

How secure are the Port's funds? Very secure, but at a price

By Bob McChesney, Executive Director, the Port of Edmonds

At a recent Port of Edmonds Commission meeting, the topic of protecting the security of the Port's \$6.8 million reserves came up. Our finance manager, Tina Drennan, prepared a report addressing the question in light of recent bank failures and government-mandated takeovers.

The Port maintains reserves not only because it is prudent management, but also because our loan agreements and generally accepted accounting principles require it. During the Port's 61 years, we have occasionally drawn on those reserves when things did not go as planned.

In today's economic climate, the question of the safety of those reserves comes up. The Port of Edmonds is a government entity and, in Washington State, the law stipulates that governments can deposit public money only in the safest investments. For example, we can't purchase corporate stocks or bonds, but we can purchase bonds of highly rated government entities. We are also allowed to deposit our money in bank accounts that are fully covered by the FDIC or that are approved by the state's Public Deposit Protection Commission.

That little-known body comprises the governor, lieutenant governor and state treasurer. It is their job to make and enforce regulations that ensure that deposited government funds are fully protected if a bank fails.

There is another layer of protection for our reserves, but explaining how it works gets a little complicated. Going clear back to 1969, Washington had something called the Public Deposit Protection Act that required banks to maintain 10% collateral in government deposits. If one of the member banks failed, the rest of the banks would chip in to cover all government funds held

by the failing bank. That was Washington; at the same time other states required that banks hold 100% collateral for government funds.

Last year in our state all that changed. As of July 2009, the Public Deposit Protection Commission replaced the 10% program with one that requires banks holding government funds to collateralize them at 100%. For us, this requirement turned out to be both good and bad.

The Port's deposits—and all government deposits—are now 100% secure, because banks have to hold on to every government dollar entrusted to them. But, at the same time, since the banks can't loan that money out and earn interest on it, they aren't able to offer competitive savings rates to us, the depositor.

To the Port of Edmonds that meant that last year we lost over \$200,000 in interest revenue compared to earlier years. Our interest income went from \$289,000 in 2007 to \$74,000 last year, which helps to explain why creating a balanced Port budget for 2010 was such a Herculean task.

It is because of the diligent work of our finance manager and an elected body of Commissioners who regard stewardship of public assets as their number one priority, that our budget is balanced and the Port's financial reserves are prudently invested and fully safeguarded.

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