

**SULTAN CITY COUNCIL  
AGENDA ITEM COVER SHEET**

---

**ITEM NO.** Discussion D 2

**DATE:** November 8, 2007

**SUBJECT:** Investment Policy and Interest Allocation

**CONTACT PERSON:** Laura Koenig, Clerk/Deputy Finance Director

**ISSUE:**

The issue before the City Council is the adoption of an Investment Policy and a resolution to allocate investment interest earned. The Council needs to make a policy decision on the allocation of interest earnings.

**STAFF and SUB COMMITTEE RECOMMENDATION:**

Adoption of the Resolution 07-23, Investment Policy (Attachment A) and discussion on Resolution 07-24, Interest Allocation (Attachment B).

**SUMMARY:**

**INVESTMENT POLICY:**

The City does not have a formally adopted Investment Policy. Staff currently used guidelines provided by the BARS (Budget, Accounting, Reporting System) manual and various RCW's regarding investments (Attachment C). The State Auditor has recommended that the City adopt written polices to insure that consistent financial practices are followed. The draft document is based on a sample policy obtained from the Washington Municipal Treasurer's Association.

**INTEREST ALLOCATION:**

In accordance with Resolution 92-11(Attachment D), the City commingles the fund balance of all funds for the purpose of investments. Resolution 92-11 is outdated and includes funds that no longer exist. The interest earned on the investments is distributed based on the current fund balance for those funds that have restricted funds and the balance of interest earned is allocated to the General Fund. The City can allocate interest to the General Fund with some restrictions. Attachment C provides a list of restricted revenue sources for the purpose of transferring interest earnings. The Sub-committee and the Council have discussed interest income and have requested that staff provide a recommendation on how to allocate the interest income

**DISCUSSION:**

Based on RCW 35.39.030, the State Auditor and State Treasurer provide guidelines for allowed investments instruments. Currently, staff uses these guidelines to select qualified investments.

The Investment Policy provides a list of allowed investment instruments, reporting process, internal controls and requires the Finance Committee to participate in the management of the portfolio.

The City currently maintains short and long term investments with Coastal Community Bank, the State Investment Pool and Seattle NW Securities. The current portfolio for the City includes investments in the State Pool, savings account, money market account, certificates of deposit (CDs) and treasury bonds. Staff considers the cash flow needs of the City to determine if an investment should be short term or long term.

The major change from the current policy is the requirement for the Finance Committee to participate in the management of the investment portfolio.

**ALTERNATIVES**

1. Adopt Resolution 07-23 Investment Policies and Resolution 07-24 to provide for allocation of interest. This alternative provides guidelines for investments as recommended by the State Auditor.
2. Do not adopt the resolutions to adopt and Investment Policy and interest allocation and continue to use the Resolution adopted in 1992.

**FISCAL IMPACT:**

**RECOMMENDED ACTION:**

Direct staff to finalize the Resolution to adopt an Investment Policy and a resolution for the allocation of investment earnings. 1

**ATTACHMENTS:**

- A. Resolution 07-23 Investment Policy
- B. Resolution 07- 24 Interest Allocations
- C. BARS and RCW excerpts
- D. Resolution 92-11

**CITY OF SULTAN**

**RESOLUTION 07-23**

**A RESOLUTION OF THE CITY OF SULTAN WASHINGTON  
ESTABLISHING AN INVESTMENT POLICY**

WHEREAS, it is in the best interest of the City to have consistent financial policies; and

WHEREAS, the City invests excess funds for the benefit of the City; and

WHEREAS, it is beneficial for the City of Sultan to have written and adopted Investment  
Policies; now therefore,

BE IT REOLVED BY THE CITY COUNCIL OF THE CITY OF SULTAN WASHINGTON  
AS FOLLOWS:

The City Council hereby establishes and adopts an Investment Policy attached hereto as  
Exhibit A and incorporated herein by this reference.

Passed by the City Council this      day of      , 2007.

\_\_\_\_\_  
Benjamin Tolson, Mayor

Attest:

\_\_\_\_\_  
Laura J. Koenig, City Clerk

## **CITY OF SULTAN INVESTMENT POLICY**

### **Policy:**

It is the policy of the City of Sultan to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands and conforming to all state and local statutes governing the investment of public funds.

### **Scope:**

This investment policy applies to all financial assets of the City of Sultan. These funds are accounted for in the City's annual report and include:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Trust and Agency Funds
6. Any new fund created by City ordinance, unless specifically exempted.

### **Prudence:**

Investments shall be made with judgment and care to the degree which persons of prudence, discretion and intelligence would 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" standard and shall be applied in the context of managing an overall portfolio. The investment officers acting in accordance with this policy 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 manner and appropriate action is taken to control adverse development.

### **Objective:**

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

**Safety:** Safety of the principal is the foremost objective of the investment program. Investments of the City of Sultan shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain 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 City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

**Yield:** The City's investment portfolio will be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. Investment of tax exempt borrowing proceeds and of any debt service funds will comply with the arbitrage restrictions of section 148 of the IRS Code of 1986.

### **Delegation of Authority:**

Management responsibility for the investment program is delegated to the City Administrator or their designee who shall establish written procedures for the operation of the investment program consistent with this investment policy. The Finance Director 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 would 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 Council any material financial interest in financial institutions that conduct business with the City. They shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Sultan, particularly with regard to the timing and purchases and sales.

**Authorized Financial Dealers and Institutions:**

The City Administrator or their designee is authorized to conduct investment transactions with several competing, reputable investment securities broker/dealers and financial institutions. Security dealers and financial institutions may include primary or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 and investment departments of local banks on the list of Qualified Public Depositories approved by the Washington Public Deposit Protection Commission as authorized to provide investment services under RCW 39.58.080.

**Authorized Investments:**

The City is empowered to invest in the following types of securities:

- Certificates, notes, bonds or other obligations of the United States
- Obligations of the U.S. agencies or of any corporation wholly owned by the government of the United States.
- State of Washington Investment Pool
- Any investment authorized by law for the treasurer of the State of Washington or any local government of the State of Washington but, except as provided in Chapter 39.58 RCW, such investments shall not include certificates of deposit (CD) of banks or bank branches not located in the State of Washington.

**Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the City of Sultan shall be conducted on a delivery-vs-payment (DVP) basis. Securities purchased by the City will be delivered against payment and held in a custodial safekeeping account with the trust department of the bank. The trust department of a bank, a third party custodian, will be designated by the Finance Director and all transactions will be evidenced by safekeeping receipts.

**Diversification:**

The City will diversify the investment portfolio to the extent necessary to maximize the return on investment while minimizing the risk of loss and to retain sufficient liquidity to meet cash flow obligations. With the exception of U.S. Treasury securities and authorized pools, no more than percent of the city's total investment portfolio will be invested in a single security type or with a single financial institution. Nothing herein should be construed as a mandate to place investments with any specified number or firms or financial institutions or to distribute investments among firms or financial institutions based on a ration or total funds to be invested. Safety, liquidity and return should be the determining factors, along with each of working with a given broker/dealer or financial institution, in placement of investment funds.

**Maximum Maturates:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase.

**Internal Controls:**

The City Administrator or their designee shall establish a process of independent review by an external auditor. The external audit may be completed by the contract Financial Advisor. This review will provide internal control by assuring that policies and procedures are being followed.

**Performance Standards:**

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles which meets or exceed the average rate of return of the Local Government Investment Pool of the State of Washington. This performance standard shall take into account the City's investment risk constraints and cash flow needs.

**Reporting:**

The Finance Department will provide the City Council with a quarterly report of investment holdings and activity.

**Investment Policy Adoption:**

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on an annual basis by the Council and any modifications must be approved by the City Council.

**CITY OF SULTAN  
RESOLUTION 07-24**

**A RESOLUTION OF THE CITY OF SULTAN WASHINGTON PROVIDING  
FOR THE ALLOCATION OF INVESTMENT INTEREST EARNINGS.**

WHEREAS, the Revised Code of Washington chapter 35.30.034 provides for the disbursement of investment interest earnings; and

WHEREAS, RCW 35.30.034 further provides for commingling of funds within one investment portfolio; and

WHEREAS, RCW 35.30.034 provides that any excess funds on hand may be invested by the City Treasurer for the benefit of the general or current expense fund; now therefore

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SULTAN WASHINGTON AS FOLLOWS:

The interest earnings received on investment of the City of Sultan shall be distributed to each fund as follows:

General Fund Excess Cash	100%
Street Fund	100%
Drug Enforcement Fund	100%
Limited Tax Bond GO	100%
Unlimited Tax GO Bond	100%
Capital Project Fund REET 1	100%
Capital Project Fund REET 2	100%
Water Revenue Bond Fund	100%
C.R. Utility Fund	100%
Sewer System Improvement Fund	100%
Water System Improvement Fund	100%
Water System Debt Fund	100%
Sewer System Debt Fund	100%
Cemetery Trust Fund	100% to Cemetery Fund

Passed by the City Council this        day of        , 2007.

\_\_\_\_\_  
Benjamin Tolson, Mayor

Attest:

\_\_\_\_\_  
Laura J. Koenig, City Clerk

ATTACHMENT B

22. **TRANSFER OF INTEREST INCOME TO THE GENERAL FUND**

Based on the current economic environment in which they operate, local governments are actively looking for ways to generate additional unrestricted revenues, so often there are questions regarding the transfer of interest income associated with certain revenues to the general fund.

The answers to the question "Can the interest earned on this revenue be deposited to the general fund?" may be yes or no, based on the statutory language that authorized the imposition of taxes and levies or the distribution of fees and taxes by the state.

SAO has reviewed the language related to various taxes, levies and fees and prepared the attached matrix to assist local governments in determining whether interest transfers made by them are allowable. The matrix shows the type of the restricted revenue, associated RCW provision and a yes or no answer on the transferability of interest.

This should not be considered an exhaustive list of all situations related to interest transfers. Additional questions about transfers of interest income generated by other types of revenue should be directed to the SAO staff.

<u>EFF DATE</u>	<u>SUPERSEDES</u>	<u>CATEGORY 2</u>	<u>BARS MANUAL:</u>	<u>VOL</u>	<u>PT</u>	<u>CH</u>	<u>PAGE</u>
1-1-07	None			1	3	12	39

Source of Revenue	RCW	BARS Revenue Code	Can the interest be diverted to general fund?
Diverted County Road Property Tax	36.33.220, 36.82.040	311.20	No
Timber Tax	84.33.081	335.02.33	No
Emergency Medical Care and Services	84.52.069	311.10	Yes
Veterans Relief	73.08.080(1)	311.10	No
Community Services	71.20.110	311.10	Yes
<b>Local Retail Sales and Use Tax:</b>			
Chemical Dependency/ Mental Health Issues	82.14.460	313.14	Yes
Special Purpose Tax	82.14.450	313.15	No
Emergency Communication	82.14.420	313.16	No
ZOO, Aquarium and Wildlife Facilities	82.14.400	313.17	No
Rural Counties	82.14.370	313.18	Yes
Regional Centers	82.14.390	313.19	Yes
Public Transportation Systems	82.14.045	313.21	Yes
High Capacity Transportation	81.104.160, .170	317.12	Yes
Criminal Justice	82.14.340	313.71	No
Juvenile Detention Facilities and Jails	82.14.350	313.72	No
Public Safety (Criminal Justice Portion)	82.14.450	313.73	No
Hotel/Motel Tax	67.28.1815	313.30	No
Hotel/Motel Tax Convention Trade Center	67.40.090	313.50	No
Gambling Tax	9.46.110, .113, .270	317.51-.54	Yes
REET 1 <sup>st</sup> Quarter Percent	82.46.010	317.34	No
REET 2 <sup>nd</sup> Quarter Percent	82.46.035	317.35	No
REET ½ Percent	82.46.010, 82.14.030	317.36	No
REET Conservation Areas	82.46.070	317.37	No
REET Electronic Technology	82.45.180(3)	336.00.97	No
Ambulance Services	35.21.768	317.44	No
Admission Tax	36.38.010	316.20	No
Parking Tax	82.80.030	316.30	No
Municipal Public Transportation System	35.95.040	317.43	No
Enhanced 911 – State	82.14B.050	(State Collection)	No
Enhanced 911 – Local	82.14B.050	317.41-.42	No
Tourism Promotion Charge	35.101.010-.130	318.10	No

<b>Motor Vehicle Fuel Tax:</b>			
High Occupancy Vehicle (HOV) System	81.100.060	317.13	No
Border Area Jurisdictions	82.47.020, .030	317.14	No
<b>State Distributions:</b>			
Local Vehicle License Fee	82.80.010(8)	336.00.81	No
Vessel Registration Fee	88.02.040, .045	336.00.84	Yes
MVFT – City Streets	46.68.070, .110, 47.24.040, Ch. 35.76	336.00.87	Yes
MVFT – Arterial Streets	46.68.070	336.00.88	Yes
MVFT – County Roads	46.68.070 - .124	336.00.89	Yes
MVFT – Highways	82.80.010(8), .070	336.00.90	No
MVFT – County Ferries	47.56.725	336.00.92	Yes
Centennial Document Preservation	36.22.170	336.04.11	Yes
Criminal Justice – High Crime	82.14.310, .320	336.06.10-.20	Yes
Criminal Justice – Special Distributions – Cities	82.14.330	336.06.21	Yes
Criminal Justice – Contracted Services	82.14.330(2)(a)	336.06.25	Yes
Criminal Justice – Special Programs	82.14.330(2)(b)	336.06.26	Yes
Fire Insurance Premium Tax	41.16.050, .060	336.06.91	No
Liquor Excise Tax (Including Beer)	82.08.150-.170, 66.08.195-.210, 66.24.290, 70.96A.085, .087	336.06.94	Yes
Liquor Control Board Profits	66.08.170-.210, 70.96A.085-.087	336.06.95	Yes
PFD Tax Funding	82.14.360	313.11-.13	No
Special License Plates	46.16.313	(State Collection)	No
Veterans Assistance Fund	73.08.080 (Ch.250, Laws 2005)	311.10	No
Mental Health Fund	71.20.110	311.10	Yes
Conservation Futures	84.34.240(1)	311.10	No
Juvenile Detention Center Fund	82.14.350	313.72	No
ER&R	36.33A.060	348 / 349	No
<b>Court Assessed Fines and Penalties – State Portion:</b>			
Court Filing Fees	36.18.020	386.91	No
Penalty Assessments	10.82.070, 7.68.035	386.91	No
Courthouse Facilitator Program Fee	26.12.240	386.91	Yes

**RCW 35.39.030**

**Excess or inactive funds -- Investment.**

Every city and town may invest any portion of the moneys in its inactive funds or in other funds in excess of current needs in:

(1) United States bonds;

(2) United States certificates of indebtedness;

(3) Bonds or warrants of this state;

(4) General obligation or utility revenue bonds or warrants of its own or of any other city or town in the state;

(5) Its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and

(6) In any other investments authorized by law for any other taxing districts.

[1975 1st ex.s. c 11 § 1; 1969 ex.s. c 33 § 1; 1965 ex.s. c 46 § 1; 1965 c 7 § 35.39.030. Prior: 1943 c 92 § 1; Rem. Supp. 1943 § 5646-13.]

**NOTES:**

**Effective date -- 1969 ex.s. c 33:** "This 1969 amendatory act is necessary for the immediate preservation of the public peace, health and safety, the support of the state government and its existing political subdivisions; and shall take effect July 1, 1969." [1969 ex.s. c 33 § 4.] This applies to RCW 35.39.030 through 35.39.034.

**Construction -- 1965 c 7:** See RCW 35.39.050.

C.4

RCW 35.39.034 Investment by individual fund or commingling of funds--  
Investment in United States securities--Validation.

Moneys thus determined available for this purpose may be invested on an individual fund basis or may, unless otherwise restricted by law be commingled within one common investment portfolio for investment. All income derived from such investment shall be apportioned and used for the benefit of the various participating funds or for the benefit of the general or current expense fund as the governing body of the city of [or] town shall determine by ordinance or resolution: PROVIDED, That funds derived from the sale of general obligation bonds or revenue bonds or similar instruments of indebtedness shall be invested, or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

Any excess or inactive funds on hand in the city treasury not otherwise invested, or required to be invested by this section, as now or hereafter amended, may be invested by the city treasurer in United States government bonds, notes, bills, certificates of indebtedness, or interim financing warrants of a local improvement district which is within the protection of the local improvement guaranty fund law for the benefit of the general or current expense fund.

All previous or outstanding investments of city or town funds for the benefit of the city's or town's general or current expense fund which have been or could be made in accordance with the provisions of this section, as now or hereafter amended, are declared valid.

**RCW 39.58.080****Deposit of public funds in public depository required -- Deposits in institutions located outside the state.**

(1) Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, funds deposited pursuant to a custodial bank contract with the state's custodial bank, and funds deposited pursuant to a local government multistate joint self-insurance program as provided in RCW 48.62.081, no public funds shall be deposited in demand or investment deposits except in a public depository located in this state or as otherwise expressly permitted by statute:

PROVIDED, That the commission, or the chair upon delegation by the commission, upon good cause shown, may authorize, for such time and upon such terms and conditions as the commission or chair deem appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington solely for the purpose of transmitting money received to public depositories in the state of Washington for deposit.

(2) Notwithstanding subsection (1) of this section, the commission, or the chair upon delegation by the commission, upon good cause shown, may authorize, for that time and upon the terms and conditions as the commission or chair deems appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington for deposit of certain higher education endowment funds, for a specified instructional program or research project being performed outside the state of Washington.

[2005 c 203 § 1; 1996 c 256 § 8; 1991 sp.s. c 30 § 27; 1986 c 160 § 1; 1984 c 177 § 14; 1983 c 66 § 11; 1969 ex.s. c 193 § 8.]

**NOTES:**

**Effective date, implementation, application -- Severability -- 1991 sp.s. c 30:** See RCW 48.62.900 and 48.62.901.

**Severability -- 1983 c 66:** See note following RCW 39.58.010.

CITY OF SULTAN  
RESOLUTION 92-11

A RESOLUTION OF THE CITY OF SULTAN PROVIDING FOR THE  
DISBURSEMENT OF INVESTMENT INTEREST

WHEREAS, the Revised Code of Washington Chapter 35.39, section  
35.30.034 provides for the disbursement of investment interest earnings, and

WHEREAS, section 35.39.034 further provides for commingling of funds  
within one investment portfolio, and

WHEREAS, section 35.39.034 also provides that any excess funds on  
hand may be invested by the City Treasurer for the benefit of the general or  
current expense fund,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF  
SULTAN that the fund principle investment appointment and interest  
distribution be established as follows:

<u>FUND (PRINCIPLE)</u>	<u>FUND (INTEREST) (RECIPIENT)</u>	<u>PERCENT</u>
Arterial Street	Arterial Street	100%
Drug Enforcement	Drug Enforcement	100%
General Obligation (Fire Truck)	General Obligation (Fire Truck)	100%
Community Improvement	Community Improvement	100%
Capital Improvement	Capital Improvement	100%
Water/Sewer Revenue Bond	Water/Sewer Revenue Bond	100%
Cemetery Trust	Cemetery	100%
Excess Cash	Current Expense	100%

REGULARLY ADOPTED this 24 day of November, 1992.

  
\_\_\_\_\_  
JOHN WALKER

MAYOR

Attest:

  
\_\_\_\_\_  
Laura J Koenig Clerk/Treasurer

ATTACHMENT D