

**CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Action A 1

DATE: February 11, 2010

SUBJECT: Piper Jaffray Investment Account

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director 

ISSUE:

The issue before the Council is to authorize staff to establish an investment account with Piper Jaffray. The sub-committee will meet prior to the Council meeting to discuss this matter and their recommendation will be made with the presentation.

SUMMARY:

In accordance with state law, the City is limited in the types of investments for municipal funds. These include but are not limited to certificates of deposits, notes, bonds or other obligations of the U.S., and the state investment pool. In early 2009, the Public Deposit Protection Commission changed the policy to require financial institutions to provide 100% collateral of public deposits in uninsured accounts.

The City has accounts with the State Investment Pool, Coastal Bank and Seattle Northwest Securities for investment purposes. Coastal Bank is limited in the amount of funds we can invest in the money market account or certificates of deposit (maximum \$250,000). The current interest rate for the State Pool is .29%. The investments with Seattle Northwest Securities have matured.

Staff would like to pursue other investment opportunities for the long term funds to maximize interest returns on the City's funds. Piper Jaffray has worked with municipal governments for several years and is well versed in qualified investments. Jane Towery with Piper Jaffray was recently instrumental in helping the City find financing for the Wastewater Treatment Plant.

In accordance with the adopted Investment Policy, the City Administrator or their designee is responsible for management of the investment program and is authorized to conduct investment transactions with several competing, reputable investment securities broker/dealers and financial institutions. The Council is responsible for approving the resolution authorizing an account with a financial institution.

STAFF RECOMMENDATION

Staff recommends the Council approve the Institutional Account Agreement to establish an investment account with Piper Jaffray and that staff be authorized to complete the necessary documents to set up the account.

Attachments: A. City of Sultan Investment Policy
B. Piper Jaffray Institutional Account Agreement

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 ratio 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.



**INSTITUTIONAL
ACCOUNT AGREEMENT**

Account Name	
City of Sultan	
Account Number	Rep. No.
TG3	
UIAA/USTM	

INSTRUCTIONS:

- All institutions must complete and sign pages 1-3.
- Investment Advisors should complete and sign pages 1-4.

A. INSTITUTIONAL TRADING AUTHORIZATION

Return to Piper Jaffray

To: Piper Jaffray & Co.
800 Nicollet Mall, Suite 800
Minneapolis, MN 55402-7020

I am an authorized officer or individual empowered to act for, and on behalf of, the undersigned institution and authorized to bind the Beneficial Owners as defined below. I hereby authorize Piper Jaffray & Co. ("Piper Jaffray" or "you") to take instructions concerning our account from the persons listed in this agreement.

Any one or more of the following designated persons is hereby authorized and directed to open accounts with you to purchase, sell, assign, deal in or transfer money market instruments, bonds or securities for cash and forward settlement and future commitments both mandatory and optional on behalf of the undersigned institution. Each is authorized to act upon any orders and instructions whether written or oral with respect to the account and the delivery of securities or presentation of due bills or money there from.

Name Laura Koenig	Title Deputy Finance Director
Name	Title

You may rely on this Trading Authorization in its entirety until you receive notice in writing of any modification or revocation of authorized persons.

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each entity that opens an account.

B. ANTI-MONEY LAUNDERING CERTIFICATION

As an institutional client of Piper Jaffray we make the following representations:

We have adopted and maintain policies and procedures which are appropriate for and reasonably designed to detect any violation of, and meet the record keeping and reporting requirements of, among similar statutes, regulations and orders: (i) the USA Patriot Act of 2001, as amended, and the rules and regulations promulgated there under; (ii) the Bank Secrecy Act of 1970, as amended; (iii) Executive Order No.

13, 244 of 2001 issued by the President of the United States; (iv) the Foreign Assets Control Act, as amended; and, (v) all applicable banking requirements, including without limitation, suspicious activity reporting (*hereinafter collectively referred to as "AML Laws and Regulations"*).

If we are trading on behalf of another person or entity (the "Beneficial Owner"), it is our sole responsibility to take all reasonable steps to determine (i) the true identity of the Beneficial Owner, (ii) the source of the Beneficial Owner's funds and (iii) that the Beneficial Owner is not involved in money laundering activities. It is also our sole responsibility to comply with "know your customer" requirements. Unless otherwise agreed in writing, we will monitor Beneficial Owner transactions in order to detect attempted or actual money laundering. We agree to promptly provide you, upon your reasonable request, with documentation relating to our compliance with AML Laws and Regulations.

By initialing here _____ we certify that we are not currently subject to AML Laws and Regulations. We agree to comply with all reasonable information requests by Piper Jaffray to establish our status as an entity or person not covered by AML Laws and Regulations. We agree to promptly provide you with documentation relating to our compliance with all anti-money laundering laws, statutes, regulations or rules to which we may become subject.

C. INSTITUTIONAL SUITABILITY

As an institutional client of Piper Jaffray we make the following representations:

We are fully capable of evaluating securities and strategies, understanding markets, and recognizing portfolio diversification. Accordingly, we have determined that it is not necessary to disclose to you the complete makeup of our portfolio and are capable of and will be making independent investment decisions with respect to our account.

We understand the key financial features, including, but not limited to, the risk/reward ratio of all such investments and evaluate how market developments can affect them. Thus, we are capable of, and will, independently evaluate the investment risk of all investments made and strategies employed for our account.

Further, we have satisfied ourselves that the orders we place through you are suitable for our clients and their respective accounts. We will indemnify you and hold you harmless in the event any such client should make claims against you that any transaction we entered on their behalf was not suitable.

D. TRANSACTIONS WITH AFFILIATES

Piper Jaffray (a) may advise us as to the desirability of purchasing or selling securities and other property that may be purchased from or sold to an affiliate of Piper Jaffray acting as principal or through such an affiliate acting as agent; and (b) may execute our orders to purchase or sell securities and other property from or to an affiliate of Piper Jaffray acting as principal or through such an affiliate acting as agent. In either case, the securities may have been issued by such affiliate and such affiliate may receive and retain its profit on such transaction including any commissions, markups or other remuneration not in excess of such affiliate's usual and customary rates.

E. INTERNALIZATION

Consistent with Piper Jaffray's obligation to provide best execution of our order, and depending on the particular security, Piper Jaffray may internalize our order. This means that Piper Jaffray may execute our order as principal and/or cross our order with other client (either institutional or retail) or dealer orders in the same security on the opposite side of the market. Regardless of whether Piper Jaffray internalizes our order, our trade confirmation will reflect the capacity (principal or agent) in which Piper Jaffray acted. Internalization of client order flow may provide Piper Jaffray with certain benefits (such as additional revenue opportunities and/or cost savings) that it would not otherwise realize if it were to simply route our order to an exchange, another dealer,

or another market center or market participant and execute our order as agent. Piper Jaffray stands to share in 100% of whatever profits generated by trading as principal with its customer orders.

F. BUNCHED ORDERS

Unless we specifically instruct Piper Jaffray to the contrary, any order to buy or sell more than 100 shares of any security that we place with Piper Jaffray may be aggregated with other orders in the particular security on the same side of the market and executed as a single bunched or block order at an average price. The average price that we receive may be better than, equal to, or worse than the price that we would have received had our order not been aggregated.

G. DISCLOSURE OF HEDGING ACTIVITY AND FACILITATION TRADES

With respect to guaranteed volume weighted average price ("VWAP") orders we submit to Piper Jaffray, Piper Jaffray may engage in trading activity prior to receipt, or after receipt but prior to execution, of our order, for the purpose of facilitating the execution or hedging the risks of our order or any other order (VWAP or otherwise) from any other client. Such hedging or other positioning activity could affect the market for the security or securities involved in our transaction and, consequently, the cost or proceeds to you. Piper Jaffray will at all times engage in hedging transactions that are commensurate with the anticipated risk. Where required by applicable laws, rules, or regulations, Piper Jaffray will seek to confirm, on a transaction-by-transaction basis, our consent to engage in trading of the security or securities in our order alongside or ahead of our order. Piper Jaffray also may hedge the risks of its trading by trading other securities, including but not limited to exchange traded funds, options or derivative securities.

H. FAILS OR INSUFFICIENT ASSETS IN ACCOUNT

Piper Jaffray has absolute discretion in determining its obligations under Regulation SHO and Regulation T, and may close out transactions accordingly at any time or to any extent that it reasonably deems necessary. Piper Jaffray may apply any cash and sell any securities in the account (and in any other account that Piper Jaffray carries for our benefit) to cover any shortfall in the account with respect to amounts owed by us to Piper Jaffray or another third party in connection with the account.

After deducting all costs and expenses of any such purchase or sale and delivery, Piper Jaffray is authorized to apply any remaining proceeds to the payment of our liabilities to Piper Jaffray. We shall remain liable for any deficiency. If Piper Jaffray sells any securities at public auction or on any exchange, board or market, Piper Jaffray may become the purchaser for itself or on behalf of anyone else.

I. WAIVER OF NOTICE

Piper Jaffray may take any action provided in this agreement without demand of or notice to us. No specific demand or notice shall invalidate this general and express waiver.

J. ARBITRATION

As an institutional client of Piper Jaffray and on behalf of ourselves and the Beneficial Owners we understand that this Agreement contains a pre-dispute arbitration clause. By signing this Agreement, which contains a pre-dispute arbitration clause, the parties agree as follows:

- All parties to this Agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.
- Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.
- The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.
- The arbitrators do not have to explain the reason(s) for their award.
- The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.
- The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.
- The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this Agreement.

We and the Beneficial Owners agree that any claim, dispute or controversy arising out of or relating directly or indirectly to (a) our relationship with Piper Jaffray, or (b) this Agreement or any other agreement we have entered into with Piper Jaffray or any alleged breach of any such agreement, or (c) any investment by us under this Agreement or under any other agreement entered into with Piper Jaffray or any investment by us made with, by or through Piper Jaffray, or (d) any transaction of any kind executed by, through, or with Piper Jaffray, its officers, directors, agents, employees, or affiliates, shall be settled by arbitration pursuant to the Federal Arbitration Act and in accordance with the rules, then in effect, of the Financial Industry Regulatory Authority ("FINRA").

Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction over the parties, and each party agrees to submit itself and its personal representatives to the jurisdiction of that court.

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in a court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until:

- (i) the class certification is denied; or
- (ii) the class is decertified; or
- (iii) the person is excluded from the class by the court.

Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Agreement except to the extent stated herein.

This Agreement contains legal rights of the parties, including, but not limited to, a PRE-DISPUTE ARBITRATION CLAUSE appearing on PARAGRAPH J, of this Agreement. By signing this Agreement, we specifically acknowledge that before we signed the Agreement, we have received, read and understood the terms and conditions of this predispute arbitration clause. By signing this Agreement, and thus accepting the terms and conditions of the predispute arbitration clause, we understand we are, among other things, agreeing to waive our rights to seek remedies in court, including the right to a jury trial.

K. SUPPRESSION OF DVP/RVP MONTHLY/QUARTERLY STATEMENT

Institutional customers whose accounts are carried solely for the purpose of execution on a DVP/RVP basis may OPT OUT of receiving customer account statements. Customers consenting to the suppression of such statements MUST DO SO IN WRITING. Please indicate below:

Yes, I give my consent to Piper Jaffray & Co. to suppress quarterly/monthly customer account statements on current and new DVP/RVP accounts until further notice.

I understand that at any point in the future, I can revoke this request and future statements will be sent to the address of record.

No, I do not wish to suppress statements at this time. (default).

SIGNATURE	
Signature of Authorized Individual X	Date
Name & Title of Authorized Individual (print) Laura Koenig	
Name of Institution (print) City of Sultan	
Internal Use Only	
Master Account Number(s)	
Supervisor Signature X	Date

IF YOU ARE NOT AN INVESTMENT ADVISOR, PLEASE STOP HERE.