

# Financial Management Policies



City of Arlington

Adopted 2/7/2011

**CITY OF ARLINGTON, WASHINGTON  
OPERATING POLICIES**

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# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### Purpose:

The Comprehensive Financial Management Policy assembles all of the City's financial policies in one document. They are the tools to ensure that the City is financially able to meet its immediate and long-term service objectives. The individual policies contained herein serve as guidelines for both the financial planning and internal financial management of the City.

The City of Arlington is accountable to its citizens for the use of public dollars. Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. These policies safeguard the fiscal stability required to achieve the City's goals and objectives.

### Objectives:

In order to achieve its purpose, the Financial Management Policies have the following objectives for the City's fiscal performance.

- A. To guide the City Council and management policy decisions that have significant impact.
- B. To set forth-operating principles that minimize the cost of government and financial risk.
- C. To employ balanced and fair revenue policies that provide adequate funding for desired programs.
- D. To maintain appropriate financial capacity for present and future needs.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provision of the City's debt obligations on all municipal debt.
- G. To ensure the legal use of financial resources through an effective system of internal controls.
- H. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### Reserve Fund Policies

Adequate reserve levels are a necessary component of the City's overall financial management strategy and key factor in external agencies' measurement of the City's financial strength.

- a. The City will strive to maintain a Program Development Fund (rainy day fund) with a target balance of eight percent (8%) of the total General Fund budgeted taxes and Licenses & Permits. These operating reserves are maintained to address temporary revenue shortfalls; payment of approved expenditures due to cash flow shortage; reserves for expenditures deemed necessary by the Mayor and City Council; temporary short-term interfund loans, and other unanticipated expenses as approved by the City Council. An annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.
  - 1) This "reserve" shall be in addition to the maintenance of one-month operating cash within the General Fund itself.
- b. It will be the policy of the City to maintain a Capital Facilities/Building Fund to provide funding for future facilities including debt repayment, less proprietary fund projects. The use of any funds within the Capital Facilities/Building Fund will be as approved by the City Council.
- c. Contributions to Program Development and Capital Facilities/Building Funds will be made from available funds as identified in the annual budget, or amended budget at the end of the year. The Finance Director shall make a recommendation to the Council with regard to transfers to reserve funds. The Council, by motion (and amending the budget by ordinance as necessary) shall authorize the transfers, as the Council shall determine to be appropriate at that time.
- d. All expenditures drawn from reserve accounts shall require prior Council approval unless previously specifically authorized by the City Council for expenditure in the annual budget.

# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### Revenue Policies

- a. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the Council.
- b. Revenue forecasts shall be realistically estimated and based on the best information available. The City will follow a vigorous policy of collecting revenues.
- c. Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. Each year the Council shall review potential sources of revenue as part of the annual budget process.
- d. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Council may approve a contribution from the Program Development Fund or interfund loans to address temporary downturns in City revenues. Interfund loans may also be utilized to cover temporary gaps in cash flow.
- e. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-going operations is not the policy of the City as a response to long-term revenue shortfalls. Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.
- f. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.
- g. The City shall develop and maintain a comprehensive list of various fees and charges. Fees may be set at levels sufficient to cover the entire cost of service delivery (such as in “Enterprise Funds”), or the service may be subsidized, as Council deems appropriate. The City will systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. Rate studies shall be conducted to ensure that the rates will continue to support direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions. Based on a market analysis, fees for similar services in other communities may also be considered. The criteria used to evaluate recommended target rates (equity, cost recovery policy, market demand, etc) shall be included in the staff report during the review. Such review should be scheduled periodically and be incorporated into the budget process for possible action by the City Council.
- h. The City will review contracts and leases, which result in revenues to the city on a timely basis in order to provide for careful evaluation by the City Council.

# CITY OF ARLINGTON, WASHINGTON OPERATING POLICIES

## **Expenditure Policies**

- a. The City will only propose operating expenditures, which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
- b. Department heads are responsible for managing their budgets within the total appropriation for their department.
- c. The City will maintain expenditure categories according to state statute and administrative regulation.
- d. The City will assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method for determining the amount of the interfund assessment will be reviewed periodically.
- e. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need of such positions has been demonstrated and documented.
- f. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, training allowance, and other benefits of a non-salary nature, which are a cost to the City.

# **CITY OF ARLINGTON, WASHINGTON OPERATING POLICIES**

## **Accounting, Auditing and Financial Reporting**

The City will maintain a system of financial monitoring, control, and reporting for all operations and funds in order to provide effective means of ensuring that overall City goals and objectives are met.

**Accounting Records and Reporting.** The City will maintain its accounting records in accordance with state and federal regulations. Budgeting, accounting and reporting will conform to Budgeting, Accounting and Reporting System (BARS) for Governments as prescribed by the Washington State Auditor.

**Auditing.** The State Auditor will annually perform the City's financial and compliance Audit. Results of the annual audit will be provided to the Council in a timely manner.

**Simplified Fund Structure.** To the extent possible, the City will minimize the number of Funds.

The Finance Department will develop, maintain, and consistently seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security of all cash assets. All cash received by City departments will be deposited with the Finance Department prior to the end of each business day (unless a department has a secure place to hold it over night and can demonstrate those secure procedures to the Finance Director).

# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### Budget and Operating Policies

- a. All decisions will be within the context of long-range plans (Capital Facilities Plan / Comprehensive Plan/Capital Improvement Plan). Staff shall provide a review of the implications of budgetary proposals on long-range plans.
- b. The annual budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council. A calendar of events related to budget development shall be presented to the City Council by April 30<sup>th</sup> of each year.
- c. The Finance Department will maintain a system for monitoring the City's budget performance. The system will provide the City Council with monthly and or quarterly information in a timely manner on fund level resource collections and department level expenditures.

Under the provisions of State Law and the City's operating procedures, the budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the "bottom line". No City Council action is needed as State Law allows budget adjustments to be done administratively. Amendment of the budget involves an addition to or reduction of existing appropriations. City Council action, by ordinance, is required.

- d. Fixed asset inventories. Accurate inventories of all physical assets, their condition, life spans, and cost will be maintained to ensure proper stewardship of public property. The Finance Director will establish policies and appropriate procedures to manage fixed assets, including establishing the threshold dollar amount for which fixed asset records are maintained and how often physical inventories are taken.

# **CITY OF ARLINGTON, WASHINGTON OPERATING POLICIES**

## **Purchasing**

The City will follow State Laws, adopted resolutions, ordinances and policies regarding procurement.

Federal Funds. When procurement involves the expenditure of federal funds, purchasing shall be conducted in accordance with any applicable federal laws or regulations.

Grants. When procurement involves the expenditure of a grant, purchasing shall be conducted in accordance with any applicable grant laws or regulations.

Emergency procurement. The Mayor or his/her designated agent may make or authorize others to make emergency procurements of materials, supplies, equipment or services when there exists a threat to public health, welfare, or safety. State laws relating to emergency purchases will be followed.

# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### **Cost Allocation**

The City of Arlington desires to comply with all laws and recommendations in calculating and receiving full cost recovery for services rendered to other funds.

Cost allocation is a method to identify and distribute indirect costs. Direct costs are costs assignable to a specific objective, whereas indirect costs are costs incurred for multiple cost objectives or not assignable to a specific cost objective without effort disproportionate to the benefit received.

The Washington State Auditor's Office prescribes the accounting and reporting of local governments in the State of Washington under the Revised Code of Washington (RCW) 43.09.200. Washington State law provides, at RCW 43.09.210. It states in part:

Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body. All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking institution, or public service industry shall benefit in any financial manner whatever by an appropriation of fund made for the support of another.

The RCW does not specifically address how "full value" is to be determined.

RCW 35A.33.122/35A.34.205/35.33.123 states:

Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized. Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.

### **The Federal Office of Management and Budget (OMB) Circular A-87**

OMB Circular A-87 establishes cost principals for State, local, and Indian Tribal Governments for determining costs for Federal Awards. Item 5 of the Circular states that, "The principals are for determining allowable costs only." In defining allowable costs, the Circular provides a definition of allocable costs at Attachment A, paragraph C.3.a, "A cost is allocable to a particular cost objective if the goods or services involved at chargeable or assignable to such cost objective in accordance with relative benefits received." The Circular further outlines costs that are allowable for charging the Federal government and distinguishes those that are specifically excluded from recovery.

### **Governmental Accounting Standards Board (GASB)**

GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. While GASB is not a governmental agency and does not have enforcement authority, compliance with GASB is tested by the Washington State Auditor's Office's annual audit of the City.

# CITY OF ARLINGTON, WASHINGTON

## OPERATING POLICIES

### **Allocated Costs**

The City has identified a variety of ways to identify and determine an appropriate percentage of costs for allocation to various using funds. These ways include;

- Number of employees (FTE's) in each fund
- Total operating expenses (dollar amounts) in each fund (not including debt service and capital improvements)
- Total operating revenues (dollar amounts) in each fund (not including beginning fund balances, grant receipts or interfund transfers), and
- Number of expenditure line items used in each fund
- What percentage of Finance Dept. time is directly attributable to utility billing

The following is the plan to allocate General Fund Service costs - Administrative, Financial (including payroll), Information Services (computer and communications), to the various funds that utilize those services. One of the tasks of the Finance Department is to manage the Utility Billing function for the Water/Sewer and Stormwater Funds. Forty seven percent of all Finance costs are considered to be directly related to the utility funds. The breakdown is 98% of the two Utility Billing Clerks, 90% of the Cashier, 25% of the Accounts Payable Clerk, 5% of the Staff Accountant, 5% of the Assistant Finance Director and 10% of the Finance Director.

- 1) Identify the General Fund costs to be allocated.
- 2) On an annual basis, the Finance Department will compile the numbers from the above mentioned ways to determine the appropriate percentages to use in allocating General Fund costs to be allocated to various funds. An average percentage rate will then be determined.
- 3) Allocate the General Fund Administrative, Financial and Information Services costs.

# CITY OF ARLINGTON, WASHINGTON DEBT MANAGEMENT POLICY

## Debt Management Policy

The objectives of the City's Debt Management Policy will be:

- To reduce the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
- To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:
  - Keeping a high credit rating (while making attempts to strengthen credit rating)
  - Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and managing the annual budget responsibly.
- b. Professional service providers (underwriters, financial advisors, bond insurer's, etc) may be selected through negotiation, RFQ process or City's procurement policies.
- c. Debt issues will be sold on competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest interest cost. Revenue bonds can be issued through a negotiated sale when the issue is unusually large, the project is speculative or complex, the issue is a refunding, or the market is unstable.
- d. The term of long-term debt issued will not exceed the life of the projects financed. Current operations will not be financed with long-term debt.
- e. Short-term borrowing will not be used for operating purposes.
- f. The City will comply with its obligation to inform the Municipal Securities Rulemaking Board through the EMMA website (Electronic Municipal Market Access) any and all continuing disclosure documents and annual financial statements. This site is used by the ratings agencies and investors. The City's annual audited financial report will be sent to EMMA as soon as the State Auditor's Office issues the report.
- g. The City shall strive to maintain favorable current credit ratings.
- h. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW). The City of Arlington debt will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. Compliance with state law and this policy shall be documented each year.

The following individual percentages (as defined in state law) shall not be exceeded in any specific debt category:

General Debt	2.5% of assessed valuation
Utility Debt	2.5% of assessed valuation
Open Space and Park facilities	2.5% of assessed valuation

## **CITY OF ARLINGTON, WASHINGTON DEBT MANAGEMENT POLICY**

- i. No debt shall be issued for which the City is not confident that a sufficient, specifically identified revenue source is available for repayment. The Finance Director shall prepare an analytical review for this purpose prior to the issuance of any debt.
- j. It shall be the policy of the City to limit bonded indebtedness to levels that permit sufficient borrowing to support a reasonable rate of capital programming, permit a level and pace of debt amortization within the City's ability to pay, and support the City's credit rating objectives. It shall further be the policy of the City not to exceed 75% of City's LTGO debt limit.
- k. Credit enhancements shall be considered with a cost/benefit analysis for each long-term bond issue.
- l. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by the City Council. The city shall structure such debt service reserves so that they do not violate IRS arbitrage regulations.
- m. The City will maintain debt service coverage ratios as required for any bond issues.
- n. Interfund borrowing may be used where such borrowing is effective. Interfund borrowing will be approved and authorized by the City Council.

# CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICY

## Investment Policy

**POLICY.** It is the policy of the City of Arlington to invest its public funds in a manner which will provide the highest investment return consistent with a high degree of security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds. Cash may, at the discretion of the Finance Director be invested separately by fund or be co-mingled into a common investment portfolio and earnings from such portfolio distributed at least quarterly. The Finance Director is authorized to manage the investments described herein.

**SCOPE.** This investment policy applies to all financial assets of the City except: for assets held in escrow and retirement funds managed by others such as state. City financial assets are accounted for in the City's Annual Financial Report and include:

- 2.1 Funds
  - 2.1.1 General Fund
  - 2.1.2 Special Revenue Funds
  - 2.1.3 Debt Service Funds
  - 2.1.4 Capital Project Funds
  - 2.1.5 Enterprise Funds
  - 2.1.6 Internal Service Funds
  - 2.1.7 Trust Funds and Agency Funds

**PRUDENCE.** The 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.

**OBJECTIVE.** Funds of the City will be invested in accordance with the Revised Code of Washington (RCW) 35A.40.050, the BARS manual and these policies.

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

**Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds and the provisions of all applicable bond ordinances.

**Safety:** 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. The Finance Director shall maintain adequate liquidity by maintaining a minimum balance in the LGIP.

# **CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICY**

**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.

**Local Institutions:** Local Institutions shall be given preference when they are, in the judgment of the Finance Director, competitive with other institutions.

The Finance Director's investment actions shall be governed by this policy.

The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment activities, and report promptly to the Council any adverse development with any investment.

**ETHICS AND CONFLICTS OF INTEREST.** The Finance Officer 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. The Finance Officer shall disclose to the Mayor and the Council any material financial interests in financial institutions that conduct business with the City, and she/he shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. The City's Finance Officer shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

**AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.** The Finance Director will maintain a list of financial institutions authorized to provide investment services to the City of Arlington. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Washington. These may include "primary" dealers or regional dealers that qualify under US Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State laws.

At the request of the City, financial institutions, brokers and dealers performing investment services for the City shall provide their most recent financial statements or Consolidated Report of Condition ("call report") for review.

**AUTHORIZED & SUITABLE INVESTMENTS.** The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these consist of:

Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.

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 whose securities carry full faith and credit guarantees.

## **CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICY**

Obligations of government-sponsored corporations 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 Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Association notes.)

Prime bankers' acceptances purchased on the secondary market.

Repurchase agreements for securities listed above.

The Washington Local Government Investment Pool.

COLLATERALIZATION. Collateralization will be required on all repurchase agreements so as 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 obligations of the United States Government and its agencies.

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

Certificates of deposit are delivered to and held by the Finance Director until they mature.

SAFEKEEPING AND CUSTODY. All investment securities purchased by the City, including collateral on repurchase agreements, shall be held by the City or in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information.

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

DIVERSIFICATION. The City will diversify its investments by security type and issuer. With the exception of US Treasury and Agencies of the United States government, and the Washington State Local Government Investment Pool, no more than 50% of the City's total investment portfolio will be invested in a single security and no more than 25% will be invested with a single issuer.

# **CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICY**

MAXIMUM MATURITIES. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. The average maturity will be consistent with the liquidity objective. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 10 years.

The City's reserve funds may be invested in securities not to exceed (10) years if the maturity of such investments is made to coincide as nearly as possible with the expected use of funds.

The purpose of permitting a portion of the investments to have longer maturities is to recognize that funds may yield higher yields when invested for longer periods of time.

INTERNAL CONTROLS. The Finance Director shall establish a system of internal controls, which shall be reviewed annually by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

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.

Investment Strategy. The City's investment strategy is active. As a result, securities are purchased and sold as it best meets the needs of the City as determined by the Finance Director. The Finance Director will be authorized to trade before maturity if it is in the best interest of the City to do so.

REPORTING. The Finance Director will determine what investment information will be included in the monthly financial report.

# CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICIES

## GLOSSARY

**ACCRUED INTEREST:** The interest accumulated on a bond since its dated date or the most recent date to which interest has been paid by the City. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

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

**BOND:** A long-term debt security (IOU) issued by a government or corporation. Generally pays a stated fixed rate of interest, and returns the face value at maturity.

**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 middleman who brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; they do not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**CALL OPTION:** The right to prepay or redeem a security at a predetermined price on or after a specified future date that is earlier than its scheduled maturity date.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity earning a specified rate of return evidenced by a certificate. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

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

**CONFIRMATION:** A document used to state and supplement in writing the terms of a transaction which have previously been agreed to verbally.

**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 (not used since 1982).

**CUSIP NUMBER (COMMITTEE OR UNIFORM SECURITIES IDENTIFICATION PROCEDURES):** An identifying number assigned to a publicly traded security. A nine-digit code is permanently assigned to each issue and is generally printed on face of the security if it is in physical form.

# CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICIES

## GLOSSARY

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

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

**DISCOUNT:** There is "original issue discount" and "market discount." Original issue discount is the difference between the cost price of a security when first offered for sale to the general public and its face value at maturity when quoted at lower than face value. Original issue discount is treated as interest. Market discount is the difference between principal amount of an outstanding security (reduced by any original issue discount) and the value of that security in the then-current market (if lower than its principal amount). If a security is bought at a market discount and later sold at a gain, the gain is taxable income.

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

**FARM CREDIT DISCOUNT NOTES AND BONDS:** Secured joint obligations of Farm Credit Banks that are issued with a minimum face value of \$50,000 with maturities ranging from 5 to 360 days.

**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 Federal funds are traded between banks. This rate is currently pegged by the Federal Reserve through open market operations.

**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-à-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 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.

# CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICIES

## GLOSSARY

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The 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 purchase 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 default by the seller-borrower.

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

**PORTFOLIO:** A collection of securities held by an investor.

**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.

**PRINCIPAL:** The stated face amount of an instrument, exclusive of accrued interest.

**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 product person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** 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 Public Deposit Protection 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 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.

# CITY OF ARLINGTON, WASHINGTON INVESTMENT MANAGEMENT POLICIES

## GLOSSARY

**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.

**SEC RULE 15c3-1:** SEC uniform net capital rule requiring brokers and dealers to maintain certain amounts of net capital.

**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 US Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

**TREASURY BONDS:** Long-term US Treasury securities having initial maturities of more than ten years.

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

**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; 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.

**YIELD:** The rate of annual income return on an investment expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price for the security. Net Yield or Yield to Maturity is the current income Yield minus any premium above par or plus any discount in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.