

VERDANT HEALTH COMMISSION
PUBLIC HOSPITAL DISTRICT NO. 2 OF SNOHOMISH COUNTY, WASHINGTON
BOARD OF COMMISSIONERS
Regular Meeting
A G E N D A
April 25, 2018
6:00 to 7:35 p.m.

	<u>ACTION</u>	<u>TIME</u>	<u>PAGE</u>
A. Call to Order	---	6:00	---
B. Approval of the Minutes			
a) March 28, 2018 Board Meeting	Action	6:01	1-4
C. Executive Committee Report	Information	6:04	---
D. Superintendent Report	Information	6:05	5
E. Finance Committee Report			
a) Review financial statements and cash activity	Information	6:10	6-10
b) Authorization for payment of vouchers and payroll	Action	6:14	11
c) Resolution 2018-04 – Updating District Investment Policy	Action	6:15	12-41
F. Program Committee Report & Recommendations			
a) Conflicts of Interest	---	6:25	---
b) Program investment recommendations	Action	6:30	42-43
c) Verdant Community Wellness Center activities update	Information	6:40	44-45
d) Verdant multicultural program update	Information	6:45	46
e) Program dashboard discussion: childhood obesity	---	6:50	47
f) Building Healthy Communities Fund discussion	---	7:00	48-51
G. Marketing Report	Information	7:20	52
H. Public Comments (please limit to three minutes per speaker)	---	7:25	---
I. Commissioner Comments	---	7:30	---
J. Adjournment	---	7:35	---

PUBLIC HOSPITAL DISTRICT NO. 2 OF SNOHOMISH COUNTY, WASHINGTON
VERDANT HEALTH COMMISSION

BOARD OF COMMISSIONERS

Regular Meeting
Verdant Community Wellness Center
March 28, 2018

Commissioners Present	Deana Knutsen, President Karianna Wilson, Secretary (8:10 a.m. arrival) Fred Langer, Commissioner Bob Knowles, Commissioner J Bruce Williams, Commissioner (8:35 a.m. departure)
Staff	Robin Fenn, Superintendent George Kosovich, Assistant Superintendent Lisa King, Finance Director Jennifer Piplic, Marketing Director Sue Waldin, Community Wellness Program Manager Sandra Huber, Community Engagement Nancy Budd, Social Worker Karen Goto, Executive Assistant
Guests	Dr. Lawrence Schecter, Washington State University Elson Floyd College of Medicine Members of the public
Call to Order	The Regular Meeting of the Board of Commissioners of Public Hospital District No. 2, Snohomish County, was called to order at 8:00 a.m. by President Knutsen.
Approval of Minutes	<i>Motion was made, seconded and passed unanimously to approve</i> the minutes of the regular board meeting on February 28, 2018. <i>Motion was made, seconded and passed unanimously to approve</i> the minutes of the special board meeting on March 12, 2018. <i>Motion was made, seconded and passed unanimously to approve</i> the minutes of the special board meeting on March 14, 2018.
Executive Committee Report	The committee met on March 21, 2018 to review the agenda for the March 28, 2018 board meeting and to discuss legal and personnel issues. No action was taken.

**Superintendent
Report**

Superintendent Fenn reported on the following items:

1. April 2018 calendar (E:21:18) highlights the April 19th Narcan training, the April 17th Sno-Isle Teen Depression panel, the April 20th Step Up Racial Equity Conference, and the April 24th Hero's Café.
2. A Herald reporter and photographer were in attendance at the March 27th Hero's Café.
3. Governor Inslee signed HB 2539-2017-18 on March 21, 2018 which explicitly expands the authority of public hospital districts to include wellness and injury prevention.
4. South Snohomish County CHART Program (CHronic Utilizer Alternative Response Team) held its first meeting at Verdant on March 13, 2018.

**Finance Committee
Report**

The committee met on March 21, 2018. Ms. King reviewed the financial statements and cash activity for February 2018 (E:22:18).

**Authorization for
Payment of
Vouchers & Payroll**

Warrant Numbers 12710 through 12763 for February 2018 for payment in the amount of \$66,544.56 were presented for approval (E:23:18). ***Motion was made, seconded and passed unanimously to approve.***

**Program Committee
Update**

No report for the month of March 2018.

**Washington State
Graduate Medical
Education
Presentation**

Dr. Lawrence Schecter presented the undergraduate and graduate medical education program for Washington State University (WSU) which includes a cohort on the Everett campus. There are currently 60 students admitted to the program which emphasizes primary care in underserved and rural communities and the study of population health. Commissioner Williams said he would like to see Verdant work with WSU on parts of the program. WSU will continue to work with Dr. Fenn to explore connections with Verdant.

**Building Health
Communities Fund
(BHCF) Discussion**

Dr. Fenn presented the ideas discussed by the board at the March 14, 2018 Special Meeting (E:24:18) and asked commissioners if the document accurately reflects the board's desires. Commissioners agreed but also want to include behavioral health under the capital projects criteria for improving/increasing access

to preventive primary and/or dental care for vulnerable and underserved residents of Public Hospital District #2. They also agreed that sustainability in operations was important.

Dr. Fenn stated that the goal is to issue an RFP in 2018 with Verdant inclusion in the RFP responses and a decision by the board at the end of 2018. Intent is to distribute funds to the selected group(s) starting in early 2019.

Dr. Fenn also asked the commissioners if there is anything they do NOT want to fund and all agreed that there was no absolute decision without board consultation. Commissioner Wilson stated that this fund should not be used for ongoing operations. The regular grant program and Program Committee should be used to review those requests.

Dr. Fenn & Mr. Kosovich will continue to work on the RFP which will go to the Program Committee and then the full board for approval.

Mr. Kosovich clarified with the board that under the criteria, a physical place that provides clinical care and treatment is acceptable for the BHCF.

**Verdant Community
Wellness Center
Activities Update**

Ms. Waldin presented an update on activities at the Wellness Center in March 2018 (E:25:18). Verdant is working on partnering with local physicians and dietitians on preventive care and lifestyle education. Verdant is teaming up with the YMCA and Swedish Edmonds to offer the CDC Diabetes Prevention Program to district residents. In coordination with Swedish, Verdant is hosting a national DPP facilitator training on April 21 and 22, 2018.

**Verdant Multicultural
Report**

Ms. Huber presented an update on multicultural activities for March 2018 (E:26:18) including a Diabetes Prevention Program with the YMCA for the Latino community, the conclusion of the 7-week Strengthening Families program, Cooking with Cops in partnership with the Alderwood Boys & Girls Club and the Lynnwood Police Department, and the Multi-Cultural Health Fair on June 2, 2018 with Puget Sound Christian Clinic to be held at the Community Life Center in Lynnwood.

Commissioner Knutsen expressed her appreciation for the work done by Ms. Waldin and Ms. Huber.

Marketing Report

Ms. Piplic presented the Marketing report (E:27:18) with an appreciation to the commissioners for their attendance at the March 12, 2018 Verdant Healthier Community Conference.
Commissioner Knutsen expressed her appreciation to the staff for the work on the conference.

Public Comments

Ms. Penny Yates of ChildStrive thanked the board for its support of ChildStrive and so many other partners in the community.
Mr. Phil Smith of Volunteers of America commented on the successful RCW change and noted Verdant's hiring of Ms. Budd as VOA's loss and Verdant's gain.

Commissioner Comments

Commissioner Knutsen expressed her appreciation of the audience at today's board meeting.

Adjourn

The meeting was adjourned at 9:00 a.m.

ATTEST BY:

President

Secretary

MAY 2018

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1 <i>NSACH Community Organization Meeting, 1 to 3 Skagit Station</i>	2	3	4 <i>Verdant Partner Roundtable, 2 to 4, Verdant</i>	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19 <i>Health and Fitness Expo, 9am to noon, Edmonds School District Stadium</i>
20	21	22	23 <i>Monthly Board Meeting, 8am to 9:30am, Verdant</i>	24	25	26
27	28 <i>Memorial Day</i>	29	30	31 <i>Food Lifeline Hunger and Health Stakeholder meeting, 8:30am to 10:00am, Verdant</i>	1 <i>Lynnwood State of the City Address, 8am to 9am, Lynnwood Convention Center</i>	2



Balance Sheet
As of March 31, 2018

	A	B	C	D
	Dec 31, 2017	Mar 31, 2018	\$ Change	Comments:
1 ASSETS				
2 Current Assets				
3 Cash Balance	1,853,495	2,072,330	218,835	
4 Other Current Assets	44,606,558	44,575,213	(31,344)	Includes Investments
5 Total Current Assets	46,460,053	46,647,543	187,490	
6 Total Long-term & Fixed Assets	45,773,750	45,256,312	(517,438)	Includes Depreciation
7 TOTAL ASSETS	92,233,802	91,903,854	(329,948)	
8 LIABILITIES & EQUITY				
9 Liabilities				
10 Current Liabilities	2,066,262	1,302,244	(764,018)	Tenant Prepaid Lease Income
11 Long-term Liabilities	2,050,919	2,035,412	(15,507)	2012 LTGO Bonds
12 Total Liabilities	4,117,182	3,337,656	(779,525)	
13 Total Equity	88,116,621	88,566,198	449,578	Annual Net Income/(Loss)
14 TOTAL LIABILITIES & EQUITY	92,233,802	91,903,854	(329,948)	

Profit & Loss
March 2018

	A	B	C	D	E	F
	Mar Actual	Mar Budget	Fav/(Unfav)	YTD Actual	YTD Budget	Fav/(Unfav)
1 INCOME						
2 Ordinary Income	865,569	876,234	(10,665)	2,649,502	2,672,642	(23,140)
3 EXPENSES						
4 Operating Expenses	181,650	190,979	9,329	529,597	574,228	44,632
5 Depreciation Expense	166,326	166,294	(32)	498,440	498,344	(96)
6 Program Expenses	515,806	606,525	90,720	1,521,300	1,876,576	355,276
7 Total Expenses	863,781	963,798	100,017	2,549,337	2,949,148	399,812
8 OTHER INCOME/(EXPENSE)						
9 Total Other Income/(Expense)	295,923	234,813	61,110	349,412	704,438	(355,026)
10 NET INCOME/(LOSS)	297,710	147,248	150,462	449,578	427,932	21,645

Monthly Highlights
March 2018

Verdant received dividends payments of \$68,076 and an unrealized gain of \$32,559 on our investment portfolio in March which closed with an ending market value of \$42,802,882. Verdant received payment from the HCA in the amount of \$290,521 for SFY 2009. Verdant also received notice from the HCA of the estimated final settlement for CPE for FYE 2010 due to Verdant in the amount of \$1,190,764.

Program grant commitments total \$5,677,683 and \$2,836,398 for 2018 and 2019 respectively. \$1,306,817 remains available to spend in 2018, \$44,500 of which is designated as Superintendent Discretionary.

Revenue of \$92,955 and expenses of \$80,362 from the Kruger Clinic were incurred, netting to an additional operating income of \$12,593 in March.

Public Hospital District #2

Warrant Number	Transaction Date	Payee	Amount	Purpose
Warrant Activity:				
12764	03/01/2018	Dorene Kolb	50.00	Refund for Yoga 101
12765	03/01/2018	Consolidated Landscape Maintenance, Inc.	440.50	March 2018 Landscaping maintenance
12766	03/01/2018	Corporate Security LLC	299.17	Roving Security Patrols
12767	03/01/2018	Jason Becker Creative	650.00	VHCC Brochure design and editing
12768	03/01/2018	Pacific Medical Centers(PacMed)	435.33	WC 175 - Living Well Alliance
12769	03/01/2018	Puget Sound Energy	62.45	Natural Gas
12770	03/01/2018	Sound Publishing, Inc.	39.20	Legal Notice 2/28/18 Board Meeting
12771	03/01/2018	Spectra Contract Flooring	613.92	Replacement Carpet Tiles
12772	03/07/2018	Ana L Bursch	120.00	Childcare for Strengthening Families 2/23, 3/2/18
12773	03/07/2018	ANS of WA, Inc.	135.00	KG Notary Seminar 3-20-18
12774	03/07/2018	Armstrong Services	1,196.57	Feb 2018 Janitorial
12777	03/07/2018	Awards Service Inc	282.63	Awards for VHCC
12778	03/07/2018	Davidson-Macri Sweeping, Inc.	540.96	Ice Melt application 2/22/18
12779	03/07/2018	Eberle Vivian	4,266.19	2Q18 Self Insurance Work Comp Claims Administration
12780	03/07/2018	Judith C Hoiby	612.50	Instructor for Strengthening Families Program
12781	03/07/2018	Snohomish County PUD	1,687.55	Electricity at VCWC
12782	03/07/2018	Susana Flores	180.00	Childcare for Strengthening Families 2/23, 3/2 & Cooking Matters 2/21/18
12783	03/07/2018	Velia Lara	525.00	Instructor for Spanish Language Strengthening Families Program
12784	03/07/2018	Yasaura Carvajal	180.00	Childcare Strengthening Families 2/23, 3/2 & Cooking Matters 2/21
12775	03/07/2018	Ash Consulting	1,951.75	Public Records Request Document Search
12776	03/07/2018	Aukema & Associates	268.75	Jan & Feb 2018 Website dev & maintenance
12785	03/07/2018	Camden Coalition of Healthcare Providers	2,500.00	VHCC Keynote Speaker Shelly Virva (1st half)
12786	03/07/2018	Comcast	264.04	Telephone/Internet
12787	03/08/2018	Lynnwood Convention Center	10,731.02	VHCC Final Payment for AV, Room Setup, Food
12788	03/14/2018	AmeriFlex Business Solutions	17.25	March 2018 FSA Administration
12789	03/14/2018	Beth Rodriguez, LLC	1,346.10	Feb 2018 VHCC (35 hrs)
12790	03/14/2018	Comcast	510.05	Telephone/Internet
12791	03/14/2018	Dataworks	1,730.43	Deploy Social Worker Laptop
12792	03/14/2018	Irlanda Urrutia Luna	100.00	Instruction for shopping healthier thru couponing
12793	03/14/2018	City of Lynnwood - Utilities	817.18	Water/Sewer
12794	03/14/2018	Pacific Art Press Inc	1,474.74	NB Business cards / Printing VHCC
12795	03/14/2018	Sound Dietitians	1,786.47	WC 170 - Healthy Living Coaching Group / WC 169 - Nutrician Consulting
12796	03/14/2018	Sound Publishing, Inc.	151.43	VHCC print web ads
12797	03/14/2018	Ana L Bursch	60.00	Childcare for Healthier Shopping thru Couponing 3/9
12798	03/14/2018	Jason Becker Creative	300.00	Cooking with Cops Logo
12799	03/14/2018	Susana Flores	67.50	Childcare for Healthier Shopping thru Couponing 3/9
12800	03/14/2018	Yasaura Carvajal	60.00	Childcare for Healthier Shopping thru Couponing 3/9
12801	03/14/2018	Objekts	678.96	2nd payment File Drawers for Social Worker Office
12802	03/14/2018	Electronic Business Machines	40.08	3/22/18-4/21/18 Copy Machine
12803	03/14/2018	Sound Publishing, Inc.	39.20	Childcare for Healthier Shopping thru Couponing 3/9
12804	03/14/2018	AAP Provider Conference	155.00	NB Attend Assc of Alcoholism & Addiction Conf
12805	03/14/2018	Leadership Snohomish County	5,000.00	Step-up Equity Event - Superintendent Discretionary
12806	03/14/2018	Seattle Visiting Nurse Association	7,530.00	Award 283 - Flu Shots
12807	03/21/2018	Property Management NW	6,374.55	Mar 2018 Management, Dec 17 & Jan 18 Maint, Feb 18 postage
12808	03/21/2018	City of Lynnwood	1,454.50	Feb 2018 After Hours Support (96.5 hrs)

Warrant Number	Transaction Date	Payee	Amount	Purpose
Warrant Activity:				
12809	03/21/2018	Discovia	3,219.00	February 2018
12810	03/21/2018	Dynamic Language	52.00	Interpreter services
12811	03/21/2018	Edmonds Senior Center	500.00	Edmonds Healthy Living Fair - Superintendent Discretionary
12812	03/21/2018	Executive Speakers Bureau	638.24	VHCC 2018 Ground Transport, Hotel - Dr. Tamber
12813	03/21/2018	James Distelhorst, MD	200.00	WC 166 - Colon Cancer Screening & Prevention
12814	03/21/2018	Seattle Food Nut	354.30	WC 179 - Nutrition Programming
12815	03/21/2018	Staples	1,167.13	Supplies & Partitions for Basement
12816	03/21/2018	Sandra S Huber	301.71	Reimbursement
12817	03/28/2018	Parsi Properties LLC	2,555.00	Apr 2018 - Parking lot lease
12818	03/28/2018	Tulalip Resort Casino	375.00	Deposit for Dec 7-8, 2018 Board Retreat
12819	03/28/2018	Wells Fargo	2,371.52	Misc.
12820	03/28/2018	Consolidated Landscape Maintenance, Inc.	440.50	April 2018 Landscaping maintenance
12821	03/28/2018	Dataworks	1,093.14	VHCC IT support
12822	03/28/2018	Dynamic Language	87.90	Interpreter services
12823	03/28/2018	Foster Pepper PLLC	23,321.00	Legal Fees Oct, Nov, Dec 2017
12824	03/28/2018	Principal	2,247.97	EE Life Insurance
12825	03/28/2018	Regence BlueShield	-	VOID: April 2018 Health Insurance
12826	03/28/2018	Velia Lara	200.00	Instructor for Spanish Language Strengthening Families Program
12827	03/28/2018	Department of Retirement Systems	25.00	Old Age Survivor Benefit
12828	03/28/2018	Regence BlueShield	6,095.17	April 2018 Health Insurance
12829	03/28/2018	Lynnwood Convention Center	262.31	VHCC Final Payment for Additional coffee service at VHCC
12830	03/28/2018	Pacific Art Press Inc	63.36	Conference Flyers
12831	03/30/2018	Ana L Bursch	60.00	Childcare for Strengthening Relationships 3/23
12832	03/30/2018	Camden Coalition of Healthcare Providers	3,521.06	Shelly Virva 2nd installment of Speaker Fee and travel reimbursement
12833	03/30/2018	Dameon Hahn	220.00	WC 189 - Instructor reimbursement Getting to Goal
12834	03/30/2018	Lowe Graham Jones PLLC	272.50	Feb 2018 Trademark monitoring
12835	03/30/2018	Marie-Lou Andersen	480.00	WC 180 - Instructor for Tai Chi 1/24-2/28/18
12836	03/30/2018	NSC Education Fund	350.00	Parented Latina Symposium Resource Table 5/19
12837	03/30/2018	Snohomish County PUD	1,251.68	Electricity
12838	03/30/2018	Sound Publishing, Inc.	39.20	Legal Notice 3/28/18 Board Meeting
12839	03/30/2018	Susana Flores	127.50	Childcare for Strengthening Families 3/23, 3/30
12840	03/30/2018	Yasaura Carvajal	120.00	Childcare for Strengthening Families 3/23, 3/30
		Total Warrants	<u>109,738.16</u>	
Workers Compensation Claims Activity:				
305386-388	Mar-18	Various Claimants/Vendors	<u>2,575.00</u>	Administered by Eberle Vivian
Kruger Clinic Activity:				
3221-3234	Mar-18	Various Claimants/Vendors	<u>30,165.78</u>	Administered by PMNW

Warrant Number	Transaction Date	Payee	Amount	Purpose
Wire/ACH Activity:				
	3/2/2018	Payroll	20,231.00	ACH payroll transfer
	3/2/2018	Department of Treasury	7,138.66	Payroll taxes for 2/24/18 pay period ending
	3/2/2018	Valic	3,409.69	Payroll 401(a)/457 Deposit
	3/2/2018	Paychex	114.59	Fee for payroll processing
	3/16/2018	Payroll	20,264.10	ACH payroll transfer
	3/16/2018	Department of Treasury	7,536.62	Payroll taxes for 3/10/18 pay period ending
	3/16/2018	Valic	3,552.61	Payroll 401(a)/457 Deposit
	3/16/2018	Paychex	120.20	Fee for payroll processing
	3/30/2018	Payroll	22,007.63	ACH payroll transfer
	3/30/2018	Department of Treasury	8,176.51	Payroll taxes for 3/24/18 pay period ending
	3/30/2018	Valic	3,675.01	Payroll 401(a)/457 Deposit
	3/30/2018	Paychex	120.20	Fee for payroll processing
	3/10/2018	Wells Fargo Merchant Services	320.06	Merchant Services
	3/10/2018	Wells Fargo	126.08	Bank Fees
	3/15/2018	Alzheimer's Association Western & Central	7,209.16	Program Payment
	3/15/2018	Boys & Girls Club of Snohomish County	20,519.58	Program Payment
	3/15/2018	Cascade Bicycle Club Education Foundation	2,666.67	Program Payment
	3/15/2018	Center for Human Services	32,279.16	Program Payment
	3/15/2018	ChildStrive	50,150.16	Program Payment
	3/15/2018	City of Lynnwood	8,718.33	Program Payment
	3/15/2018	Cocoon House.	5,000.00	Program Payment
	3/15/2018	Domestic Violence Services Snohomish Co	1,855.50	Program Payment
	3/15/2018	Edmonds School District No. 15	122,213.42	Program Payment
	3/15/2018	Edmonds Senior Center	9,666.67	Program Payment
	3/15/2018	Homage Senior Services	59,420.00	Program Payment
	3/15/2018	Kinderling	11,517.17	Program Payment
	3/15/2018	Korean Women's Association	5,000.00	Program Payment
	3/15/2018	Medical Teams International	5,500.00	Program Payment
	3/15/2018	PEPS	3,250.00	Program Payment
	3/15/2018	Prescription Drug Assistance Foundation	4,166.67	Program Payment
	3/15/2018	Project Access Northwest	7,500.00	Program Payment
	3/15/2018	Puget Sound Christian Clinic	33,750.00	Program Payment
	3/15/2018	Puget Sound Kidney Centers Foundation	3,333.33	Program Payment
	3/15/2018	South Snohomish County Fire & Rescue	36,103.34	Program Payment
	3/15/2018	Therapeutic Health Services	20,833.33	Program Payment
	3/15/2018	Volunteers of America Western WA	6,750.42	Program Payment
	3/15/2018	Wonderland Development Center	12,458.33	Program Payment
	3/25/2018	WA Department of Revenue	931.52	B&O/Retailing Sales Tax for Feb 2018
	3/12/2018	AmeriFlex Business Solutions	15.79	FSA Payment
	3/16/2018	AmeriFlex Business Solutions	103.67	FSA Payment
	3/23/2018	AmeriFlex Business Solutions	13.89	FSA Payment
		Total Wires/ACH Transactions	567,719.07	
Total Disbursements			<u>\$ 710,198.01</u>	

	Transaction Date	Payer	Amount	Purpose
Deposits:				
	3/1/2018	Swedish/Edmonds	803,276.07	Monthly leases
	3/1/2018	Value Village	27,614.77	Monthly lease
	3/1/2018	Raymond Liu, D.D.S.	3,661.64	Kruger Clinic monthly lease
	3/1/2018	Brian Takagi, MD	84.63	Kruger Clinic monthly lease
	3/9/2018	Kean Lawlor	6,935.26	Kruger Clinic monthly lease
	3/10/2018	Snohomish County	42,928.46	Levy
	3/27/2018	Healthcare Realty Services, Inc.	4,663.72	Ground Lease
	3/26/2018	Swedish/Edmonds	1,000.00	Sponsorship of VHCC
	3/15/2018	Kilpatrick Townsend & Stockton LLP	12.64	Postage for Public Records Installment
	3/12/2018	Conference Registration	2,590.00	Registration for VHC Conference (35 registrations)
	3/22/2018	WA State Health Care Authority	290,521.00	
		Total Deposits	\$ 1,183,288.19	

VERDANT HEALTH COMMISSION
PUBLIC HOSPITAL DISTRICT #2
SNOHOMISH COUNTY, WASHINGTON

WARRANT APPROVAL

We, the undersigned Board of Commissioners of Public Hospital District #2 of Snohomish County, Washington, do hereby certify that the merchandise or services hereinafter specified have been received and that Warrant Numbers 12764 through 12840 have been issued for payment in the amount of \$109,738.16 These warrants are hereby approved.

Attest:

Lisa M. King

Commissioner

Commissioner

Commissioner

Commissioner

Commissioner

Warrants Processed:	3-1-18 – 3-31-18		\$109,738.16
Work Comp Claims Pd:	3-1-18 – 3-31-18		2,575.00
Kruger Clinic Processed:	3-1-18 – 3-31-18		30,165.78
Payroll:	2-11-18 – 2-24-18	20,231.00	
	2-25-18 – 3-10-18	20,264.10	
	3-11-18 – 3-24-18	<u>22,007.63</u>	
			62,502.73
Electronic Payments:	Payroll Taxes	22,851.79	
	Valic Retirement	10,637.31	
	Paychex	354.99	
	Ameriflex	133.35	
	Bank Fees	446.14	
	WA State Dept Revenue	931.52	
	Program Expenditures	<u>469,861.24</u>	
			<u>505,216.34</u>
	Grand Total		<u>\$710,198.01</u>

PUBLIC HOSPITAL DISTRICT NO. 2
SNOHOMISH COUNTY, WASHINGTON
RESOLUTION NO. 2018-04

A RESOLUTION of the Board of Commissioners (the “Board”) of Public Hospital District No. 2, Snohomish County, Washington (the “District”), approving a new investment policy statement for the District.

WHEREAS, RCW 39.59.020 authorizes local governments in Washington, including public hospital districts, to invest their funds and money in their custody or possession in investments authorized by RCW 39.59.040; and

WHEREAS, RCW 43.250.040 authorizes local governments in Washington, including public hospital districts, to place funds into the state investment pool administered by the Washington State treasurer’s office so long as the placement of such funds is authorized by resolution of the governing body of the local governmental entity; and

WHEREAS, the Board desires to approve an investment policy statement authorizing investment of the District’s funds in the investments authorized by RCW 39.59.040 and in the state investment pool as authorized by RCW 43.250.040; NOW, THEREFORE,

BE IT RESOLVED by the Board of Commissioners of Public Hospital District No. 2, Snohomish County, Washington, that the Investment Policy Statement attached hereto as Exhibit A (the “Investment Policy”) is hereby approved and adopted and that the District’s Superintendent and Chief Financial Officer are each individually authorized to invest the District’s funds in compliance with the Investment Policy, including placing funds in the state investment pool authorized under RCW 43.250.040; and

BE IT FURTHER RESOLVED that all prior investment policies of the District are hereby repealed.

ADOPTED AND APPROVED by the Commission of Public Hospital District No. 2, Snohomish County, Washington, at a regular open public meeting thereof this 25th day of April, 2018, the following Commissioners being present and voting in favor of the adoption of the resolution.

President and Commissioner

Commissioner

Commissioner

Commissioner

Secretary and Commissioner

CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners of Public Hospital District No. 2, Snohomish County, Washington, hereby certify that the attached copy of Resolution No. 2018-04 is a true and correct copy of the original resolution adopted on April 25, 2018, as that resolution appears on the Minute Book of the District.

DATED this 25th day of April, 2018.

Karianna Wilson
Secretary of the Board of Commissioners

PURPOSE: The purpose of this Investment Policy Statement (IPS) is to govern the Public Hospital District No. 2 of Snohomish County (the District) Investment Program. In addition, the IPS is intended to provide the following:

- It establishes the criteria for matching investment objectives to an appropriate investment plan.
- It provides a frame of reference that will help keep the District focused on its investment objectives.
- It establishes the criteria against which progress can be measured.
- It encourages effective communication between the District and its investment advisor.
- It sets forth any reasonable restrictions on investment advisory services.
- It helps establish reasonable expectations, objectives and guidelines in the investment of the District's investment assets.

This document is intended to be a summary of an investment philosophy and the procedures that provide guidance for the District and its investment advisor. This IPS will be reviewed and revised periodically to ensure it adequately reflects any changes related to the District, the investments or the capital markets.

POLICY: It is the District's policy to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the District and conforming to all state and local laws and contracts governing the investment of public funds.

SCOPE: This investment policy applies to all investment assets of the District. These funds are accounted for in the District's Annual Financial Report and include:

1. General Operating Funds
2. Bond Agreement Funds
3. Temporary Tax Revenue Funds
4. Any new funds, unless specifically exempted

PRUDENCE: The "prudent person" standard shall be used by investment officials of the District and shall be applied in the context of managing an overall investment portfolio. Investments shall be made with judgment and care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable safety of their capital as well as the probable income to be derived.

OBJECTIVE: The primary objectives, in priority order, of the District's investment activities shall be:

- **Safety:** Safety of the principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is necessary so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- **Liquidity:** The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated and ensure the long-term stability of the District shall a catastrophic event occur.
- **Return on Investment:** The District investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the District's investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY: Authority to manage the District's investment program shall reside with the Director of Finance and the Treasurer, with finance committee oversight.

The Director of Finance and the Treasurer shall be accountable for all investment transactions and shall establish written procedures and internal controls designed to insure that the District's assets are protected from loss, theft or misuse. Such procedures may include explicit delegation of authority to persons responsible for investment transactions.

Procedures should include reference to: safekeeping, Public Securities Association (PSA) master repurchase agreements, wire transfer agreements, custody agreements and investment related 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 Director of Finance and the Treasurer. The Director of Finance and the Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

ETHICS AND CONFLICTS OF INTEREST: Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials of the District shall disclose to the District's General Counsel any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial or investment positions that could be related to the performance of the District's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the District, particularly with regard to the timing of purchases and sales.

AUTHORIZED AND SUITABLE INVESTMENTS: The District is authorized to invest in accordance with RCW Chapters 39.59 and 43.250 (see Appendix A for full text). The Director of Finance and the Treasurer may commingle available cash to maximize investment opportunities provided it is consistent and compliant with restrictions of covenants or other restrictions in law.

MASTER REPURCHASE AGREEMENT: If repurchase agreements are used, a Master Repurchase Agreement must be signed with the bank or dealer.

SAFETY/QUALITY: Banking institutions shall be approved by the Washington Public Deposit Protection Commission. All short-term investments shall have a minimum Moody's and /or Standard & Poors rating of A1/P1 and all long-term investments shall have a minimum Moody's and /or Standard & Poors rating of A or better.

Collateralization is required on repurchase agreements of at least 102% of the market value of principal. Collateral is limited to U.S. Treasury or United States Government Agency. A safekeeping receipt/confirmation must be supplied listing the collateral.

SAFEKEEPING AND CUSTODY: All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian.

INTERNAL CONTROL: As part of the annual audits by the State Auditor's Office and external auditors, internal controls are reviewed to ensure compliance with policies and procedures.

REPORTING REQUIREMENTS: The Director of Finance shall report the portfolio composition to the Board on a monthly basis. This report will present the following information:

- Fund balance
- Purchases
- Market gains/losses
- Fees paid for asset management (annually)

DUTIES AND RESPONSIBILITIES

The District

- Disclose to your advisor the full nature of the District's investment obligations.
- Invest the time and effort to work through the investment management process.
- Inform your advisor of any significant changes to the District's financial situation that may affect its goals and objectives.
- Be available for periodic reviews of the investment portfolio.
- Make sure you understand and are comfortable with your advisor and their investment style.

The Investment Advisor/Manager

- Help guide the District through a disciplined investment process to include appropriate asset allocation and selecting and implementing investment options.
- Control and account for all investment expenses.
- Provide a clear explanation of their investment philosophy and processes.
- Monitor the progress of your investment objectives and make changes as needed.
- Be available on a regular basis to confer with the District to review investment performance, reporting and suitability based on updated information provided by the District.
- Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements with the District.
- Exercise investment discretion with regards to buying, managing, and selling assets held in the portfolios.
- Communicate to the District all significant changes pertaining to the investments it manages.
- Effect all transactions for the portfolio subject "to best price and execution."
- Use care, skill, prudence, and due diligence in accordance and compliance with the Uniform Prudent Investor Act and all applicable laws, rules, and regulations.

The Custodian

- Safekeeping of the portfolio's assets.
- Maintain separate accounts by legal registration.
- Collect all income and dividends owed to the portfolio.
- Value the holdings and settle all transactions (buy-sell orders) initiated by the investment manager.
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

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AUTHORIZED INVESTMENTS

Following is a list of eligible investments and the RCW cites for them:

Chapter 39.59 RCW

PUBLIC FUNDS—AUTHORIZED INVESTMENTS

[Chapter Listing](#) | [RCW Dispositions](#)

Sections

39.59.010	Definitions.
39.59.020	Authorized investments—Local government authority.
39.59.040	Authorized investments—Bonds, warrants, certificates, and other investments.

39.59.010

Definitions.

Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Bond" means any agreement which may or may not be represented by a physical instrument, including but not limited to bonds, notes, warrants, or certificates of indebtedness, that evidences an obligation under which the issuer agrees to pay a specified amount of money, with or without interest, at a designated time or times either to registered owners or bearers.

(2) "Local government" means any county, city, town, special purpose district, political subdivision, municipal corporation, or quasi-municipal corporation, including any public corporation, authority, or other instrumentality created by such an entity.

(3) "State" includes any state in the United States, other than the state of Washington.

[[2016 c 152 § 9](#); [2015 c 225 § 50](#); [2002 c 332 § 22](#); [1988 c 281 § 1](#).]

NOTES:

Intent—Effective date—2002 c 332: See notes following RCW [43.19.760](#).

39.59.020

Authorized investments—Local government authority.

(1) Local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment, in investments authorized by this chapter.

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(2) Nothing in this section is intended to limit or otherwise restrict a local government from investing in additional authorized investments if that local government has specific authority to do so.

[[2016 c 152 § 10](#); [1988 c 281 § 2](#).]

39.59.040

Authorized investments—Bonds, warrants, certificates, and other investments.

Any local government in the state of Washington may invest in:

- (1) Bonds of the state of Washington and any local government in the state of Washington;
- (2) General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- (3) Subject to compliance with RCW [39.56.030](#), registered warrants of a local government in the same county as the government making the investment;
- (4) Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder;
- (5) Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
- (6) Bankers' acceptances purchased on the secondary market;
- (7) Commercial paper purchased in the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere to the investment policies and procedures adopted by the state investment board; and
- (8) Corporate notes purchased on the secondary market, provided that any local government of the state of Washington that invests in such notes must adhere to the investment policies and procedures adopted by the state investment board.

[[2016 c 152 § 11](#).]

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Chapter 43.250 RCW

INVESTMENT OF LOCAL GOVERNMENT FUNDS

[Chapter Listing](#) | [RCW Dispositions](#)

Sections

43.250.010	Purpose.
43.250.020	Definitions.
43.250.030	Public funds investment account.
43.250.040	Authority of official to place funds in the public funds investment account— Investment of funds by state treasurer—Degree of judgment and care required.
43.250.050	Employment of personnel.
43.250.060	Investment pool—Generally.
43.250.070	Investment pool—Separate accounts for participants—Monthly status report.
43.250.080	Annual summary of activity.

NOTES:

Investment accounting: RCW [43.33A.180](#).

43.250.010

Purpose.

The purpose of this chapter is to enable eligible governmental entities, including community and technical college districts, the state board for community and technical colleges as established in chapter [28B.50](#) RCW, public four-year institutions of higher education, qualifying federally recognized tribes or federally recognized political subdivisions thereof, and other governmental entities to participate with the state in providing maximum opportunities for the investment of surplus public funds consistent with the safety and protection of such funds. The legislature finds and declares that the public interest is found in providing maximum prudent investment of surplus funds, thereby reducing the need for additional taxation. The legislature also recognizes that not all eligible governmental entities are able to maximize the return on their temporary surplus funds. The legislature therefore provides in this chapter a mechanism whereby eligible governmental entities may, at their option, utilize the resources of the state treasurer's office to maximize the potential of surplus funds while ensuring the safety of those funds.

[[2010 1st sp.s. c 10 § 1](#); [2001 c 31 § 1](#); [1996 c 268 § 1](#); [1986 c 294 § 1](#).]

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43.250.020

Definitions.

Unless the context clearly requires otherwise, the definitions in this section shall apply throughout this chapter.

(1) "Authorized tribal official" means any officer or employee of a qualifying federally recognized tribe who has been expressly designated by tribal constitution, ordinance, or resolution as the officer having the authority to invest the funds of the qualifying federally recognized tribe or federally recognized political subdivisions thereof.

(2) "Eligible governmental entity" means any county, city, town, municipal corporation, quasi-municipal corporation, public corporation, political subdivision, or special purpose taxing district in the state, an instrumentality of any of the foregoing governmental entities created under chapter [39.34](#) RCW, any agency of state government, any entity issuing or executing and delivering bonds or certificates of participation with respect to financing contracts approved by the state finance committee under RCW [39.94.040](#), and any qualifying federally recognized tribe or federally recognized political subdivisions thereof.

(3) "Financial officer" means the board-appointed treasurer of a community or technical college district, the state board for community and technical colleges, or a public four-year institution of higher education.

(4) "Funds" means:

(a) Funds of an eligible governmental entity under the control of or in the custody of any government finance official or local funds, as defined by the office of financial management publication "Policies, Regulations and Procedures," under the control of or in the custody of a financial officer by virtue of the official's authority that are not immediately required to meet current demands; and

(b) Tribal funds under the control of or in the custody of any qualifying federally recognized tribe or federally recognized political subdivisions thereof, where the tribe warrants that the use or disposition of the funds are either not subject to, or are used and deposited with federal approval, and where the tribe warrants that the funds are not immediately required to meet current demands.

(5) "Government finance official" means any officer or employee of an eligible governmental entity who has been designated by statute or by local charter, ordinance, resolution, or other appropriate official action, as the officer having the authority to invest the funds of the eligible governmental entity. However, the county treasurer shall be deemed the only government finance official for all public agencies for which the county treasurer has exclusive statutory authority to invest the funds thereof.

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(6) "Public funds investment account" or "investment pool" means the aggregate of all funds as defined in subsection (4) of this section that are placed in the custody of the state treasurer for investment and reinvestment.

(7) "Qualifying federally recognized tribe or federally recognized political subdivisions thereof" means any federally recognized tribe, located in the state of Washington, authorized and empowered by its constitution or ordinance to invest its surplus funds pursuant to this section, and whose authorized tribal official has executed a deposit agreement with the office of the treasurer.

[[2016 c 152 § 19](#). Prior: [2010 1st sp.s. c 10 § 2](#); [2001 c 31 § 2](#); [1996 c 268 § 2](#); [1990 c 106 § 1](#); [1986 c 294 § 2](#).]

43.250.030

Public funds investment account.

There is created a trust fund to be known as the public funds investment account. The account is to be separately accounted for and invested by the state treasurer. All moneys remitted under this chapter shall be deposited in this account. All earnings on any balances in the public funds investment account, less moneys for administration pursuant to RCW [43.250.060](#), shall be credited to the public funds investment account.

[[1991 sp.s. c 13 § 86](#); [1990 c 106 § 2](#); [1986 c 294 § 3](#).]

NOTES:

Effective dates—Severability—1991 sp.s. c 13: See notes following RCW [18.08.240](#).

43.250.040

Authority of official to place funds in the public funds investment account— Investment of funds by state treasurer—Degree of judgment and care required.

If authorized by statute, local ordinance, resolution, or other appropriate official action, the state treasurer, a government finance official or financial officer or his or her designee, or authorized tribal official, may place funds into the public funds investment account for investment and reinvestment by the state treasurer in those securities and investments set forth in RCW [43.84.080](#) and chapter [39.58](#) RCW. The state treasurer shall invest the funds in such manner as to effectively maximize the yield to the investment pool. In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to

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speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

[[2010 1st sp.s. c 10 § 3](#); [2001 c 31 § 3](#); [1996 c 268 § 3](#); [1986 c 294 § 4](#).]

43.250.050

Employment of personnel.

The state treasurer's office is authorized to employ such personnel as are necessary to administer the public funds investment account. The bond of the state treasurer as required by law shall be made to include the faithful performance of all functions relating to the investment pool.

[[1986 c 294 § 5](#).]

43.250.060

Investment pool—Generally.

The state treasurer shall by rule prescribe the time periods for investments in the investment pool and the procedure for withdrawal of funds from the investment pool. The state treasurer shall promulgate such other rules as are deemed necessary for the efficient operation of the investment pool. The rules shall also provide for the administrative expenses of the investment pool, including repayment of the initial administrative costs financed out of the appropriation included in chapter 294, Laws of 1986, to be paid from the pool's earnings and for the interest earnings in excess of the expenses to be credited or paid to participants in the pool. The state treasurer may deduct the amounts necessary to reimburse the treasurer's office for the actual expenses the office incurs and to repay any funds appropriated and expended for the initial administrative costs of the pool. Any credits or payments to the participants shall be calculated and made in a manner which equitably reflects the differing amounts of the participants' respective deposits in the investment pool fund and the differing periods of time for which the amounts were placed in the investment pool.

[[1990 c 106 § 3](#); [1986 c 294 § 6](#).]

43.250.070

Investment pool—Separate accounts for participants—Monthly status report.

The state treasurer shall keep a separate account for each participant having funds in the investment pool. Each separate account shall record the individual amounts deposited in the investment pool, the date of withdrawals, and the earnings credited or paid. The state

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treasurer shall report monthly the status of the respective account to each participant having funds in the pool during the previous month.

[[1990 c 106 § 4](#); [1986 c 294 § 7](#).]

43.250.080

Annual summary of activity.

At the end of each fiscal year, the state treasurer shall submit to the governor, the state auditor, and the joint legislative audit and review committee a summary of the activity of the investment pool. The summary shall indicate the quantity of funds deposited; the earnings of the pool; the investments purchased, sold, or exchanged; the administrative expenses of the investment pool; and such other information as the state treasurer deems relevant.

[[1996 c 288 § 48](#); [1986 c 294 § 8](#).]

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COMMON INVESTMENT VEHICLES

Bankers' Acceptance

RCW 39.59.040 authorizes local governmental entities to invest in "[b]ankers' acceptances purchased on the secondary market." A bankers' acceptance (BA) is a unique credit instrument used to finance both domestic and international self-liquidating transactions. By definition, a bankers' acceptance is a time draft, that is, an order to pay a specified amount of money to the acceptance holder on a specified date. BA's are drawn on and accepted by a bank that, accepting the draft, assumes responsibility to make payment on the draft at maturity. From the standpoint of security, a bankers' acceptance is an irrevocable primary obligation of the accepting bank, and a contingent obligation of the drawer and of any endorsers whose names appear upon it. The bank is protected by its customer's agreement to provide good funds by the time the acceptance matures and by the pledge of documents such as invoices, bills of lading, independent warehouse or terminal receipts, trust receipts, and other papers evidencing ownership and insurance of the goods financed.

Foreign acceptances are U.S. dollar denominated acceptances backed by the credit of foreign banks or agencies domiciled in the United States. Foreign BA's have the same characteristics as domestics. There has been no principal loss to investors in foreign BA's.

An example of a bankers' acceptance creation would be as follows:

Consider a Seattle car dealer who wishes to finance the importation of Japanese cars on an acceptance basis. The American importer, after negotiating with the exporter in Japan, arranges for his American commercial bank to issue an irrevocable letter of credit in favor of the exporter. The letter of credit specifies the details of the shipment and states that the Japanese exporter may draw a time draft for a certain amount on the American bank. The Japanese exporter, in conformity with the terms of the letter of credit, draws a draft on the American bank, receiving immediate payment. The exporter's Japanese bank then forwards the draft to the United States for presentation to the bank that issued the letter of credit. This bank stamps the draft "accepted", thus incurring an obligation to pay the draft at maturity. An acceptance has been created.

The new acceptance is discounted for the Japanese bank by the accepting bank and the proceeds credited to the account of the Japanese bank. The accepting bank, in turn, may either sell the acceptance or hold it in its own portfolio. The importer is obligated to deposit the proceeds of the car sales at the accepting bank in time to honor the acceptance. At maturity, the acceptance is presented for payment by its owner and the transaction is completed.

Acceptances generally have maturities of 180 days or less (with 90 days being the most typical). They are quoted, bought, and sold on a discount basis.

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Commercial Paper

RCW 39.59.040(7) authorizes local governments to invest in “[c]ommercial paper purchased in the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere to the investment policies and procedures adopted by the [Washington State Investment Board (SIB)].” Commercial paper (CP) is a short-term debt obligation, where there is a promise to repay a fixed amount on a certain future date. CP is issued by banks, corporations, and other borrowers.

CP is issued with maturities ranging from overnight to 270 days. Though some CP is interest bearing, most are quoted, bought, and sold on a discount basis.

The CP policy guidelines adopted by the SIB (Policy No. 2.05.500; adopt. 9/15/2016) are as follows:

- (1) Commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating 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 the organizations.
- (2) Commercial paper holdings may not have maturities exceeding 270 days.
- (3) Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of an NRSRO.
- (4) The percentage of commercial paper that can be purchased from any single issuer is three percent of the total assets of the portfolio.
- (5) Commercial paper must be purchased in the secondary market and not directly from the issuers.
- (6) Portfolio managers will routinely monitor the ratings of the issuers of the commercial paper they are purchasing. Appropriate personnel will be notified of any credit rating downgrades of issuers of any commercial paper in their portfolios.

Corporate Notes

RCW 39.59.040(8) authorizes local governments to invest in “[c]orporate notes purchased on the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere to the investment policies and procedures adopted by the [SIB].”

The CP policy guidelines adopted by the SIB (Policy No. 2.05.500; adopt. 9/15/2016) are as follows:

- (1) Corporate notes are defined as debt securities issued by corporations.
- (2) Corporate notes must be rated at least weak single-A or better by all of the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio.

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- (3) Corporate notes must meet the following maturity and duration limits:
 - (a) The maturity of the corporate notes shall be 5.5 years or less at the time of purchase.
 - (b) The maximum duration of the corporate note portfolio shall not exceed 3 years.
- (4) No corporate fixed-income issue may exceed 3 percent of the cost or 6 percent of the market value of the assets of the total portfolio.
- (5) 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 percent of the assets of the total portfolio.
- (6) The percentage of corporate notes that may be purchased from any single issuer rated in the broad single-A category from all the major rating agencies that rate the security, is 2 percent of the total portfolio.
- (7) Corporate notes must be purchased on the secondary market and not directly from the issuers.
- (8) Securities rated in 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.

Federal Agency Securities

From time to time, Congress becomes concerned about the volume of credit that is available to various sections of the economy and the terms at which that credit is available. Its usual response is to set up a federal agency to provide credit to that sector.

Those agencies borrowing in the open market do so primarily by issuing notes and bonds. These securities bear interest, and they are issued and redeemed at face value. Instead of using the auction technique for issuing their securities, federal agencies look to the market to determine the best yield at which they can sell a new issue, put that yield on the issue, and then sell it through a syndicate of dealers. Some agencies also sell short-term discount paper that resembles a Treasury bill.

Normally, agencies yield slightly more than the Treasury securities of the same maturity. There are several reasons for this. Agency issues are smaller than Treasury issues and are, therefore, somewhat less liquid. Also, while all agency issues have de facto backing from the federal government (it is inconceivable that the government would let one of them default on its obligations), the securities of only a few agencies are explicitly backed by the full faith and credit of the U.S. Government. Thus, some investors view some agency securities as carrying a small but perceptible credit risk. A third disadvantage of some agency issues is that interest income from them is not exempt from state taxation. Agencies are generally traded by the same dealers who trade governments and in much the same way.

The most commonly traded agencies are:

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- **Federal Home Loan Banks**

The Federal Home Loan Bank System was organized under the Federal Home Loan Bank Act and opened for business in October 1932. The twelve District Banks comprising the system are distributed geographically around the country similarly to the Federal Reserve Banks and operate as a credit reserve system for the thrift industry to stabilize the flow of mortgage credit to the public. The District Banks are wholly owned by their member institutions but operate under the supervision of the Federal Home Loan Bank Board, an independent federal agency. The Bank Board issues all federal charters for savings and loan associations and mutual savings banks. Membership for thrift institutions chartered by the Banks' Board is mandatory. At the end of 1983, membership consisted of over 3,400 financial institutions. Debt is issued as consolidated obligations of the twelve Federal Home Loan Banks. Although system debt is not guaranteed by the U.S. Government, the banks do operate under federal charter and government supervision.

Consolidated bonds are issued only in book entry form for a minimum of \$10,000 with multiples of \$5,000 thereafter. Bond financings are scheduled once a month and the system enters the market if funds are needed. Bonds are for longer term funding requirements with maturities generally ranging from one year to ten years. Consolidated obligations issued on a discount basis to mature in one year or less are designated consolidated discount notes. The buyer at the time of purchase may select maturities, within the 30 - 360 day range, subject to the general limitations prescribed by the system. They are issued in book-entry form only and are available in denominations of \$100,000, \$150,000, and \$1,000,000.

- **Federal Home Loan Mortgage Corporation (Freddie Mac)**

The Federal Home Loan Mortgage Corporation (FHLMC) was created in July 1970 through enactment of Title III of the Emergency Home Finance Act of 1970. The organization's purpose is to promote the development of a nation-wide secondary market in conventional residential mortgages. To accomplish this, the FHLMC buys residential mortgages and then resells them via the sale of mortgage related instruments. The FHLMC operations are directed by the Federal Home Loan Bank System. The FHLMC may purchase mortgages only from financial institutions that have their deposits or accounts insured by agencies of the federal government. It purchases only conventional residential mortgages and FHA/VA mortgages, then sells its interest in the mortgages it purchases through mortgage-backed, pass-through securities. Specifically, the FHLMC sells two types of pass-through securities: mortgage participation certificates (PC's) and guaranteed mortgage certificates (GMC's). Each PC represents an undivided interest in a pool of conventional residential mortgages underwritten and previously purchased by the FHLMC. Each month the certificate holder receives a prorated share of the principal and interest payments made on the underlying pool. The FHLMC guarantees timely payment of interest on PC's and the full return of principal to the investor. While PC's technically have a maturity at issue of 30 years, their average weighted life is assumed to be 12 years or less.

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Guaranteed mortgage certificates also represent an undivided interest in conventional residential mortgages underwritten and previously purchased by the FHLMC. These certificates pay interest semiannually and return principal once a year in guaranteed maximum amounts. The final payment date on GMC's is 30 years from the date of issue, but the expected average weighted life of these securities is around 10 years.

Both PC's and GMC's are issued in registered form in initial principal amounts of \$100,000, \$500,000, and \$1,000,000.

- **Government National Mortgage Association (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. It took over the special assistance and the management and liquidating functions that had formerly been lodged in FNMA. These functions involve activities that could not be profitably carried out by a private firm. Ginnie Mae's mission is also 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. Under the pass-through approach, private mortgage lenders assemble pools of mortgages acquired through Ginnie Mae auctions or from other sources and then sell certificates backed by these mortgages to investors. These securities are referred to as pass-through securities because payment of interest and principal on mortgages in the pool is passed on to the certificate holders after deduction of fees for servicing and guarantee. Pass-through certificates have stated maturities equal to those of the underlying mortgages. However, actual maturities tend to be much shorter because of prepayments, the average life on single family mortgages being approximately 12 years. On pass-through securities, principal and interest are paid monthly to the investor. Because payments are made monthly and because the amount passed through varies from month to month due to mortgage prepayment, pass-throughs are issued in registered form only. They have minimum denominations of \$25,000. They carry Ginnie Mae's guarantee of timely payment of both principal and interest and, in addition, are backed by the full faith and credit of the U.S. Government.

- **Federal Farm Credit Banks Consolidated System-wide Bonds**

The Farm Credit System is a cooperatively owned nationwide system of banks and associations that provides mortgage loans, short and intermediate-term credit and related services to farmers, ranchers, producers, or harvesters of aquatic products, rural homeowners, and agricultural and rural cooperatives. The Farm Credit System is organized geographically into 12 Farm Credit Districts. In each district, there is a Federal Land Bank, a Federal Intermediate Credit Bank, and a Bank for Cooperatives. In addition, there is a Central Bank for Cooperatives in Denver, Colorado, which participates with district banks in larger loans. Responsibility for supervising the Farm Credit System in the

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public's best interest is the Farm Credit Administration, which is an independent agency of the U.S. Government. Each of the 37 Farm Credit Banks is audited and examined at least once each year by Farm Credit Administration examiners. Federal Farm Credit Banks Consolidated System-wide Bonds are secured joint and several obligations of the 37 Farm Credit Banks. Bonds are issued each month with six and nine-month maturities. Longer-term bonds are issued approximately eight times a year. They are issued in book-entry form, in multiples of \$1,000 for maturities of over 13 months and of \$5,000 for shorter maturities. System-wide bonds sold to the public are secured by collateral consisting of notes or other obligations of borrowers, obligations of the United States or any agency thereof, or other readily marketable securities approved by the Farm Credit Administration, or cash, in an aggregate value equal to the bonds outstanding. The system also issues discount notes with maturities ranging from 7 to 270 days.

- **Federal National Mortgage Association (FNMA)**

The Federal National Mortgage Association is a government chartered corporation owned entirely by private stockholders. It is subject to regulation by the Secretary of Housing and Urban Development. Originally chartered in February, 1938, it was partitioned in 1968 into two corporations: Federal National Mortgage Association and Government National Mortgage Association. FNMA was authorized to render supplementary assistance to the secondary market for federally guaranteed or insured mortgages. However, under the Emergency Home Finance Act of 1970, FNMA is also empowered, with the approval of the Secretary of Housing and Urban Development, to purchase, service, lend on the security of, sell, and otherwise deal in mortgages not federally insured or guaranteed.

Mortgages and loans insured by the Federal Housing Administration, or guaranteed by the Administrator of Veterans Affairs, or insured by the Farmers Home Administration are purchased by FNMA from an approved list of mortgage sellers, including mortgage companies, and from any federal agency authorized to sell such mortgages or loans. Purchases of mortgages by FNMA are financed by the sale of debentures and short-term notes to private investors. FNMA also issues short-term discount notes with maturities ranging from 30 to 360 days. Discount notes are issued in denominations of \$5,000, \$10,000, \$25,000, \$100,000, \$500,000, and \$1,000,000. The minimum order is \$50,000.

- **Student Loan Marketing Association (Sallie Mae)**

The Student Loan Marketing Association is a stockholder owned corporation established by the Higher Education Act of 1965. Sallie Mae has broad statutory authority to provide liquidity for banks, savings and loans, educational institutions, state agencies, and other lenders engaged in the Federal Guaranteed Student Loan Program and the Health Education Assistance Loan Program in a manner which will increase the amount of funds available for lending and to otherwise support the credit needs of students. Loans originated under the GSLP and HEAL are either insured directly by the U.S. or guaranteed by state or nonprofit private agencies and reinsured by the U.S.

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The federal government has oversight responsibilities with respect to certain aspects of Sallie Mae's activities. One third of Sallie Mae's 21-member board of directors and its chairman are designated by the President of the United States. Sallie Mae is permitted to conduct business without regard to any qualification or similar statute in any state of the United States. Sallie Mae finances its market activities primarily from the sale of its debt securities. The Higher Education Act permits the Secretary of Education to guarantee Sallie Mae obligations, regardless of maturity, issued prior to September 30, 1984. From 1974 through 1982, Sallie Mae financed its activities principally through the issuance to the Federal Financing Bank of such obligations. In May 1981, Sallie Mae began to finance its operation in part through the issuance of non-guaranteed discount notes. These notes are unsecured debt obligations having a maturity of no longer than one year and are issued on a daily basis in minimum denominations of \$100,000 and multiples of \$50,000 above that amount. In 1982, they began to offer, on a public basis, non-guaranteed floating rate notes with maturities generally of three years or longer. Interest on these notes is generally adjusted on the basis of the bond equivalent yield of the 91-day Treasury Bill rate. Sallie Mae also offers to the public, from time to time, long-term fixed rate securities. In February 1984, Sallie Mae also began issuing short-term floating rate notes, at a spread to the bond equivalent yield on the 91-day Treasury Bill. The rates are offered monthly.

The Internal Revenue Service has ruled that Sallie Mae is an instrumentality of the United State for the purposes of the IRS code. As a result of this, domestic building and loan associations and mutual savings banks are permitted to include Sallie Mae obligations among those assets defined as "stock or obligations of a corporation which is an instrumentality of the United States".

- **Small Business Administration (SBA)**

The Small Business Administration was created in 1953 and derives its present authority from the Small Business Act of 1958 as amended and various other laws. SBA provides financial, procurement, and management assistance to small business concerns and also assists victims of natural and other disasters. SBA aid to small business firms includes both direct loans and guaranteed loans. As part of its financial assistance functions, SBA makes loans to small business investment companies (SBIC's) which are privately owned, SBA-licensed and regulated companies that supply venture capital and long-term financing to small firms. Under a guaranty authority which became law on December 22, 1971, SBA may (when authorized in appropriate acts) guarantee the timely payment of all principal and interest as scheduled on SBIC debentures. The SBA guaranty is secured by the full faith and credit of the United States. Currently, all such sales of debentures are being made to the Federal Financing Bank which is subject to the general supervision and direction of the United States Treasury. When a lender makes a SBA loan, 90 percent of the loan is guaranteed by SBA. The guaranteed portion of SBA loans can be sold by lenders to brokers/dealers or directly to investors via SBA forms 1084 or 1086 (secondary participation guaranty agreements), the latter to utilize the services of the fiscal and transfer agent. The

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overwhelming proportion of SBA guaranteed loans sold into the secondary market are regular business loans. Only the entire guaranteed portion can be sold. Although it is legally permissible that there might be multiple owners of this guaranteed interest, there can be but one registered holder (SBA form 1086) or holder (SBA form 1084) entitled to ownership benefits of the guaranteed interest. Under the fiscal and transfer agent or older 1084 systems below, however, the owner may be an individual, joint tenants, tenants in common, or tenants by the entirety. Borrower payments of principal and interest are apportioned between the lender and investor according to their respective ownership interests and the servicing fee of the lender. SBA's secondary market operations changed materially in 1979, when nationwide implementation of the Fiscal and Transfer Agent program commenced. A registered, negotiable instrument identified as the guaranteed interest certificate is the only documentation evidencing ownership which the secondary investor need retain. SBA's fiscal and transfer agent issues these certificates and serves as the central registry of certificate ownership. All subsequent transfers are made between the seller and buyer without review or approval by SBA, but with the involvement of the fiscal and transfer agent. Trades are effected by the transfer agents issuing a new certificate to the owner. The fiscal and transfer agent is the custodian of loan documentation, bills lenders for monthly payments, and receives borrowers' monthly payments from lenders. In turn, the fiscal and transfer agent provides one aggregate payment to the registered holder, regardless of the number of certificates owned, along with an accounting of the transaction. When a lender decides to sell the guaranteed portion of a fully disbursed SBA loan - and only the entire guaranteed portion can be sold - a sale is negotiated with a broker/dealer or directly with an investor. Secondary market sales to investors electing the services of the fiscal and transfer agent must be accomplished on SBA form 1086, a tripartite secondary participation guaranty and certification agreement. A loan document package (to consist of the 1086, copies of the note, and commitment letter identifying the settlement date, along with a transcript of account) is then forwarded to the SBA servicing district office, SBA executes the 1086 after a satisfactory in-house review. Wire transfer of funds permits settlement and certificate issuance to the investor by the fiscal and transfer agent. The lender remains responsible for servicing the loan.

An optimal method of sale is the use of the old SBA form 1084, secondary participation guaranty agreement. This method of sale does not utilize the services of the fiscal and transfer agent; thus, the benefits of the certificate system do not flow to the investor. A tri-party agreement, SBA form 1084, containing the lender's annual servicing fee, is first executed by the lender and broker/investor. SBA must satisfactorily complete an in-house review before execution of form 1084 at the time of initial sale. The fully executed original of the 1084 and a copy of the borrower's note evidence the investor's ownership. Under both the 1084 and 1086 sale process, a holder of the guaranteed interest must have no interest in the borrower in the note, or in the collateral hypothecated to the loan. All subsequent transfers are arranged between the seller and buyer. Resale of the guaranteed interest by the investor holding a SBA form 1084 includes drafting a transfer instrument and providing written notice to the lender and SBA by copy of the executed assignment

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document. The transferee must not be the borrower or an associate of the borrower or lender.

There is one caveat that the public funds investor should be aware of in dealing with SBA's. In the event of either default by the borrower or repayment by the borrower, the investor will receive the par value of the SBA. Thus, if the security was purchased at a premium, the investor would face a principal loss on the investment.

Local Government Investment Pool

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be: safety, liquidity, and return on investment. To provide for the safety and liquidity of funds deposited in the LGIP, the state treasurer and designated investment officers shall:

- adhere to all restrictions on the investment of funds established by law and by this policy;
- limit the purchase of investments in securities so that the average maturity of the portfolio does not exceed 90 days;
- limit the purchase of investments to securities that have a maximum maturity of 397 days, except securities used as collateral in repurchase agreements;
- limit the purchase of investments in securities other than those issued by the U.S. government or its agencies; and,
- prepare regular reports of portfolio activity.

Within the restrictions necessary to ensure the safety and liquidity of funds, the investment portfolio of the LGIP will be structured to attain a market rate of return throughout budgetary and economic cycles.

Repurchase Agreements and Reverse Repurchase Agreements

The Repurchase Agreement, or repo, is an integral part of the bond and money markets. The investor, dealer community, and Federal Reserve Open Market Committee all depend on the repo. The investor, typified by local public funds managers, relies upon the repo to invest funds that are temporarily available. No other investment vehicle provides the flexibility of the repo.

The dealer community relies upon the repo to finance the huge positions they carry that enable the money markets to operate in the efficient manner in which they do. Without the repo to finance their positions, the market would lose the liquidity that it now enjoys and the U.S. Treasury would

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find it much more difficult to sell the vast amounts of debt necessary to finance government operations.

Finally, the Federal Reserve depends on the repo to implement its monetary policy. Without it, the Fed would find it extremely difficult to control the money supply. It utilizes the repo to inject funds into the banking system when it deems necessary. By entering into repurchase agreements with the dealer community, it exchanges funds for securities that are in dealer positions. The dealers then deposit those funds with their banks, thus increasing the amount of dollars available in the banking system. By doing reverse repo's, the Fed accomplishes the opposite goal, or removes funds from the system.

The collapse of several securities firms during the last few years created a great deal of anxiety among investors who routinely utilize the repurchase agreement to aid them in carrying out their cash management responsibilities. Historically, the repurchase agreement was regarded by the investor as a purchase of securities and a simultaneous commitment on the part of the buyer to resell the securities to a dealer at a specified rate of interest. This definition was cast into doubt by the finding of a Federal Bankruptcy judge that the stay provisions of the bankruptcy code applied to repo transactions. This action froze all of the assets of the firm involved, including the securities involved in repos. Those assets would potentially remain frozen until the liquidation of the firm or its reorganization. Previously, investors had felt they were placing their funds in a virtually risk-free investment vehicle. However, in light of these proceedings, the investment community had to reassess the future of the repurchase agreement. The court's decision cast doubt in a bankruptcy context, on the liquidity and safety of repos. The decision not only subjected the repo participants involved to unanticipated liquidity pressures, but also exposed those participants to an increased risk of capital loss because of potential changes in interest rates. If repo's were to be subject to the automatic stay provisions in bankruptcy, the rippling effect of the potential loss of liquidity or capital on market participants could generally disrupt the repo market and cause an otherwise manageable and isolated problem to become generalized. Because of this, and at the urging of various groups, such as the Federal Reserve, the dealer community and the Western State Treasurers, Senator Dole, Chairman of the senate Judiciary Committee, introduced legislation that would exempt repo's from the bankruptcy code. As a result of these concerted efforts, Public Law 98-353 was enacted on July 10, 1984. This Act encompassed a general overhaul of the bankruptcy code. Within its provisions, it specifically exempts certain types of repos from the stay provision. It specifically addresses itself to repo's involving certificates of deposit, bankers acceptances and securities that are direct obligations of, or that are fully guaranteed as to principal and interest by the United States or any agency of the United States, with a maturity of not more than one year.

This legislation removed the uncertainty surrounding the repo but it did not relieve the investor from the obligation to conscientiously monitor his or her investment practices and relationship. The investment policies of the State Treasurer's Office are designed to meet three primary goals. The first of these, and the foremost concern of every public funds trustee, is safety of principal. The second objective is to provide sufficient liquidity to meet the cash flow needs of the state and, finally, the third is the achievement of the highest possible yield within our investment parameters.

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In conjunction with our first objective, protection of principal, the State Treasurer's Office has developed the following guidelines to be used in its repurchase agreement transactions:

- The first, and probably most important of these, states that securities should be kept with a third party, acting on the investor's behalf. The necessity for this became very apparent in the failure of Lombard-Wall. Many of the investors who had repos with Lombard had failed to take delivery of the securities involved. By abdicating this responsibility in exchange for a few basis points in additional yield, they exposed themselves to a great deal of risk. A safekeeping agent acts in the interests of the entity that pays for its services. Even after the bankruptcy court had granted the release of the securities, Bankers Trust, Lombard's safekeeping bank, refused to relinquish the bonds until it had satisfied itself that all of the bank's responsibilities to its customers had been met. In light of this situation, it is important that an investor maintains their own safekeeping arrangements, thereby retaining all possible options in the event of a default. It should also be noted that some dealers in the investment community feel that unless an investor does take delivery, he or she will not be afforded the protection now granted under the bankruptcy law.
- The second guideline is designed for transactions involving local banking institutions. It specifies that securities used in repurchase agreements with banks be held in that bank's safekeeping department for the account of the investor. The safekeeping department should be under the trust area of the bank.
- The third and fourth guidelines are closely allied and state that all securities in a repurchase transaction should be priced to reflect current market conditions and the pricing should allow for a margin of market fluctuation. In carrying out our fiduciary responsibilities in the investment of public funds, it is incumbent upon us to take particular care in the assumptions of risk. When entering into repo transactions, it is imperative that the investor require that securities be priced to market and include what is commonly referred to as a "haircut". A haircut is the difference between the price at which a security is trading in the marketplace and the level at which it is priced for the repo transaction. For example, a bond trading at par might be price at 99 for the purposes of the repo. That one point spread is the haircut. This provides you with a margin of protection from the highly volatile market we've come to expect over the past several years. Any responsible bond dealer will handle your repos in this manner without any recriminations. It is a common market practice that we should all follow.
- Lastly, deal with well capitalized firms that have a good reputation in the industry. Get a current, audited financial statement and look it over carefully. Also, make inquiries about the firm with people in the business with whom you have dealt and whom you respect. The marketplace is generally very efficient at ferreting out those entities that are potential problem areas.

Reverse repurchase agreements, technically called matched sales-purchase agreements, are essentially the mirror image of RP's. In this instance, the investor is the initial owner of the securities, and the bank or dealer is the entity with money. All other aspects remain identical.

The repo rate is a simple interest calculation based on a 360-day year.

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U.S. Treasury Securities

U.S. Treasury securities are direct debt obligations of the Federal government and are exempt from state and local income tax. Treasuries are guaranteed by the full faith and credit of the U.S. government.

Treasury bills (T-bills or bills) are discount securities that mature in one year or less. The price of a bill is always quoted as a discount rate from par. The discount rate of bills represents the size of the price reduction for a 360-day period. For example, a bill that matures in 360 days and is sold at a discount rate of 6%, is priced at 94. This means a bill with a face value of \$10,000 would be sold at \$9,400 and pay the investor \$10,000 at maturity. Bills are completely identified by their maturity date, since they have no coupon (e.g. the 10/14/1999 bill).

The Treasury issues 3-month, 6-month, and 1-year bills on a regular schedule. Auctions for 3- and 6-month bills occur every Monday, with settlement each Thursday. Year bill auctions occur every fourth Tuesday, with settlement on Thursday. In addition to this regular schedule, the Treasury can also issue Cash Management Bills (CMBs) to meet its short-term borrowing needs.

Treasury notes and bonds are coupon securities. Notes are issued with maturities of 1 to 10 years, while bonds are issued with maturities up to 30 years. Notes and bonds are otherwise identical; for this reason, both will now be referred to as bonds.

The Treasury pays the investor total annual interest equal to the coupon rate. In addition, the bond is traded by its price, which is quoted as a percentage of face value. For example, a dollar price of 99 on \$10mm face amount of bonds is worth \$9,900,000.

The Treasury auctions notes and bonds less frequently than it auctions bills since they don't need to refinance cash raised through long-term issues as frequently as cash raised through short-term issues. Currently, the 2-year note is auctioned monthly. The 5-year and 10-year notes and the 30-year bond are auctioned quarterly in February, May August and November.

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INVESTMENTS NOT ELIGIBLE FOR PUBLIC FUNDS

- Corporate Stocks
- Corporate Bonds
- Foreign Government Obligations
- Futures Contracts
- Guaranteed Investment Contracts (GICs)
- Investment in Commodities
- Limited Partnerships
- Negotiable Certificates of Deposit
- Real Estate

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IMPORTANT GUIDELINES

Repurchase Agreement Guidelines:

1. Securities should be kept with a third party acting on the investor's behalf for safety purposes.
2. It is acceptable for securities used in repurchase agreements with banks to be held in that bank's trust safekeeping department for the account of the investor.
3. All securities in a repurchase agreement should be priced to reflect current market conditions.
4. Pricing of securities should allow for a margin of market fluctuations.
5. Deal with well capitalized firms which have a good reputation in the industry.

Important Elements of Custodial Agreements:

1. Agreement should be between the municipal treasurer and custodial third party.
2. Agreement specifies that the custodial third party will act as trustee solely on behalf, and at the direction of the municipal treasurer for the safekeeping of securities purchased by the municipal treasurer and carry out other duties as specified and agreed to between the parties in the agreement (disposition of money coming to the custodian for the benefit of the municipal treasurer, money entrusted to the custodian by the municipal treasurer for the payment of securities, audit requests, account statements, etc.).
3. The responsibilities of the custodial third party and the municipal treasurer in the event of default by the seller.
4. Means of compensation to custodial third party.
5. Terms by which the agreement may be altered or terminated.

POLICY NUMBER: 2.05.500**EFFECTIVE DATE:** 9/15/16

TITLE: Commercial Paper and Corporate
Notes Investment Policy For the
State Treasurer, Local
Governments, and Higher Education
Institutions

SUPERSEDES: 9/17/15**BOARD ADOPTION:** 9/15/16**APPROVED:** **PURPOSE**

Revised Code of Washington (RCW) 43.84.080, RCW 39.59.040, and RCW 28B.10.928 authorize the State Treasurer, local governments in the state of Washington, and Washington institutions of higher education to invest in commercial paper and corporate notes purchased on the secondary markets provided they adhere to the investment policies and procedures adopted by the Washington State Investment Board (WSIB).

In accordance with those statutes, this policy establishes guidelines enabling the State Treasurer, local governments, and institutions of higher education to invest in commercial paper and corporate notes purchased on the secondary markets.

POLICY

This policy refers to four portfolios: (1) the commercial paper portfolio; (2) the corporate notes portfolio; (3) the credit portfolio, a subset of the total portfolio that contains the commercial paper and corporate notes portfolios combined; and (4) the total portfolio, which includes all money market and fixed income securities.

Investors without the expertise to make the investment decisions addressed in this policy should obtain independent expert financial advice.

Commercial Paper Portfolio Guidelines

The policy guidelines with respect to investment in commercial paper are as follows:

1. 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 major NRSROs, it must have the highest rating from all of them.
2. Commercial paper holdings may not have maturities exceeding 270 days.
3. 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.
4. The percentage of commercial paper that may be purchased from any single issuer is 3 percent of the assets of the total portfolio.
5. Commercial paper must be purchased in the secondary market and not directly from the issuers.

Corporate Notes Portfolio Guidelines

The policy guidelines with respect to investment in corporate notes are as follows:

1. Corporate notes are defined as debt securities issued by corporations.

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2. Corporate notes must be rated at least weak single-A or better by all of the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio.
3. Corporate notes must meet the following maturity and duration limits:
 - a. The maturity of the corporate notes shall be 5.5 years or less at the time of purchase.
 - b. The maximum duration of the corporate note portfolio shall not exceed 3 years.
4. No corporate fixed-income issue may exceed 3 percent of the cost or 6 percent of the market value of the assets of the total portfolio.
5. 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 percent of the assets of the total portfolio.
6. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single-A category from all the major rating agencies that rate the security, is 2 percent of the total portfolio.
7. Corporate notes must be purchased on the secondary market and not directly from the issuers.
8. Securities rated in 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.

Credit Portfolio Guidelines

The commercial paper and corporate notes portfolios together are known as the credit portfolio. The policy guidelines with respect to the credit portfolio are as follows:

1. The credit portfolio shall not exceed 25 percent by market value of all assets of the total portfolio.
2. The credit portfolio must be diversified by sector and industry.
3. Portfolio managers must routinely monitor the ratings and credit quality of the issuers of the commercial paper and corporate notes that they are purchasing. Appropriate personnel should be notified of any credit rating downgrades of issuers of any commercial paper and corporate notes in their portfolios.
4. Credit risk, interest rate risk, and reinvestment risk must all be managed.

Total Portfolio Guidelines

The policy guidelines with respect to the total portfolio concentration limits are as follows:

1. The following are not permissible investments:
 - a. Securities issued in currencies other than the U.S. dollar.
 - b. Derivatives.
 - c. Loans.
2. No single credit issuer shall exceed 3 percent of the total portfolio's market value.
3. The individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the total portfolio. The exposure is determined by the country of domicile of the issuers of portfolio securities.

ROLES AND RESPONSIBILITIES

Washington State Investment Board

The Board is responsible for approving the Commercial Paper and Corporate Notes Investment Policy for the State Treasurer, Local Governments, and Higher Education Institutions.

Public Markets Committee

The Committee is responsible for reviewing and recommending the policy to the Board.

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WSIB Staff

Staff is responsible for recommending investment policy enhancements and changes to the Public Markets Committee.

State and Local Government Staff and Higher Education Institution Staff

State and local government staff and higher education institution staff are responsible for obtaining any necessary independent expert financial advice related to investments covered by this policy and are responsible for implementing the policy as well as following best practices in accounting and reporting.

POLICY REVIEW

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

DRAFT

Policy Adopted 3/16/95
Revised 2/18/99
Revised 10/25/01, Supersedes WSIB Policy 2.15.101
Reviewed 7/20/06
Reviewed 4/16/09
Reviewed 6/21/12
Revised 9/17/15
Revised 9/15/16

Program Oversight Committee Summary Report

- Two new requests for funding
- Program Dashboard Discussion: Childhood Obesity
- Building Healthy Communities Fund Requests for Proposal

Information about Funding Requests

1. Foundation for Edmonds Schools – Summer Meal Program		Request Year 1	Request Year 2	Request Year 3
		\$9,750		-
Project Description: a request to support a summer meals program for children in the Edmonds School District. Meals costs are reimbursable through federal meal programs, and the school foundation is seeking funding from Verdant for the staff oversight, documentation, and healthy activities to correspond with the meals. Verdant provided funding for the program in 2016, and the program expects to expand to three sites this summer to include a public park site.				
Expected Results		The goal of the program would be to serve 25-30 children per site per day, with the goal of serving 100 unduplicated children. The program would also track participation in physical activity and other activities.		
Use of Funds & Costs		Verdant funds would primarily be used to pay for staffing costs to coordinate the program and organize activities. The program budget includes \$9,000 of other funding and significant in-kind support.		

2. Latino Education Training Institute – Latino Expo 2018		Request Year 1	Request Year 2	Request Year 3
		\$5,000		
Program Description: a one-time request to support the Latino Expo in August at Edmonds Community College. The event expects 1,000 attendees this year and would include health services/screenings, education, and other activities. LETI is expecting 50+ vendors to attend and 30+ interns from UW-Bothell's with the goal of increasing the health screening components of the event.				
Expected Results		LETI's goal is to increase attendance to 1,000+ in 2018 and increase the attendance and screenings in the medical testing area.		
Use of Funds & Costs		LETI is seeking \$5,000 for general event coordination expenses. The program budget includes many other sponsors and has a total budget of \$37,700.		

Program Committee Recommendations

Applications Recommended for Funding:

- 1. Foundation for Edmonds Schools – Summer Meal Program:** the committee is recommending fully funding the request at \$9,750 on a one-time basis. The committee felt that providing nutritious food and activities in the summer filled an important community need and was a match with Verdant’s funding priorities.

- 2. Latino Education Training Institute – Latino Expo 2018:** the program committee is recommending fully funding the request at \$5,000 on a one-time basis. The event includes clear health components and it is expected to reach a large number of residents. The committee would like LETI to provide a clear summary of health services provided and also to ensure that the health screenings provide consistent referrals for follow-up health services when appropriate.

Completed Programs (March/April)

1. General Community and Provider Events	Attendance
1. Snohomish Health Leadership Coalition Live Healthy 2020 (3/26)	8
2. Monthly Hero's Café for Veterans (3/27)	80-100
3. Community Foundation of Snohomish County (March 29)	25
4. Foster Parent Core Training Series (3/31)	32
5. Parkinson's Disease AM & PM Support Group (4/2)	4-6/group
6. North Sound ACH Committee Meeting (4/2)	10
7. SHIBA Update Trainings (4/3)	25
8. Korean Women's Association Everyday Prevention Workshops (April 5)*	40
9. Family Caregiver Support Group (4/5, 19)	6-10/session
10. League of Women Voters Children's Committee (April 6)	8-12
11. ARC Mothers of Children with Disabilities Monthly Support Network (4/7)	13
12. Evergreen Home Health Team Meetings (4/11, 17)	25/session
13. Aging & Disability Resource Network Staff Training (4/12)	10
14. Community Narcan Training (4/19)	TBD
15. Welcome to Medicare Monthly Workshops (4/20)	12-20/session
16. National DPP Training by American Association of Diabetes Educators (4/21, 22)	72
17. Sea Mar Weekly Health Insurance & Basic Food Enrollment (weekly)	varies
18. Ongoing – Community Support for Prescription Assistance (weekly)*	varies

2. Nutrition and Healthy Behaviors	Attendance
1. Mediterranean for Life Health Coaching Class (1/25-3/29)*	15/session
2. Strength Training for Better Health, Fitness & Weight Loss (3/19, 26)*	17/session
3. Surviving & Thriving with Chronic Kidney Disease (3/ 27- 4/25)*	12-15/session
4. Road Back to Life Kidney Support Group (3/27)	6-8
5. Diabetes Support Group (3/27)	4-8
6. Meal Planning & Prepping a Week at a Time (4/12)*	22
7. Cutting Sugar in the Foods You Eat Cooking Demo (4/19)*	TBD
8. Getting to Goal Weight Reduction Individual Consultations (by appt)*	varies
9. Weekly Healthy Living Coaching Group	15-20/week

3. Behavioral Health & Substance Use	Attendance
1. Managing Stress in Everyday Life – 8 week Support Group (3/1 – 4/19)*	4-8/session
2. THS Parent Coaching Group (3/12- 5/7)*	4-6/session
3. Brain Health and Wellness Classes (3/26, 29; 4/3, 4, 10, 16, 19)*	varies
4. KCSC Healthy Mind Healthy Body Yoga (4/3, 5, 10, 12, 17)	8-12/session
5. NAMI Connections Support Group (4/12)	4-8/session
6. Art Therapy 6 Week Support Group (4/18-5/23)*	8-10/session
7. Adult Children of Alcoholics Weekly Support Group (weekly)	8-12/week
8. Veterans Drop-In Support (weekly - City of Lynnwood & monthly - County)	varies

4. Other Programs	Attendance
1. Play and Learn Group, Wonderland Development Center (weekly)*	20-30/week

Upcoming Programs

A. General Community and Provider Events

1. Monthly Hero's Café for Veterans (April 24)
2. Swedish Core Leaders Retreat (April 26)
3. ESD Health Services Meeting (April 27)
4. Korean Women's Association Everyday Prevention Workshops (May 3)*
5. Family Caregiver Support Group (May 3, 17)
6. League of Women Voters Children's Committee (May 4)
7. Verdant Partner Roundtable (May 4)
8. ARC Mothers of Children with Disabilities Monthly Support Network (May 5)
9. Parkinson's Disease AM & PM Support Group (May 7)
10. SHIBA Update Trainings (May 8)
11. Evergreen Home Health Team Meetings (May 8, 9)
12. Child Care Aware Training (May 9)
13. Edmonds School District Health Services Meeting (May 11)
14. Alzheimer's Association CPR Training & Staff Retreat (May 16, 17)
15. Welcome to Medicare Monthly Workshops (May 18)
16. Integrating Physical Activity into Child Care Curriculums (May 23)
17. WA Alliance for Better Schools Natural Leader Parent Training (May 26)
18. Hunger and Health Stakeholder Discussion with Food Lifeline (May 31)

B. Nutrition and Healthy Behaviors

1. Road Back to Life Kidney Support Group (April 23, May 22)
2. Diabetes Support Group (April 25, May 23)
3. Weekly Healthy Living Coaching Group (May 1, 8, 15, 22, 29)*
4. Flavor Fiesta Kids & Parents Cooking Class (May 5)*
5. Diabetes Prevention Program Info Sessions (May 7 or May 21)*
6. Spring Salads Cooking Demo (May 10)*
7. Getting to Goal Reunion Celebration (May 10)*
8. Teens in the Kitchen: Cooking with Fresh, Local Foods (May 12)*
9. Surviving & Thriving with Chronic Kidney Disease (May 16 – June 20)*
10. Cooking Demo for Seniors on SNAP – Monthly FINI Training (May 24)*
11. Cutting Sugar in the Foods You Eat Cooking Demo (May 31)*
12. Getting to Goal Weight Reduction Individual Consultations (by appt)*

C. Behavioral Health & Substance Use Focus

1. THS Parent Coaching Group (March 12- May 7)*
2. Brain Health and Wellness Classes (April 23, 26; May 3, 10, 17, 24)*
3. Art Therapy - Self Discovery & Expression – 6 Week Support Group (April 18 – May 23)*
4. NAMI Connections Support Group (May 10, 24)
5. Skills to Ease Stress Using Mindfulness & Other Techniques – 6 Week Class (May 22 – June 29)*
6. Adult Children of Alcoholics Weekly Support Group (weekly)
7. Veterans Drop-In Support (weekly - City of Lynnwood & monthly - County)

* = Grant/Program Funded Partners

April 2018 Multicultural Program & Outreach Report

Cooking with Cops: Cooking with LPD Cops program is to create a sense of community and build trust and relationships between law enforcement and residents with an emphasis on nutrition education. The program brought together 17 young people and 4 officers the first day and 14 youth and 4 officers and a student intern the second day. This pairing of Lynnwood Police Officers with diverse, interested and (potentially) at-risk youth from the Edmonds school district was a successful effort to positively change the culture and create positive interactions among young people and police.

Multicultural Wellness Fair: We have scheduled for June 2nd, our first annual Community Multicultural Health fair in collaboration with Community Life Center and Puget Sound Christian Clinic

- Increase health awareness by providing health screenings, activities, materials, demonstrations, and information;
- Increase awareness of local, state, and national health services and resources;
- Motivate participants to make positive health behavior changes;
- Identify topics and participants for future educational health programs

DRAFT Verdant Program Dashboard: Childhood Obesity

Population-Level Data

Indicator	2014	2016	Trend
6th Grade Youth that do not meet 60 min/day physical activity	70% (+/- 3)	72% (+/- 3)	●
6th Grade Youth that are obese	N/A	N/A	
8th Grade Youth that do not meet 60 min/day physical activity	69% (+/- 2)	70% (+/- 2)	●
8th Grade Youth that are obese	9% (+/- 1)	11% (+/- 2)	●
10th Grade Youth that do not meet 60 min/day physical activity	76% (+/- 2)	76% (+/- 2)	●
10th Grade Youth that are obese	11% (+/- 2)	12% (+/- 2)	●

Source: Edmonds School District Healthy Youth Survey 2016 (+/- 95% C.I.)

Note: no significant changes from the previous survey year, $p < 0.05$

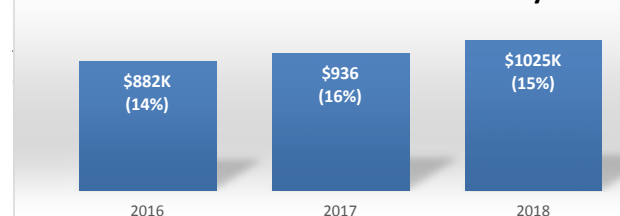
Total Population		Estimated Pop. at Risk	
		Obesity	Physical activity
Elementary	10,923	N/A	7,865
Middle	3,042	335	2,129
High School	6,581	790	5,002
Total	20,546	14,996	

Source: OSPI 2016 counts for Edmonds School District

Verdant-Funded Programs

Agency & Program Name	Target Pop.	2017 Funding	2018 Funding	Funding End Date	# Served 2016*	# Served 2017*	Trend	Goal # Served 2018*	Program Goals	Program Results	Sustainability†
Edmonds School District Move 60!	Elem.	\$595,377	\$735,902	Aug-20	1,554	1,592	↑ 2%	1,800 in "Move 60" (5,700 w/all activities)	Participation, show improvement in Fitnessgram Measures	Met 3/4 goals ●	No match/funding leverage 0%
Boys & Girls Clubs Healthy Habits	Elem.	\$246,235	\$184,676	Aug-18	610	716	↑ 17%	700	Participation, show improvement in Fitnessgram Measures	Met 4/4 goals ●	No match/funding leverage 0%
Move 60! Teens	Middle School	\$73,729	\$104,620	Dec-20	202	218	↑ 8%	252	Participation, show improvement in Fitnessgram Measures	Met 2/3 goals ●	In-kind staffing and facilities 40%
Girls on the Run Expansion	Elem.	\$11,000	-	one-time	N/A - new program			150	Participation, increase physical activity	tbd	Includes program fee, sponsorships, donations 67%
City of Mountlake Terrace Kids Krew	Pre-K & Elem.	\$10,000	-	one-time	N/A - new program			175	Participation, increase in physical activity, healthy food consumption	tbd	In-kind snacks and supplies 50%

Verdant Grants: Childhood Obesity



*Unduplicated count

†Sustainability calculation is % of program budget from outside Verdant sources (including in-kind). Figure is from prior year reports for ongoing programs, or budgeted figure for new programs with no results

Verdant Health Commission Building Healthy Communities Fund

The purpose of the funding availability is to support projects in two areas:

1. Capital projects that support and promote physical activity through built environment for residents of Public Hospital District #2
2. Capital projects that improve/increase access to preventive primary, dental care, or behavioral health for vulnerable and underserved residents of Public Hospital District #2

Projects Requirements

- Address one of the priority areas listed above
- Are located within Public Hospital District #2
- Are directly tied to measurable health outcomes and can show evidence that these outcomes are being met
- Have a clear plan for ongoing maintenance and sustainability

Additional Evaluation Criteria

- Demonstrate collaboration between organizations within Public Hospital District #2
- Serve multiple communities within Public Hospital District #2
- Would not otherwise occur without funding from the Verdant Health Commission
- Do not have access to comparable facilities within their community
- The extent to which the applicant or community has received prior Verdant funding

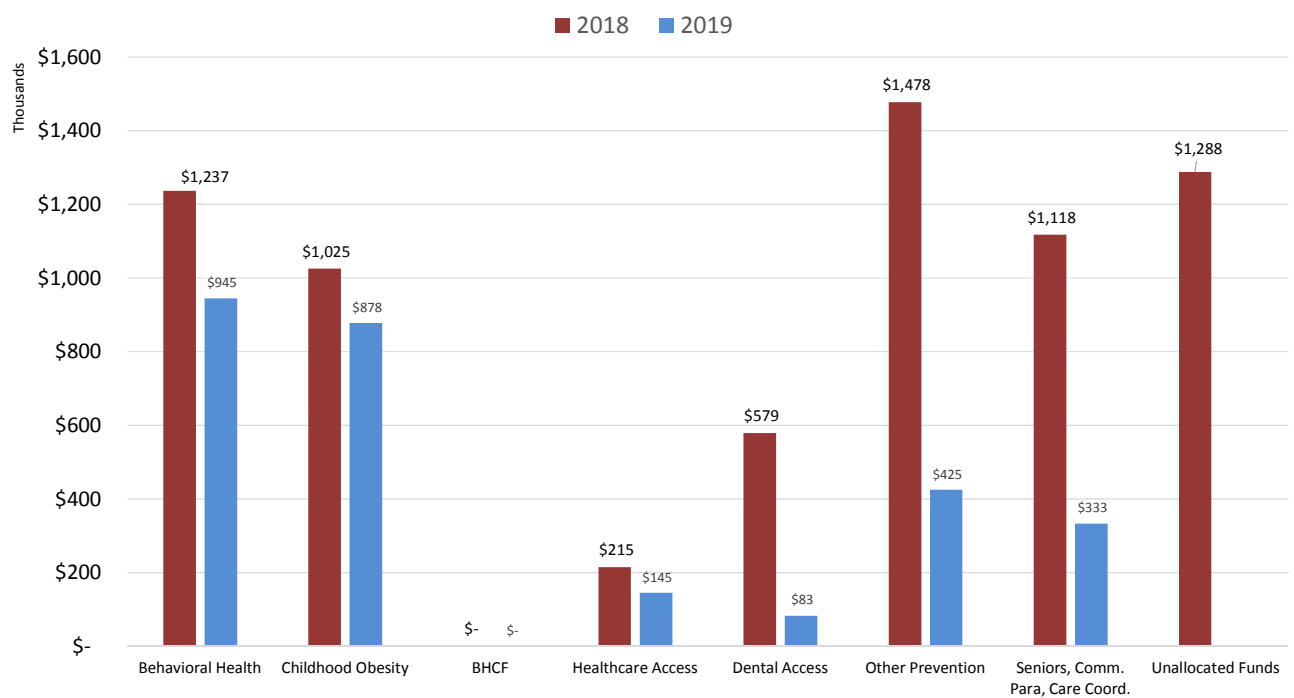
Review Process and Expected Timing

1. Request for proposals released (May 2018)
2. Applications received, screened by staff (July 2018)
3. Program Committee review (July 2018)
4. Program presentations to board (July/August 2018)
5. Board review & approval (August/Sept 2018)

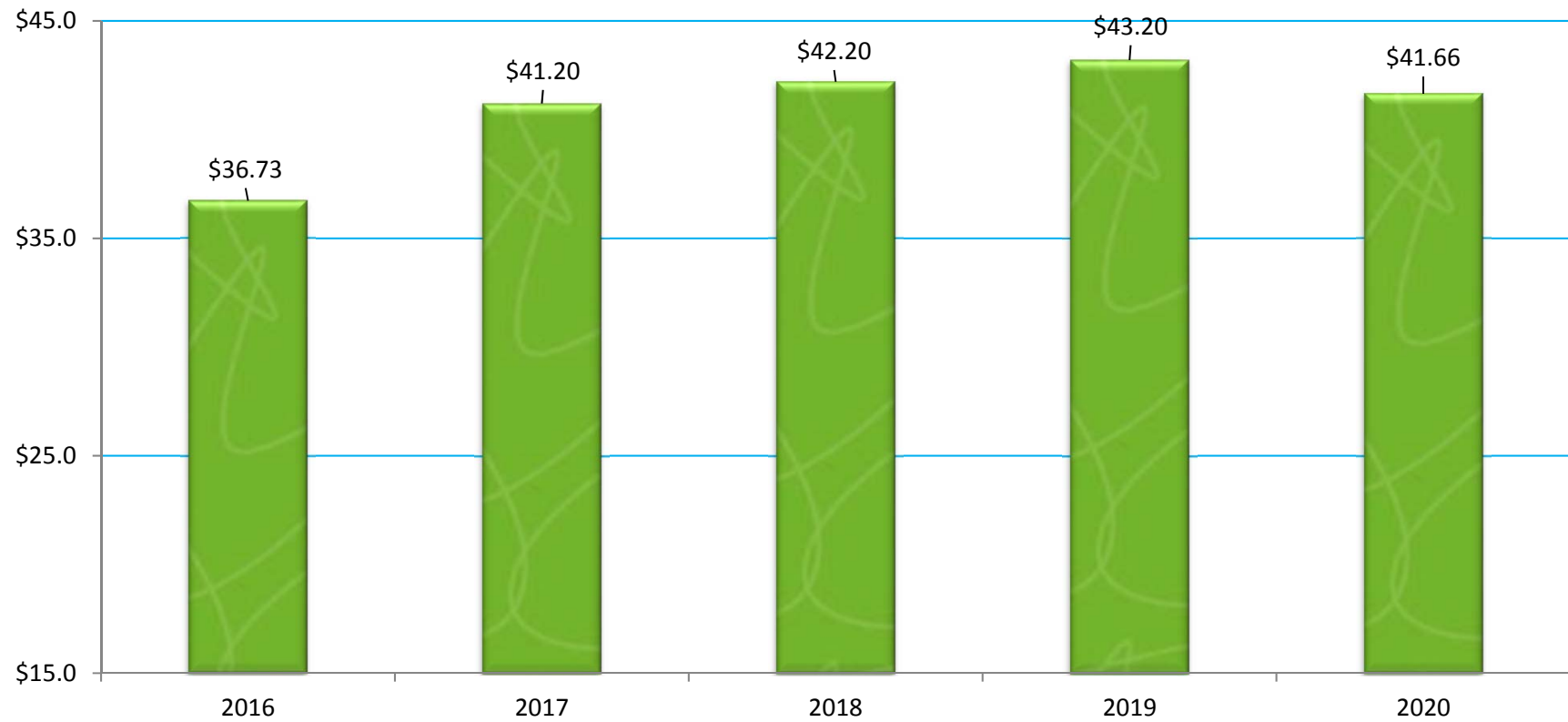
Questions for Board Discussion:

- Total Funding Amount?
- Duration?
- Number of projects?

Verdant Committed Grant Funds (\$k)



Reserve Investments (From 2018 Budget Presentation)



PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY

Portfolio Review and Market Update - 1st Quarter 2018

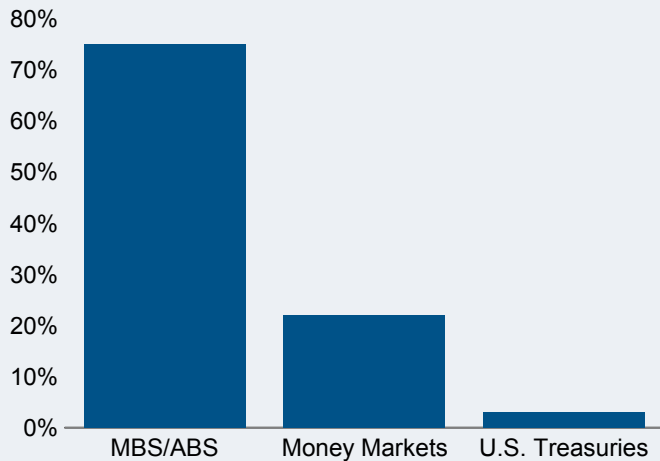
PORTFOLIO CHARACTERISTICS (As of 3/31/2018)

Portfolio Market Value	\$42.8 million
Weighted Average Credit Quality	AAA
Weighted Average Duration	2.0 years
Weighted Average SEC Yield	1.9%

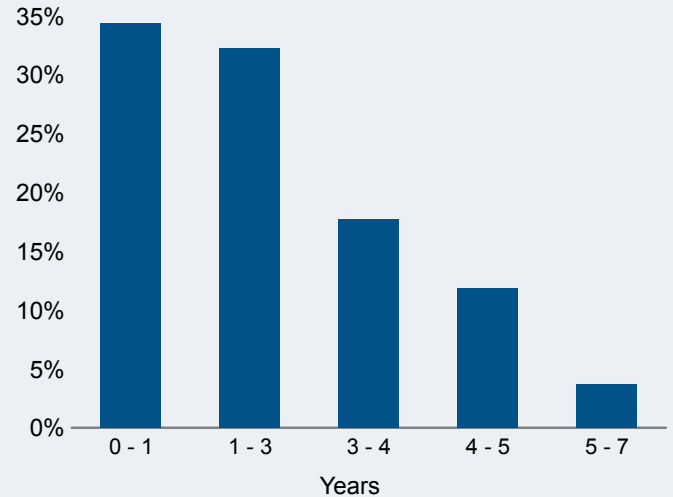
In Q1, we reduced to portfolio's overall sensitivity to interest rate changes. Portfolio duration was reduced from 2.7 to 2.0, while maintaining an average SEC yield of 1.9 - 2.0%.

* Pending client directive for the potential transition of the portfolio, currently 100% invested in Payden mutual funds, to a separately managed individual bond portfolio, subject to the recent Revised Code of Washington (RCW). Current Portfolio Holdings: 78% US Government Fund and 22% Cash Reserves Money Market Fund.

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS (net of fund expenses) - Periods Ending 3/31/2018

	1st Quarter	Trailing 1 Yr	Trailing 3 Yr	Trailing 5 Yr	Since Inception (6/1/93)
Portfolio Total Return	-0.5%	0.0%	0.2%	0.3%	4.3%
ICE BofAML 1-5 Year US Treasury Index*	-0.4%	-0.1%	0.5%	0.6%	3.9%
ICE BofAML 1-3 Year US Treasury Index*	-0.1%	0.0%	0.4%	0.5%	3.5%

Periods over one year annualized

* Reference Indices.



April 2018 Marketing Report

Canopy Newsletter Mailing

- Began arriving in households and businesses (approximately 80,000 copies) on Thursday, April 19
- Delivered to community locations including libraries, parks and recreation locations, clinics, and other sites
- Content announced the launch of our partnerships with Swedish Edmonds and the YMCA of Greater Seattle for DPP

Coming Events

- **Edmonds Senior Center Healthy Living Expo:** Friday, April 27, 10 a.m. – 2 p.m. at the Edmonds Senior Center
- **Health & Fitness Expo:** Saturday, May 19, 9 a.m. – 12 p.m. at Edmonds School District Stadium