

**SULTAN CITY COUNCIL  
AGENDA ITEM COVER SHEET**

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**ITEM NO.** Action A 4

**DATE:** November 18, 2010

**SUBJECT:** Resolution 10-21 Investment Interest Allocation

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

**ISSUE:**

The issue before the City Council is the adoption of Resolution 10-21 (Attachment A) to allocate investment interest earned to each fund in which was earned. Currently, the City's policy is to allocate the majority of the interest earned to the General Fund.

**STAFF RECOMMENDATION:**

Staff recommends the investment interest earned be allocated to each fund based on the fund balance at the end of each quarter.

**SUMMARY:**

In 2008, The Blue Ribbon Committee recommended the City allocate investment interest to each fund in which it was earned. In order to balance the 2009 budget, the Council made the decision to allocate the majority of interest to the General Fund to provide additional and needed revenue (Attachment C). For 2010, the City allocates interest to the bond, capital and reserve funds and the balance is allocated to the General Fund (Attachment C).

The majority of the City funds are invested in the State Investment Pool. The average rate of interest paid in 2010 was .27%. The city has received \$5,050 in investment interest for the first six months of the year.

During the budget retreat the Council discussed investment interest rates and allocating the interest to each fund while the rates are so low. The General fund received \$2,358 in interest income for January to June 2010. The General Fund no longer relies on this revenue source to balance the budget.

**ALTERNATIVES:**

Under state law (RCW 35.39.034 – Attachment B), if a Code City's funds have been commingled for investment purposes, the interest may be apportioned among the various participating funds or to the general or current expense fund as the city determines by ordinance or resolution. There are restrictions under state law regarding allocation of interests and bond ordinances may require the allocation of the earned interest to the bond reserve fund. Interest earned on investments of Impact fee funds and REET funds must be allocated to those funds. The following are alternatives for the Council to consider:

1. Allocate interest to the fund that "earns it".

2. Allocate interest to the General Fund consistent with State law.
3. Use the same interest allocation in 2011 as the City used in 2010. This will allocate approximately 47% of the interest to the General Fund.

**RECOMMENDATION:**

Adopt Resolution 10-21 providing for the allocation of earned Investment Interest.

**ATTACHMENTS:**

- A. Resolution 10-21 Interest Allocations
- B. RCW 35.39.034 and BARS manual sections regarding investment interest
- C. 2009 and 2010 Interest Distribution

**CITY OF SULTAN  
RESOLUTION 10-21**

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

WHEREAS, the Revised Code of Washington chapter 35.39.034 provides for the disbursement of investment interest earnings; and

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

WHEREAS, RCW 35.39.034 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

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SULTAN, WASHINGTON, DOES RESOLVE AS FOLLOWS:

Section 1. The interest earnings received on investment of the City of Sultan shall be distributed to each fund as follows:

|     | <u>FUND</u>                   | <u>Interest<br/>Distribution</u> |
|-----|-------------------------------|----------------------------------|
| 001 | General Fund                  | 100%                             |
| 100 | General Fund Contingency      | 100%                             |
| 101 | Street Fund                   | 100%                             |
| 103 | Cemetery Fund                 | 100%                             |
| 104 | C.R. Equipment Fund           | 100%                             |
| 105 | Park Improvement Fund         | 100%                             |
| 107 | Drug Enforcement Fund         | 100%                             |
| 108 | Street Impact Fee Fund        | 100%                             |
| 109 | Community Improvement Fund    | 100%                             |
| 112 | Park Impact Fee Fund          | 100%                             |
| 113 | Building Maintenance Fund     | 100%                             |
| 114 | IT Information Tech Fund      | 100%                             |
| 203 | Limited Tax Bond GO           | 100%                             |
| 205 | Unlimited Tax GO Bond         | 100%                             |
| 207 | LID Guaranty Fund             | 100%                             |
| 301 | Capital Project Fund REET 1   | 100%                             |
| 302 | Capital Project Fund REET 2   | 100%                             |
| 303 | Street Improvement Fund       | 100%                             |
| 307 | LID Project Fund              | 100%                             |
| 400 | Utility Water Fund            | 100%                             |
| 401 | Utility Sewer Fund            | 100%                             |
| 402 | Utility Garbage Fund          | 100%                             |
| 403 | Water Revenue Bond Fund       | 100%                             |
| 406 | Storm Water Utility           | 100%                             |
| 404 | CR Sewer Fund                 | 100%                             |
| 405 | CR Water Fund                 | 100%                             |
| 407 | Sewer System Improvement Fund | 100%                             |

|     |                                |      |
|-----|--------------------------------|------|
| 409 | Water System Improvement Fund  | 100% |
| 410 | Storm Water System Improvement | 100% |
| 412 | Water System Debt Fund         | 100% |
| 413 | Sewer System Debt Fund         | 100% |
| 621 | Cemetery Trust Fund            | 100% |

PASSED BY THE CITY COUNCIL AT A REGULAR MEETING THEREOF ON THE \_\_\_\_\_  
DAY OF \_\_\_\_\_, 2010.

CITY OF SULTAN

\_\_\_\_\_  
Carolyn Eslick, Mayor

ATTEST/AUTHENTICATED:

\_\_\_\_\_  
Laura Koenig, City Clerk

Approved as to form:

\_\_\_\_\_  
Margaret J. King, City Attorney

Passed by the City Council:  
Resolution No.:  
Date Posted:

**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.

[1981 c 218 § 1; 1975 1st ex.s. c 11 § 2; 1969 ex.s. c 33 § 3.]

**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 or other funds?” 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. The matrix does not address revenues restricted by bond covenants. Additional questions about transfers of interest income generated by other types of revenue should be directed to the SAO staff.

**2009 INTEREST DISTRIBUTION**

| <b>FUND</b> | <b>Interest Distribution</b>         |                  |
|-------------|--------------------------------------|------------------|
| 001         | Excess Cash – Credit to General Fund | 100%             |
| 101         | Street Fund                          | 100%             |
| 107         | Drug Enforcement Fund                | 100%             |
| 203         | Limited Tax Bond GO                  | 100%             |
| 205         | Unlimited Tax GO Bond                | 100%             |
| 301         | Capital Project Fund REET 1          | 100%             |
| 302         | Capital Project Fund REET 2          | 100%             |
| 403         | Water Revenue Bond Fund              | 100%             |
| 303         | Transportation Impact Fund           | 100%             |
| 105         | Park Impact Fund                     | 100%             |
| 405         | C.R. Water Fund                      | 100%             |
| 404         | C.R. Sewer Fund                      | 100%             |
| 407         | Sewer System Improvement Fund        | 100%             |
| 409         | Water System Improvement Fund        | 100%             |
| 412         | Water System Debt Fund               | 100%             |
| 413         | Sewer System Debt Fund               | 100%             |
| 621         | Cemetery Trust Fund                  | 100% to Cemetery |

**2010 INTEREST DISTRIBUTION**

| <b>FUND</b> | <b>Interest Distribution</b>   |                          |
|-------------|--------------------------------|--------------------------|
| 001         | General Fund                   | 100%/Excess Funds        |
| 100         | General Fund Contingency       | 100%                     |
| 101         | Street Fund                    | 100%                     |
| 103         | Cemetery Fund                  | 100% plus Cemetery Trust |
| 104         | C.R. Equipment Fund            | 100% to General          |
| 105         | Park Improvement Fund          | 100%                     |
| 107         | Drug Enforcement Fund          | 100%                     |
| 108         | Street Impact Fee Fund         | 100%                     |
| 109         | Community Improvement Fund     | 100% to General          |
| 112         | Park Impact Fee Fund           | 100%                     |
| 113         | Building Maintenance Fund      | 100%                     |
| 114         | IT Information Tech Fund       | 100% to General          |
| 203         | Limited Tax Bond GO            | 100%                     |
| 205         | Unlimited Tax GO Bond          | 100%                     |
| 207         | LID Guaranty Fund              | 100% to General          |
| 301         | Capital Project Fund REET 1    | 100%                     |
| 302         | Capital Project Fund REET 2    | 100%                     |
| 303         | Street Improvement Fund        | 100%                     |
| 307         | LID Project Fund               | 100% to General          |
| 400         | Utility Water Fund             | 100% to General          |
| 401         | Utility Sewer Fund             | 100% to General          |
| 402         | Utility Garbage Fund           | 100% to General          |
| 403         | Water Revenue Bond Fund        | 100%                     |
| 406         | Storm Water Utility            | 100% to General          |
| 404         | CR Sewer Fund                  | 50%/50% to General       |
| 405         | CR Water Fund                  | 50%/50% to General       |
| 407         | Sewer System Improvement Fund  | 100%                     |
| 409         | Water System Improvement Fund  | 100%                     |
| 410         | Storm Water System Improvement | 100%                     |
| 412         | Water System Debt Fund         | 100%                     |
| 413         | Sewer System Debt Fund         | 100%                     |
| 621         | Cemetery Trust Fund            | 100% to Cemetery         |
| 633         | Treasurer's Trust              | 100% to General          |