

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO. Action A 7
DATE: November 15, 2007
SUBJECT: Resolution 07-24 Investment Interest Allocation
CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue before the City Council is the adoption of Resolution 07-24 (Attachment A) to allocate investment interest earned.

SUMMARY:

The issue of allocation of investment interest earned was discussed at the November 8, 2007 Council meeting. Staff was directed to prepare a resolution with recommendations on the allocation of investment interest and to provide information on the financial impacts.

Under state law, if a Code City's funds have been commingled for investment purposes, the interest may be apportioned among the various participating funds or the general or current expense fund as the city determines by ordinance or resolution. Attachment B is an article from MRSC regarding credit of interest earnings. There are additional restrictions noted in the BARS manual (Attachment C) and the bond ordinances may also require that interest be allocated to specific funds.

The City has earned the following interest through September 2007:

1 st Quarter	\$44,742.96
2 nd Quarter	\$41,814.49
3 rd Quarter	\$44,967.17
 Total	 \$131,624.62

Of the total amount earned \$12,763.07 was credited to the General Fund. Under the proposed allocation an additional \$49,181.73 would have been credited to the General Fund.

Interest earned by the Cemetery Trust Endowment is credited to the Cemetery operating fund. With the exception of the LID Bond fund, staff is recommending that interest earned by bond funds should be credited to the fund to offset the cost of bond principal and interest payments. It is also recommended that interest earned

by the Water and Sewer reserves, construction and debt funds be credited to those funds. This will insure that additional funds will be available for projects and bond and loan payments.

The following chart shows the 3rd Quarter investment interest earnings and the amount credited to each of the different funds:

JOURNAL ENTRIES			3rd Quarter 2007	
Fund	Descrip	Account	Credit	Proposed Gen. Fund Allocation
Investment Interest				
001	Interest	General	4652.41	NA
101	Interest	Street	0.00	No
103	Interest	Cemetery	1108.55	No
107	Interest	Drug Fund	81.59	No
108	Interest	Impact Funds	9064.55	Yes
109	Interest	Community fund	14.78	Yes
110	Interest	Police Bond	397.47	No
203	Interest	GO Bond Fund	681.19	No
205	Interest	Police Bond Fund	274.21	No
207	Interest	LID Bond Fund	8779.88	Yes
301	Interest	Capital - REET	3628.29	No
303	Interest	Street Construct	0.00	Yes
403	Interest	W/S Bond	642.76	No
405	Interest	UT Utility	14744.97	No
407	Interest	Sewer Cont	0.00	No
409	Interest	Water Cont	238.64	No
412	Interest	Water Debt	657.88	No
413	Interest	Sewer Debt	0.00	No
		Total	44967.17	
		Additional Interest - 3rd Qtr	17859.21	
		Annual Interest (estimate)	71436.84	

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.

ALTERNATIVES

1. Adopt Resolution 07-24 to provide for allocation of interest.
2. Do not adopt the resolution to adopt interest allocation and continue to allocate interest using the Resolution adopted in 1992 and current practice.

STAFF RECOMMENDATION:

Adopt Resolution 07-24 providing for the allocation of earned Investment Interest.

MOTION:

Move to adopt Resolution 07-24 allocating earned investment interest.

ATTACHMENTS:

- A. Resolution 07- 24 Interest Allocations
- B. Information Sheet from MRSC
- C. BARS manual and RCW excerpts
- D. Resolution 92-11

**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:

<u>FUND</u>	<u>% Of Earned Interest credited to fund</u>
Excess Cash – Credit to General Fund	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

Passed by the City Council this 15th day of November, 2007.

Benjamin Tolson, Mayor

Attest:

Laura J. Koenig, City Clerk

ATTACHMENT A

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Street Fund	100%
Drug Enforcement Fund	100%
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Unlimited Tax GO Bond	100%
Capital Project Fund REET 1	100%
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ATTACHMENT A



Municipal Research and Services Center of Washington

Working Together for Excellence in Local Government

Finance Advisor

MRSC has joined with Toni Nelson, Small Cities Specialist, State Auditor's Office, Gayla Gjertsen, Finance Director, City of Tumwater, and Mike Bailey, Administrator of Finance and Information Services, City of Renton, to bring you the "Finance Advisor" column. The "Finance Advisor" will feature a new article each month with timely local government finance information and advice you can use.*

Does a new law allow code cities to credit all interest earnings to the general fund?

October 2007

Mike Bailey, Administrator of Finance and Information Services, City of Renton
Toni Nelson, Small Cities Specialist, State Auditors Office
Gayla Gjertsen, Finance Director, City of Tumwater

At first blush, it appears that HB 2161 (which amended RCW 35A.40.050) provides a revenue windfall for code cities. It says that if the city's funds have been commingled for investment purposes, the interest may be apportioned among the various participating funds or (and here is the new language) "the general or current expense fund as the governing body of the code city determines by ordinance or resolution." (Non-code cities have had similar language in RCW 35.39.034 since 1981.) Typically a city's general fund or current expense fund is one of the funds that is most difficult to balance. That is to say, the revenues never seem to cover all the needs. So when we, who are trying to balance these budgets, are told we can now credit all interest revenue to the general fund, that sounds like a revenue windfall.

However, we suggest a word of caution – in fact – we're inclined to toss some cold water on that idea. If you work in a city hall, you are likely familiar with the "Budget Suggestions" handbook produced each year by the Municipal Research and Services Center. This topic is addressed in this year's publication on page 11. In it the following guidance is given:

Note that the BARS Manual (Vol. 1, Pt. 3, Ch. 12, P. 46) provides a matrix of revenue sources and whether interest on those sources may be allocated to the general fund. In addition, for utility funds, bond covenants or other provisions may require that the interest be allocated to the utility fund. If you have questions, check with your city attorney or bond counsel.

We want to second that opinion. You do not want to pay money to the general fund and then have to reallocate it because you did so in error.

The State Auditor's office promotes accountability and fiscal integrity as the cornerstones of good government accounting practices. While we often struggle with interpreting the multitude of laws and compliance issues it should be noted the allocation of resources such as interest earnings to the general fund may not always be appropriate and will be subject to review for compliance during the audit process.

The intent of HB 2161 was to give code cities the same options that non-code cities have regarding the allocation of interest. To that extent it has accomplished its goal. However, prior to its passage even non-code cities had to allocate their resources appropriately. If some funds in your investment portfolio are restricted, then the earnings are restricted too. The matrix provided by the auditor's office clearly defines the revenues considered restricted by statute, although it does not address those restricted by bond covenants.

We lead the annual "Introduction to Municipal Budgeting" workshops sponsored by AWC and WFOA each August. At this year's workshops, we were asked about this provision numerous times. It seems there was a lot of interest in crediting the interest (a bit of a pun) to the general fund.

In addition to providing new authority to code cities for the allocation of interest, passage of this law may also have brought existing provisions of RCW 35A.40.050 (and RCW 35.39.034) to the attention of city officials. These allow cities to combine the balances in their various funds to maximize their investment potential. Tools for investments by Washington cities are numerous. The Washington State Treasurer's Local Government Investment Pool, the Public Deposit Protection Commission, and other tools make our jobs in this respect easier than it is in other states. By combining the money from all funds into an investment pool, we can manage the total portfolio as a whole. This allows for large investments which can lead to larger rates of return. The way we would recommend allocating interest from this combined portfolio to the funds that would be legally entitled to receive that interest would be to periodically assess the shares that each fund owns of the pool. Use that percentage to allocate interest earnings from the pool for that same period. A minimum period of time would be a month. Attention to detail and monitoring the mix of fund balances within your portfolio will help to assure compliance in addition to allowing for possible increase in revenue for the general fund.

By combining the cash from each fund into an investment pool for the city you can maximize the investment returns while still making sure that each fund which is legally entitled to that interest receives its fair share. If you are not sure where to credit the interest from funds other than utility and bond funds, give MRSC or your city attorney a call, or you can access the SAO Helpdesk. If you have questions about interest allocation and utility or bond funds, call your bond counsel. If you have interest that could be credited to the general fund but currently is not, you have a great topic for a financial policy discussion.

Toni Nelson is the "Small Cities Specialist" for the Washington State Auditor's Office, providing both on and off site financial training and assistance to smaller cities and towns throughout the state. Ms. Nelson has been working with the Auditors office for 6 years and prior to that was the Clerk/Treasurer for a small town for 9 years. She has co-authored the "Small Cities Manual" a detailed reference guide for new clerk/treasurers on governmental accounting procedures and presents numerous training workshops throughout the state for AWC, WFOA, WMTA, WMCA and local/regional organizations such as EWFOA and SCWMCA. Ms. Nelson is also a member of and conference track coordinator for the WFOA Education Committee.

Mike Bailey is currently the Administrator of Finance and Information Services for the city of Renton. Previously, he worked as the Director of Finance for the city of Lynnwood for six years. Mr. Bailey also served as president of the Washington Finance Officers Association and is the Vice Chair of the GFOA Budget Committee. An experienced CPA and GFOA budget reviewer, Mr. Bailey co-founded the annual Budget and Fiscal Management Workshops held each summer. Mr. Bailey conducts numerous workshops and has authored various articles on local government finance, including Effective Budgeting in Washington State Cities published by the Association of Washington Cities.

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Gayla L. Gjertsen has been the Finance Director for the City of Tumwater for over 15 years and was previously the Director of Administration for the City of Milton for 13 years. She has also served as president of the Washington Finance Officer's Association. Gayla has been a presenter at the annual Budget and Fiscal Management Workshops held each summer for many years, and periodically conducts other workshops and writes about local government finance issues.

*The Articles appearing in the "Finance Advisor" column represent the opinions of the authors and do not necessarily reflect those of the Municipal Research & Services Center.

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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

Motor Vehicle Fuel Tax:			
High Occupancy Vehicle (HOV) System	81.100.060	317.13	No
Border Area Jurisdictions	82.47.020, .030	317.14	No
State Distributions:			
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
Court Assessed Fines and Penalties – State Portion:			
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.

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