

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 361 Authorizing Investments in the Washington State Local Investment Pool
DEPARTMENT:	Administrative Service Director
PRESENTED BY:	Robert Hartwig, Administrative Services Director
ACTION:	<input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

The purpose of this agenda item is to request Council's approval of Resolution No. 361 re-authorizing the investment of available City funds in the Washington State Local Government Investment Pool (LGIP; Attachment A). Council originally approved the City's Investment Policy on April 28, 2003 by adopting Resolution No. 204 (Attachment B). Section 8.6 of this policy specifically allowed the investment of available City funds in the LGIP. The LGIP is authorized by RCW 43.250.020 and WAC Chapter 210-10.

During 2013, WAC 210-01 was repealed and WAC 210-10 was adopted. Although this change is largely routine, the new chapter included the following four major revisions: (1) introduce the concept and use of a prospectus; (2) introduce the ability of the state treasurer to offer different subpools with different investment strategies; (3) modernize and update the provisions of the WACs to account for legislative change; and (4) provide for more clarity and more precision with respect to the terminology used in the WACs.

The State Treasurer is requesting that all governing bodies review the attached prospectus and confirm by resolution that they have read and understand the prospectus and understand the risks and limitations of investing in the LGIP, authorize the contribution and withdrawal of monies, and delegate authority to appropriate City staff to complete these transactions (Attachment C).

FINANCIAL IMPACT:

If Resolution No. 361 is approved, the City will continue to invest monies into the LGIP for short term investments. The LGIP has been a useful tool for staff to receive some interest earnings without committing funds for extended time periods. Staff has continued its investment laddering approach and has been investing \$1 million each quarter in three year agency bonds with a yield rate of between 0.814% and 1.0%; much higher than the current short term LGIP rate of 0.08%. While it is important to maximize investment earning, it is also essential to have an option like the LGIP to provide liquidity as City staff may make deposits and withdrawals on an as needed basis as our cash flow requires.

RECOMMENDATION

Staff recommends that Council adopt Resolution No. 361 authorizing investment in the Washington State Local Government Investment Pool and delegating the Administrative Services Director to manage such investments.

ATTACHMENTS:

Attachment A: Proposed Resolution No. 361

Attachment B: Resolution No. 204 and Investment Policy

Attachment C: LGIP Prospectus and LGIP Transaction Authorization Form

Approved By: City Manager ***DT*** City Attorney ***IS***

RESOLUTION NO. 361

**A RESOLUTION OF THE CITY COUNCIL, CITY OF SHORELINE,
WASHINGTON AUTHORIZING INVESTMENT OF MONIES IN THE
LOCAL GOVERNMENT INVESTMENT POOL**

WHEREAS, pursuant to Chapter 294, Laws of 1986, the Legislature created a trust fund to be known as the public funds investment account (commonly referred to as the Local Government Investment Pool (LGIP)) for the contribution and withdrawal of money by an authorized governmental entity for purposes of investment by the Office of the State Treasurer; and

WHEREAS, from time to time it may be advantageous to the authorized governmental entity, the City of Shoreline (the “governmental entity”), to contribute funds available for investment in the LGIP; and

WHEREAS, the investment strategy for the LGIP is set forth in its policies and procedures; and

WHEREAS, any contributions or withdrawals to or from the LGIP made on behalf of the City Council (the “governing body”) shall be first duly authorized by resolution of the City Council; and

WHEREAS, the governmental entity will cause to be filed a certified copy of said resolution with the Office of the State Treasurer; and

WHEREAS, the governing body and any designee appointed by the governing body with authority to contribute or withdraw funds of the governmental entity has received and read a copy of the prospectus of the LGIP and understands the risks and limitations of investing in the LGIP; and

WHEREAS, the governing body is duly authorized and empowered to enter into this agreement, to direct the contribution or withdrawal of governmental entity monies, and to delegate certain authority to make adjustments to the incorporated transactional forms, to the individuals designated herein.

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE,
WASHINGTON:**

That the governing body does hereby authorize the contribution of governmental entity monies into and withdrawal out of the LGIP in the manner prescribed by law, rule, and prospectus.

BE IT FURTHER RESOLVED that the governing body has approved the Local Government Investment Pool Transaction Authorization Form (“Form”) as completed by the

Administrative Services Director attached hereto as Exhibit A and incorporated by reference herein and does hereby attest to its accuracy.

BE IT FURTHER RESOLVED that the governmental entity designates Robert Hartwig, Administrative Services Director (the “authorized individual”), to authorize all amendments, changes, or alterations to the Form or any other documentation including the designation of other individuals to make contributions and withdrawals on behalf of the governmental entity.

BE IT FURTHER RESOLVED that this delegation ends upon the written notice, by any method set forth in the prospectus, of the governing body that the authorized individual has been terminated or that his or her delegation has been revoked. The Office of the State Treasurer will rely solely on the governing body to provide notice of such revocation and is entitled to rely on the authorized individual’s instructions until such time as said notice has been provided.

BE IT FURTHER RESOLVED that the Form as incorporated into this resolution or hereafter amended by delegated authority, or any other documentation signed or otherwise approved by the authorized individual shall remain in effect after revocation of the authorized individual’s delegated authority, except to the extent that the authorized individual whose delegation has been terminated shall not be permitted to make further withdrawals or contributions to the LGIP on behalf of the governmental entity. No amendments, changes, or alterations shall be made to the Form or any other documentation until the entity passes a new resolution naming a new authorized individual.

BE IT FINALLY RESOLVED that the governing body acknowledges that it has received, read, and understood the prospectus as provided by the Office of the State Treasurer. In addition, the governing body agrees that a copy of the prospectus will be provided to any person delegated or otherwise authorized to make contributions or withdrawals into or out of the LGIP and that said individuals will be required to read the prospectus prior to making any withdrawals or contributions or any further withdrawals or contributions if authorizations are already in place.

ADOPTED BY THE CITY COUNCIL ON JULY 21, 2014.

Mayor Shari Winstead

ATTEST:

Jessica Simulcik Smith
City Clerk

RESOLUTION NO. 204

A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON REVISING FINANCIAL POLICIES REGARDING THE INVESTMENT OF PUBLIC FUNDS

WHEREAS, the City Council wishes to provide excellent financial management of the City's investment program; and

WHEREAS, the City's current investment policies, adopted in 1995, do not reflect the Government Finance Officers Association (GFOA) recommended best practices applicable to an investment program; and

WHEREAS, the City Council wishes to set out guidelines for the City Manager in the administration of a City investment program; and

WHEREAS, a comprehensive financial policy provides a solid foundation to meet the City's needs; and

WHEREAS, the City Council wishes to revise the Financial Policies associated with the investment of Public Funds; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, AS FOLLOWS:

Section 1. The City Council hereby repeals section III of the Financial Management Policies (Resolution No. 37, dated July 31, 1995).

Section 2. The City Council hereby authorizes the Finance Department to implement administrative policy and procedures required to protect and account for City Investments.

Section 3. The City Council hereby adopts Investment Policies to be followed in the City's Cash Management Program (Attachment A).

ADOPTED BY THE CITY COUNCIL ON APRIL 28, 2003.



Scott Jepsen, Mayor

ATTEST:



Sharon Mattioli, City Clerk

**City of Shoreline
Investment Policy**

1.0 Policy:

It is the policy of the City of Shoreline to invest public funds in a manner, which will provide the highest investment return with the maximum security while meeting it's daily cash flow demands. All investments shall conform to all Washington statutes governing the investment of public funds.

2.0 Scope:

It is intended that these policies apply to investment activities of all reserves and inactive cash under the direct authority of the City of Shoreline.

2.1 Pooled Investments:

Investments for the City will be made on a pooled basis and include the financial assets of all funds of the City. These funds, presented in the City's Annual Financial Report, include:

2.1.1 The General Fund (001)

2.1.2 Special Revenue Funds (100 series of fund numbers), to account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

2.1.3 Capital Project Funds (300 series of fund numbers) to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure (other than those financed by proprietary funds and trust funds) that include the construction project funds.

2.1.4 Internal Service Funds (500 series of fund numbers), to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis, represented by the Equipment Replacement, Equipment Rental, and Unemployment reserve Funds.

2.1.5 Any new fund created by the Council unless specifically exempted by the Council.

3.0 Prudence:

Investments shall be made with judgement 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.

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3.1 The standard of prudence to be used by investment officials should be the "prudent person," standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, the investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective:

The primary objectives in priority order of the City's investment activity shall be safety, liquidity, and return on investment.

4.1 Safety: Safety of principal is the foremost objective of the City of Shoreline. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required so that potential losses on an individual security do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which may be reasonably anticipated.

4.3 Return on Investment: The City's investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, the City's investment objectives, and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority:

By the adoption of this policy, the management of inactive cash and the investment of funds identified in paragraph 2.1 are the responsibility of the City Manager or his/her designee as identified within the City of Shoreline Municipal Code. Management responsibility for the investment program is hereby delegated to the Finance Director or his/her designee, who shall establish written procedures for the operation of the investment program consistent with this investment policy.

In the execution of this delegated authority, the Finance Director or his/her designee may establish accounts with qualified financial institutions and broker/dealers for the purpose of effecting investment transactions in accordance with this policy. The criteria used to select qualified financial institutions and broker/dealers are identified in paragraph 7.0 of this policy.

5.1 Investment Procedures: The procedures should include reference to safekeeping, master repurchase agreements, wire transfer agreements, custody agreements and banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may

engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director or his/her designee.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Finance Director or his/her designee any material financial interest in financial institutions that conduct business within this jurisdiction and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Shoreline, particularly with regard to the timing of purchases and sales.

7.0 Authorized Financial Dealers and Institutions:

The Finance Director or his/her designee will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved Security Brokers/Dealers selected by credit worthiness and who are authorized to conduct business in the State of Washington. No public deposit may be made except in a qualified depository in the State of Washington as provided in Chapter 39.58 RCW. All brokers/dealers and financial institutions who desire to do business with the City must supply the Finance Director with annual audited financial statements, proof of National Association of Securities Dealers certification, and certification of having read the City's investment policy. The Finance Director will periodically conduct an annual review of the financial condition of all financial institutions and broker /dealers with whom the City invests ensuring that a current audited financial statement and other supplementary information required by the City is current.

8.0 Authorized and Suitable Investments:

The City of Shoreline is empowered to invest in any of the securities as defined by RCW 35A.40.050 "Fiscal - Investment of Funds." In general, these include:

8.1 Investment deposits, including certificates of deposit, with qualified depositories defined in Chapter 39.58, RCW.

8.2 Certificate notes or bonds of the United States, or other obligations of the United States, or its agencies, or any corporation owned by the government of the United States, such as the Government National Mortgage Association.

8.3 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 Loans, Bank notes and bonds, Federal Farm Credit Bank consolidation notes and bonds, Federal National Mortgage Association Notes, and guaranteed certificates of participation.

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8.4 Bankers acceptances purchased on the secondary market.

8.5 Repurchase agreements for securities listed in 2, 3 and 4 above, provided that the transaction is structured so that the City of Shoreline obtains control over the underlying securities, and a master repurchase agreement has been signed with the bank or dealer.

8.6 Washington State Local Government Investment Pool.

9.0 Investment Strategy:

9.1 Pooled Investments. A buy and hold strategy will generally be followed; that is, investments once made will usually be held until maturity. A buy and hold strategy will result in unrealized gains or losses as market interest rates fall or rise from the coupon date of the investment. Unrealized gains or losses, however, will diminish as the maturity dates of the investments are approached or as market interest rates move closer to the coupon rate of the investment. A buy and hold strategy requires that the portfolio be kept sufficiently liquid to preclude the undesired sale of investments prior to maturity. Occasionally, the Finance Director may find it advantageous to sell an investment prior to maturity, but this should only be on an exception basis and only when it is clearly favorable to do so.

9.2 Investments held separately. Investments held separately for bond proceeds will follow the trust indenture for each issue.

10.0 Collateralization:

Investments in time certificates of deposit shall be fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings & Loan Insurance Corporation (FSLIC), as appropriate. Additionally the Public Deposit Protection Commission (PDPC) provides security by protecting public deposits, which exceed the amount insured by the FDIC. The PDPC also minimizes participating depositaries liability for defaulting institutions

In order to provide a level of security for all funds, collateralization will be required on certificates of deposit and repurchase agreements pursuant to RCW 39.58.050 and 39.59.020. Repurchase Agreements shall be collateralized at 102% of par value plus accrued interest. Only Securities authorized to be purchased by the City will be accepted as collateral and said instruments will always be held by an independent third party with which the City has a current custodial agreement. The independent third party shall provide a clearly marked evidence of ownership (safekeeping receipt) for the City's records.

The right to make substitutions of an equal or greater amount of such collateral at any time is granted.

11.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements entered into by the City of Shoreline, shall be conducted on a delivery versus payment basis. Securities

purchased by the City will be delivered against payment and held in a custodial safekeeping account. A third party custodian designated by the Finance Director will hold securities and safekeeping receipts will evidence all transactions.

12.0 Diversification:

In order to reduce overall portfolio risk while attaining benchmark average rate of return, the City will diversify its investments by security type, issuing institution, and terms of maturity. The diversification concept in a cash management fund thus will include prohibition against over concentration in a specific maturity sector as well as restricting the reliance on specific risk instruments and issuers. With the exception of U.S. Treasury Securities and the WA State Local Government Investment Pool no more than fifty percent (50%) of the City's total investment portfolio will be invested in a single security type, with a single financial institution or scheduled for maturity in a single date sector.

13.0 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched with a specific cash flow, the City will not directly invest operating funds in securities maturing in more than two years from the date of purchase. However, the City may collateralize repurchase agreements using longer dated investments.

Reserve or construction in progress funds may be invested in securities maturing up to five years after the purchase date if such investments are made to coincide as nearly as practical with the expected use of the funds

14.0 Internal Controls:

The development of internal controls is the responsibility of the City's management. Authority to establish and maintain internal controls is by this policy assigned to the Finance Director or his/her designee. Either an independent auditor or an independent committee, as determined appropriate by the Finance Director or his/her designee shall conduct periodic reviews of said internal controls in order to assure compliance with investment policy, procedure and State statute. Periodic reviews may result in recommendations to revise or change procedures in order to improve effectiveness and/or efficiency.

15.0 Performance Standards:

The City of Shoreline investment portfolio will be designed to obtain a market average rate of return in budgetary and economic cycles, taking into account the City's investment risk constraints, investment objectives and cash flow needs.

15.1 Market Yield. The City's investment strategy is passive and yield objectives are just as important as internal controls. Given this strategy, the basis used to determine whether the market yields are being achieved shall be to identify a comparable benchmark to our portfolio investment duration. This benchmark shall be periodically reviewed for effectiveness and applicability. The present benchmark has been identified as the annual average of the Washington State

Local Government Investment Pool (LGIP). Average rate data will be derived from the Office of the State Treasurer, custodian and administrator of the LGIP.

16.0 Reporting:

Periodic investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis and adherence to policy provisions. Given this theory, investment reports shall be incorporated within routinely scheduled quarterly financial reports submitted to management and Council that provide a clear picture of the status of the current investment portfolio. The investment report should include, at a minimum: (a) a listing of individual securities held at the end of the reporting period by authorized investment category, (b) life and final maturity date of all investments listed, (c) earnings rate, (d) par value, and (e) percentage of the portfolio represented by each investment category.

17.0 Adoption of Policy:

The City of Shoreline investment policy shall be adopted by resolution of the City Council. The policy is subject to continuous review and evaluation primarily by the Finance Director and his/her designee in order to assure a degree of accountability and professionalism that is worthy of the public trust. All recommended modifications must be approved and adopted by resolution of the City Council.

GLOSSARY

Agencies. Federal Agency Securities, the price at which the 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 bid.

Bid. The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Broker. A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large denominations CD's are typically negotiable.

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.

Commission. The price offered for securities broker. A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. He does

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not have a position in the money market. Brokers are active in markets, in which banks buy and sell money and enter dealer markets.

Coupon. An annual rate of interest that a bond issuer promises to pay the bondholder on the balance of the face value.

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

Debenture. A bond secured only by the general credit of the issuer.

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 with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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 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.

Duration. The measurement of sensitivity of a security's market value or price. It is the average time until receipt of the weighted present value of the cash flows, expressed in years.

Factor. The decimal number representing the proportion of the outstanding principal balance of a security to its original certificate amount currently remaining.

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 Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

Federal Funds Rate. The rate of interest at which Federal funds are traded. 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-a-vis member commercial banks.

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

Federal 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 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.

Float. The amount of money represented by checks outstanding and in the process of collection.

Freddie Mac. The Federal Home Loan Mortgage Corporation (FHLMC) was created in July 1970 to promote development of a nation-wide secondary market in conventional residential mortgages. The FHLMC buys residential mortgages and then resells them via the sale of mortgage related instruments. The FHLMC may purchase mortgages only from financial institutions that have their deposits or accounts insured by agencies of the federal government.

Full Faith and Credit. A pledge of the general taxing power of a government to repay debt obligations (typically used in reference to bonds).

Government National Mortgage Association (GNMA OR GINNIE MAE). The 1968 partition of the Federal National Mortgage Association spawned the Government National Mortgage Association. Ginnie Mae is a wholly government-owned corporation within the Department of Housing and Urban Development. Ginnie Mae's mission is to make real estate investment more attractive to institutional investors which it has done by designing and issuing, partly in conjunction with private financial institutions, mortgage-backed securities for which an active secondary market has developed. These securities are referred to as pass-through securities because payment of interest and principal on mortgages is passed on to the certificate holders after deduction of fees for servicing and guarantee. These securities carry Ginnie Mae's guarantee of timely payment of both principal and interest and are backed by the full faith and credit of the U.S. Government.

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Internal Control. A plan of organization for purchasing, accounting, and other financial activities which, among other things, provides that:

- The duties of employees are subdivided so that no single employee handles a financial action from beginning to end.
- Proper authorization from specific responsible officials are obtained before key steps in the processing of a transaction are completed; and
- Records and procedures are arranged appropriately to facilitate effective control.

Investment. Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals or base payments.

Investment Instrument. The specific type of security, which a government purchases, and holds.

Liquidity. A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked price is narrow and reasonable size can be done at those quotes.

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 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 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.

Offer. The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Bid.

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 of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

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Performance Measures. Specific quantitative measures of work performed within an activity or program (e.g., total interest earned). Also, a specific quantitative measure of results obtained through a program or activity (e.g., comparison of portfolio yield to six-month Treasury bill).

Premium. The amount by which a security is selling above par.

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 insight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule. An investment standard. Washington law requires that a fiduciary or trustee may invest money only in a list of eligible investments pursuant to the text of RCW 39.59.020; 35.39.030; 43.84.080; and 43.250.040. In some 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.

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 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.

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.

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.

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 market made for the purchase and sale of outstanding issues following the initial distribution.

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 security deposits of public monies.

Securities & Exchange Commission. Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Structured Notes. Notes issued by Government Sponsored Enterprises (Federal Home Loan Bank, Federal National Mortgage Association, Student Loan Marketing Association, etc) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Tax Anticipation Notes. Notes issued in anticipation of taxes which are retired usually from taxes collected.

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 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.

Weighted Average Life. The weighted average number of years from the security's issuance until each principal dollar is returned to the investor.

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 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.

**LOCAL GOVERNMENT
INVESTMENT POOL**

Prospectus

January 2014



James L. McIntire

Washington State Treasurer

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I. The LGIP

The Local Government Investment Pool (the “LGIP”) is an investment pool of public funds placed in the custody of the Office of the Washington State Treasurer (the “State Treasurer”) for investment and reinvestment as defined by RCW 43.250.020. The purpose of the LGIP is to allow eligible governmental entities to participate with the state in the investment of surplus public funds, in a manner that optimizes liquidity and return on such funds. In establishing the LGIP, the legislature recognized that not all eligible governmental entities are able to maximize the return on their temporary surplus funds, and therefore it provided a mechanism whereby they may, at their option, utilize the resources of the State Treasurer to maximize the potential of their surplus funds while ensuring the liquidity of those funds.

The State Treasurer has established a sub-pool within the LGIP whose shares are offered by means of this Prospectus: The LGIP-Money Market Fund (the “LGIP-MMF” or the “Fund”). The State Treasurer has the authority to establish additional sub-pools in the future.

The Fund offered in this Prospectus seeks to provide current income by investing in high-quality, short term money market instruments. These standards are specific to the Fund, as illustrated in the following table. The LGIP-MMF offers daily contributions and withdrawals.

FUND SNAPSHOT

The table below provides a summary comparison of the Fund’s investment types and sensitivity to interest rate risk. This current snapshot can be expected to vary over time.

Fund	Investment Types	Maximum Dollar-Weighted Average Maturity for LGIP-MMF
LGIP-Money Market Fund	Cash	60 days
Current Investments (as of November 1, 2013)	Bank Deposits US Treasury bills Repurchase agreements US Government agency obligations	

Fees and Expenses

Administrative Fee. The State Treasurer charges pool participants a fee representing administration and recovery costs associated with the operation of the Fund. The administrative fee accrues daily from pool participants’ earnings prior to the earnings being posted to their account. The administrative fee will be paid monthly. In the event that there are no earnings, the administrative fee will be deducted from principal.

The chart below illustrates the operating expenses of the LGIP-MMF for past years, expressed in basis points as a percentage of fund assets.

**Local Government Investment Pool-MMF
Operating Expenses by Fiscal Year (in Basis Points)**

	2006	2007	2008	2009	2010	2011	2012	2013
<i>Total Operating Expenses</i>	1.12	0.96	0.84	0.88	0.64	0.81	0.68	0.87

(1 basis point = 0.01%)

Because most of the expenses of the LGIP-MMF are fixed costs, the fee (expressed as a percentage of fund assets) will be affected by: (i) the amount of operating expenses; and (ii) the assets of the LGIP-MMF. The table below shows how the fee (expressed as a percentage of fund assets) would change as the fund assets change, assuming an annual fund operating expenses amount of \$800,000.

Fund Assets	\$6.0 bn	\$8.0 bn	\$10.0 bn
Total Operating Expenses (in Basis Points)	1.33	1.0	.80

Portfolio Turnover: The Fund does not pay a commission or fee when it buys or sells securities (or “turns over” its portfolio). However, debt securities often trade with a bid/ask spread. Consequently, a higher portfolio turnover rate may generate higher transaction costs that could affect the Fund’s performance.

II. Local Government Investment Pool – Money Market Fund

Investment Objective

The LGIP-MMF will seek to effectively maximize the yield while maintaining liquidity and a stable share price of \$1.

Principal Investment Strategies

The LGIP-MMF will seek to invest primarily in high-quality, short term money market instruments. Typically, at least 55% of the Fund’s assets will be invested in US government securities and repurchase agreements collateralized by those securities. The LGIP-MMF means a sub-pool of the LGIP whose investments will primarily be money market instruments. The LGIP-MMF will only invest in eligible investments permitted by state law. The LGIP-MMF will not be an SEC-registered money market fund and will not be required to follow SEC Rule 2a-7. Investments of the LGIP-MMF will conform to the LGIP Investment Policy, the most recent version of which will be posted on the LGIP website and will be available upon request.

Principal Risks of Investing in the LGIP-Money Market Fund

Counterparty Credit Risk. A party to a transaction involving the Fund may fail to meet its obligations. This could cause the Fund to lose the benefit of the transaction or prevent the Fund from selling or buying other securities to implement its investment strategies.

Interest Rate Risk. The LGIP-MMF’s income may decline when interest rates fall. Because the Fund’s income is based on short-term interest rates, which can fluctuate significantly over short periods, income risk is expected to be high. In addition, interest rate increases can cause the price of a debt security to decrease and even lead to a loss of principal.

Liquidity Risk. Liquidity risk is the risk that the Fund will experience significant net withdrawals of Fund shares at a time when it cannot find willing buyers for its portfolio securities or can only sell its portfolio securities at a material loss.

Management Risk. Poor security selection or an ineffective investment strategy could cause the LGIP-MMF to underperform relevant benchmarks or other funds with a similar investment objective.

Issuer Risk. The LGIP-MMF is subject to the risk that debt issuers and other counterparties may not honor their obligations. Changes in an issuer's credit rating (e.g., a rating downgrade) or the market's perception of an issuer's creditworthiness could also affect the value of the Fund's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. Also, a decline in the credit quality of an issuer can cause the price of a money market security to decrease.

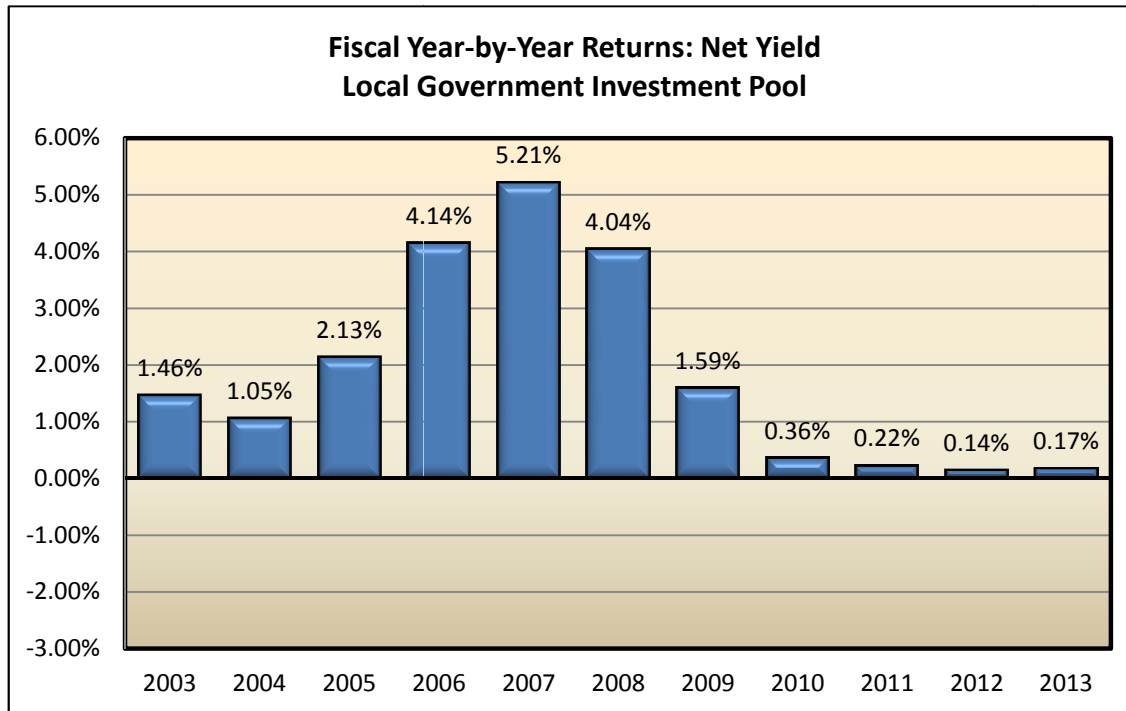
Securities Lending Risk and Reverse Repurchase Agreement Risk. The LGIP-MMF may engage in securities lending or in reverse repurchase agreements. Securities lending and reverse repurchase agreements involve the risk that the Fund may lose money because the borrower of the Fund's securities fails to return the securities in a timely manner or at all or the Fund's lending agent defaults on its obligations to indemnify the Fund, or such obligations prove unenforceable. The Fund could also lose money in the event of a decline in the value of the collateral provided for loaned securities or a decline in the value of any investments made with cash collateral.

Risks Associated with use of Amortized Cost. The use of amortized cost valuation means that the LGIP-MMF's share price may vary from its market value NAV per share. In the unlikely event that the State Treasurer were to determine that the extent of the deviation between the Fund's amortized cost per share and its market-based NAV per share may result in material dilution or other unfair results to shareholders, the State Treasurer may cause the Fund to take such action as it deems appropriate to eliminate or reduce to the extent practicable such dilution or unfair results.

An investment in the LGIP-MMF is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of investments at \$1 per share, pool participants could lose money by investing in the LGIP-MMF. There is no assurance that the LGIP-MMF will achieve its investment objective.

Performance

The following information is intended to address the risks of investing in the LGIP-MMF. The information illustrates changes in the performance of the LGIP-MMF's shares from year to year. Returns are based on past results and are not an indication of future performance. Updated performance information may be obtained on our website at www.tre.wa.gov or by calling the LGIP toll-free at 800-331-3284.



<u>Local Government Investment Pool-Money Market Fund</u>			
<u>Average Accrued Net Yield</u>			
<u>1 Year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
0.17%	0.19%	.52%	1.94%

Transactions: LGIP-MMF

General Information

The minimum transaction size (contributions or withdrawals) for the LGIP-MMF will be five thousand dollars. The State Treasurer may, in its sole discretion, allow for transactions of less than five thousand dollars.

Valuing Shares

The LGIP-MMF will be operated using a net asset value (NAV) calculation based on the amortized cost of all securities held such that the securities will be valued at their acquisition cost, plus accrued income, amortized daily.

The Fund's NAV will be the value of a single share. NAV will normally be calculated as of the close of business of the NYSE, usually 4:00 p.m. Eastern time. If the NYSE is closed on a particular day, the Fund will be priced on the next day the NYSE is open.

NAV will not be calculated and the Fund will not process contributions and withdrawals submitted on days when the Fund is not open for business. The time at which shares are priced and until which contributions and withdrawals are accepted is specified below and may be changed as permitted by the State Treasurer.

To the extent that the LGIP-MMF's assets are traded in other markets on days when the Fund is not open for business, the value of the Fund's assets may be affected on those days. In addition, trading in some of the Fund's assets may not occur on days when the Fund is open for business.

Transaction Limitation

The State Treasurer reserves the right at its sole discretion to set a minimum and/or maximum transaction amount from the LGIP-MMF and to limit the number of transactions, whether contribution, withdrawal, or transfer permitted in a day or any other given period of time.

The State Treasurer also reserves the right at its sole discretion to reject any proposed contribution, and in particular to reject any proposed contribution made by a pool participant engaged in behavior deemed by the State Treasurer to be abusive of the LGIP-MMF.

A pool participant may transfer funds from one LGIP-MMF account to another subject to the same time and contribution limits as set forth in WAC 210.10.060.

Contributions

Pool participants may make contributions to the LGIP-MMF on any business day. All contributions will be effected by electronic funds transfer to the account of the LGIP-MMF designated by the State Treasurer. It is the responsibility of each pool participant to pay any bank charges associated with such electronic transfers to the State Treasurer. Failure to wire funds by a pool participant after notification to the State Treasurer of an intended transfer will result in penalties. Penalties for failure to timely wire will be assessed to the account of the pool participant responsible.

Notice. To ensure same day credit, a pool participant must inform the State Treasurer of any contribution over one million dollars no later than 9 a.m. on the same day the contribution is made. Contributions for one million dollars or less can be requested at any time prior to 10 a.m. on the day of contribution. For all other contributions over one million dollars that are requested prior to 10 a.m., a pool participant may receive same day credit at the sole discretion of the State Treasurer. Contributions that receive same day credit will count, for earnings rate purposes, as of the day in which the contribution was made. Contributions for which no notice is received prior to 10:00 a.m. will be credited as of the following business day.

Notice of contributions may be given by calling the Local Government Investment Pool (800-331-3284) OR by logging on to State Treasurer's Treasury Management System ("TMS"). Please refer to the [LGIP-MMF Operations Manual](#) for specific instructions regarding contributions to the LGIP-MMF.

Direct deposits from the State of Washington will be credited on the same business day.

Pricing. Contribution requests received in good order will receive the NAV per unit of the LGIP-MMF next determined after the order is accepted by the State Treasurer on that contribution date.

Withdrawals

Pool participants may withdraw funds from the LGIP-MMF on any business day. Each pool participant shall file with the State Treasurer a letter designating the financial institution at which funds withdrawn from the LGIP-MMF shall be deposited (the "Letter"). This Letter shall contain the name of the financial institution, the location of the financial institution, the account name, and the account number to which funds will be deposited. This Letter shall be signed by local officials authorized to receive and disburse funds, as described in WAC 210-10-020.

Disbursements from the LGIP-MMF will be effected by electronic funds transfer. Failure by the State Treasurer to wire funds to a pool participant after proper notification to the State Treasurer to disburse funds to a pool participant may result in a bank overdraft in the pool participant's bank account. The State Treasurer will reimburse a pool participant for such bank overdraft penalties charged to the pool participant's bank account.

Notice. In order to withdraw funds from the LGIP-MMF, a pool participant must notify the State Treasurer of any withdrawal over one million dollars no later than 9 a.m. on the same day the withdrawal is made. Withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of withdrawal. For all other withdrawals from the LGIP-MMF over one million dollars that are requested prior to 10 a.m., a pool participant may receive such withdrawal on the same day it is requested at the sole discretion of the State Treasurer. No earnings will be credited on the date of withdrawal for the amounts withdrawn. Notice of withdrawals may be given by calling the Local Government Investment Pool (800-331-3284) OR by logging on to TMS. Please refer to the LGIP-MMF Operations Manual for specific instructions regarding withdrawals from the Fund.

Pricing. Withdrawal requests with respect to the LGIP-MMF received in good order will receive the NAV per unit of the LGIP-MMF next determined after the order is accepted by the State Treasurer on that withdrawal date.

Suspension of Withdrawals. If the State Treasurer has determined that the deviation between the Fund's amortized cost price per share and the current net asset value per share calculated using available market quotations (or an appropriate substitute that reflects current market conditions) may result in material dilution or other unfair results, the State Treasurer may, if it has determined irrevocably to liquidate the Fund, suspend withdrawals and payments of withdrawal proceeds in order to facilitate the permanent termination of the Fund in an orderly manner. The State Treasurer will distribute proceeds in liquidation as soon as practicable, subject to the possibility that certain assets may be illiquid, and subject to subsequent distribution, and the possibility that the State Treasurer may need to hold back a reserve to pay expenses.

The State Treasurer also may suspend redemptions if the New York Stock Exchange suspends trading or closes, if US bond markets are closed, or if the Securities and Exchange Commission declares an emergency. If any of these events were to occur, it would likely result in a delay in the pool participants' redemption proceeds.

The State Treasurer will notify pool participants within five business days of making a determination to suspend withdrawals and/or irrevocably liquidate the fund and the reason for such action.

Earnings and Distribution

LGIP-MMF Daily Factor

The LGIP-MMF daily factor is a net earnings figure that is calculated daily using the investment income earned (excluding realized gains or losses) each day, assuming daily amortization and/or accretion of income of all fixed income securities held by the Fund, less the administrative fee. The daily factor is reported on an annualized 7-day basis, using the daily factors from the previous 7 calendar days. The reporting of a 7-day annualized yield based solely on investment income which excludes realized gains or losses is an industry standard practice that allows for the fair comparison of funds that seek to maintain a constant NAV of \$1.00.

LGIP-MMF Actual Yield Factor

The LGIP-MMF actual yield factor is a net daily earnings figure that is calculated using the total net earnings including realized gains and losses occurring each day, less the administrative fee.

Dividends

The LGIP-MMF's dividends include any net realized capital gains or losses, as well as any other capital changes other than investment income, and are declared daily and distributed monthly.

Distribution

The total net earnings of the LGIP-MMF will be declared daily and paid monthly to each pool participant's account in which the income was earned on a per-share basis. These funds will remain in the pool and earn additional interest unless withdrawn and sent to the pool participant's designated bank account as specified on the Authorization Form. Interest earned will be distributed monthly on the first business day of the following month.

Monthly Statements and Reporting

On the first business day of every calendar month, each pool participant will be sent a monthly statement which includes the pool participant's beginning balance, contributions, withdrawals, transfers, administrative charges, earnings rate, earnings, and ending balance for the preceding calendar month. Also included with the statement will be the monthly enclosure. This report will contain information regarding the maturity structure of the portfolio and balances broken down by security type.

III. Management

The State Treasurer is the manager of the LGIP-MMF and has overall responsibility for the general management and administration of the Fund. The State Treasurer has the authority to offer additional sub-pools within the LGIP at such times as the State Treasurer deems appropriate in its sole discretion.

Administrator and Transfer Agent. The State Treasurer will serve as the administrator and transfer agent for the Fund.

Custodian. A custodian for the Fund will be appointed in accordance with the terms of the LGIP Investment Policy.

IV. Miscellaneous**Limitation of Liability**

All persons extending credit to, contracting with or having any claim against the Fund offered in this Prospectus shall look only to the assets of the Fund that such person extended credit to, contracted with or has a claim against, and none of (i) the State Treasurer, (ii) any subsequent sub-pool, (iii) any pool participant, (iv) the LGIP, or (v) the State Treasurer's officers, employees or agents (whether past, present or future), shall be liable therefor. The determination of the State Treasurer that assets, debts, liabilities, obligations, or expenses are allocable to the Fund shall be binding on all pool participants and on any person extending credit to or contracting with or having any claim against the LGIP or the Fund offered in this Prospectus. There is a remote risk that a court may not enforce these limitation of liability provisions.

Amendments

This Prospectus and the attached Investment Policy may be amended from time to time. Pool participants shall receive notice of changes to the Prospectus and the Investment Policy. The amended and restated documents will be posted on the State Treasurer website: www.tre.wa.gov.

Should the State Treasurer deem appropriate to offer additional sub-pools within the LGIP, said sub-pools will be offered by means of an amendment to this prospectus.

LGIP-MMF Contact Information

Internet: www.tre.wa.gov Treasury Management System/TMS

Phone: 1-800-331-3284 (within Washington State)

Mail:

Office of the State Treasurer
Local Government Investment Pool
PO Box 40200
Olympia, Washington 98504
FAX: 360-902-9044

**LOCAL GOVERNMENT INVESTMENT POOL
TRANSACTION AUTHORIZATION FORM**

Attachment C

Please fill out this form completely, including any existing information, as this form will replace the previous form.

Name of Entity: <u>City of Shoreline</u>	Mailing Address:
Fax Number: <u>206-546-7870</u>	<u>17500 Midvale Avenue</u>
E-mail Contact: <u>hyeh@shorelinewa.gov</u>	<u>Shoreline, WA 98133</u>

Do you wish to have your monthly LGIP statements faxed to the number listed above?

Please note – if you choose to receive statements via fax, you will not receive another copy via U.S. mail.

YES, please fax statements **No**, please send statements via U.S. mail

Bank account where funds will be wired when a withdrawal is requested.

(Note: Funds **will not** be transferred to any account other than that listed).

Bank Name: <u>US BANK</u>
Branch Location: <u>15415 Westminister Way North, Shoreline, WA 98133</u>
Bank Routing Number: <u>125000105</u>
Account Number: <u>1535 9537 2357</u>
Account Name: <u>City of Shoreline</u>

Persons authorized to make deposits and withdrawals for the entity listed above.

Name	Title	Signature	Telephone Number
<u>Henry Yeh</u>	<u>Staff Accountant</u>	<u>[Signature]</u>	<u>206-801-2312</u>
<u>Patti Bader</u>	<u>Finance Manager</u>	<u>[Signature]</u>	<u>206-801-2311</u>
<u>Robert Hartwig</u>	<u>Admin. Services Director</u>	<u>[Signature]</u>	<u>206-801-2301</u>

By signature below, I certify I am authorized to represent the institution/agency for the purpose of this transaction.

<u>[Signature]</u> <small>(Authorized Signature)</small>	<u>Administrative Services Director</u> <small>(Title)</small>	<u>6/13/14</u> <small>(Date)</small>
<u>Robert Hartwig</u> <small>(Print Authorized Signature)</small>	<u>rhartwig@shorelinewa.gov</u> <small>(E-mail Address)</small>	<u>206-801-2301</u> <small>(Telephone number)</small>

Any changes to these instructions must be submitted in writing to the Office of the State Treasurer. Please mail this form to the address listed below:

OFFICE OF THE STATE TREASURER
LOCAL GOVERNMENT INVESTMENT POOL
PO Box 40200
OLYMPIA, WA 98504-0200
FAX: (360) 902-9044

Date Received: ___/___/___
Fund Number: _____
<i>(for LGIP use only)</i>

State of Washington)
County of _____) ss.

Signed or attested before me by _____
Dated this ___ day of _____, 20__.

Signature of Notary

SEAL OR STAMP

Typed or printed name of Notary
7c27 Notary Public in and for the State of Wash.
My appointment expires: _____