



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8d

ACTION ITEM

Date of Meeting May 8, 2018

DATE: April 9, 2018

TO: Stephen P. Metruck, Executive Director

FROM: Diane Campbell, Treasury Manager

SUBJECT: Introduction of Resolution No. 3748 – restating the Port of Seattle Investment Pool’s Statement of Investment Policy

ACTION REQUESTED

Request Commission introduction of Resolution 3748: A resolution of the Port Commission of the Port of Seattle restating the Port of Seattle Statement of Investment Policy; repealing Resolution No. 3663 in its entirety; and adopting the State Treasurer’s Resolution Authorizing Investment of the Port of Seattle’s Monies in the Local Government Investment Pool.

EXECUTIVE SUMMARY

Staff requests the Commission’s approval to update the Port’s Statement of Investment Policy, adding the Local Government Investment Pool (LGIP) to the list of authorized investments. The LGIP will be used as an option to invest a portion of the Port’s investment pool, specifically as an alternative investment tool to manage short term liquidity. The LGIP is a money market type investment, managed by the Office of the State Treasurer, and is utilized by many large and small governmental entities, including all 39 counties, many large cities, colleges and universities and special districts. The Port of Tacoma has invested a portion of their funds in the LGIP since 2008, and the NWSA Managing Members approved its use for the NWSA funds in January 2016.

DETAILS

Since the Port became its own Treasury in 2002, it has consistently relied on Repurchase Agreements (REPO) as the preferred investment to manage short term liquidity funds. A REPO, a commonly used investment vehicle, is a short term investment contract where the Port lends cash to a broker/dealer, usually on an overnight basis, at a specified rate of interest. The loan plus interest is repaid the following day. The transaction is secured with the broker/dealer providing high quality government securities as collateral, held by the Port’s custodial bank. At maturity the loan plus interest is repaid to the Port with the simultaneous return of the collateral to the broker/dealer. Recent REPOs range in size (from \$50 million to \$100 million), amounts sufficient to fund disbursements. Due to changing market conditions, the availability of REPOs is diminishing and the Port runs the risk that it will not be able to find REPOs in sufficient size or with a reasonable rate of return to meet the needs of overnight investing. Adding the LGIP will provide an easily accessible, diversified option to help manage the short-

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term liquidity portion of the Port’s investment pool and help mitigate certain risks that may impact overall effective portfolio management.

With approximately \$12 billion in assets, the LGIP is a large, well-established, high quality, short-term diversified pool used by many Washington State governmental entities such as King County and the City of Seattle. Other users include:

- all larger cities over 20,000 in population, including Seattle, Auburn, Lacey and Redmond;
- special districts including Clark Public Utilities, King County Housing Authority, Sound Transit, Snohomish County Public Utility District (PUD), Snohomish Public Transportation Benefit Area (PTBA), Seattle Housing Authority, and Pierce Transit; and
- colleges & universities.

There is no cost to the Port to invest in the LGIP, outside of the LGIP expense of less than 0.1% and is more than offset by interest earnings.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not add the LGIP and use only investment options currently authorized.

Pros:

1. In addition to REPOs, the Port is already authorized to use other investments that may be available for short term liquidity, e.g. Treasury bills or Commercial Paper.

Cons:

1. Alternatives may not be available at the precise times and for the amounts needed.
2. If available, alternatives may have interest rates lower than the LGIP.
3. Some alternatives introduce credit risk.

This is not the recommended alternative.

Alternative 2 - Do not add the LGIP and leave cash on deposit with the Port’s bank.

Pros:

1. None

Cons:

1. Cash would:
 - a. remain un-invested in the Port’s bank account,
 - b. be subject to bank fees,
 - c. introduce bank risk^{*1}, and
 - d. not earn investment income for the investment pool.

^{*1}Deposits up to \$250,000.00 are covered by Federal Deposit Insurance Corporation (FDIC) insurance, and uninsured deposits in excess of FDIC coverage are protected under the Public

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Deposit Protection Commission (PDPC) collateral pool program, (current collateralization is 50%.)

This is not the recommended alternative.

Alternative 3 - Add the LGIP.

Pros:

1. Daily access and availability to the LGIP, even when REPO or other options are not.
2. The LGIP can accommodate the size, and precise timing requirements of the Port.
3. Gain access to State Treasurer’s resources (portfolio management & credit analysis teams).
4. High quality, diversified option
5. Risk mitigation, available if/when other options are not
6. Low cost: Estimated annual fees – less than 0.01%
7. Loss record – no losses

Cons:

1. None

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- (1) Draft Resolution No. 3748
- (2) Exhibit A: Port of Seattle Statement of Investment Policy
- (3) Exhibit B: State Treasurer’s LGIP Resolution
- (4) Presentation slides
- (5) State Treasurer’s LGIP Prospectus
- (6) 2017 Annual Investment Portfolio Report

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

April 7, 2018 –The Commission received the 2017 Annual Investment Portfolio Report from Commission Office staff.

June 5, 2012 – The most recent investment policy restatement and adoption by Commission.