400 Enterprise Funds with Revenue Debt Outstanding	Maintain 1.7x debt service coverage and combined 270 days of operations coverage
500 Internal Service Funds	10% of budgeted operating expenditures
510 Fleet Fund & 541 Computer Infrastructure Replacement Fund	10% of current year budgeted Operating Expenditures plus 20% of five-year replacement budget
550 Claims and Litigation Fund	$6 million
561 Unemployment Fund	100% of budget year expected claims
562 Worker’s Compensation Self-Insurance Fund	$1,000,000
565 Health Benefits Fund	16 weeks of projected claims
700 Permanent Funds	Full initial principal

ADDENDUM B: City of Bellingham Debt Policy

Background

The City of Bellingham maintains conservative financial policies to assure strong financial health both in the short and long term. The City recognizes the importance of debt management as a tool to finance large capital investments such as property acquisitions and the construction of new and replacement infrastructure.

Maintaining the City's capacity to access long-term financing is an important objective of the City's financial policies. The City is committed to having strong financial policies, accounting controls, detailed budgets, and on-going forecasts. Together, these tools provide for prudent management of the City's finances and provide for its financial health.

Purpose

This policy sets forth the criteria for issuance and repayment of debt. The primary objective of the Debt Policy is to establish criteria that will protect the City's financial integrity while providing a funding mechanism to meet the City's capital needs. The underlying approach of the City is to borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. The City will not issue long-term debt to finance current operations.

All debt issued will be in compliance with this policy, the City of Bellingham Municipal Code, Title 35 and 39 of the Revised Code of Washington (RCW), as well as all applicable City, State, and Federal laws, rules, and regulations.

Scope

This Policy provides general guidance for the issuance and management of all City debt as well as any debt issued by component units guaranteed by the City. In addition, it includes the management of all debt absorbed by the City through any annexation agreement or contractual obligation with another government.

Responsibility

Authority to issue debt is solely authorized through a legislative action of the City Council. The Council provides for administrative management and payment of all debt obligations through the Finance Department and has authorized the Finance Director in the capacity of City Treasurer to administer these duties.

This section also authorizes the Finance Director to appoint a subordinate employee from the Department to assist in the performance of the duties of City Treasurer. The Finance Director has appointed the Deputy Finance Director to assist in the duties of debt issuance, interest payments, principal repayments, and other debt-related activities.

The Finance Director is responsible for ensuring that all reporting requirements have been met and that debt management procedures are in place.

The Finance office shall also be responsible for monitoring external circumstances and situations that may affect the City's overall debt capacity and external bond rating. The Finance Director shall have primary responsibility for maintaining relationships with all contracted service providers that assist with debt issuance and management. These may include:

- Bond counsel
- Financial Advisors
- Debt Underwriters
- Bond Rating agencies
- Bond issuers
- Fiscal agents

Financial Communication and Reporting

The Finance Director shall also be designated as the primary contact within the City for purposes of speaking on behalf of the City regarding any debt issuance. The City is committed to providing accurate and timely information as part of its debt obligations. All pertinent financial and budget documents will be posted promptly on the City's website.

As part of the City's investor relations program the City has also committed to filing all financial documents required under disclosure requirements for each bond issue through the Electronic Municipal Marketing Access (EMMA) system which has been established by the Municipal Securities Rulemaking Board.

Each bond issue will have its own continuing disclosure requirements; however, there are two general types. The first provides information about the City's financial and operating state, and the second provides notification of certain events that could impact repayment of a bond. SEC Rule 15c2-12 governs continuing disclosure (Link to summary PDF).

Budgeting and Capital Planning within Financial Management

The City shall develop and maintain a capital planning process such as the Capital Investment Program for consideration and adoption by the City Council as part of the City's budget process. The Finance Department is responsible for coordinating and analyzing the debt requirements. This will include timing of debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens and current revenue requirements.

Prior to issuance of debt, the City will prepare revenue projections to ensure that there is adequate revenue over the life of the debt issuance to make principal and interest payments.

Types of Long-Term Debt

There are four types of long-term debt the City may issue:

1. General Obligation Debt

This debt is backed by the full faith and credit of the City. The State RCW limits this debt to 2.5% of the assessed valuation of the City. General obligation debt has a pledge of the City's taxing authority and debt issued in this category can be used for any purpose allowed by law.

Non-Voted (also called Councilmanic)

The City Council may authorize the issuance of general obligation debt up to 1.5% of the City's assessed value without a vote of the public if there is an available source of funding to pay the debt service.

The funding source for repayment can be the diversion of an existing revenue source or new revenue coming from the enactment of a new tax or other revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

Voted

The City Council may place any general obligation debt issue before the electorate. According to State law, if a debt issue is placed before the City's electorate, it must be approved by at least 60% of the votes cast and have a turnout of at least 40% of those voting at the previous general election. Voted issues are limited to capital purposes only. Voted General Obligation Debt is limited to 1% of the City's assessed valuation.

Open Space and Parks

Debt issued in this category must be used for park and open space and/or recreation facilities. All debt in this category must be approved by the voters and is subject to a statutory limit of 2.5% of City assessed valuation.

Utilities

Debt issued in this category must be used for utility infrastructure. All debt in this category must be approved by the voters and is subject to a statutory limit of 2.5% of City assessed valuation.

2. Revenue Debt

   Revenue bonds are generally payable from a designated source of revenue generated by the project that was financed. No taxing power or general fund pledge is provided as security. Unlike General Obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required. The City's general goal is to maintain net annual revenues available for debt services that is sufficient to cover current year revenue debt principal and interest payments by a coverage ratio of at least 1.7 times annual revenue debt service.

3. Local Improvement District (LID) Debt

   LID bonds are payable solely from assessments of property owners within the local improvement district. Similar to revenue debt, no taxing power or general fund pledge is provided as security, and LID bonds are not subject to statutory debt limitations.

   The debt is backed by the value of the property within the district and a LID Guaranty Fund. The LID Guaranty Fund is required by State law.

4. Short-Term Debt and Interim Financing

   The City may use short-term borrowing in anticipation of long-term bond issuance or to fund cash flow needs in anticipation of tax or other revenue sources. Under no circumstances is the City to utilize short-term derivative contracts to provide "hedging" of interest costs for longer term debt.

   With City Council approval the Finance Director may make loans from one City fund to another City fund to provide cash flow coverage. Longer term uses will be allowed on a case-by-case basis. The Finance Director or designee is required to ensure that the loaning fund will have adequate cash balances to continue to meet current expenses after the loan is made and until repayment from the receiving fund. Any interim financing using an interfund loan shall be assessed interest at an interest rate that is equal to the average monthly interest earning rate of the entire investment portfolio.

Limitation of Indebtedness

In addition to the limitations required by the RCW, the City's indebtedness is further limited by this policy to ensure strong financial health. The limitations are applied to the assessed value of the City to arrive at a dollar value of indebtedness. The following matrix shows the general limitation by type of debt. These limitations may be modified by the City Council, up to the statutory limitation, at the Council's discretion.

Type of Debt	Statutory limitation	Policy limitation
General Obligation (Total limit)	2.5%	2.0%
Non-Voted	1.5%	1.0%
Voted	1.0%	1.0%
Open Space and Parks (Voted)	2.5%	1.5%
Utilities (Voted)	2.5%	1.5%
Revenue	No limit	Maintain Rev. bond rating
Local Improvement District	No limit	Property value within LID

Structure and Term of Debt

Debt Repayment

The City shall contract with the fiscal agent selected by the Washington State Treasurer's Office for management of the payment of debt service on all outstanding bond issues.

The City shall pay all interest and repay all debt in accordance with the terms of the bond ordinance. The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued.

The City shall strive to issue debt in a manner that does not jeopardize the financing of current period operating costs and maintains the City's reserve balances. No debt should be issued without a financial analysis provided to Council of the source of repayment for such debt.

The Finance Director shall strive to create a debt service repayment schedule that provides for level or declining debt repayment schedules. As the debt manager, the Finance Director shall prepare an annual report to the City Council describing all existing debt issues with summary descriptions of debt repayment schedules and the debt capacity of the City.

Variable-Rate Securities

When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. However, the City will avoid overuse of variable-rate debt due to the potential volatility of such instruments. No variable rate debt shall be issued without a clear analysis of the risks factors that are implicit in variable rate securities.

Professional Services

The City's Finance Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program. Any professional services supplied shall be an appropriate service contract. All service contracts should be authorized only after a formal request for services has been issued and a formal selection process completed.

Bond Counsel

All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.

Financial Advisor

At the discretion of the Finance Director, Financial Advisor(s) may be used to assist in the issuance of the City's debt. The Financial Advisor could provide the City with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt and preparing official statements of disclosure.

Underwriters

An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing the debt and reselling the debt to investors.

The services of a Financial Advisor and Underwriter may be combined when, in the opinion of the Finance Director, the overall costs of the issuance of debt is likely to be lower and there is no actual or perceived conflict of interest.

Fiscal Agent

A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.

Method of Sale

Capital will be raised at the lowest possible net cost, balancing the terms and conditions of the financing with the interest rate charged, the issuance costs and the timing of the issuance relative to the marketplace.

The City will generally issue its debt through a competitive process but may use a negotiated process under the following conditions.

- The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing;
- At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile;
- The nature of the debt is unique and requires particular skills from the underwriter(s) involved; and/or

- The debt issued is bound by a compressed timeline due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

The Finance Director shall determine if any said conditions exist.

Credit Ratings

The City will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the City's general financial condition, coordinating meetings and presentations in conjunction with a new issuance. The City will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts, and the financial health of the City.

Should the City's existing bond rating be at risk of a downgrade by one of the three major bond rating agencies, the Mayor will immediately work with the Finance Director, to develop a plan to address the specific issues raised by the rating agency in an attempt to forestall any such downgrade.

Credit enhancements may be used to improve or establish a credit rating on a City debt obligation. Credit enhancements should only be used if cost effective.

Refunding Debt

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, a debt refunding will require a net present value savings of at least three percent of the principal amount of the refunding debt being issued.

Spending and Investing Bond Proceeds

The City is committed to meeting all debt covenants as stated within bond documents, contracts, and ordinances.

The City will invest and spend bond proceeds within the established criteria presented within the bond ordinance, contract, or other documents. The City shall endeavor to use its best efforts to avoid the rebate of earned arbitrage to the Federal Government. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation.

For each bond issue, the recordkeeping shall include:

- Tracking the use of bond proceeds,
- The maintenance of a bond debt service fund (if required),
- The investment earnings attributable to bond proceeds, and
- Calculating any arbitrage rebate payments and remittance of any rebatable earnings to the federal government in a timely manner to preserve the tax-exempt status of the outstanding debt.

ADDENDUM C: Budget Policy

Policy Conditions

1. State RCW and City Charter and Ordinances regulate and direct the process for amending the budget.
2. Development and amendment of the budget is governed by RCW Chapter: 35.33.
3. Ordinance 8778 (1977) requires a majority vote by the City Council to transfer funds between departments within the general fund.
4. Exceptions for emergency appropriations are provided for in RCW 35.33.081, RCW 35.33.091, and City Charter Section 3.05.

General Budget Polices

The City will maintain a structurally balanced budget consistent with the priorities established by the Mayor and City Council and follow the following principles:

- Reoccurring expenditures should not exceed reoccurring revenues.
- One-time revenues should be added to reserves or used for one-time expenses.
- If reoccurring expenditures are projected to exceed reoccurring revenues, the Finance Department must develop and include in the budget document a discussion of the City's plan to rebalance ongoing expenditures.
  Department budgets should reflect the full cost of providing services by using a standard allocation formula. General Fund department costs that would be attributable to other General Fund department services are exempt from this requirement.

Budget Development

The Finance Department is responsible for managing the budget development process and shall be consistent with RCW 35.33 and existing budget procedures. The budget process will include the following steps:

1. The Finance Department develops base budgets and initial revenue forecasts.
2. The Mayor, with input from Council, provides broad guidance to staff for development of the preliminary budget.
3. Departments provide requested budget changes to Finance Department.
4. The Finance Department compiles the requested budget changes and provides the Mayor a full analysis of the requests.
5. The Finance Department and Mayor (or designee) work with departments to develop the Preliminary Budget.
6. The Mayor transmits the Preliminary Budget to the City Council no later than October 1st. The budget will include estimated beginning reserves and revenues and proposed expenditures for each fund as well as proposed expenditures for all departments in the General Fund.
7. The Finance Department prepares two public hearings for the budget and one public hearing on the revenue forecast, and accompanying public notice, to take place after the Mayor has transmitted the budget to the City Council and before the City Council is scheduled to have the first reading of the budget ordinance.

8. Citywide Operating and Capital Budgets are adopted by the City Council no later than December 31st.

Budget Control

The City Council adopts budgets at the fund level and department level within the general fund. Departments have the discretion and responsibility to spend within those budget levels.

Budget Monitoring

Department Heads are responsible for managing and monitoring their departmental budget. The Finance Department assists department staff in identifying budget errors or overages, formulating solutions and alternatives, and implementing necessary corrective actions.

Budget Reappropriation and Actual Reserve Reconciliation

After the closure of the previous fiscal year, the Finance Department will prepare an ordinance adopting actual beginning reserves for all funds to replace those estimated in the adopted budget and reappropriating budget authority under contract or otherwise needed for ongoing operations or capital projects.

Budget Modification

Budget Ordinances

Budget ordinances are required to modify the budget to:

1. Increase or decrease existing appropriations of a fund or department (RCW 35.33.121).
2. Transfer appropriations between funds (RCW 35.33.121) and transfer appropriations between departments within the general fund (City Ord. 8778).

All budget ordinances are prepared by the Finance Department. Departments may request budget amendment ordinances from the Finance Department as needed. The Finance Department, through consultation with the requesting department and the Mayor's Office, will determine if and when to bring forward a budget ordinance.

Budget Transfers

Budget transfers may be used to transfer appropriations within the same fund or within individual general fund departments.

1. Budget transfers must be approved by the Finance Director or their designee.
2. Budget transfers may be prepared by impacted departments or by Finance Department staff.

Exceptions

Neither a budget transfer order nor a budget ordinance are required for receiving bond funds during the fiscal year, after the passage of a bond ordinance. (City Attorney opinion 6/9/1977).

Position Control

The Finance Department will maintain a list of all approved Full-Time Equivalent (FTE) positions by fund and department. Departments may not exceed their authorized FTE count except as noted below.

Position Changes

An ordinance is required to change budgeted positions, wages, hours, and conditions of employment, this includes:

1. Increase or decrease in FTEs (including fractions of FTEs) and/or associated salary appropriation;
2. Change to a different department;
3. Change to a different bargaining unit; and/or
4. Change in job classification.

Changes in job classification or bargaining unit that do not require additional appropriation may be grouped together in one or more batch ordinances that correct the budgeted positions for the year.

Exceptions

The following exceptions are allowed without an ordinance, provided the department or fund has sufficient appropriation authority. Each instance of exception must be approved by Finance Department and Human Resources position control.

1. Two individuals may share a single authorized FTE position for less than six months to provide:
    - Training of the new individual by the incumbent; or
    - Backfilling an FMLA absence by the incumbent.
2. Job sharing in compliance with established collective bargaining agreements.
3. Public safety departments may hire training pool employees without an authorized FTE position, provided the individual transitions into an authorized FTE position within 12 months of hiring. If no position becomes available within 12 months, the individual's employment must be terminated.

ADDENDUM D: Investment Policy

Contents

Purpose

The purpose of this policy is:

- To establish investment objectives and parameters necessary to safeguard public funds entrusted to the City of Bellingham;
- To articulate the City Council's intent for the governance of City investments;
- To communicate clear policy and strategy guidelines to staff involved with City investment activity; and
- Demonstrate to residents, taxpayers, and voters a transparent and accountable investment plan.

Policy

It is the policy of the City of Bellingham (City) to invest public funds to provide maximum security and liquidity needs, while conforming to all state and local statutes governing the investment of public funds and seeking to maximizing return through budgetary and economic cycles. All investment activity will be in compliance with RCW 35.39 and RCW

39.59: Fiscal-Investment of funds and any other statutes or regulatory requirements which may apply.

Scope

This investment policy applies to all financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Public Facilities District Funds
- Internal Service Funds
- Debt Service Funds (Unless prohibited by Bond indentures)
- Pension Funds
- Any new fund created by the City Council, unless specifically exempted

Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

Except for funds in certain restricted and special funds, the City pools its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Pooled investment income is apportioned for the benefit of the various participating funds or for the benefit of the general fund (RCW 35.39.034).

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 Investor Standard**" which, as enacted by State Statute (RCW 11.100.020), states:

1. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
2. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

In determining whether an Investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment, and, whether the investment decision was consistent with the written investment policy of the entity.

Objectives

The primary objectives, in priority order, of the City's investment activities shall be:

Safety

Safety of principal is the foremost objective. Investments 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 portfolio will remain sufficiently liquid to enable the City to meet all cash requirements that might reasonably be 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).

Return on Investment

The Investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs. Return on investments 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 rate of 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 the loss of principal.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

Authority to Invest

All investments shall be managed in a manner responsive to the public trust, consistent with state statutes (Revised Code of Washington (RCW). Authority to manage the City's investment program is derived from RCW section 35.39.032.

Delegation of Authority

A. Per RCW 35.39.032, the City's legislative body, while retaining ultimate fiduciary responsibility for the investments, authorizes the Finance Director to determine the amount of money available in each fund for investment purposes and make the investments authorized herein, based on liquidity and cash flow requirements of the City. In addition, the Finance Director shall establish written procedures and internal controls for the operation of the investment program consistent with the investment policy.

B. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken.

Contracted Management

The City may contract for professional services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives and will be held to the prudent investor standard of care (RCW 11.100.020).

Training

Such procedures shall include explicit delegation of authority to persons responsible for investment transactions to provide adequate redundancy by properly trained and informed staff. All staff engaging in investment transactions shall attend public investment training, which may include staff training by a qualified Finance Director. Staff shall not engage in any allowable investment transaction for which they cannot articulate a rationale for having done so.

Ethics and Conflicts of Interest

Investment officials will recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

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. Investment officials shall disclose to the Finance Director any material financial interests in financial institutions that conduct business with the City, and they will further disclose any personal financial or investment positions that could be related to the performance of the City portfolio, particularly with regard to the timing of purchases and sales.

Authorized Financial Dealers and Institutions

The Finance Director will limit banking transactions to designated banking relationships and will refer to the financial institutions list provided by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds (RCW 39.58).

The Finance Director 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).

As required by state law, certificates of deposit will be purchased only from those institutions approved by the Washington PDPC. The Finance Director will confirm eligibility of each institution by utilizing the online approved depositary list provided by the PDPC.

The maximum amount placed with any one depositary will not exceed the net worth of the institution as determined by the PDPC.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Finance Director on a routine basis. All brokers/dealers and financial institutions who desire to do business with the City must supply the Finance Director with the following:

1. Annual audited financial statements.
2. Proof of Financial Industry Regulatory Authority (FINRA) certification.
3. Proof of registration with the State of Washington.
4. A completed Broker/Dealer questionnaire and a certification of having read the City of Bellingham's Investment Policy.

The Finance Director will conduct an annual review of the financial condition of the firms. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the City invests.

Authorized Investments

The City of Bellingham is empowered by RCW 35.39, 39.58, 39.59, 39.60, and 43.25 to invest in the following types of securities:

The primary investment instruments expected to be used in the City of Bellingham's Investment Portfolio are:

- U.S. Treasury Obligations.

- U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's) which may include, but are not limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Government, National Mortgage Association (GNMA), Student Loan Marketing Corporation (SLMA), Tennessee Valley Authority (TVA).

- Washington State Local Government Investment Pool (LGIP). The City of Bellingham's Finance Director will keep on file the most recent LGIP Investment Policy and operations manual, which will include the following: a description of eligible securities; how interest and fees are calculated; how gains and losses are calculated; a description of how the securities are safeguarded, how often the securities are priced, and how often the program is audited; deposit and withdrawal restrictions; and information regarding how bond proceeds are accounted for in the LGIP.

The following secondary investment instruments are not expected to be routinely used in the City of Bellingham's Investment Portfolio but are also authorized by State Statute and should be disclosed and explained on monthly reporting:

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency (A or better by S&P or A3 or better by Moody's).

- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency (A or better by S&P or A3 or better by Moody's).

- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58 and in accordance with the restrictions therein.

Prohibited Investments

Equities (stocks), Collateralized mortgage obligations, Money market mutual funds, Inverse Floaters, Negotiable Certificates of Deposit, Repurchase and Reverse Repurchase Agreements, Supranationals, Commercial Paper, Corporate Notes and Cryptocurrency are not authorized.

Any investment type not expressly permitted in this policy is ineligible.

Safekeeping And Custody

Security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by third-party custodian designated by the Finance Director, or his/her designee, and evidenced by safekeeping reports which will be reconciled monthly to the portfolio. Third-party custodial reports shall be required monthly, to list, at a minimum, each individual security, CUSIP, purchase date, cost, market value, par value, and maturity date.

Diversification And Limitations

It is the policy of City of Bellingham to diversify its investment portfolio. 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 shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be determined and revised periodically by the Finance Director for all funds.

The credit portion of the portfolio must be diversified by sector and industry. The ratings and credit quality of the issuers must be monitored at least quarterly.

Maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained. In establishing specific diversification strategies, the following constraints shall apply:

Investment Type	Max. % of Portfolio at purchase	Max % per Issuer Restrictions
U.S. Treasuries	100%	
Local Government Investment Pool		
U.S. agencies, instrumentalities, or government-sponsored enterprises	100%	50%
Certificates of Deposit (CDs) from PDPC approved financial institutions	20%	10% or WA proportional net worth
Bonds of State of Washington or any local government in the State of Washington	15%	10%
Bonds of other states or local governments of a state other than the State of Washington	10%	5%

Strategy

Investment holdings will not be actively traded. Investments purchased with the intent of providing investment income shall be intended to be held to maturity. Securities may be sold before they mature if market conditions present an opportunity for the City to capture a benefit or to avoid a risk.

The City of Bellingham will seek to stagger maturities and build a laddered maturity schedule as a component of a diversified investment strategy, employed to minimize reinvestment risk due to rate fluctuations. Adjustments to the schedule should be made to accommodate specific cash flow requirements.

Maturities

A portion of the portfolio shall be continuously invested in readily available funds such as the Local Government Investment Pool, or money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

20% of the portfolio, at the time of investment, will be comprised of investments maturing within a year. The remaining funds may be invested in authorized securities not to exceed five years in maturity, except when compatible with a specific fund’s investment needs.

To ensure additional liquidity and provide for ongoing market opportunity the weighted average maturity and modified duration of the overall portfolio shall not exceed three years without the prior approval of the City Council.

Internal Control

The Office of the State Auditor requires that in accordance with Revised Code of Washington 43.09.260, the City of Bellingham must undergo annual financial examinations performed by State Examiners. Investment management is to be included as part of the annual independent audit to assure compliance with this investment policy.

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft, or misuse. The Finance Director shall establish a process of periodic independent review by an external auditor or competent staff not assigned to the investment function. This review will provide internal control by assuring compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Supervisory authority of employee actions
- Minimize the number of authorized investment officials
- Development of a wire transfer agreement with the lead bank and third-party custodian
- Documentation of transactions and strategies

Performance Standards/Benchmark

The investment portfolio will be managed in accordance with the parameters specified within this policy. 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. Appropriate benchmarks shall be established against which performance shall be compared on a regular basis. The benchmark will be reflective of the actual securities being purchased and the risks undertaken. The benchmarks will have a similar weighted average maturity and credit profile as the portfolio.

Procedures

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy. As deemed necessary, the Finance Director will establish written procedures for the operation of the investment program consistent with this policy.

Reporting

The Finance Director shall make a monthly report of all treasury activity to the Mayor and City Council (RCW 35.39.032).

The report shall summarize the current position of the portfolio for the City, investment strategy being followed and recent economic conditions, and market developments which shape this strategy. The management report will be prepared in a manner which will allow the City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include:

- An asset listing showing par value, cost and market value, type of investment, issuer, days to maturity and interest rate of each security;
- Average days to maturity of the portfolio;
- Maturity distribution of the portfolio and distribution by type of investment.

- Credit quality of portfolio holdings; and,
- Average weighted yield to maturity of portfolio on investments
- Performance comparison to benchmark

Investment Policy Adoption

The City of Bellingham's investment policy shall be adopted by a majority vote of the City Council. The policy shall be reviewed annually by the Finance Director and any significant modifications approved by resolution.

Investment Policy Glossary

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

AGENCY - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

AMORTIZATION - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

ASSET - Available property, as for payment of debts.

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERAL - Property (as securities) pledged by a borrower to protect the interest of the lender.

COMMERCIAL PAPER - An unsecured short-term promise to repay a fixed amount on a certain future date. Commercial paper usually matures from 2 to 270 days and is traded on a discount basis. This debt instrument, issued by banks, companies and other borrowers, uses only their credit ratings to back the security.

CORPORATE BOND/NOTE - A debt security issued by a corporation. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for higher credit quality companies. Most corporate bonds have maturities greater than one year. Corporate debt that matures in less than one year is typically called commercial paper.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted to obtain interest rates for specific securities.

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third-party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county.

DEALER - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the City or to an agent acting on behalf of the City and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the City.

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt. Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITARY - A person to whom something is entrusted, a depository.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

DISCOUNT - 1. (n.) selling below par; e.g., a $1000 bond selling for $900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

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

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of $1,000.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury. The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit Bank System (FFCB).

FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to $100,000 per depository account.

FEDERAL FARM CREDIT BANK (FFCB) - The Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Established by Congress in 1916 as the authority for certain predecessor entities, the System is the oldest of the Government-sponsored enterprises. Throughout its long history, the fundamental purpose of the System has remained the same: To provide American agriculture with sound and dependable credit at competitive interest rates. Currently, there are three Farm Credit Banks and one Agricultural Credit Bank providing funds and support services to approximately 78 locally owned Farm Credit Associations and numerous cooperatives nationwide. Approximately 40 percent of the real estate and non-real estate credit needs of U.S. agriculture are met by the System.

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANK SYSTEM (FHLB) - Created by the Federal Home Loan Bank Act of 1932 to increase the amount of funds available for lending institutions who provide mortgages and similar loan agreements to individuals. Having served its original objectives well, the FHLB system now primarily focuses on increasing the amount of loanable funds available for affordable housing and community development projects. It continues to have a material impact on housing and development financing offering funds to member institutions at rates that are usually lower than commercially competitive prices. The 11 banks of the FHLB Bank System are owned by over 7,300 regulated financial institutions from all 50 states, U.S. possessions, and territories.

FEDERAL HOME LOAN MORTAGAGE CORPORATION (FHLMC - Freddie Mac) - Is a stockholder-owned, government-sponsored enterprise chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle income Americans. FHLMC purchases, guarantees and securitizes mortgages to form mortgage-backed securities. The mortgage-backed securities that it issues tend to be very liquid and carry a credit rating close to that of U.S. Treasuries.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - 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 and Urban Development, HUD. 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.

FEDERAL RESERVE SYSTEM - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FINANCIAL INSTITUTIONS - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.

FISCAL AGENCY - A financial institution that handles certain bond and coupon redemptions on behalf of the City of Bellingham.

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and GNMA’s, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

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.

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

MARKET VALUE - The price at which a security is trading and could presumably be sold.

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

NATIONALLLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U. S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

NET WORTH - A financial institutions available funds after their total liabilities have been deducted from their total assets.

OFFER - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS - A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.

PRUDENCE - The ability to govern and discipline oneself by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.

PUBLIC FUND INTEREST BEARING INVESTMENT ACCOUNTS - Bank accounts with Qualified Public Depositories which pay a rate of interest on the balance maintained. Used in diversifying the investment portfolio and most commonly used as part of a liquidity portfolio.

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

REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

REPRICING - The revaluation of the market value of securities.

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

SECURITIES AND EXCHANGE COMMISION (**SEC)** - A U.S. government agency that oversees securities transactions, activities of financial professionals and mutual fund trading to prevent fraud and intentional deception. The SEC consists of five commissioners who serve staggered five-year terms. No more than three of the commissioners may belong to the same political party.

SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date mutual fund shares purchased directly by mail or wire settle on the day payment is received.

SPREAD - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

SUPRANATIONAL INSTITUTIONS (SUPRA'S) - An international organization, or union, whereby member states transcend national boundaries or interests to share in the decision making and vote on issues pertaining to the wider grouping. It is formed by two or more central governments through international treaties. The purpose for creating a supranational is to promote economic development for the member countries. The International Bank for

Reconstruction and Development (World Bank), the Inter-American Development Bank (IADB), IFC (International Finance Corporation) and ADB (Asian Development Bank) are examples of supra's.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

VENDOR - A business or individual who provides a service or product at a cost.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades “WI,” "when, as, and if issued."

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD SPREAD - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.