

RESOLUTION R - 4595

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ADOPTING A POLICY FOR INVESTMENT OF CITY FUNDS.

WHEREAS, the City Council of the City of Kirkland deems to have City funds invested in secure depositories and maximize returns on these investments; and

WHEREAS, the City Council of the City of Kirkland desires to develop an investment policy to guide the investment of City funds to meet these objectives; and

WHEREAS, the Kirkland City Treasurer has recommended a proposed policy for investment of City funds; and

WHEREAS, the City of Kirkland investment policy has been written in accordance with the Washington Municipal Treasures Model Investment Policy.

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The policy for investment of City funds set forth in the document entitled "City of Kirkland Investment Policy June 1, 2006" which is attached hereto as Attachment A and incorporated herein by this reference as if set forth in full is hereby adopted as official policy for investment of City funds.


Section 2. That the document entitled City of Kirkland Investment Policy June 1, 2006, replaces all previous City of Kirkland Investment Policies.

Passed by majority vote of the Kirkland City Council in open meeting this 5th day of September, 2006.

Signed in authentication thereof this 5th day of September, 2006.


MAYOR

Attest:


City Clerk

Attachment A**CITY OF KIRKLAND
INVESTMENT POLICY***Draft 6/1/2006*

Adopted:

1.0 Policy Statement

It is the policy of the City of Kirkland, ("the City") to invest public funds in a manner which provides the highest investment return with maximum security while meeting the daily cash flow requirements and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

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

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new funds created by the Council unless specifically exempted by the Council

3.0 Objective

The primary objectives, in order of priority, for the City of Kirkland's investment activities are as follows:

- 3.1 **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
- 3.2 **Liquidity:** The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
- 3.3 **Safety:** Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from other investments.

- 3.4 Yield: The City's investments will be designed with the objective of attaining a market rate return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

Core investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. A security swap that would improve the quality, yield or target duration in the portfolio.
- c. Liquidity needs of the portfolio require that the security be sold.

4.0 Delegation of Authority

In accordance with City of Kirkland Municipal code, Ordinance No.2455, an Investment Committee was created consisting of the City Manager and Finance Director. Authority is granted to these individuals to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Finance Director may designate a person to coordinate the day to day operations of the investment portfolio.

5.0 Prudence

Investments will be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes (Prudent Person Standard).

The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will 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 fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to Investment Committee any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

7.0 Authorized Financial Dealers and Institutions

The Investment Committee will maintain a list of financial institutions as required by the Public Deposit Protection Commission (PDPC), authorized to provide investment services as outlined in R.C.W. 39.58.080. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. No public deposits will be made except in a qualified public depository in the State of Washington. These may include "primary" dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).

All brokers/dealers and financial institutions who desire to do business with the City must supply the Finance Director with the following: Annual audited financial statement, proof of National Association of Securities Dealers Certification, certification of having read the City's investment policy and receipt of the City's Trading Authorization. The Investment Committee will conduct an annual review of the financial condition and audit of documents on file.

8.0 Authorized and Suitable Investments

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

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080) Eligible investments include:

- Obligations of the U.S. government;
U.S. Treasury Notes, Bonds and Bills
- Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's):

Specific listing:

Federal Home Loan Bank - FHLB
Federal Farm Credit Bank - FFCB
Government National Mortgage Association - GNMA
Federal Home Loan Mortgage Corporation - FHLMC
Federal National Mortgage Association - FNMA
Federal Agricultural Mortgage Corporation - FAMC
Tennessee Valley Authority - TVA

* Other issuers may qualify if they meet the above criteria.

- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs., it must have the highest rating from all the organizations.
- Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7));
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;
- Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;
- Obligations of the State of Washington or its political sub-divisions.
- The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation on interest rates.

9.0 Investment pools / Mutual Funds

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Kirkland Resolution 3370. The City is restricted from investing in mutual funds by State Statute.

10.0 Collateralization

The City does not actively invest in repurchase agreements for short term investments. However, if a repurchase agreement is utilized collateralization is required. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. Re-pricing of the collateral should occur daily.

The City chooses to limit the collateral to Treasury and GSE Agency securities only, with a maximum maturity of three years.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

11.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated by a member of the Investment Committee.

12.0 Diversification

The City will diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution. Diversification strategies shall be determined and revised periodically by the Investment Committee.

13.0 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or estimated to cash flow needs, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

The maximum weighted maturity of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive market exposure.

Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

14.0 Internal Control

On an annual basis the Investment Committee, in conjunction with the State Auditor's Office, will evaluate conformance with the Investment Policy and audit internal controls. The purpose of these examinations shall be to audit the accountability of the City's Investment Portfolio and to verify that Investment Officials have acted in accordance with the investment policies and procedures.

15.0 External Control

The City will have an external review of the investment policy and procedures every 2 years. The City may enter contracts with third-party investment advisory firms when their services are required.

16.0 Performance Standards

The City of Kirkland's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs

17.0 Reporting Requirements

17.1 The Finance Director shall prepare a quarterly and annual investment report summarizing the activity of the investment portfolio as to types of investments, yields, maturities and other related data.

17.2 Monthly reports will be submitted to the Investment Committee that report market value changes and investment income.

18.0 Investment Policy Adoption

The City's investment policy shall be adopted by City Council. The policy shall be reviewed every two years by the Investment Committee and modifications shall be submitted and approved by City Council.

GLOSSARY

BANKERS' ACCEPTANCES (Bas) – Bankers Acceptances are a form of a loan used in import-export financing transactions which becomes negotiable when accepted by a bank. The issuing bank is liable for the payment at its maturity. Terms vary but normally they are under six months and are purchased on a discount basis.

BROKER – A middleman who brings buyers and sellers together and handles their orders generally charging a commission for their services.

CERTIFICATES OF DEPOSIT – Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

COMMERCIAL PAPER - A short – term promissory note issued by a bank holding company, for the purpose of financing current transactions. Issues are sold on a discount basis with maturities up to 270 days.

DELIVERY VS PAYMENT – Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.

DEPOSITORY – A bank or financial institution accepting cash deposits and investments.

DIVERSIFICATION – Dividing available funds among a variety of securities and institutions so as to minimize market risk.

FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE) -

Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHM mortgages. The term passthroughs is often used to describe Ginnie Maes.

GOVERNMENT SPONSORED ENTERPRISES (GSE's) - A group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSE's operate in.

LIQUIDITY - The length of time required to convert any investment to cash.

LOCAL GOVERNMENT INVESTMENT POOL - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE - The market value of a security is the price at which the last sale of the same issue was sold.

MATURITY - The date upon which the principal or stated value of an investment becomes due.

PRINCIPAL - The cost of an instrument on which interest is earned.

REPURCHASE AGREEMENT - Range in maturity from overnight to fixed time to open end. Repo's involve a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest.

SAFEKEEPING - An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

SECONDARY MARKET - A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their state maturity date.

TREASURY BILLS - Short-term marketable securities issued by the U.S. Treasury and secured by the Federal Government and have maximum liquidity.

TREASURY NOTES AND BONDS - These are direct obligations of the U.S. Government with maturities from one to ten years on the notes and 10 to 30 years on the bonds.

YIELD - The rate of annual return on an investment expressed as a percentage.