

WASHINGTON STATE LOCAL GOVERNMENT INVESTMENT POOL

LGIP BASICS

What is the LGIP?

The LGIP is a voluntary investment vehicle operated by the State Treasurer created in 1986 (RCW 43.250). It was created to provide a safe liquidity vehicle for governmental entities. Currently, there are 433 participants with a balance of \$5.2 billion.

The LGIP investment guidelines are patterned after SEC regulated 2a-7 money market funds. 2a-7 money market funds are considered to be the safest of the mutual funds due to the investment restrictions the SEC places on 2a-7 funds. Those restrictions allow money market funds to operate with a share price of \$1, i.e., no interest rate risk.

Who can join the LGIP?

LGIP participation is open to cities, towns, counties, special taxing districts, municipal corporations, community & technical colleges, and four-year universities.

Benefits of the LGIP

- Flexible and Liquid – No maturity, daily liquidity
- Economies of Scale – Pooling funds results in a competitive rate of return
- Low Administration Fee – 3.5 basis points with unused \$ rebated to participants
- Direct Deposit Program – State-collected revenues deposited to LGIP account
- Bond Accounts – Participants can open separate accounts for bond proceeds
- Annual Audit – Independent and state audit
 - Comprehensive Annual Financial Report
- Advisory Committee – Twelve member committee meets quarterly
- The Quarterly – Newsletter to all participants published on a quarterly basis

Requesting Transactions

- Request transactions via the internet (TMS) or toll-free (800)331-3284
- Same-day deposits and withdrawals if notified before 10:00am:
 - Transactions over \$1 million must be requested prior to 9:00 a.m.
 - Prior day notification of transactions over \$10 million is appreciated, but not mandatory
- Participant must initiate wire transfer with bank for deposits
- LGIP will wire withdrawals to participant bank account on file

Treasury Management System (TMS)

TMS is the State Treasurer's online system that allows authorized users to:

- Request withdrawals and deposits
- View account balances and participant information
- Access reports and statements
- Voluntary – participants can always utilize the toll free number (800) 331-3284

LGIP INVESTMENT PORTFOLIO

What does the LGIP invest in?

- U.S. Treasury Securities
- U.S. Government Agency Discount Notes
- U.S. Government Agency Bonds and Floating Rate Notes
- Certificates of Deposit – FDIC and PDPC insured
- Repurchase Agreements

What are some of the SEC 2a-7 Restrictions the LGIP follows?

- Maximum maturity of 397 days, except for floating rate securities
- Maximum Weighted Average Maturity (WAM) of 90 days

The LGIP returns vary over time. Is there a way to predict future LGIP yields?

- Yes and No – The best proxy of LGIP yields is the targeted Fed Funds Rate. This rate is set by the Federal Open Market Committee (FOMC). They will raise or lower that rate in an effort to strike a balance between low inflation and strong economic growth. In the past the LGIP yield has been very closely correlated to the Fed Funds rate. If you know what the Fed Funds rate is then you know the LGIP will be fairly close to that yield.

The LGIP yield is quoted on a 360 day basis (db). What does this mean and why is it important?

- The LGIP yield is calculated on an actual/360 db. While this is a common yield measure for short-term investment vehicles, there are other measures in common usage, like actual/365.
- Important to compare apples to apples when comparing yields
- Easy to convert actual/360db to actual/365db or visa versa

5.00% (360db)

$365\text{db Rate} = (360\text{db Rate}) * 365 / 360$

$365\text{db Rate} = 5.00\% * 365 / 360$

$365\text{ db Rate} = 5.07\%$

Benchmark - iMoneyNet, Inc. Index

- Index of privately managed money market funds similar in composition and investment guidelines to the LGIP
- Since July 1994 the LGIP has outperformed iMoneyNet by an average of 46.5 basis points, providing \$198.15 million in additional earnings

