

**SULTAN CITY COUNCIL  
AGENDA ITEM COVER SHEET**

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**ITEM NO.** Action A 6

**DATE:** November 15, 2007

**SUBJECT:** Resolution 07-23 Investment Policy and Interest Allocation

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

**ISSUE:**

The issue before the City Council is the adoption of Resolution 07-23 Investment Policy for the City of Sultan.

**STAFF and SUB COMMITTEE RECOMMENDATION:**

Adoption of the Resolution 07-23, Investment Policy (Attachment A)

**SUMMARY:**

The Investment Policy was discussed during the November 8, 2007 Council meeting and staff was directed to bring the policy back for adoption.

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.

**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. This alternative provides guidelines for investments as recommended by the State Auditor.
2. Do not adopt the resolutions to adopt an Investment Policy and continue to use the RCW and BARS manual for guidelines.

**STAFF RECOMMENDATION:**

Adopt Resolution 07-23 Investment Policy.

**MOTION**

Move to adopt Resolution 07-23 establishing an Investment Policy for the City.

**ATTACHMENTS:**

A. Resolution 07-23 - Investment Policy

**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:

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Laura J. Koenig, City Clerk

**ATTACHMENT A**

# 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.