PORT OF EVERETT
FINANCIAL MANAGEMENT GUIDELINES

Last Revised: 9/12/2023

General Financial Management Guidelines

I. Purpose and Background

The stewardship of public funds is one of the primary responsibilities given to elected officials of the Port of Everett (the "Port"). Critical to managing these responsibilities are the establishment of financial guidelines which enable Port officials to manage the Port's financial resources in a prudent manner that meets its current obligations while planning for future financial needs. This document establishes guidelines for fiscal management decisions. It is recognized that this document cannot encompass or anticipate all financial decisions and it is intended that these guidelines be applied broadly and yet be flexible to meet special circumstances as they arise. Detailed procedures related to the policies and guidelines are outside the scope of this document and are compiled elsewhere.

II. Financial Philosophy

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

- Sustain operations
- Withstand downturns in the local, regional and global economy
- Ensure the timely payment of all fiscal obligations
- Provide resources adequate to pay for unanticipated emergencies
- Meet all debt covenants
- Maintain financial benchmarks

III. Financial Management Priorities

The Chief Financial Officer (CFO) is directed to manage the Port's financial assets and liabilities with the following priorities:

- Provide financial means to meet all legal and mandated obligations
- Provide resources to maintain the existing primary infrastructure and other assets of the Port
- Provide for the operating costs of Port-owned and operated amenities and programs
- Provide for the replacement of Port-owned real assets and equipment
- Provide for investment in new assets, amenities and programs to advance Commission goals

All Port decisions should reflect both immediate and long-term costs, including on-going operational costs. The Port will seek, promote, and support intergovernmental and public/private partnerships looking to leverage local community investments with contributions from federal, state, and private sources. At all times the Port will operate within financial rules established in state law related to special purpose governments.

The Port of Everett's financial guidelines set forth the basic framework for the overall fiscal management of the Port. These guidelines provide a financial platform for evaluating both current activities and proposals for future programs. It is anticipated that these guidelines will be reviewed and modified to provide financial guidance for issues and situations which were not previously anticipated.

Definitions

For purposes of this document the following definitions apply:

Capital Projects and Purchases means expenditures for physical assets which are utilized over a period of several years and consequentially depreciated over their useful life. Examples include major improvement projects, buildings, equipment, office furniture, etc.

Cash means cash on deposit and any cash equivalent which can be readily converted into cash.

Cash Reserves means the net amount of cash that can be reasonably expected to be available for use within the current rolling 12 month period after payment of those short-term liabilities that are reasonably expected to be paid during the same period.

Non-Operating Revenues means all revenues generated from sources other than from Operating Activities. These include tax receipts, interest earnings, revenues generated by public access activities and most grant related revenues.

Non-Operating Expenses means all interest costs, miscellaneous fees, and expenditures to operate and maintain public access facilities and assets not directly related to the Port's operations.

Operating Activities means those activities of the Port which are directly related to the users of Port facilities and include Seaport, Marina, Real Estate and Administration.

Operating Revenues means those revenues generated from activities by users of Port facilities.

Operating Expenses means those expenses which occur due to the daily operating activities of the Port including all direct costs, all administrative overhead costs, and allocated maintenance costs.

Public Access Expenses means maintenance of facilities available to the public such as the boat launch, walkways, restrooms, trails, signage, lighting, visitor experience elements, and meeting venues, as well as programs that promote the use of port facilities such as festivals and events, etc.

Public Access Investments means those activities which have been determined by the Port Commission to be of such public benefit that the activities should be primarily funded through the use of Property Tax receipts. Examples of Public Access Investments include environmental remediation projects and capital infrastructure projects such as trails, walkways, non-motorized access, beautification, etc.

Revenue Guidelines

1. The Port will attempt to maintain a diversified and stable stream of Operating Revenues to shelter it from short-run fluctuations in any one revenue source.

2. On any agreement for services or property provided by the Port to Port clients which will

total in excess of $50,000 in any one year, Port staff will conduct an adequate review of a prospective client's financial position to ascertain the ability of the client to pay the fees within its agreement. Should Port staff conclude that the prospective client does not have sufficient financial resources to assure payment Port staff will secure additional security backing the agreement.

3. For agreements with customers for use of Port assets and/or infrastructure, the Port will charge tariffs, fees, and/or lease rates to generate sufficient revenue to cover direct costs of operations, maintenance and depreciation associated with the use of that asset and/or infrastructure, as well as a portion of the Port's general and administrative costs, and a return on the Port's investment in any associated new or existing asset and/or infrastructure.

4. When projected revenues from a project do not meet the minimum threshold over the life of a project as calculated in Section 3 above, staff will inform the Commission of the non-financial benefits of the proposal.

5. Port staff has the authority to negotiate terms, conditions, and charges for services which deviate from the published Marine Terminals tariffs and fees without prior Commission approval when it is deemed necessary to do so to capture new revenues or retain existing business relationships. Any customer/client agreement which commits the Port to additional capital expenditures or to a financial or contractual commitment which extends past the current budget year and is greater than the Chief Executive Officer/Executive Director's (CEO) delegated authority may only be approved directly through presentation to the Commission.

6. Current market values should be used to establish appropriate pricing of services and leases. Staff may use assessed value and/or a real estate index to determine current market value.

Expenditure Guidelines

Operating expenses

1. The Port is committed to managing its expenses within annually approved budgets. Expenses shall be in conformance with all laws and Port procedures and provide for the following priorities:

    a. Meet all legal and environmental requirements of the Port
    b. Provide for the physical safety and security of customers, users, employees and tenants of the Port of Everett
    c. Provide services for the benefit of Port customers and clients
    d. Provide resources that will assure the continuity of services in the event of an emergency or natural disaster
    e. Maintain and service the physical assets of the Port
    f. Provide for collaborative ways to participate in trade, economic development and general enhancement of the economy of the Port district
    g. Provide for recreational opportunities and public access to Everett's waterfront

2. All operating expenditures will be made only after appropriate approvals have been attained. Any expenditure made outside of the Port's established purchasing standards cannot be paid. In the event of a declared emergency, approval procedures may be

temporarily waived or modified.

3. Contracts for services shall be periodically reviewed to assure competitive pricing for services. Generally, services contracts shall not be signed for an initial period of longer than three years and shall include language that provides for annual re-appropriation for the service through the formal budget process.

Capital expenditures

1. The Port will develop a multi-year capital improvement plan that will be updated annually and be adopted by the Commission as part of the annual budget process. The Commission will be updated on the status of the capital improvement plan, including any projects that are not going forward or any new projects added to the plan, as part of the first half financial report.

2. Capital improvements for operating activities will generally be made from cash generated from operations. Revenue bonds or other debt instruments can be used to finance an Operating Activity capital project if it is determined that the proposed capital project can generate sufficient additional cash flow to support the debt service payment requirement of the borrowing. If a project is determined to have insufficient revenues to support a specific revenue debt financing, staff shall articulate to the Commission specific options for potentially mitigating the financial shortfall.

3. Capital equipment purchases will forecast three (3) years of operating maintenance costs to be included as part of the cost of the purchase.

4. The Port will maintain its physical assets at a level adequate to protect the Port's capital investments and minimize future maintenance and replacement costs. A comprehensive maintenance and replacement schedule shall be developed and maintained.

Budget Guidelines

1. The CEO will present to the Port Commission a detailed Operating and Capital budget that includes the following components:
    a. A one-year detailed budget for all revenues and expenditures
    b. Five year forecast of revenues and expenditures
    c. A five-year capital investment plan
    d. A one-year cash flow forecast and a five-year funding plan

2. The budget process will comply with all state statutes and debt covenants and shall be formally adopted after public input prior to the year end.

3. Once approved, the CEO shall administer the budget. The CEO shall adjust the budget as appropriate during the year in response to business needs. The CEO will ensure that appropriate financial controls are in place and that the financial condition of the Port is protected. A quarterly financial review of Operating Results will be presented to the Commission.

4. Should the CEO determine that total operating expenses (before depreciation) at any year end will be higher than total operating revenues or that the financial condition of the Port

will not be in compliance with any and all bond covenants, the CEO will initiate a financial plan to mitigate the issue. Such plan will be presented to the Commission within 90 days of such determination.

5. The Port will periodically review all salaries, wages and benefits to be competitive within the local job marketplace.

6. The Port shall support a scheduled level of maintenance and replacement of its assets. The Port has prioritized maintenance expenses to be budgeted in the following priority:
   a. Maintenance of facilities to ensure the safety of all Port employees, tenants, and users of Port facilities
   b. Maintenance of facilities that provide for the proper preventative work to minimize future maintenance or capital costs
   c. Maintenance of facilities to maintain the usability and quality of the asset

7. Any property tax levied shall be used first to pay all scheduled interest costs on General Obligation Debt (described in Appendix A), secondly to the scheduled retirement of all General Obligation Debt, thirdly for expenditures required for the mitigation and restoration of environmental contamination and finally to the support of public access activities. Any remaining property tax levy shall be available to provide funding for capital projects that support the general Port infrastructure. No property tax levy shall be used to support operating expenditures of the Port or for capital projects incurred for specific tenant or Port facilities used for private activities.

8. The Port shall maintain a financial forecast of projected revenue sources and expenditures. The forecast shall be extended for a period of the current budget year plus four additional years. The forecast for the current year shall be updated at least quarterly and the long-term forecast will be updated annually. The Port will measure its forecasts against actual results and ascertain whether or not the current forecasting tools utilized are adequately tracking the actual results. Where the forecasts are found to significantly deviate from the actual financial results, the CFO will analyze variances to understand the reason for the deviation. The long-term goal is to continually evaluate the forecasts to actual results to assure that all forecasts are timely and reflect the financial operations of the Port.

9. Port staff shall actively consider funding from other agencies and pursue such funding when appropriate. Staff will make reasonable effort to determine eligibility and make application for any grants and/or below market loans which may support the financing of a Port activity. In general, grant funds should not be sought to hire personnel.

10. All pertinent financial and budget documents will be posted on the Port's website.

Internal Controls

The CFO will establish a system of internal controls to safeguard the assets of the Port. Internal controls will:

a. Establish responsibilities
b. Maintain adequate records
c. Insure assets and bond key employees
d. Separate recordkeeping from custody of assets

e. Divide responsibilities for related transactions
f. Apply technology controls
g. Document regular reviews

Cash Management

1. All cash receipts will be accumulated and invested promptly. All funds will be promptly deposited into the Port's depository account and be invested in a manner consistent with the formally adopted Investment Policy (Appendix B). Investment strategies shall provide for sufficient liquidity to meet the cash flow needs projected within the five year financial forecast including in the adopted budget.

2. Investments made by the Port Treasurer will be made in conformance with Investment Guidelines as stated within the laws of the State of Washington and the Port Investment Policy (Appendix B).

3. The Port will collect all receivables in a manner which will provide for timely receipt of funds owed to the Port. When a receivable is deemed to be uncollectible, the receivable will be referred to the Port's attorney or to a collection agency for collection. All collections of accounts receivable shall be made consistent with “best practices” as determined by the CFO and Port policy, including the CEO’s delegation of powers. An estimated reserve for uncollectible accounts shall be recorded annually on the balance sheet for the estimated amount of receivables deemed to be uncollectible, determined by the average of the prior three (3) year period.

Cash Reserves

The Port shall maintain sufficient cash reserves to assure the following:

1. Cash liquidity sufficient to pay an average of three months of operating expenses to outside vendors and employees
2. An amount of $1 million for purposes of financing emergencies. This amount shall be available for costs which have resulted from natural disasters, accidents or to address environmental emergencies.
3. Cash reserves necessary to meet all debt covenants

When it is apparent that the Port will not be in compliance with these cash flow guidelines, a detailed plan on increasing the cash flow to meet these requirements shall be submitted by the CEO to the Commission.

Debt Guidelines

All debt will be issued and managed in accordance with the Port’s Debt Policy (Appendix A).

Appendix A
Debt Policy

Background

The Port of Everett (the “Port”) maintains conservative financial guidelines to assure strong financial health both in the short and long-term. The Port recognizes the importance of debt management as a tool to finance large capital investments such as property acquisitions and the construction of new and replacement facilities.

Maintaining the Port’s access to long-term financing is an important objective of the Port’s financial guidelines. All debt issued will comply with this policy, Title 35, 39 and 53 of the Revised Code of Washington (RCW), as well as all applicable Port, State, and Federal laws, rules, and regulations.

Purpose

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

Scope

This Policy provides general guidance for the issuance and management of all Port debt as well as any debt issued by component units guaranteed by the Port or debt obligations of the Port which results from any interlocal agreement or contractual obligation with another government.

Responsibility

Authority to issue debt is solely authorized through a formal action of the Port Commission. The Commission provides for administrative management and payment of all debt obligations through the Finance Department and has authorized the Chief Financial Officer (“CFO”) in the capacity as the Port Treasurer to administer these duties. The CFO may appoint a subordinate employee to assist in the performance of the duties of Port Treasurer.

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

The CFO shall monitor external circumstances and situations that may affect the Port’s overall debt capacity and external bond rating and shall have primary responsibility for maintaining relationships with all contracted service providers that assist with debt issuance and management.

Financial Communication and Reporting

The CFO shall be designated as the primary contact within the Port for purposes of speaking on behalf of the Port regarding any debt issuance. The Port is committed to providing accurate and timely information as part of its debt obligations.

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

Budgeting and Capital Planning

The Finance Department is responsible for coordinating and analyzing the debt requirements of the annual capital plan. This includes timing of debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens and current revenue requirements. The Port will not issue long-term debt (maturities greater than one year) to finance current operations. Any proposal to provide financial liquidity through a line of credit or another form of financing shall be formally explained to the Port Commission as to purpose and to the details of the terms and conditions of such a borrowing. The CFO shall establish credit benchmarks, which measure the Port's key economic and debt indicators and compare those indicators using industry standards. This benchmark comparison shall be submitted as part of any request of the Commissioners to issue debt.

Prior to issuance of debt, revenue projections will be prepared to ensure that there is adequate revenue over the life of the debt issuance to make principal and interest payments and evaluate the lifetime cost of the debt relative to other debt options. The Port will maintain its finances in a manner which will generate cash flows from all sources (before capital projects and long-term debt service payments) sufficient to provide cash to cover all debt covenants required by outstanding bond issues. The Port will strive to maintain cash flows which are at least 2.0 times greater than the maximum amount of future annual debt service of all outstanding bonds, providing for the refinancing options of any debt structured with a balloon payment.

Use of Debt

The Port may utilize general obligation property tax supported bonding to finance those capital improvements and long term assets which have been determined to be essential to the maintenance of, or improvement to, the infrastructure required for the Port's public access activities or for the investment in strategic initiatives requiring the purchase of land and/or other property which do not have revenue sources sufficient to support repayment of the debt.

General obligation debt (defined in "Types of Debt" section) may be issued for the replacement of infrastructure supporting Port general operations in circumstances when the operating division directly benefiting by the capital improvement is deemed to not be able to raise the operating revenues sufficiently to support the debt issuance.

Generally, debt (other than general obligation debt) should be used only to finance specific improvements that can generate operating cash flows sufficient to service the debt. When debt is used to finance specific capital projects, the means of repayment must be reasonably certain prior to the debt being issued. All repayment schedules must be submitted to the Commission, with a detailed analysis of the repayment sources provided to them in writing.

The Port may utilize revenue supported bonds to finance public improvements which can be shown to be self-liquidating and to be needed for purposes of economic development within the Port district and for the benefit of its citizens. Financial feasibility studies shall be presented for each project to show evidence of the self-liquidating nature of the project.

The Port will not borrow on a short-term basis to cover routine operations. In no instance should short-term borrowing be considered as a financing option unless a detailed plan for repayment of the borrowing is presented to the Commission prior to the issuance of the debt.

Debt payments should not exceed the anticipated useful life of an improvement and in no case should exceed 30 (thirty) years. When long term debt is being considered to finance a capital investment the Port staff shall have developed a written project financial plan which at a minimum shows the proposed cash flows which will be utilized to service the principal and interest of the debt.

Types of Debt

The following is a description of the types of long-term debt the Port may issue:

General Obligation Debt

This debt is backed by the full faith and credit of the Port. General obligation debt has a pledge of the Port's taxing authority and debt issued in this category can be used for any purpose allowed by law.

The Port Commission may authorize the issuance of general obligation debt without a vote of the public as long as there is an available source of funding to pay the debt service and the Port has sufficient statutory debt capacity. The funding source for repayment can be the diversion of an existing revenue source or new revenue coming from the enactment of a new revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

Revenue Debt

Revenue bonds are generally payable from general revenue generated by the Port. No taxing power pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the Port's statutory debt limitation nor is voter approval required. These bonds may be on parity with existing revenue bonds and be limited by the debt covenant of those previously issued revenue bonds or subordinate to existing revenue bonds and not limited to existing debt covenants.

Local Improvement District (LID) Debt

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

The LID debt is backed by the value of the property within the local improvement district and a LID Guaranty Fund. The LID Guaranty Fund is required by State law. LID's are typically formed through a formal agreement with the primary government where the project is to be built and is secured through a formal lien being filed on the property or properties benefitting from the improvement.

Other Debt

The Port may issue debt to finance projects and/or equipment purchases to other governments, such as the State of Washington. This debt may be secured by a general pledge of the Port or with specific collateral associated with the project or the equipment.

The Port may utilize equipment financing with lease/purchase arrangements or other arrangements with private lenders using equipment as collateral for the financing.

Short-Term Debt and Interim Financing

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

With Port Commission approval, the CFO may enter into short-term financing arrangements with Washington State qualified lenders. These arrangements may be used for financing equipment or as a line of credit to provide temporary liquidity facilities.

Variable-Rate Securities

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

Special Sources of Debt Repayment

Industrial Development District (IDD) Levies

A special six-year property tax levy of $.45 per thousand of valuation for selected projects within an Industrial Development District is authorized by state law (53.36 RCW). This one-time levy can be issued without a vote of the people.[1]

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1 The Port of Everett has previously collected this levy. A second IDD levy is available to the Port but may be subject to a vote of the citizens within the Port district.

Tax Increment Financing (TIF)

Tax increment financing (TIF) is a financing tool that local governments in Washington State – defined as cities, towns, counties, port districts, or any combination thereof – can use to fund public infrastructure in targeted areas to encourage private development and investment (39.114 RCW).

A local government wishing to utilize TIF will designate an "increment area" surrounding the site of the public improvements. The property tax portion of increases in assessed value of properties within the increment area is allocated towards paying for the public improvement costs.

Structure and Term of Debt

The Port shall contract with the fiscal agent selected by the Washington State Treasurer's Office for management of the payment of debt service on all outstanding bond issues. The Port shall pay all interest and repay all debt in accordance with the terms of the bond resolution.

The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued. The Port shall issue debt in a manner that does not jeopardize the payment of current period operating costs and maintains the Port's reserve balances. No debt should be issued without a financial analysis provided to the Commission of the source of repayment for such debt.

The CFO shall create a debt service repayment schedule that provides for level or declining debt repayment schedules. As the debt manager, the CFO shall prepare an annual report during the budget approval process describing all existing debt issues with summary descriptions of debt repayment schedules and the Port debt capacity.

Debt Related Services

The Finance Department shall be responsible for the solicitation and selection of personal services that are required to administer the Port's debt program. Any services supplied shall be through the use of a Personal Services contract. All service contracts should be authorized only after proposals have been solicited and a selection process completed.

Bond Counsel

All tax-exempt debt issued by the Port will include a written opinion by bond counsel affirming that the Port is authorized to issue the proposed debt. The opinion shall include confirmation that the Port has met all Port and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt. Bond counsel will also assist the Port in meeting the continuing disclosure requirements of issued debt.

Bond Counsel also may serve as Disclosure Counsel in creating preliminary and final official statements for publicly issued debt.

Financial Advisor

At the discretion of the CFO, Financial Advisor(s) may be used to assist in the issuance of the Port's debt. The Financial Advisor will provide the Port with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt and preparing official statements of disclosure. A Financial Advisor will be utilized for a competitive sale process.

Underwriters

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

The Port may hire only an Underwriter, and not a Financial Advisor, when, in the opinion of the CFO, the Underwriter is capable of performing similar duties, the overall costs of the issuance of debt is likely to be lower and that there is no actual or perceived conflict of interest.

Fiscal Agent

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

Method of Sale

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

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

1. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.

2. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.

3. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.

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

Credit Ratings

The Port will maintain regular communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the Port's general financial condition, as well as, coordinating meetings and presentations in conjunction with a new issuance. The Port will continually strive to maintain its bond rating by improving financial guidelines, budgets, forecasts and the financial health of the Port. The Port will utilize a nationally recognized bond rating agency for bond ratings.

Should the Port's existing bond rating be at risk of a downgrade, the CEO will immediately work directly with the CFO to develop a plan to address the specific issues raised by the rating agency in an attempt to forestall any such downgrade.

Credit enhancements may be used to improve or establish a credit rating on a Port debt obligation. Credit enhancements should only be used if a formal analysis show the enhancement will result in a lower overall cost for the debt.

Efforts should be made by the CEO to maintain or improve the Port's bond rating. Should the Port fall below an "A" rating category as measured by a nationally recognized bond rating agency for bond ratings, management shall develop an action plan which will attempt to raise the rating back to an "A" category in the shortest possible amount of time.

Refunding Debt

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates or remove restrictive covenants on existing debt. Under changes made to the federal tax code effective January 1, 2018, bonds issued for the purpose of advance refunding outstanding tax-exempt bonds (i.e., more than 90 days in advance of the maturity or call date) may no longer be done on a tax-exempt basis. Outstanding tax-exempt bonds may still be advance refunded on a taxable basis. Unless otherwise justified, a debt refunding will require a minimum net present value savings of three percent (3%) of the principal amount of the refunded debt being issued.

Spending and Investing Bond Proceeds

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

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

Appendix B
Investment Policy

Background

It is the policy of the Port of Everett (the "Port") to invest public funds in a manner which will provide a market rate of return with the maximum security while meeting the daily cash flow demands of the Port and conforming to all State of Washington (the "State") statutes governing the investment of public funds.

Purpose

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

Scope and Objectives

Scope

This Investment Policy applies to all financial assets of the Port. These assets are accounted for in the Port's Annual Financial Report.

Objectives

The primary objectives, in priority order, of the Port's investment activities are:

Safety:

Safety of principal is the foremost objective. Investments of the Port 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 so potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity:

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

Legality of Investments:

The Port's investment holdings shall conform with federal, state and other legal requirements.

Return on Investment:

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

Standards of Care

Delegation of Authority and Responsibilities

Management responsibility for the investment program is hereby delegated to the CFO serving as the Port’s Treasurer, who shall establish written procedures for the operation of the investment program, consistent with the Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

The Port may engage the services of an independent registered investment advisor to assist with the management of the Port’s investment portfolio in a manner that is consistent with the Port’s objectives and this policy. Such advisors shall provide recommendations and advice regarding the Port’s investment program including but not limited to advice related to the purchase and sale of investments in accordance with this Investment Policy.

Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person standard states:

> *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.*

Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Ethics and Conflict of Interest

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

Authorized Investments, Diversification, Maturities and Collateralization

Authorized Investments

This policy recognizes S&P, Moody's and Fitch as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).

Minimum credit ratings and percentage limitations apply to the time of purchase.

All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

Securities rated in or below the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single-A and portfolio holdings of securities rated single-A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

All municipal corporations in the State, including the Port, are empowered by statute to invest in the following securities:

U.S. Treasury Obligation: Direct obligations of the United States Treasury

U.S. Agency Obligations: US Government Agency obligations and US Government Sponsored Enterprises (GSEs) which may include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Banks Funding Corporation (FFCB), Tennessee Valley Authority (TVA).

Supranational Certificates, Notes, Bonds: United States dollar denominated obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the U.S. government as its largest shareholder [International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB)].

Municipal Debt Obligations: General obligation and revenue bonds in any local government in the State of Washington and general obligation bonds only on government issuers outside the State. At the time of investment, the bonds must have one of the three highest credit ratings of a nationally recognized rating agency.

Corporate Notes: Unsecured debt obligations purchased in accordance with the investment policies and procedures adopted by the State Investment Board. Corporate notes must be rated at least weak single-A (A-) or better by all of the major rating agencies that rate the note at the time of purchase. The maturity must not exceed 5.5 years and the maximum duration of the corporate note portfolio cannot exceed 3 years. The percentage of corporate notes that may be purchased from any single issuer rated AA- or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single-A (A-) category from all the major rating agencies that rate the security, is 2% of the total portfolio. The individual country limit of non-U.S. and non-Canadian exposure is 2% of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.

Commercial Paper: Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of them. Commercial paper holdings may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO. The percentage of commercial paper that may be purchased from any one issuer is 3% of the market value of the total portfolio. Issuer constraints will apply to the combined holdings of corporate notes and commercial paper holdings.

Certificates of Deposit: Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

Time deposits and Savings Accounts issued by banks: Deposits in PDPC approved banks.

Banker's Acceptance: Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions.

Snohomish County Investment Pool: Investment Pool managed by the County Treasurer's Office.

Local Government Investment Pool: Investment Pool managed by the State Treasury office.

Diversification

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

Total Portfolio Diversification Constraints

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	7 years
US Agency Obligations	100%	35%	N/A	7 years
Supranational Agency Notes	10%	5%	AA- / Aa3	7 years
Municipal Bonds (GO Only Outside WA)	30%	5%	A- / A3 Short Term**	7 years
Corporate Notes	25%	3%* for AA- 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%*	A1 / P1 Long Term A- / A3	270 days
Certificates of Deposit	20%	5%	Deposits in PDPC approved banks	7 years
Bank Time Deposits/Savings Accounts	20%	None	Deposits in PDPC approved banks	N/A
Banker's Acceptance	10%	5%	N/A	180 days
County Pool	50%	None	N/A	N/A
State LGIP	100%	None	N/A	N/A

*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

**Short Term Ratings: Moody's - P1/MIG1/VMIG1. S&P - A-1/SP-1, Fitch F1

Maturities

The Port will invest in securities with maturity dates seven (7) years from the date of purchase or less. The maximum weighted maturity (modified duration) of the total portfolio shall not exceed 3.0 years. This maximum is established to limit the portfolio to excessive price change exposure. Liquidity funds will be held in the State Pool, bank deposits or in money market instruments maturing in six months or less.

Total Portfolio Maturity Constraints

Maturity Constraints	**Minimum % of Total Portfolio**
Under 30 days	10%
Under 1 year	25%
Under 7 years	100%
Maturity Constraints	**Maximum of Total Portfolio in Years**
Weighted Average Maturity	3.00
Duration of Corporate Note Portfolio	3.00
Security Structure Constraint	**Maximum % of Total Portfolio**
Callable Agency Securities	25%

Exception to 7-year-maturity maximum: The Port may invest in securities exceeding seven (7) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds or where deferred payment to the Port are matched to the maturity date.

Authorized Financial Dealers

Broker/Dealers

The CFO shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the Port for investment purposes. All broker/dealers and financial institutions who desire to do business with the Port must supply the CFO with the following:

i. Annual audited financial statements.

ii. Proof of FINRA (Financial Industry Regulatory Authority) certification.

iii. Proof of registration with the State of Washington.

iv. Certification of having read and understood the Port's Investment Policy.

Investment Advisors

The Port may contract with an external investment advisor to assist with the management of the Port's investment portfolio in a manner that is consistent with the Port's objectives and this policy. Advisors must be registered under the Investment Advisers Act of 1940. The Advisor may be authorized through the contracted agreement to open accounts on behalf of the Port with the broker/dealers on the approved broker/dealer list.

The CFO may utilize the investment advisor's approved broker/dealer list in lieu of the Port's own approved list. The advisor must submit the approved list to the Port annually and provide updates throughout the year as they occur. The advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures must include:

i. FINRA Certification check
- Firm Profile
- Firm History
- Firm Operations
- Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
- State Registration Verification

ii. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisor may be authorized through the contracted agreement to open accounts on behalf of the Port with the broker/dealers on the approved broker/dealer list. The Port will receive documentation directly from the brokers for account verification and regulatory requirements.

Depositories

The CFO will limit banking transactions to designated banking relationships and will refer to the financial institutions list provided by the Washington State Public Deposit Protection Commission (RCW 39.58.080).

Safekeeping, Custody and Controls

Safekeeping and Custody

All security transactions entered by the Port shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by a third-party custodian designated by the CFO and approved by the State Treasurer. All securities will be receipted and recorded based on the terms in the custodial contract. The third-party custodian shall be required to provide a statement to the Port listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number. The Port will have online access through the safekeeping bank for verification of the account holdings and transactions.

Internal Control

The CFO shall establish a process of periodic review by the Accounting/Finance Staff. This review will provide internal control monitoring by assuring compliance with all policies and procedures.

External Control

The custodian/safekeeping account, investment transactions, and records may be audited by internal auditors independent of the CFO or by outside independent auditors.

Performance Measurement and Reporting Requirements

Performance Standards

The Port's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, considering the Port's investment risk constraints and cash flow needs. A market benchmark may be utilized and will be established by the CFO. The return shall be based on the net yield after accounting for the fair value of the discounts or premiums paid.

Reporting

The CFO shall provide the Commission with consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the Investment Policy. At a minimum, these reports will be presented quarterly as part of the quarterly review of financial statements.

Compliance

A compliance report will be generated at least quarterly comparing the portfolio positions to this investment policy.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

Policy Adoption

The Port's Investment Policy shall be adopted by the Port Commission. The policy shall be reviewed on a periodic basis and any modifications made thereto must be approved by the Port Commission.