Ordinance No. 3278

(Amending or Repealing Ordinances)

CFN=104 – Finance
Passed 2/6/1996
Repealing Ords 2326 & 2644 and establishing a new Chapter 3.02 entitled “Investment Policy”.

Amended by Ord. 4039

The date ["Beginning July 1, 1998"] has led to confusion. This date will be deleted from cover sheets of ordinance/resolution revision pages. This cover sheet will be deleted on electronic pages only, no other deletions or changes have been made to the document – 6/21/2012
AN ORDINANCE of the City Council of the City of Kent, Washington, repealing Ordinances 2326 and 2644 as codified in Chapter 3.02 of the Kent City Code and further establishing a new Chapter 3.02 entitled "Investment Policy".

WHEREAS, the City currently has an investment policy for City investments set forth in the Kent City Code; and

WHEREAS, the City Council finds that a more comprehensive investment policy would be more desirable to better safeguard and protect the City's investments; NOW THEREFORE,

THE CITY COUNCIL OF THE CITY OF KENT, WASHINGTON DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1. Ordinance Nos. 2326 and 2644, as codified in Chapter 3.02 of the Kent City Code, are hereby repealed in their entirety.

SECTION 2. There is hereby added to the Kent City Code

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ORDINANCE NO. 3378
CHAPTER 3.02. INVESTMENT POLICY.

Code, a new Chapter 3.02, entitled "Investment Policy" to read as follows:

Sec. 3.02.010. Policy.

It is the policy of the City of Kent to invest public funds in a manner which safeguard and protect the principal of the City's investments, provide liquidity in meeting daily cash flow and provide the highest return possible while conforming to all Washington statutes governing the investment of public funds.

Sec. 3.02.020. Investment Objectives.

A. The primary objectives, in priority order, of the City's investment activities shall be:

1. Safety: Safety of principal is the foremost objective of the City of Kent's Investment Policy. Investments of the City shall be made in a manner that seeks to ensure the preservation of the amount invested.

2. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

3. Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the protection of principal and State statutes.
B. Rate speculation will not be a major criterion for the selection of an investment. All other criteria, including cash flow and maturity take preference to rate expectations.

Sec. 3.02.030. Scope.

This investment policy applies to all financial assets of the City of Kent. These assets are accounted for in funds or fund groups as identified in the City's Comprehensive Annual Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Enterprise Funds (Water, Sewerage, Golf Course)
6. Internal Services Funds
7. Trust and Agency Funds (including Firemen's Relief & Pension Fund)
8. Any new fund created by Council, unless specifically exempted by Council.

Sec. 3.02.040. Prudence.

A. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering
the probable safety of capital as well as the probable income to be derived.

B. The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures 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 fashion and appropriate action is taken to control adverse developments.

Sec. 3.02.050. Delegation of Authority.

The Finance Manager (or his/her designee, including the Assistant Finance Manager, Internal Auditor and the Financial Analyst) are investment officers of the City. The Finance Manager shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Manager. The Finance Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Finance Manager is authorized to determine investable
balances in each fund and is authorized to invest such monies in a manner consistent with this policy and applicable law, without prior Council approval of any specific investment.

Sec. 3.02.060. Investment Committee.
An Investment Committee, will be established, consisting of the Finance Manager, Assistant Finance Manager, Financial Analyst, Internal Auditor, Director of Operations, and, appointed by the Mayor to serve a 2-year term; a member of the Council Operations Committee. The Committee will meet quarterly and will be established to serve in a general review and advisory capacity, taking into account the City's investment objectives, available funds and current market conditions. In addition to reviewing periodic reports from the Financial Analyst detailing, but not limited to the following: market value of the portfolio, percentages by type and institution, average life of the portfolio and average rate of return, the Committee will also certify the acceptability of brokers/dealers with which the City may do business. (See Sec. 3.02.080).

Sec. 3.02.070. Ethics and Conflicts of Interest.
Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials responsible for
investment transactions shall disclose to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction. 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 Kent, particularly with regard to the time of purchases and sales.

Sec. 3.02.080. Authorized Financial Dealers and Institutions.

A. The Finance Manager will maintain a list of financial institutions and security dealers authorized to provide investment services to the City. These may include both primary and secondary dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of local banks who maintain an office in the State of Washington. In addition, the current financial statements for each institution will be kept on file, following a review by the City's Investment Committee, to determine financial condition and strength and capability to fulfill commitments.

B. Institutional investment staffs shall be trained in precautions appropriate to State of Washington local government investment laws and required to familiarize themselves with the City's investment objectives, policies and constraints. Each institution so designated will sign an agreement stating that they have received and read a copy of this investment policy.
and will offer only investments as authorized under this document.

C. No public deposit shall be made except in a qualified public depository located in the State of Washington.

Sec. 3.02.090. Authorized Investment Types.

A. The City of Kent, as a municipal corporation in the State of Washington, is empowered by statute (RCW 36.29.020, as amended, and as limited by RCW 39.58.080 as amended) to invest in the following types of securities.

1. Investment deposits:
   Certificates of Deposit, with qualified public depositories as defined in Chapter 39.58 RCW.

2. Obligations of United States Treasury:
   b. United States Treasury State and Local Government Securities (SLGS) specifically for debt issues related to arbitrage.

4. Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System:
   a. Federal Home Loan Bank notes and bonds
   b. Federal Farm Credit Bank notes and bonds
   c. Federal Home Loan Mortgage Corporation notes and bonds
   d. Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation
   e. Student Loan Marketing Association notes and bonds
   f. Resolution Funding Corporation (REFCORP)
   g. Financing Corporation (FICO)

5. Bonds of the state of Washington and any local government in the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

6. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington, which bonds have at the time of investment
one of the three highest credit ratings of a nationally recognized rating agency.

7. Utility Revenue Bonds or warrants of any city or town in the State of Washington.

8. Bonds or warrants of a Local Improvement District which are within the protection of the Local Improvement Guaranty Fund Law.


11. Mutual Funds (only allowable for the Fireman's Relief and Pension Fund).

B. The City will buy no structured securities, which include those whose rates of return are derivative-based, with the exception of securities that have a call provision prior to maturity or those securities that have their rate of return based on a direct relationship with the Federal Funds Rate or Treasury Bill Rate.

C. The City will not use Repurchase Agreements as a means of investing.

Sec. 3.02.100. Fund Investment and Interest Allocations.

Investments shall be made with excess funds and the interest earnings will be distributed as follows: Monies determined by the Finance Manager or subordinate to be available
for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common fund called the Treasury Account. All income derived from Treasury Account investments shall be used for the benefit of the General Fund of the City. Also, 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.

Sec. 3.02.110. Safekeeping and Custody.

All security transactions entered into by the City of Kent shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping at the City's Primary Bank with the exception of Certificate of Deposits, State of Washington Local Government Investment Pool, United States Treasury SLUGS and Mutual Funds, which will be registered in the name of the City.

Sec. 3.02.120. Diversification.

Diversification is required by the City to reduce overall portfolio risks while attaining market average rates of return. Diversification by institution, type of investment security and years to maturity shall be employed to avoid over-concentration in any of the aforementioned areas. With the exception of Obligations of U.S. Treasury securities and the
State of Washington Local Government Investment Pool, no more than 25% of the City's total investment portfolio will be invested in securities offered by a single issuer.

Sec. 3.02.130. Maturities.

A. To the extent possible, unless matched to a specific cash flow, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will maintain a portfolio with an average life not to exceed 5 years. However, the Fireman's Pension Fund and small amounts of Water, Sewer, Insurance and General Funds are exceptions to this 5-year rule based on prior investment portfolio history.

B. The City may sell securities, if deemed appropriate, to maintain liquidity. Such actions must be initiated by the investment officer, not the brokers or dealers.

C. No transaction needs to be instituted when the maturity or call of a security causes the average life of the portfolio or maximum holdings per category to exceed their limits. Any transactions after such infractions shall work toward the return to compliance.

Sec. 3.02.140. Internal Control.

The established process of independent review will be performed annually by the State Auditor's Office. This review will provide internal control by assuring that policies and
procedures are being complied with. Such review may also result in recommendations to change operating procedures to improve internal control.

Sec. 3.02.150. Performance Standards.

Given that the City of Kent's investment strategy is passive, the City's investment portfolio will be designed to obtain a market average rate of return equal to or greater than that obtained by the State of Washington Local Government Investment Pool. The Portfolio rate of return will be calculated excluding U.S. Treasury SLUGS which have restricted yields due to arbitrage requirements.

Sec. 3.02.160. Reporting.

The Financial Analyst shall submit monthly investment reports to the City Council that summarize the portfolio's holdings and investments by type. On a quarterly basis, the Financial Analyst shall submit investment reports to the Investment Committee and the City Council that summarize the portfolio's average rate of return, market value and average maturity.

Sec. 3.02.170. Savings Clause.

A. In the event any state or federal legislation or regulation should further restrict instruments or institutions
authorized by this policy, such restrictions shall be deemed to be immediately incorporated into this policy.

B. If new legislation or regulation should liberalize the permitted instruments or institutions, such changes shall be available and included in this policy only after written notification to the City Council and their subsequent approval of said changes.

SECTION 3. Severability. If any section, sentence, clause or phrase of this ordinance should be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause or phrase of this ordinance.

SECTION 4. Effective Date. This ordinance shall take effect and be in force thirty (30) days from and after its passage, approval and publication as provided by law.

JIM WHITE, MAYOR

BRENDA JACOBER, CITY CLERK
APPROVED AS TO FORM:

ROGER A. LUBOVICH, CITY ATTORNEY

PASSED _______ day of ________, 1996.
APPROVED _______ day of ________, 1996.
PUBLISHED _______ day of ________, 1996.

I hereby certify that this is a true copy of Ordinance No. ________, passed by the City Council of the City of Kent, Washington, and approved by the Mayor of the City of Kent as hereon indicated.

BRENDA JACOBER, CITY CLERK

(SEAL)