CITY OF BELLINGHAM

FINANCIAL MANAGEMENT GUIDELINES
2010

Written by John Carter, Finance Director
Endorsed by Bellingham City Council, Resolution #2010-17

City of Bellingham
Financial Management Guidelines
2010

Outline

General Financial Management Guidelines

I. Purpose and Background:

The stewardship of public funds is one of the primary responsibilities given to elected officials of the City of Bellingham. Critical to managing these responsibilities are the establishment of financial policies that enable City officials to manage the City's financial resources in a prudent manner that meets its current obligations while planning for future financial needs. This document summarizes existing financial policies in place and establishes guidelines for fiscal management decisions. It is recognized that this document cannot encompass or anticipate all financial decisions and it is intended that these policies be applied broadly and yet be flexible to meet specific circumstances as they arise.

II. Financial Philosophy

It shall be the goal of the City to achieve a strong financial condition that provides the necessary financial resources to:

- Sustain essential services.
- Withstand local and regional economic impacts.
- Ensure the timely payment of all fiscal obligations.
- Provide resources adequate to pay for unanticipated emergencies.
- Meet all debt covenants.
- Maintain financial benchmarks.

III. Financial Management Priorities

The overarching principle for financial management at the City of Bellingham is to provide a sufficient financial base and the resources necessary to sustain the following service priorities:

Tier One — To ensure public safety.
To provide financial means to meet all legal and mandated obligations.

Tier Two — To provide the resources to cover the cost for general city governance.
To maintain the existing primary infrastructure of the city.
To provide for the operating costs of city owned or operated amenities and programs.
To provide for the replacement of city owned real assets and equipment.

Tier Three: — To provide for investment in new assets and/or amenities, and programs to advance policy goals.

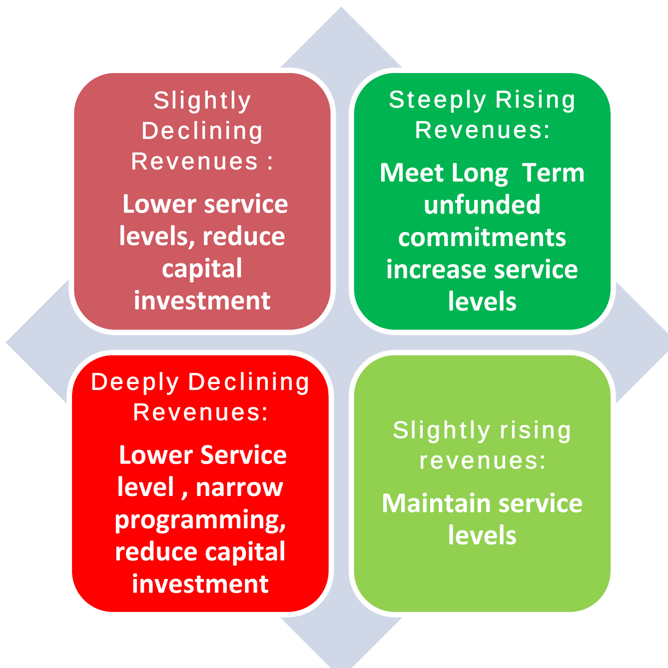
IV. Breadth of application

The City intends that this document apply to the financial management of **all funds**, all assets, and all programs of the City. The City will incorporate these principles into its budgeting processes, its planning documents, and the management of its asset base.

Following are the Budget and Financial Guidelines as currently revised:

City Management Guidelines

The City of Bellingham strives to provide a healthy balance of services to promote an outstanding quality of life in the City. 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 local and state economy. During periods of flat or declining revenues the City's financial emphasis will be to meet obligations which are listed as higher priorities in Section III above. During periods of increasing revenues the City will generally 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 on-going 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.

The following sections lay out specific policies that follow this philosophy:

General Budget Policies

In addition to the following policies, the City of Bellingham's budget process is governed and its policies superseded by the Revised Code of Washington (RCW) 35.33.

1. Strategic Plan – The City Council has established its Legacies and Strategic commitments for the community's future. These high level policy statements establish the framework to guide spending priorities within the City.

2. Budget Preparation – Department Heads are responsible for proposing budgets consistent with priority direction from the Mayor and City Council.

   The Budget Office is responsible for coordinating the overall preparation and administration of the City's budget and Capital Investment Program Plan. This function is fulfilled in compliance with applicable State of Washington statutes governing local government budgeting practices.

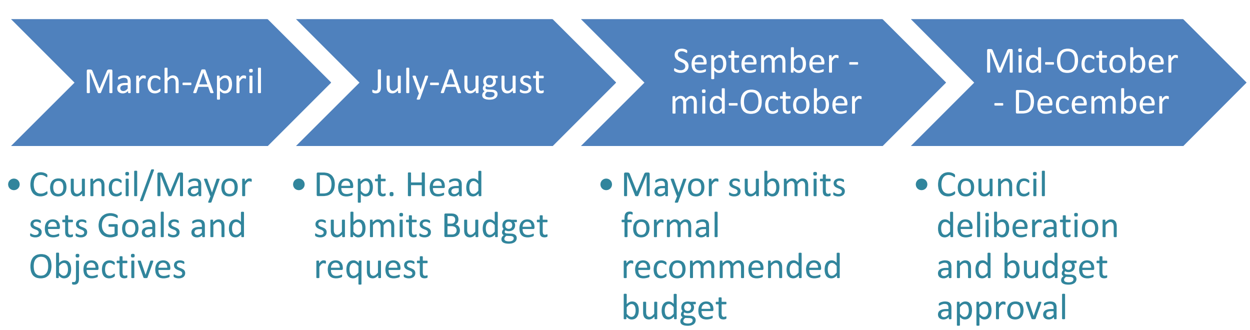
   Once approved Department Heads are responsible for the management and monitoring of their own specific departmental budget.

   The Budget Office assists department staff in identifying budget problems, formulating solutions and alternatives and implementing any necessary corrective actions.

   3. The Budget Process shall include at a minimum the following steps:

      A. The Council, in conjunction with the Mayor's office, provides broad Legacy and Strategic Commitments as guidance to staff for development of the Preliminary Budget. Departments shall prepare annual plans for making incremental progress on those statements and commitments, using when available, the agreed upon performance metrics data from the year prior.
      B. A Preliminary Budget request for each department within the General Fund and for all significant Enterprise funds is presented to the Budget Manager from each assigned manager in the manner and form described within the annually published budget preparations guidance.
      C. The Budget Manager shall compile the budget requests and deliver to the Mayor an analysis of those requests.
      D. The Mayor or his designee works directly with Fund and Departmental Managers to create a Preliminary Budget.
      E. The Preliminary Budget is presented to the City Council with a minimum of 45 days allowed for council deliberation and public comment.
      F. A City-wide Operating and Capital budget for the next fiscal year shall be approved by council as the Adopted Budget by December 31st. of each year.

The following timeline is recommended as a template for preparation of the budget document:



4. Examination of Existing Base Budget – During the annual budget development process, departments will thoroughly examine their existing base budget to remove one-time

appropriations and to reduce or eliminate services that are no longer priorities or do not create offsetting revenues at least equal to the cost of providing the service.

5. Performance Budgeting – The Council Legacy's and Strategic Commitments will be utilized to measure and report on progress in the published department budgets. The City will prepare trends, comparisons to other cities, and other financial management tools to monitor and improve service delivery in City programs.

6. Balanced Budget – In compliance with RCW 35.33.075, the City adopts a statutorily balanced budget, which requires total estimated resources (beginning reserves plus revenues) equal the total appropriation (expenditures plus ending reserves). This requirement of a Balanced Budget applies to each individual fund and to the entire aggregate budget presented. The current year budget is formally adopted annually.

7. Budget forecasts – A forecast of Revenues and Expenditures for a minimum of six years shall be included within the published budget. Semiannually, the Budget Manager will prepare a six-year forecast of revenues, expenditures and reserves to guide the City ensuring that expenditures are limited to an amount that can be sustained within projected revenues while maintaining prudent reserves.

8. Reserves – The use of Reserves as a balancing resource within the proposed budget shall be clearly and specifically identified. Use of Reserves is subject to Reserve Policy standards and limits as presented within this document. When any proposed budget for a fund causes Reserves to fall below the minimum Reserve target for that fund, the Budget document shall include a proposed plan for "replenishing" the Reserves to at least the minimum target as stated within the attached Fund Reserve Goal Table.

Revenue Guidelines

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

1. Mix of Revenues – The City shall strive to maintain a diversified mix of revenues in order to balance the sources of revenue amongst taxpayers and 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 without being regressive in its application.

2. 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 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.

3. One-time Revenues – The City will not use revenues received that are considered to be available for only a limited period of time, to fund on-going operational costs. When considering the use of new revenues for funding on-going employment costs, staff will assure that the source of revenue is available for at least three years.

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

Operating Expenditure Guidelines

1. Approvals – All expenditures must be made only after appropriate approvals have been attained, state and city purchasing requirements have been met and appropriation through the budget process has been approved.

2. Public Stewardship – In all Operating Expenditures the City will strive to balance prudent decision making with fair market considerations in order 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.

3. Management of approved expenditures – Invoices for any departmental purchase are to be paid only after the appropriate signatures authorizing the expenditure have been made. 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.

4. Full Cost Allocation – Department budgets should be prepared in a manner to reflect the full cost of providing services. A standard allocation formula for distributing general overhead to the various funds, departments and third party agreements shall be utilized for consistency and fairness. The only exception would be for General Fund department costs that would be attributable to other General Fund department services.

Financial Planning & Forecasting Guidelines

The City maintains a Financial Forecast of Revenue Resources and Expenditures for six years beyond the current budget period. This forecast is updated quarterly providing the City's policy-makers 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 of planning and forecasting tools in order to provide information that is timely and accurate.

Budget Adjustments & Amendments

The current period's Operating Budget may be adjusted during the year using one of two methods.

Budget Adjustments: The adjustment process is a reallocation of existing appropriations and does not change the total dollar amount appropriated for any Fund, or within the General Fund any Department, budget. No City Council action is required as State law allows budget adjustments to be done administratively with approval from the Mayor and/or Chief Administrative Officer. Budget adjustments are the City's preferred budget modification process.

Budget Amendment: This process adds or reduces existing appropriations, resulting in a net change to the balance of one or more individual funds, or within the General Fund to a Departmental, budgeted "bottom line." A budget amendment requires an ordinance amending the original budget and identifies the funding sources for the incremental appropriations.

1. Amendments to the City's budget should only be requested for material changes that impact a department and/or fund's existing appropriation. For purposes of this policy, an unanticipated mid-period grant would be considered a material change.

2. Budget Ordinances – The Budget Manager will review all agenda bills submitted to City Council which require a Budget Ordinance. The objective of these reviews is to ensure disclosure of all fiscal issues to the Council and to draft the Budget Ordinance.

Budget Updates: The Finance Director will present to Council a quarterly financial report reviewing the actual and forecasted financial statements for the City.

Budget Reductions: In the event the overall budget or individual funds are forecasted to have end of the year fund reserve balances that are lower than as stated in the budget document, the Mayor is directed to make such adjustments as is necessary to assure that the budgeted reserve balances are retained.

Any reduction of the operating budgets that may impact collective bargaining agreements requires the notification of the proposed budget changes to the appropriate representatives of organized labor. No other review for budget reductions is required and the Mayor shall promptly implement all planned operating changes to restore the year ending forecasted Reserve Balances.

Reserve Policies

The City will maintain adequate reserves. Reserves shall be sufficient 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***
- ✓ ***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 B.

1. Definition of Reserves – The City defines budgetary reserves as the difference between:

    a. Those short-term assets that can reasonably be expected to be available for use within the year or shortly thereafter; and
    b. Those liabilities that can reasonably be expected to be extinguished during the year.

2. Management of separate fund reserves – Fund Reserves shall be used to help financially manage the various services provided by the Fund. Unless allowed by state law, accepted accounting practices and authorized by council, the transfer of funds from one Reserve fund to another is prohibited. Borrowing from reserve balances within a fund that exceed the established minimum threshold is allowed. Any borrowing made from a reserve fund shall accrue interest at the average monthly yield earned on investments of the City.

3. Reserves Goals shall be set with a minimum standard and with a target goal. See Addendum B for specific reserve standards and goals.

4. Use of reserves in excess of the minimum standard, to balance a Fund's budget shall be allowed. However, such use of Reserves shall be specifically identified to the Council as part of their budget deliberations. ***When reserves are to be budgeted for use, the council shall receive details as to the future plan for balancing the budget without the use of reserves and for the replenishment of reserves to their target levels.***

5. Reserves that fall below the set minimum standard. ***When a fund reserve falls below its minimum standard the Mayor shall be required to present to Council within 60 days, a Financial Plan that will restore the fund reserve balance to the minimum standard within the shortest period feasible or in no case longer than three Budget years .***

6. Fund Reserves in excess of the target goal are considered to be "undesignated". As allowed by accounting standards and state law undesignated reserves can be utilized as revenues within the budget without further additional disclosure or deliberations.

Investment & Debt Policies

1. 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. This is typically referred to as the "Prudent Person" policy. The City also has an Investment Policy which Council reviews and adopts annually.

2. Interfund Loans – With Council approval the City will use inter-fund loans when possible to provide for cash flow coverage. Longer-term uses will be allowed on a case-by-case basis. The Finance Director will establish rates of return to assure the loaning fund receives a return equal to the pool investment rate. In addition, the department responsible for the loaning fund will be consulted to determine whether funds are available for the term of the loan.

3. 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 Moody's Investor Services. Before debt is issued consideration will be given to: a) whether a sufficient revenue stream is available to repay the debt, b) alternate methods of financing and c) whether it would not be cost effective to delay issuing debt. ***For projects requiring the issuance of new debt or for projects in excess of $5 million a separate financial funding analysis shall be prepared for council review.***

A listing of Financial Benchmarks to be used for measuring financial strength is included separately as Addendum A to this document.

For more information and guidance regarding the investment of City funds please see the formally adopted City of Bellingham Investment Policy. Addendum D

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

Capital Investment Policy

1. Relationship to Long-Range Plans – Capital projects will typically be based on City Council approved formal long-range plans, including the City's Legacies and Strategic Commitments, Capital Facilities Plan (CFP), the Comprehensive Plan 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.

2. Types of Projects Included in the CFP Plan – To be included within the CFP Plan a project must meet the following criteria:

    a. have been formally included in a Council adopted long-range plan,
    b. involves design, physical construction, reconstruction, or replacement of a major component of City infrastructure, or acquisition of land or structures;
    c. be preliminarily scoped as to cost and timing, and
    d. is estimated to exceed $50,000

All projects using Real Estate Excise Tax funds, regardless of project amount, shall be included on the CFP.

1. Project Management – Each Capital Project larger than $250 thousand which is included in the CFP and planned for expenditures in the current or following year shall have a *specific* City employee assigned as the project lead.

2. Project Tracking – Each Capital Project is required to be tracked with a Job Cost Project Number in Finance's Accounting System. Finance will also provide budget to actual expenditure reports on a quarterly basis to ensure proper funding.

3. Budget Upfront –Capital projects are budgeted at the full estimated cost of completing the project, or unique phases for larger projects, in the year the project is expected to start. Once adopted, unspent CFP budgets will be re-appropriated at the end of each fiscal period until the project is completed or abandoned***.***

4. Calculation of Operating Impact – Future operating and maintenance cost impact of new capital assets and facilities will be calculated and considered prior to the authorization of the project.

Accounting, Audit & Financial Reporting Policies

1. Budget Monitoring – The Finance Department will maintain a system for monitoring the City's budget performance. This system will provide the City Council with quarterly presentations regarding fund level revenue collections and department level expenditures. The system will also provide monthly reports to Department Heads. The Department Heads will have primary responsibility for ensuring that their Departments and/or Funds stay within their annual adopted budget.

ADDENDUM A

Financial Benchmarks - 2008 to be updated annually:

Source of target information: U.S. Public Finance 2008 Local Government National Medians, issued January 2009 by Moody's Investor Services. Municipal financial ratio analysis - U.S. Cities Population: 50,000-100,000. All median numbers for Aa rated municipalities

	Moody's Median	City of Bellingham
Population	66,045	75,750
Full Assessed Valuation (000)	$6,616494	$7,070,686
Assessed value per capital	100,181	93,342
Quick Ratio (Cash & Investments / Current Liabilities)	4.51	9.06
Current Ratio (Current Assets / Current Liabilities)	5.71	10.48
Net Cash (% of Operating Revenues)	66.53%	68.97%
Net current assets as a % of Revenues	70.24%	80.51%
Net Assets excluding Capital Assets as a % of Revenues	49.38%	109.16%
General fund balance as a % of Revenues	32.63%	27.89%
% of Value from 10 largest taxpayers	8.04%	4.31%
Per capita income (2007)	$23,380	$32.485
Unreserved, undesignated General Fund balance as % of Revenues.	26.57%	23.42%
Direct Net Debt as % of Full Value	.97%	.37%
Debt burden (Overall Govt. Debt as % Full value)	2.67%	1.41%

OTHER BENCHMARK TARGET RATIOS	TARGET	ACTUAL
General Fund Cash Reserve to actual Expense	12%	21%
General Government debt outstanding to Revenues	<.50	.23
Business Activities debt outstanding to Revenues	<2.00	.67
Revenue Debt coverage ratio	>2.00	3.06
Moody's Investor Services Bond Rating		
General Obligation Bonds	Aa3	Aa3
Revenue Bonds	A1	A1

ADDENDUM B

FUND Reserve Goal Table

Fund Name	Goal	Rationale
General Fund #001	Target: 12% of current year budgeted Operating Expenditures after reappropriations. Minimum set @ 6% of budgeted Operating Expenditures or $5M, whichever is the larger amount.	Service continuity during slower economic periods (Res. 2005-48) as well as emergency fund availability
Street Fund #111	Target: 5% of budgeted Operating Expenditures plus 10% of its total budgeted five year capital plan. Minimum of 5% of budgeted Operating Expenditures plus emergency funds of $250,000.	Ensure appropriate funding to cover cash flow concerns, emergency contingencies, and to provide adequate debt capacity coverage
Technology Replacement Fund #124	Target: $ total of next 3 yr scheduled technology replacement. Minimum of $300,000	Assures that we are properly charging all other departments and funds for replacement of technology at an adequate schedule.
Capital Maintenance Fund #125	Target: Current year budgeted expenditures + $100K. Minimum goal of $100,000	Ensure appropriate funding to cover cash flow concerns, emergency contingencies and to provide adequate debt capacity coverage
1st & 2nd Quarter REET Funds #141,142	Target: 10% of the budgeted five year capital plan. Minimum of $100,000 per Fund	Ensure appropriate funding to cover cash flow concerns and to provide adequate debt capacity coverage
Public Safety Dispatch Fund #160	Target: 20% of current year budgeted Operating Expenditures. Minimum of 6% of budgeted Operating Expenditures	Ensure appropriate funding to cover cash flow concerns
Water Fund #410	Target: 5% of current year budgeted Operating Expenditures plus 10% of its total budgeted five year capital plan. Minimum of 5% of current year budgeted Operating Expenditures, plus highest annual D/S payment plus $1 million.	Ensure appropriate funding to cover cash flow concerns, emergency contingencies and to provide adequate debt capacity coverage.

Wastewater Fund #420	Target: 5% of current year budgeted Operating Expenditures plus 10% of its total budgeted five year capital plan. Minimum of 5% of current year budgeted Operating Expenditures plus highest annual D/S payment plus $1 million.	Ensure appropriate funding to cover cash flow concerns and to provide adequate debt capacity coverage.
Storm Water Fund #430	Target: 5% of current year budgeted Operating Expenditures plus 10% of its total budgeted five year capital plan. Minimum of 5% of current year budgeted Operating Expenditures plus $400,000.	Ensure appropriate funding to cover cash flow concerns and to provide adequate debt capacity coverage.
Solid Waste Fund #440	Target: 5% of current year budgeted Operating Expenditures plus 10% of its total budgeted five year capital plan. Minimum of 5% of current year Operating Expenditures plus $1 million.	Ensure appropriate funding to cover cash flow concerns and to provide adequate debt capacity coverage.
Cemetery Fund #456	Target: 20% of current year budgeted Operating Expenditures. Minimum of 6% of budgeted operating expenditures.	Ensure appropriate funding to cover cash flow concerns
Parking Services Fund #465	Target of 20% of current year budgeted Operating Expenditures plus current year debt service. Minimum of 6% of budgeted operating expenditures plus current year debt service.	Ensure appropriate funding to cover cash flow concerns
Medic One Fund #470	Target and Minimum: 8% of current year budgeted Operating Expenditures.	One month's worth of funding to cover cash flow concerns (ILA. 2007-0050)
Development Services Fund #475	Target: 50% of current year budgeted Operating Expenditures. Minimum: 20% of budgeted Operating Expenditures.	Ensure appropriate funding to cover cash flow concerns

Fleet Fund #510	Target: 5% of current year budgeted Operating Expenditures plus 20% of 5 year rolling stock replacement budget. Minimum: One year fleet replacement budget.	Ensure appropriate funding to cover cash flow concerns
Purchasing Fund #520	Target: 15% of current year budgeted Operating Expenditures. Minimum: 6% of budgeted operating expenditures.	Ensure appropriate funding to cover cash flow concerns
Facilities Fund #530	Target: 15% of current year budgeted Operating Expenditures. Minimum: 6% of budgeted operating expenditures.	Ensure appropriate funding to cover cash flow concerns
Claims & Litigation Fund #550	Target: $5M. Minimum: $3M.	Ensure appropriate funding to cover cash flow concerns
Unemployment Fund #561	Target: 100% of budget year Expected Claims. Minimum: 75% of Expected claims.	Ensure appropriate funding to cover cash flow concerns
Worker's Compensation Self-Insurance Fund #562	Target and minimum: $100,000 plus the Self Insured Risk	Adequate reserves to cover any on-the job loss up to the coverage limitations as stated within our worker comp insurance policy.
Health Benefits Fund #565	Target 5% of Medical Insurance annual payments Minimum: 3% of Medical Insurance Payments	Ensure appropriate funding to cover cash flow concerns
Public Facilities District Fund #965	Target: Highest annual Debt Service payment plus any Bond Debt reserve requirement. Minimum highest average annual D/S payment.	Ensure appropriate funding to cover cash flow concerns and debt obligations.

City of Bellingham
Debt Policy
John Carter, Finance Director

Background:

The City of Bellingham maintains conservative financial policies to assure strong financial health both in the short and long-term. The City, although an infrequent issuer of debt, does recognize 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 Accounting Manager to assist in the duties of debt issuance, interest payments, principal repayments and other debt-related activities.

The Finance Director is responsible for assuring 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 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.

Budgeting and Capital Planning within Financial Management:

The City shall develop and maintain a capital planning process such as the Capital Facilities Plan 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:

The following is a description of the 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 for each of three purposes:

A. General Obligation debt

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 as long as 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 receive a 60% or greater, yes vote 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.

B. 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.

C. 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.

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 utilize 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 for cash flow coverage. Longer term uses will be allowed on a case-by-case basis. The Finance Director or designee is required to assure 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 utilizing an inter-fund 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 assure 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

The Finance Director shall establish credit benchmarks, which measure the city's key economic and debt indicators and compare those indicators using industry standards. This benchmark comparison shall be submitted as a written report and supplied annually to the City Council.

Structure and Term of Debt

1. 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 each of the major funds.

2. 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 through the use of a Professional Services contract. All service contracts should be authorized only after a formal Request For Services has been issued and a formal selection process completed.

1. 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.

2. 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.

3. 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 that there is no actual or perceived conflict of interest.

4. 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.
- The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

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 directly 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 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 in order to preserve the tax-exempt status of the outstanding debt.

ADDENDUM D

CITY OF BELLINGHAM

INVESTMENT POLICY

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INVESTMENT POLICY

CITY OF BELLINGHAM
INVESTMENT POLICY

I. POLICY

1.1 Policy:

It is the policy of the City of Bellingham to invest public funds in a manner which will provide the market rate of return with the maximum security while meeting the daily cash flow demands on the Treasury and conforming to all Washington statutes governing the investment of public funds.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements and custodial procedures necessary for the prudent management and investment of the funds of the City of Bellingham.

II. SCOPE AND OBJECTIVES

2.1 Scope:

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

2.2 Funds:

General Fund
Special Revenue Funds
Capital Project Funds
Enterprise Funds
Internal Service Funds
Trust and Agency Funds
Public Facilities Funds
Any new fund created by the Council, unless specifically exempted by the Council
.

2.3 Objectives:

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, legality and return:

Safety:

Safety of principal is the foremost objective of the City of Bellingham. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity:

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Legality of Investments:

The City's investment holdings shall be in conformance with federal, state and other legal requirements.

Return on Investment:

The City'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 City's investment risk constraints and the cash flow characteristics of the portfolio.

III. STANDARDS OF CARE

3.1 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" and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures 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.

3.2 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish written procedures for the operation of the investment program, consistent with the investment policy. 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 Finance Director. In addition, a procedures manual will be maintained to provide for overall guidance of investment strategy and portfolio structure. The procedures will be periodically reviewed and updated at the direction of the Finance Director.

3.3 Ethics and Conflict of Interest:

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

IV. AUTHORIZED INVESTMENTS, DIVERSIFICATION, MATURITIES AND COLLATERALIZATION

4.1 Authorized Investments:

All municipal corporations in Washington State, including the City of Bellingham, are empowered by statute to invest in the following securities: (The enabling legislation is RCW 39.58 and, as amended, RCW’s 35.39, 39.59, 39.60, 43.84.080 and 43.250). The City has chosen to limit the authorized investments to the following:

1) Investment deposits including certificates of deposit, with qualified public depositories.

2) Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States.

3) Obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank bonds.)

4) Bankers' acceptances purchased on the secondary market which have at the time of investment the highest credit rating by a minimum of two recognized rating agencies.

5) Repurchase agreements for securities provided that the transaction is structured so that the City of Bellingham obtains control over the underlying securities. If repurchase agreements are utilized a Master Repurchase Agreement must be signed with the transacting bank or dealer. Additionally, the collateral must meet the authorized investment and maturity constraints of this policy.

6) Commercial Paper provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)); the exception is that the City will not allow Asset Backed commercial paper.

7) 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.

8) 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.

9) State Investment Pool- As prescribed by the RCW code, the legislation has provided for a mechanism whereby political subdivisions may, at their option, utilize the resources of the State Treasurer (OST) to maximize the potential surplus funds while ensuring the safety of public funds. A state investment pool has been designated to meet this function.

4.2 Diversification:

The City will diversify its investment by security type and institution. The constraints will provide for a disciplined guide in making investment decisions.

Diversification Constraints:

ISSUER TYPE	% of TOTAL PORTFOLIO
Local Government Investment Pool	100%
US Treasury Obligations	100%
GSE-Agency Securities	100%
Per Issuer: FHLB, FFCB, FHLMC or FNMA	50%
Other GSE's	10%
Repurchase Agreements	10%
Bankers Acceptance	10%
Commercial Paper	10%
Certificates of Deposit/Bank Deposits/Saving	20%
Obligations of the States (municipal securities)	10%

4.3 Maturities:

The City will invest in securities with maturity dates five (5) years from the date of purchase or less.

- The maximum weighted maturity of the total portfolio shall not exceed 3.0 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, bank deposits or in money market instruments maturing six months or less.
- The investment portfolio will have securities that mature between 1 day and 5 years.

Exception to 5-year-maturity maximum: The City of Bellingham may invest in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

4.4 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 City chooses to limit collateral to the following:

Securities that are acceptable as collateral must comply with the allowable securities listed in this policy. 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.

V. DEALERS AND INSTITUTIONS, SAFEKEEPING AND CUSTODY, INTERNAL AND EXTERNAL CONTROL

5.1 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 Public Deposit Commission of banks authorized to provide investment services (RCW 39.58.080). In addition, the City will approve security broker/dealers by credit worthiness, and understanding of the City's requirements and policy. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository in the State of Washington.

A current financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

5.2 Safekeeping and Custody:

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

5.3 Internal Control:

The Finance Director shall establish a process of periodic review by the Accounting Staff. This review will provide internal control monitoring by assuring that policies and procedures are being complied with.

5.4 External Control

The Finance Director may engage the services of outside professionals as necessary for the efficient management of the investment program. External service providers shall be subject to the provisions of this Investment Policy.

VI. PERFORMANCE MEASUREMENT AND REPORTING REQUIREMENTS

6.1 Performance Standards:

The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. A market benchmark may be utilized and will be established through the Finance Director's procedures manual.

6.2 Reporting:

The Finance Director shall provide the council with 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. Monthly reports will include:

- Total investment portfolio yield and earnings rate.
- Percentage of the portfolio in each investment category.
- Summary of securities by investment type held at the end of the reporting period.
- Average term and yield by investment type.
- Investment yield comparison to various benchmarks.

VII. POLICY ADOPTION

7.0 Investment Policy Adoption:

The City of Bellingham's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on an annual basis by the Finance Committee and any modifications made thereto must be approved by the City Council.

GLOSSARY

AGENCIES: Federal agency securities.

BANKERS' ACCEPTANCE (BA): A draft bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. This also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Bellingham. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed Statistical Section.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

COMMERCIAL PAPER: Short-term, negotiable, unsecured promissory notes. The credit of the issuer stands behind the paper. There are some issuers that put up assets as security for the issue, these are asset-backs. The risk in this paper is that the assets will be worth less than the outstanding CP program; therefore, the City is excluding these issue types.

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery for securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is the delivery of securities with an exchange of money for the securities. Delivery versus receipt is the delivery of securities with an exchange of a signed receipt for the securities.

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

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

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of the bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL HOME LOAN MORTGAGE CORPORATION:
A public chartered Agency that buys residential mortgages from lenders, packages them into new
Securities backed by those pooled mortgages, provides certain guarantees and then, resells the mortgage-backed securities on the open market. Shares of FHLMC stock are publicly traded on the New York Stock Exchange. The Corporation, is nicknamed Freddie Mac

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

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

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of a default by the seller-borrower.

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth, money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state--the so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales of compensating use of 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.

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A marker made for the purchase and sale of outstanding issues following the initial distribution.

SEC RULE 15c3-1: See Uniform Net Capital Rule.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U. S. Treasury securities having initial maturities from one to ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; this is also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.