

Item No.:
Meeting Date:

7a_supp
March 24, 2015

Annual Treasury And Investment Portfolio Update for 2014

Commission Briefing
Presented by Diane Campbell
March 24, 2015

Port of Seattle®



Treasury Management Update

Treasury Functions

- Manage banking activities
- Cash and liquidity management & investing excess funds
- **Execute and fund payments** (Electronic Funds Transfers (EFT) - ACH credits and wires, and fund A/P issued checks and other EFTs)
 - Using appropriate approvals requiring a two step process
- Coordinates processes and controls with Accounting & Financial Reporting and Information & Communications Technology departments complying with statute

Current Treasury Initiatives

- New banking contract
 - Commission authorized August 6, 2013.
 - Five large commercial banks participated in RFP. Wells Fargo Bank selected as new bank in February 2014, replacing Bank of America, for a 5-years term with two 1-year extension options.
 - As of 2014 year end 99% of banking transactions converted to Wells Fargo Bank. Full conversion expected by March 2015.
- Primary backup, succession planning and enhanced training

Investments Update

Background

- Commission resolution approved Port investment policy, adopted as of June 11, 2002.
- The investment policy is reviewed periodically, and amended as appropriate to follow best practices. Last amendment: June 5, 2012.
- Authorized investments are made in accordance with and subject to restrictions of the Revised Code of Washington (RCW) 36.29.020.

Background

- To meet the policy's primary investment objectives, additional risk controls are included that impose further restrictions on the types of securities. These include:
 - limit maturity date - no more than 10 years from settlement date, and
 - portfolio target modified duration of 2.0 years, plus or minus $\frac{1}{2}$ year.
- Benchmark – Bank of America Merrill Lynch Treasury/Agency 1-3 Years Index
- Long term strategy: do not forecast interest rates; balance RETURN and RISK over cycles
 - this strategy outperforms the market when rates are falling and underperforms when rates are rising

Investment Policy Highlights

- Emphasis on preservation of principal
- Priority of policy objectives
 - 1) Safety
 - 2) Liquidity
 - 3) Yield
- Covers all capital and operating funds
- Does not cover funds held separately in trust, e.g. deferred compensation plans and pension trusts

Investment Policy Highlights

- Establishes prudence, ethics, conflict of interest and disclosure requirements for investment officials
- Authorizes delegation of day-to-day investment program duties and responsibilities
- Provides for safekeeping and custody of portfolio securities

Investment Policy Highlights

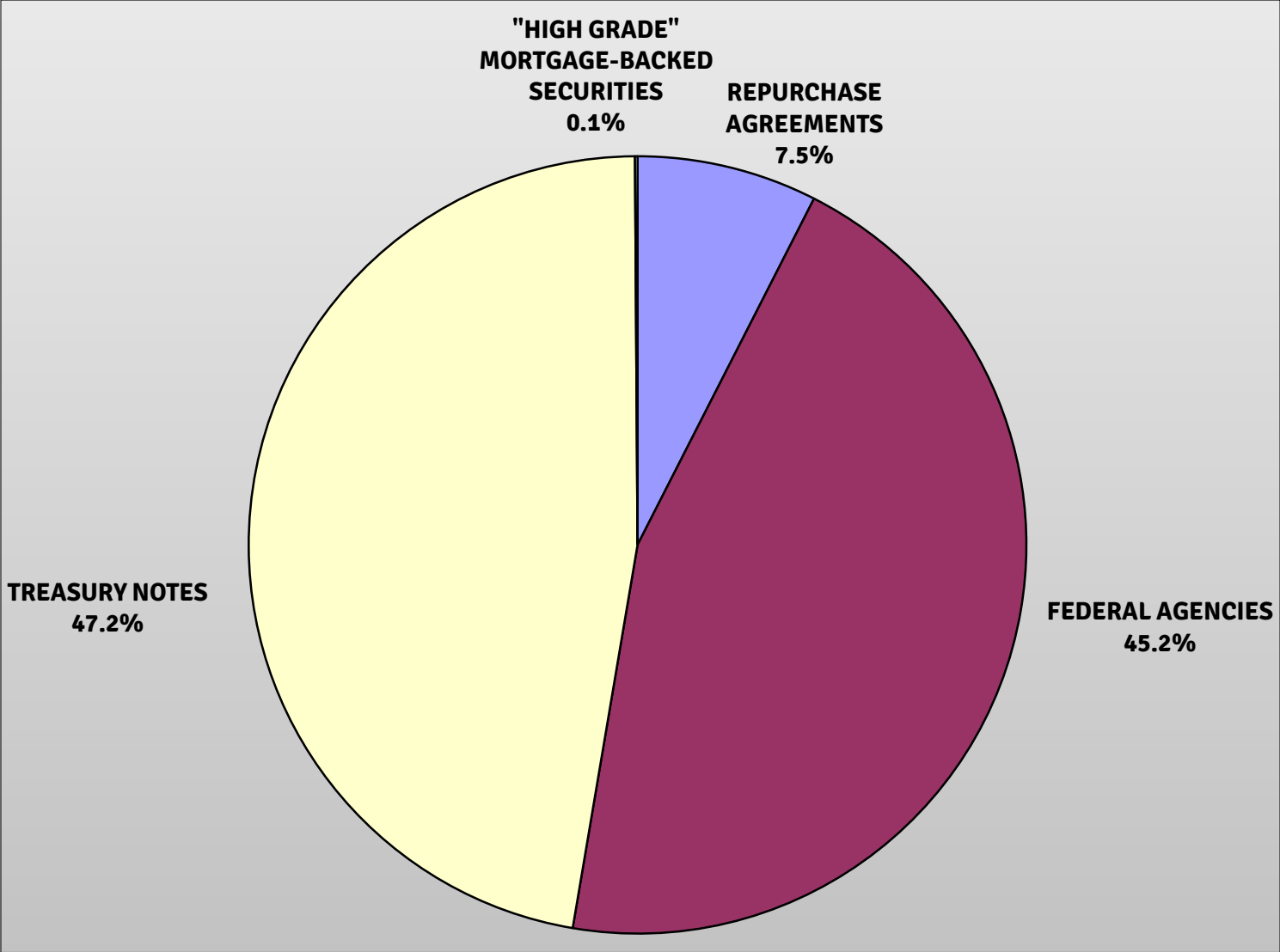
- Establishes criteria for eligible depositories and broker/dealers
- Sets out allowed investment instruments; subject to State law
- Establishes portfolio diversification parameters
- Establishes maturity restrictions

Investment Policy Highlights

- Sets portfolio performance standards
- Allows for independent review of the investment program
 - State Auditor
 - External Auditors
 - Internal Auditor
- Establishes reporting standards

Portfolio Composition

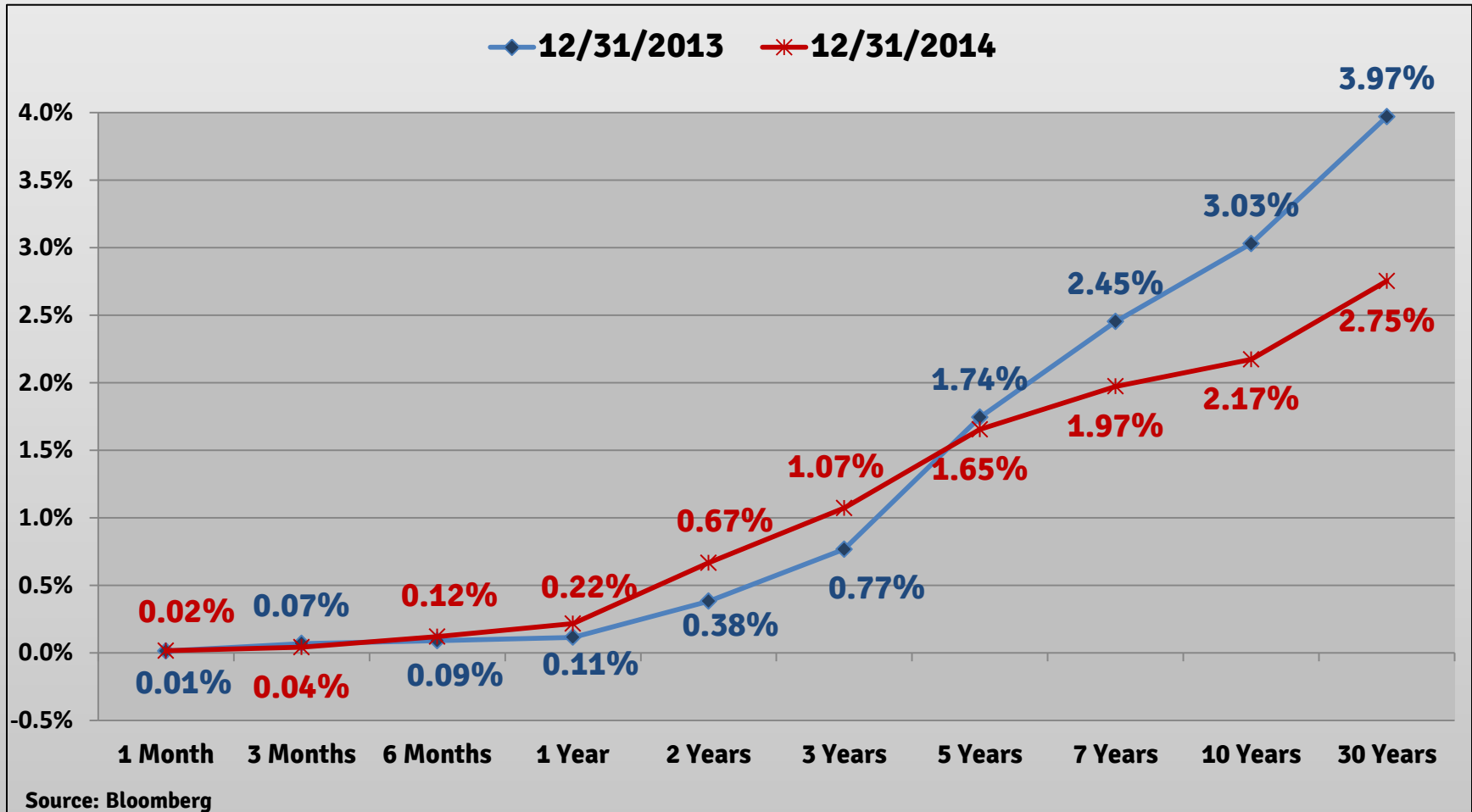
12/31/2014



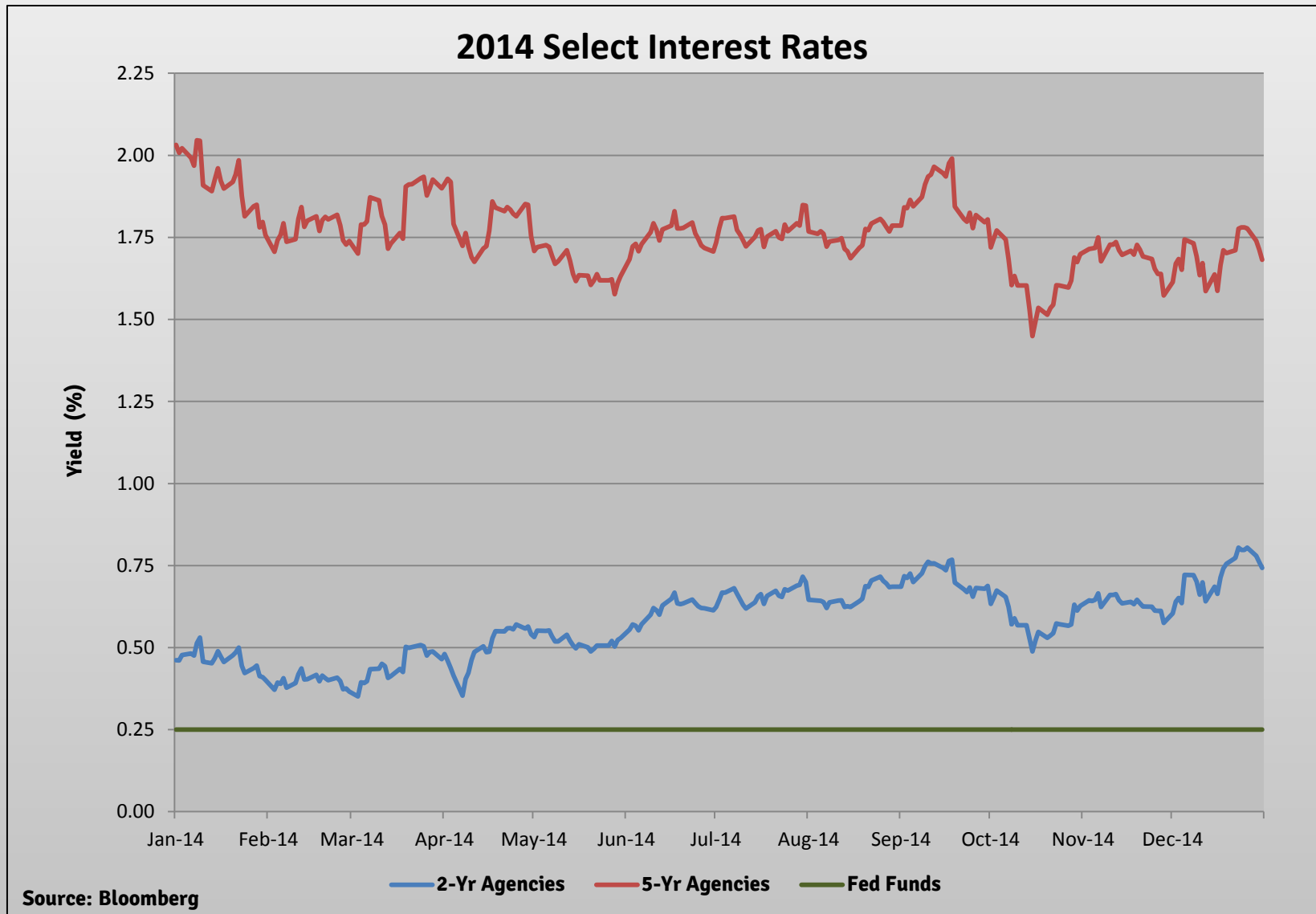
Interest Rates Trends

- The Federal Reserve has left short term rates at 0.25% since 2010.
- During 2014 short and medium term rates were generally higher than the previous year, and longer term rates declined.
- Similar to 2014, short and medium term rates are expected to rise slowly in 2015.
- Staff monitors market conditions; but, does not time the market.

Treasury Yield Curve 2014



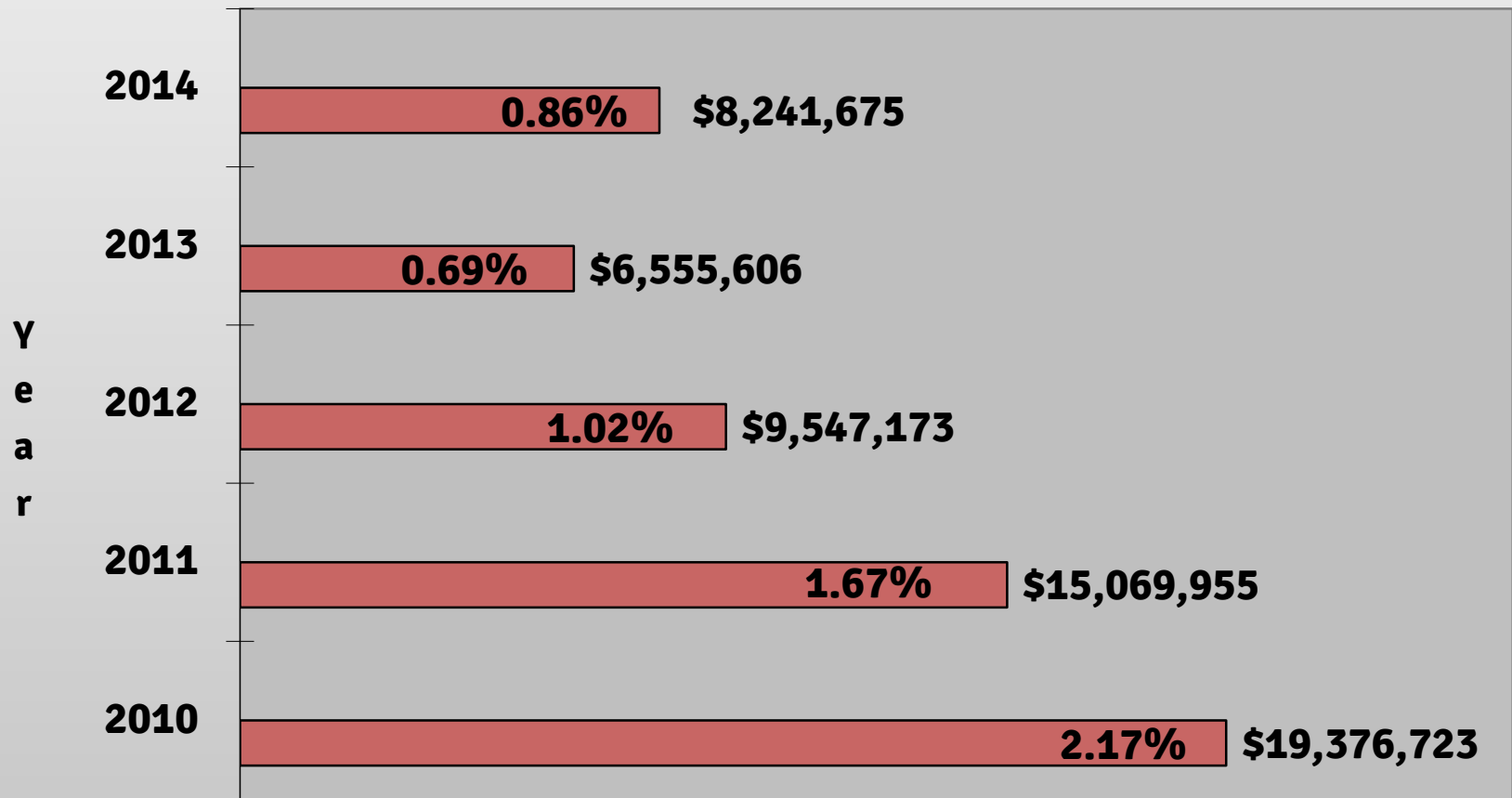
2014 Interest Rates



2014 Yield Comparison

	Benchmark	Port's Pool
Q1-2014	0.46%	0.99%
Q2-2014	0.45%	0.90%
Q3-2014	0.60%	0.78%
Q4-2014	0.68%	0.78%
Annual	0.55%	0.86%

Portfolio Earnings 2010 – 2014



Interest Earnings - % Yield and \$

Yield History

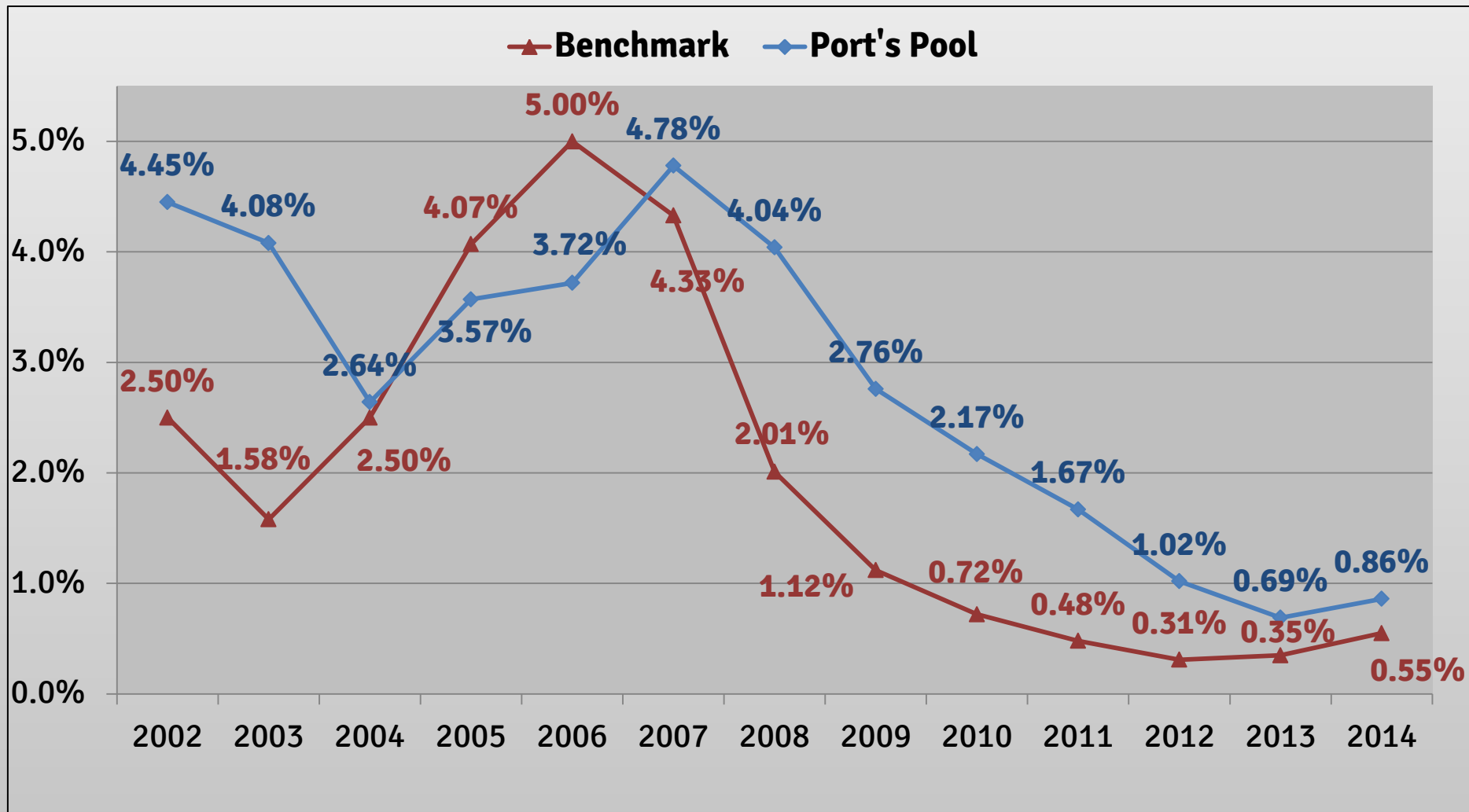
<u>Year(s)</u>	<u>Benchmark</u>	<u>Port's Pool</u>
• 2002 - 2006	3.13%	3.69%
• 2007 - 2011	1.73%	3.08%
• 2012	0.31%	1.02%
• 2013	0.35%	0.69%
• 2014	0.55%	0.86%

13 years

1.96%

2.80%

Yield History

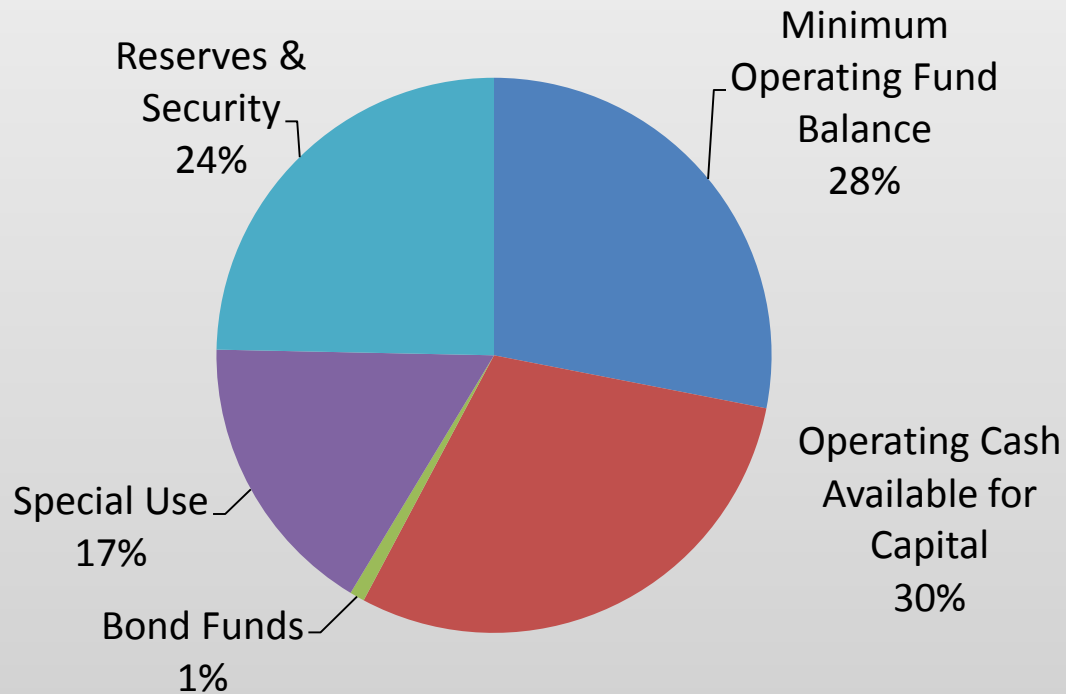


Investment Portfolio Size Fluctuates

- \$900 million as of 12/31/2014 versus \$953 million at prior year's end
- Over the most recent 5 years, the size has ranged from \$822 million to \$1.01 billion
- Fluctuations are mostly tied to capital funding and spending:
 - bond issues to fund projects increase the portfolio
 - capital project spending reduces the portfolio size

Investment Pool Participating Funds

Investment Pool Participating Funds 12/31/2014



Examples

- Minimum Operating Fund Balance: General & Airport Development = 9 months O&M expense
- Operating Funds Available for Capital: General, Airport, Tax Levy funds programmed to be spent over the next few years.
- Bond Funds: Capital projects
- Reserves & Security: Bond reserves, customer lease security
- Special Use (primarily for capital projects): Passenger & Customer Facility Charges, Transportation & Infrastructure