AN ORDINANCE of the City Council of the City of Kent, Washington, amending Chapter 3.02 of the Kent City Code entitled "Investment Policy," updating delegation of authority and eliminating designated institutions for collateral advances.

RECITALS

A. The City's current investment policy for City investments, set forth in the Kent City Code Chapter 3.02, was last amended in 1996.

B. Since 1996, the City has undergone reorganization making amendments necessary to various titles of delegates of authority.

C. Further amendments are necessary to eliminate designated institutions for collateral advances.

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

Investment Policy
Amend KCC 3.02
ORDINANCE

SECTION 1. – Amendment. Chapter 3.02 of the Kent City Code is amended as follows:

Sec. 3.02.010. Policy. It is the policy of the city of Kent to invest public funds in a manner which safeguards and protects the principal of the city's investments, provides liquidity in meeting daily cash flow, and provides 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. City 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 and 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 that a person 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 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 timely reported 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 the 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 mayor (or designee), finance manager, assistant finance manager, financial analyst, internal auditor, director of operations, and the public works director, and a member of the council operations committee, who shall be appointed by the mayor to serve a two (2) year term, a member of the council operations committee whose term shall run concurrently with the term of the council president, except to the extent interim appointments become

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Amend KCC 3.02
necessary. 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 including, but not limited to, the following: market value of the portfolio, percentages by type and institution, average life of the portfolio, expected cash flows, and average rate of return.

The committee will also certify the acceptability of brokers/dealers with which the city may do business. (See KCC 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 that 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/director 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), as may be amended, 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 committees 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 they shall be 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 Washington municipal corporation, in the state of Washington, is authorized by this ordinance and empowered by statute (including, without limitation, RCW 39.59.020, 39.59.030, 43.84.080, and 43.250.040, including all future amendments) RCW 36.29.020, as amended, and as limited by RCW 39.58.080, as amended) to invest in the following types of various securities, including, without limitation, the following:

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.
3. Obligations of United States agencies, or of any corporation wholly owned by the government of the United States, such as the Government National Mortgage Association.

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).

54. Bonds of the state of Washington and any local government in the state of Washington, which bonds have are rated, at the time of investment, one within (1) of the three (3) highest possible credit ratings of a nationally recognized rating agency.

65. 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 are rated, at the time of investment, one within the three (3) highest credit ratings of a nationally recognized rating agency.

76. Utility revenue bonds or warrants of any city or town in the state of Washington.

87. Bonds or warrants of a local improvement district which are within the protection of the Local Improvement Guaranty Fund Law.
98. Banker's acceptances purchased on the secondary market, with ratings of A1/P1.


110. Mutual funds (only allowable for the Fireman’s Relief and Pension Fund): only, Mutual Funds.

B. The city will buy no structured securities, which includeing 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 (1) 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 deposited to the funds contributing to the common fund on a pro-rata basis. 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 the manner as prescribed by 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 certificates of deposits, and funds placed into the State of Washington Local Government Investment Pool, United States Treasury State and Local Uniform Governmental Securities ("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 these aforementioned areas. With the exception of obligations of U.S. Treasury securities and the State of Washington Local Government Investment Pool, no more than twenty-five (25) percent 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 five (5) years. However, the Fireman’s Pension Fund and small amounts of water, sewer, insurance and general funds are exceptions to exempt from this five (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 conducted after such occurrences 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 compliance with 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/finance director shall submit monthly investment reports to the city council that summarize the portfolio’s holdings and investments by type to the city investment committee. On a quarterly basis, the financial analyst/finance director 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 to the investment committee and the operations committee.

Sec. 3.02.170. Savings-clause State or Federal Amendments.

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 amend the permitted instruments or institutions, those changes will, 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 be deemed to be immediately incorporated into this policy.

SECTION 2. - Savings. The existing Chapter 3.02 of the Kent City Code, which is repealed and replaced by this ordinance, shall remain in full force and effect until the effective date of this ordinance.

SECTION 3. - Severability. If any one or more section, subsection, or sentence of this ordinance is held to be unconstitutional or invalid, such decision shall not affect the validity of the remaining portion of this ordinance and the same shall remain in full force and effect.

SECTION 4. - Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and the code reviser are authorized to make necessary corrections to this ordinance, including the correction of clerical errors; ordinance, section, or subsection numbering;
or references to other local, state or federal laws, codes, rules, or regulations.

**SECTION 5. - Effective Date.** This ordinance shall take effect and be in force thirty (30) days from and after its passage and publication, as provided by law.

**ATTEST:**

**APPROVED AS TO FORM:**

**PASSED:** 17 day of July, 2012.
**APPROVED:** 17 day of July, 2012.
**PUBLISHED:** 20 day of July, 2012.

I hereby certify that this is a true copy of Ordinance No. 4039 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**

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