CHELAN DOUGLAS Regional Port AUTHORITY

Financial Management Guidelines

Adopted by the Chelan Douglas Regional Port Authority Board of Directors on 12-17-2019.

Chelan Douglas Regional Port Authority
FINANCIAL MANAGEMENT GUIDELINES

Outline

General Financial Management Guidelines

I. Purpose and Background:

The stewardship of public funds is one of the primary responsibilities given to elected officials of the Port of Chelan County and the Port of Douglas County. These two commissions have combined the operations of the Ports into the Chelan Douglas Regional Port Authority (the CDRPA or Port Authority). The Board of Directors has provided that financial oversight for the combined entities be vested in the Director of Finance who also serves as the Treasurer for both Ports and the CDRPA. Critical to managing these responsibilities are the establishment of financial policies which enable Port Authority officials to manage the Port Authority's financial resources in a prudent manner that meets its current obligations while planning for future financial needs. This document summarizes financial policies in place and establishes guidelines for fiscal management decisions. It is recognized that this document cannot encompass or anticipate all financial decisions and it is intended that these policies be applied broadly and yet be flexible to meet special circumstances as they arise.

II. Financial Philosophy

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

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

III. Financial Management Priorities

The Director of Finance/Treasurer is directed to manage the CDRPA and Port's financial assets and liabilities with the following priorities:

1. To provide financial means to meet all legal and mandated obligations;
2. To provide resources to maintain the existing primary infrastructure and other assets of the CDRPA and Ports;
3. To provide for the operating costs of Port and CDRPA-owned and operated amenities and programs;
4. To provide for the replacement of Port and CDRPA-owned real assets and equipment; and
5. To provide for investment in new assets, amenities and programs to advance policy goals.

All Port Authority decisions should reflect both immediate and long-term costs, including on-going operational costs. The Port Authority will seek, promote, and support intergovernmental and public/private partnerships looking to leverage local community investments with contributions from federal, state, and private sources.

The Chelan Douglas Regional Port Authority financial guidelines, compiled below, set forth the basic framework for the overall fiscal management of the Port Authority. These recommendations provide a financial platform for evaluating both current activities and proposals for future programs. From time to time it is anticipated that these guidelines will be modified to provide financial guidance for issues and situations which were not previously anticipated.

Definitions

For purposes of this document the following definitions apply:

Cash is any cash equivalent which can be converted into cash readily.

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

Operating Activities are those activities of the Port Authority which are directly related to the users of Port Authority facilities and include Pangborn Airport, general aviation airports under control of the Port Authority as well as property development and leasing.

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

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

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

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

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

Revenue Guidelines

1. The Port Authority will attempt to maintain a diversified and stable stream of operating revenues to shelter it from short-term fluctuations in any one revenue source.

2. On any lease agreement for property of the Port Authority to tenants which will total in excess of $25,000 in any one year, Port Authority staff will conduct an adequate review of prospective client's financial position and projections to ascertain the ability of the client to pay rents and fees within its agreement. Should Port Authority management, through its review, conclude that the prospective user of Port Authority property does not have sufficient financial resources to assure continued payments of the revenues, the Chief Executive Officer will direct Port Authority management to secure additional security backing the agreement, or if this is not possible, recommend that the agreement not be consummated.

3. The Port Authority will charge lease rates and fees which will, at a minimum, generate sufficient revenue to cover all proportionate direct costs of operations associated with the use of that asset, as well as sufficiently cover all maintenance costs, a prorata portion of the Port Authority's general and administrative costs, and any financing costs (or equivalent cost of capital), whenever possible.

   For Operating Activities which include public infrastructure, such as roads and parking lots, Port Authority staff shall determine the appropriate allocation of such infrastructure to the overall costs of the those Operating Activities and include the replacement of such infrastructure into the rates and charges of those operations. When accounting for the value of operating assets, all ancillary costs of development including environmental mitigation and remediation, planning, legal, and any other development cost should be calculated and included in the cost basis for determining fee and lease rates.

4. The Port Authority will periodically survey market rates within Chelan and Douglas Counties for lease and rental of real assets to ascertain the appropriate rental rates that will not adversely compete with the real asset investments made by the private sector.

5. The Port Authority will publish rates and charges for its available properties as approved by the Board of Directors.

6. In negotiating lease rates, terms and conditions, the Port Authority’s fundamental mission to help facilitate the creation of family wage jobs and expand the regions tax base shall be a consideration as well as other intangible benefits of a project. This could result in a deviation from the published rates and fees and a lesser financial return on investment in some cases. In such circumstances, the Board of Directors approval shall be required.

Expenditure Guidelines:

Operating expenses:

1. The Port Authority is committed to managing its expenses within annually approved budgets. The expenses shall be in conformance with State law and provide for the following priorities of the Port Authority;
   a. Payment of debt and any future debt incurred;
   b. Payment of all costs of operating the Port Authority;
   c. Funding the maintenance, operations and capital required for the Airport;
   d. Meet all legal and environmental requirements of the Port Authority;
   e. Provide for the physical safety and security of the customers, users, employees and tenants of the Chelan Douglas Regional Port Authority;
   f. Provide services that will assure the continuity of services in the event of an emergency or natural disaster;
   g. To maintain and service the physical assets of the Port Authority; or
   h. Provide for collaborative ways to participate in trade, economic development and general enhancement of the economies of Chelan and/or Douglas County.

2. All operating expenditures will be made only after appropriate approvals have been attained and within purchasing standards as established by the Port Authority and within Washington State law. Any expenditure made outside of the Port Authority's established purchasing standards cannot be paid. In the event of a declared emergency, approval procedures may be temporarily waived or modified.

3. The Port Authority shall establish contracting procedures that meets all state and federal requirements. Contracts for services shall be periodically reviewed, as per policy, to assure that competitive pricing for services is paid. Generally, services contracts shall not be signed for an initial period of longer than three years and shall include language that provides for annual re-appropriation for the services through the formal budget process.

Capital expenditures

1. The Port Authority will develop a multi-year capital improvement plan that will be updated annually, and be reviewed by the Board of Directors as part of the annual budget process. Efforts will be made to make investments in capital assets based on the details of the plan. When Port Authority staff determine that projects not contained in the capital improvement plan are of sufficient urgency to be proposed for completion in the current fiscal year, the Chief Executive Officer will provide to the Board of Directors the details of the project as well as a recommendation as to how the current capital improvement plan should be modified to address the costs of the proposed project.

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

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

Budget Guidelines

1. The Chief Executive Officer and/or Director of Finance will present to the Board of Directors a detailed Operating and Capital budget that includes the following components:

    A. A one-year detailed budget for all revenues and expenditures;
    B. A one-year capital budget detail; and
    C. A five-year Airport capital investment plan.

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

3. Once approved, the Chief Executive Officer shall administer the budget within the total expenditures adopted by the Board of Directors. Within the limits of authority delegated to the Chief Executive Officer, (s)he shall make adjustments to the budget as appropriate during the year. Any additions to the total operating or non-operating expenditures or increases to the total current year capital plan shall be approved by the Board of Directors. The Chief Executive Officer will ensure that appropriate financial controls are in place and that the financial condition of the Port Authority is protected. A quarterly financial review of operating results will be presented to the Board by the Director of Finance. At any quarterly review, should the Chief Executive Officer determine that total expenses at any year end will be higher than total revenues or that the financial condition of the Port Authority will not be in compliance with any and all bond covenants, the Chief Executive Officer is directed to initiate a financial plan that will mitigate for the variance. Such plan will be presented to the Board within 90 days.

4. The Port Authority will attempt to negotiate all wages and benefits in a manner that will provide salaries, wages and benefits which are competitive within the local job marketplace.

5. The Port Authority shall support a scheduled level of maintenance and replacement of its assets. The Port Authority has prioritized maintenance expenses to be budgeted in the following priority:

    A. Maintenance of facilities to ensure the safety of all port employees, tenants and users of Port Authority facilities.
    B. Maintenance of facilities that provide for the proper preventative work to minimize future maintenance or capital costs.
    C. Maintenance of facilities to maintain the usability and quality of the asset.

    All financial budgets will include the planned schedule of maintenance and an analysis of how cash will be generated to support the schedule of maintenance and replacement.

6. All property taxes levied shall be used first to pay all annual debt service payments, secondly for capital projects related to Pangborn Memorial Airport, and finally to support other capital projects of the CDRPA. It is the goal of the Board of Directors to limit the use of the property tax levy to debt service payments and capital projects only, whenever possible.

7. The Port Authority shall maintain a financial forecast of projected revenue sources and for all expenditures. The forecast shall be extended for a period of the current budget year plus two additional years. The forecast for the current year shall be updated at least quarterly and the long-term forecast will be updated annually. The Port Authority will measure its forecasts against actual results and ascertain whether or not the current forecasting tools utilized are adequately tracking the actual results. Where the forecasts are found to significantly deviate from the actual financial results the Director of Finance is charged with reviewing the existing forecasting methodology. The long-term goal is to continually evaluate the forecasts to actual results to assure that all forecasts are timely and reflect the financial operations of the Port Authority.

Cash/Management Investment Guidelines

1. All cash receipts will be accumulated and invested promptly. All funds will be promptly deposited into the Port Authority's depository account and be invested in a manner consistent with the formally adopted Investment Policy which will maximize the interest earnings while maintaining adequate liquidity sufficient to meet all projected cash flow needs. Investment strategies shall provide for sufficient liquidity to meet the cash flow needs projected within the five-year financial forecast included in the adopted budget.

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

3. The Port Authority will collect all receivables in a manner which will provide for timely receipt of funds owed to the Port Authority. When a receivable is deemed to be uncollectible, the receivable will be referred to the Port Authority attorney or to a collection agency for collection. All collections of accounts receivable shall be made consistent with “best practices” as determined by the Director of Finance and Port Authority policy, including the Chief Executive Officer’s delegation of powers. An estimated reserve for uncollectible accounts shall be recorded annually on the balance sheet for the estimated amount of receivables deemed to be uncollectible.

4. Port Authority staff shall actively consider funding from other agencies and pursue such funding when appropriate. Staff will make reasonable effort to determine eligibility and make application for any grants and/or low-cost loans which may support the financing of a Port Authority activity. No grant funds which are to be used to hire personnel shall be accepted unless funding for the position can be identified for a minimum of three years.

Cash Reserves

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

1. The Port Authority shall maintain an investment portfolio with cash liquidity sufficient to pay an average of six months of operating expenses to outside vendors and employees;

2. An amount of $1 million shall be maintained for purposes of financing emergencies. This amount shall be available for costs which have resulted from natural disasters, accidents or to address environmental emergencies; and

3. Cash reserves necessary to meet all debt covenants.

When it is apparent that the Port Authority will not be in compliance with these cash flow guidelines, a detailed plan on increasing the cash flow either through raising of revenues, reduction of expenses, or a combination of both, to meet these requirements shall be promptly submitted by the Chief Executive Officer to the Board of Directors.

Debt Guidelines

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

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

3. The individual Ports may utilize general obligation property tax supported bonding to finance those capital improvements and long term assets which have been determined to be essential to the maintenance of, or improvement to, the infrastructure required for the Port Authority.

4. General Obligation debt may be issued by the individual Ports for the replacement of infrastructure supporting Port Authority general operations in circumstances when the operating division directly benefiting by the capital improvement is deemed to not be able to raise the operating revenues sufficiently to support the debt issuance.

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

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

7. The Port Authority will not enter into any bond refunding for the individual Ports unless the present value of the cash flow savings exceed at least 3% of the principal of the bonded debt.

Appendix A - Chelan Douglas Regional Port Authority Financial Guidelines

Debt Policy

Background:

The Chelan Douglas Regional Port Authority maintains conservative financial policies to assure strong financial health both in the short and long-term. The Port Authority and individual Port's, although infrequent issuers of debt, do recognize the importance of debt management as a tool to finance large capital investments, such as property acquisitions and the construction of new and replacement infrastructure.

Maintaining the Port Authority's access to long term financing is an important objective of the financial policies. The Port Authority is committed to having strong financial policies, accounting controls, detailed budgets and on-going forecasts. Together, these tools provide for prudent management of the Port Authority finances and provide for its financial health.

Purpose:

This policy sets forth the criteria for issuance and repayment of debt. The primary objective of the Debt Policy is to establish criteria that will protect the Port Authority's financial integrity while providing a funding mechanism to meet the Port Authority's capital needs. The underlying approach of the Port Authority is to borrow only for capital improvements that cannot be funded on a pay-as you-go basis. The Port Authority will not issue long-term debt to finance current operations. Any proposal to provide financial liquidity through a line of credit or another form of financing shall be formally explained to the Board of Directors as to purpose and to the details of the terms and conditions of such a borrowing.

All debt issued will be in compliance with this policy, title 35 and 39 of the Revised Code of Washington (RCW), as well as all applicable Port, State, and Federal laws, rules, and regulations.

Scope:

This Policy provides general guidance for the issuance and management of all Port Authority debt as well as any debt issued by the individual Port Districts. In addition, it includes the management of all debt obligation of the Port Authority which resulted from any interlocal agreement or contractual obligation with another government.

Responsibility:

Authority to issue debt is solely authorized through a formal action of the Board of Directors. The Board of Directors provides for administrative management and payment of all debt obligations through the Finance Department and has authorized the Director of Finance/Treasurer in the capacity as the Port Authority Treasurer to administer these duties.

This section also authorizes the Director of Finance/Treasurer to appoint a subordinate employee from the Department to assist in the performance of the duties of Port Treasurer. The Director of Finance/Treasurer is responsible for ensuring that all reporting requirements have been met and that debt management procedures are in place.

The Director of Finance/Treasurer shall also be responsible for monitoring external circumstances and situations that may affect the individual Port Districts and Port Authority's overall debt capacity and external bond rating. The Director of Finance/Treasurer shall have primary responsibility for maintaining relationships with all contracted service providers that assist with debt issuance and management. These include:

- Bond counsel
- Financial Advisors
- Debt Underwriters
- Bond Rating agencies
- Bond issuers
- Fiscal agents

Financial Communication and Reporting:

The Director of Finance/Treasurer shall also be designated as the primary contact within the Port Authority for purposes of speaking on behalf of the entity regarding any debt issuance. The Port Authority is committed to providing accurate and timely information as part of its debt obligations. All pertinent financial and budget documents will be posted promptly on the Port Authority's website.

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

Budgeting and Capital Planning within Financial Management:

The Port Authority shall develop and maintain a capital planning process to inform and develop the Comprehensive Scheme of Harbor Improvements. Such plans shall be brought forward periodically for consideration and adoption by the Board of Directors as part of the budget process. The Finance Department is responsible for coordinating and analyzing the debt requirements of such a capital plan. This will include timing of debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens and current revenue requirements.

Prior to issuance of debt, the Port Authority will prepare revenue projections to ensure that there is adequate revenue over the life of the debt issuance to make principal and interest payments.

Types of Debt:

The following is a description of the types of long-term debt the individual Ports and/or Port Authority may issue:

1. General Obligation Debt

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

The Board of Directors may authorize the issuance of general obligation debt without a vote of the public as long as there is an available sources of funding to pay the debt service.

The funding source for repayment can be the diversion of an existing revenue source or new revenue coming from the enactment of a new revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

2. Revenue Debt

Revenue bonds are generally payable from a designated source of revenue generated by the project that was financed. No taxing power pledge is provided as security. Unlike General Obligation bonds, revenue bonds are not subject to the Port's statutory debt limitation nor is voter approval required. These bonds are limited by the debt covenant of previously issued revenue bonds.

3. Local Improvement District (LID) Debt

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

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

4. Short-Term Debt and Interim Financing

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

With Board of Directors approval, the Director of Finance/Treasurer may enter into short- term financing arrangements with Washington State qualified lenders. These arrangements may be used for financing equipment or as a line of credit to provide temporary liquidity facilities.

Industrial Development District (IDD) Levies

A special property tax levy for selected projects within an Industrial Development District is authorized by state law. This levy can be levied without a vote of the people. The Port of Chelan County has not collected an IDD previously. The Port of Douglas County has previously collected this levy. A second IDD levy is available to the Port of Douglas County. The total IDD levy is to be broken into smaller amounts ($.45 per year or lower) and can be levied on an annual basis up to 25 years and up to a total of $2.70 per thousand $ of valuation.

Structure and Term of Debt

1. <u>Debt Repayment</u>

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

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

The Director of Finance/Treasurer shall strive to create a debt service repayment schedule that provides for level or declining debt repayment schedules. As the debt manager, the Director of Finance/Treasurer shall prepare an annual report to the Board of Directors describing all existing debt issues with summary descriptions of debt repayment schedules and the individual Port debt capacity.

2. Variable-Rate Securities

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

Professional Services

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

1. **Bond Counsel**

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

2. **Financial Advisor**

At the discretion of the Director of Finance/Treasurer, Financial Advisor(s) may be used to assist in the issuance of the Port's debt. The Financial Advisor could provide the Port Authority with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt and preparing official statements of disclosure.

3. **Underwriters**

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

The services of a Financial Advisor and Underwriter may be combined when, in the opinion of the Director of Finance/Treasurer, the overall costs of the issuance of debt is likely to be lower and that there is no actual or perceived conflict of interest.

4**. Fiscal Agent**

A fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the Port Authority will appoint the Port Authority Treasurer as the Fiscal Agent.

Method of Sale

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

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

1. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
2. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
3. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
4. The debt issued is bound by a compressed timeline due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

Credit Ratings

The individual Ports and Port Authority will maintain regular communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on general financial condition, as well as coordinating meetings and presentations in conjunction with a new issuance. The Ports will continually strive to maintain their bond rating by improving financial policies, budgets, forecasts and the financial health of the Ports.

Should the Port's existing bond rating be at risk of a downgrade by one of the three major bond rating agencies, the Chief Executive Officer will immediately work directly with the Director of Finance/Treasurer to develop a plan to address the specific issues raised by the rating agency in an attempt to forestall any such downgrade.

Credit enhancements may be used to improve or establish a credit rating on a Port debt obligation. Credit enhancements should only be used if a formal analysis show the enhancement to be cost effective.

Refunding Debt

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, a debt refunding will require a net present value savings of three percent of the principal amount of the refunding debt being issued.

Spending and Investing Bond Proceeds

The Ports and Port Authority are committed to meeting all debt covenants as stated within Bond documents, contracts and ordinances.

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

For each bond issue, the recordkeeping shall include:

- Tracking the use of bond proceeds,
- The maintenance of a bond debt service fund (if required),
- The investment earnings attributable to bond proceeds, and
- Calculating any arbitrage rebate payments and remittance of any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

Appendix B – Chelan Douglas Regional Port Financial Guidelines

Investment Policy

I. POLICY
- 1.1 Policy

II. SCOPE & OBJECTIVES
- 2.1 Scope
- 2.2 Funds
- 2.3 Objectives

III. STANDARDS OF CARE
- 3.1 Prudence
- 3.2 Delegation of Authority
- 3.3 Ethics & Conflict of Interest

IV. AUTHORIZED INVESTMENTS, DIVIERSIFICATION, MATURITIES AND COLLATERALIZATION
- 4.1 Authorized Investments
- 4.2 Diversification
- 4.3 Maturities
- 4.4 Collateralization

V. DEALERS, INSTITUTIONS, SAFEKEEPING AND CUSTODY, INTERNAL & EXTERNAL CONTROL
- 5.1 Authorized Financial Dealers & Institutions
- 5.2 Safekeeping and Custody
- 5.3 Internal Control
- 5.4 External Control

VI. PERFORMANCE MEASURMENT & REPORTING REQUIREMENTS
- 6.1 Performance Standards
- 6.2 Reporting

VII. POLICY ADOPTION
- 7.1 Investment Policy Adoption

I. POLICY

1.1 Policy:

It is the policy of the Chelan Douglas Regional Port Authority to invest public funds in a manner which will provide the market rate of return with the maximum security while meeting the daily cash flow demands on the Treasury and conforming to all Washington statutes governing the investment of public funds.

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

II. SCOPE AND OBJECTIVES

2.1 Scope:

This investment policy applies to all financial investment assets of the Chelan Douglas Regional Port Authority. Investment assets are accounted for in the Port Authority's Annual Financial Report.

2.2 Objectives:

The primary objectives, in priority order, of the Port Authority's investment activities shall be legality, safety, liquidity, and return:

Legality of Investments:

The Port Authority's investment holdings shall be in conformance with federal, state and other legal requirements.

Safety:

Safety of principal is the foremost objective of the Investment Policy of the Chelan Douglas Regional Port Authority. Investments of the Port Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity:

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

Return on Investment:

The Port Authority's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the Port Authority's investment risk constraints and the cash flow characteristics of the portfolio.

III. STANDARDS OF CARE

3.1 Prudence:

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

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

3.2 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Director of Finance/Treasurer serving as the Port Authority's Treasurer, who shall establish written procedures for the operation of the investment program, consistent with the investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance/Treasurer. In addition, a procedures manual will be maintained to provide for overall guidance of investment strategy and portfolio structure. The procedures will be periodically reviewed and updated at the direction of the Director of Finance/Treasurer.

3.3 Ethics and Conflict of Interest:

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

IV. AUTHORIZED INVESTMENTS, DIVERSIFICATION, MATURITIES AND COLLATERALIZATION

4.1 Authorized Investments:

All municipal corporations in Washington State, including the Chelan Douglas Regional Port Authority, are empowered by statute to invest in the following securities: (The enabling legislation is RCW 39.58 and, as amended, RCW’s 53.36, 39.58, 39.59, 39.60, 43.84.080 and 43.250). The Port Authority has chosen to limit the authorized investments to the following:

1) Investment deposits including certificates of deposit, with qualified public depositories.

2) 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.

3) Obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank bonds.)

4) Bankers' acceptances purchased on the secondary market which have at the time of investment the highest credit rating by a minimum of two recognized rating agencies.

5) Repurchase agreements for securities provided that the transaction is structured so that the Chelan Douglas Regional Port Authority obtains control over the underlying securities. If repurchase agreements are utilized a Master Repurchase Agreement must be signed with the transacting bank or dealer. Additionally, the collateral must meet the authorized investment and maturity

constraints of this policy.

6) Commercial Paper provided that the Director of Finance/Treasurer adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)).

7) Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

8) General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

9) State Investment Pool - As prescribed by the RCW code, the legislation has provided for a mechanism whereby political subdivisions may, at their option, utilize the resources of the State Treasurer (OST) to maximize the potential surplus funds while ensuring the safety of public funds. A state investment pool has been designated to meet this function.

4.2 Diversification:

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

Diversification Constraints:

ISSUER TYPE	% of TOTAL PORTFOLIO
Local Government Investment Pool	100%
US Treasury Obligations	100%
Government Sponsored Enterprises (GSE's)	100%
Per Issuer: FHLB, FFCB, FHLMC or FNMA	50%,
Other GSE's	20%
Callable issues	up to 50%
Repurchase Agreements	10%
Certificates of Deposit/Bank Deposits/Saving	50%
Obligations of the State of Washington	50%
Obligation of any local governments within the State of Washington	20%

Obligation of municipal and state government other than the State of Washington	20%

4.3 Maturities:

The Port Authority will invest in securities with maturity dates five (5) years from the date of purchase or less.

The maximum weighted maturity (modified duration) of the total portfolio shall not exceed 3.0 years. This maximum is established to limit the portfolio to excessive price change exposure.

Liquidity funds will be held in the State Pool, bank deposits or in money market instruments maturing six months or less.

The investment portfolio will have securities that mature between 1 day and 5 years.

Exception to 5-year-maturity maximum: The Chelan Douglas Regional Port Authority may invest in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds or where deferred payment to the Port Authority are matched to the maturity date.

4.4 Collateralization

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. The Port Authority chooses to limit collateral to the following:

Securities that are acceptable as collateral must comply with the allowable securities listed in this policy. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

V. DEALERS AND INSTITUTIONS, SAFEKEEPING AND CUSTODY, INTERNAL AND EXTERNAL CONTROL

5.1 Authorized Financial Dealers and Institutions:

The Director of Finance/Treasurer will limit banking transactions to designated banking relationships and will refer to the financial institutions list provided by the Public Deposit Commission of banks authorized to provide investment services (RCW 39.58.080).

In addition, the Port Authority will approve security broker/dealers by credit worthiness, and understanding of the Port Authority’s requirements and policy. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository in the State of Washington

A current financial statement is required to be on file for each financial institution and broker/dealer in which the Port Authority invests.

5.2 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the Chelan Douglas Regional Port Authority shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Director of Finance/Treasurer and approved by the State Treasurer.

5.3 Internal Control:

The Director of Finance/Treasurer shall establish a process of periodic review by the Accounting/Finance Staff. This review will provide internal control monitoring by assuring that policies and procedures are being complied with.

5.4 External Control

The Director of Finance/Treasurer may engage the services of outside professionals as necessary for the efficient management of the investment program. External service providers shall be subject to the provisions of this Investment Policy.

VI. PERFORMANCE MEASUREMENT AND REPORTING REQUIREMENTS

6.1 Performance Standards:

The Port Authority’s investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Port Authority's investment risk constraints and cash flow needs. A market benchmark may be utilized and will be established through the Director of Finance/Treasurer’s procedures manual. The return shall be based on the net yield after accounting for the amortization of the discounts or premiums paid.

6.2 Reporting:

The Director of Finance/Treasurer shall provide the Board of Directors with consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. At a minimum these reports will be presented quarterly and such reports will include:

- Total investment portfolio yield and earnings rate.
- Percentage of the portfolio in each investment category.
- Summary of securities by investment type held at the end of the reporting period.
- Average term and yield by investment type.
- Investment yield comparison to various benchmarks.

VII. POLICY ADOPTION

7.1 Investment Policy Adoption:

The Chelan Douglas Regional Port Authority investment policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed on an annual basis and any modifications made thereto must be approved by the Board of Directors.

GLOSSARY

AGENCIES: Federal agency securities.

ANNUAL REPORT: The official annual report for the Chelan Douglas Regional Port Authority. It includes basic financial statements for the Port Authority and is prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed Statistical Section.

BANKERS' ACCEPTANCE (BA): A draft bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CALLABLE: Bonds that are purchased with the right to the seller to redeem or “call” the bonds at a specified date or dates prior to the final maturity date of the bond.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. This also refers to securities pledged by a bank to secure deposits of public monies.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

COMMERCIAL PAPER: Short-term, negotiable, unsecured promissory notes. The credit of the issuer stands behind the paper. There are some issuers that put up assets as security for the issue, these are asset-backs. The risk in this paper is that the assets will be worth less than the outstanding CP program; therefore, the Port Authority is excluding these issue types.

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery for securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is the delivery of securities with an exchange of money for the securities. Delivery versus receipt is the delivery of securities with an exchange of a signed receipt for the securities.

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., savings and loans, mortgage originators, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL HOME LOAN MORTGAGE CORPORATION: A public chartered Agency that buys residential mortgages from lenders, packages them into new Securities backed by those pooled mortgages, provides certain guarantees and then, resells the mortgage-backed securities on the open market. Shares of FHLMC stock are publicly traded on the New York Stock Exchange. The Corporation is also known as Freddie Mac

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of a default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth, money and credit; sales have the opposite effect. Open market operations are the

Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PREMIUM: The difference between the cost price of a security and its value at maturity when quoted at a price higher than face value. A security selling above the original offering price shortly after sale also is considered to be at a premium
.

PRUDENT PERSON RULE: An investment standard. The trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales of compensating use of ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this. Dealers use RP extensively to finance their positions.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A marker made for the purchase and sale of outstanding issues following the initial distribution.

SEC RULE 15c3-1: See Uniform Net Capital Rule.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; this is also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.