



**RESOLUTION NO. 2017-07**

**A RESOLUTION OF THE CITY OF LYNNWOOD, WASHINGTON,  
AMENDING THE CITY OF LYNNWOOD FINANCIAL POLICIES.**

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**WHEREAS**, on August 14, 2000 by approval of Resolution 2000-12, the City Council adopted Financial Policies; and

**WHEREAS**, by approval of Resolutions 2016-19, 2014-20, 2011-06, 2005-04, and 2003-06, the City Council has amended the Financial Policies; and

**WHEREAS**, on May 9, 2011, by approval of Resolution 2011-06, the City Council adopted the Financial Policy Review and Initial Long Term Financial Plan, "as part of this revision" to the Financial Policies as amended by Resolution 2011-06; and

**WHEREAS**, the Financial Policy Review and Initial Long Term Financial Plan contains policy and operational guidance for budgeting through 2016, and therefore is secondary in weight to the Financial Policies as last amended by Resolution 2016-19 and by this resolution; and

**WHEREAS**, it is intended that these policies will be reviewed and revised periodically; and

**WHEREAS**, over a period of several months and seven meetings, the City Council Finance Committee reviewed and evaluated various amendments to the Financial Policies; and

**WHEREAS**, on February 23, 2017, the Finance Committee unanimously recommended that the City Council approve the revised Financial Policies; and

**WHEREAS**, the City Council has determined that the provisions of this resolution are necessary to protect the public's health, safety and welfare; therefore,

**THE CITY COUNCIL OF THE CITY OF LYNNWOOD DOES RESOLVE AS FOLLOWS:**

**Section 1.** The City of Lynnwood Financial Policies, consisting of 14 pages and dated April 10, 2017, as set forth by Attachment A to this resolution are hereby approved. The Financial Policies

approved by this Section supersede earlier iterations of the Financial Policies referenced within the recitals of this resolution.

**Section 2.** The Financial Policies adopted by Section 1 of this resolution shall take precedence over the provisions of the City of Lynnwood Financial Policy Review and Initial Long Term Financial Plan, as approved by Resolution 2014-20.

This resolution was adopted by the City Council at its meeting held April 10, 2017 at the City of Lynnwood Council Chambers.

RESOLVED this 10<sup>th</sup> day of April, 2017.

CITY OF LYNNWOOD:



Nicola Smith, Mayor

ATTEST/AUTHENTICATED:



Sonja Springer, Finance Director

FILED WITH ADMINISTRATIVE SERVICES: 04/10/2017  
PASSED BY THE CITY COUNCIL: 04/10/2017  
RESOLUTION NUMBER: 2017-07

**ATTACHMENT A  
 RESOLUTION 2017-07**

## Financial Policies

Rewrite April 10, 2017, Resolution 2017-07  
 Revised November 28, 2016, Resolution 2016-19  
 Reformatted 11/20/2015  
 Revised November 10, 2014, Resolution 2014-20  
 Revised May 9, 2011, Resolution 2011-06  
 Revised April 11, 2005, Resolution 2005-04  
 Revised April 15, 2003, Resolution 2003-06  
 Adopted August 14, 2000, Resolution 2000-12

Lynnwood’s Community Vision articulates core values and norms that include fiscal sustainability, accountability, economic vibrancy, and transparency. The safekeeping, proper use and management of the City resources are essential to responsible and responsive public service and governance. Standards and best practices for the management of City resources are set forth by entities which include the Internal Revenue Service, State Legislature, State Auditor’s Office (SAO), Department of Revenue, Government Financial Officers’ Association (GFOA), Government Accounting Standards Board (GASB), and the Lynnwood Municipal Code (LMC). Lynnwood’s Financial Policies (Policies) support and augment those provisions, so that all fiscal decisions and actions adhere to and implement each of these objectives.

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**1. Application and Administration**

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- A. It is the intent of the City Council to utilize and reference these policies in decisions and other actions with financial ramifications for the City. Also, these policies shall be put into effect by adherence to the Long Term Financial Plan. And, it is anticipated that good financial management should include regular review, amendment, and adjustment of the Long Term Financial Plan. This section outlines examples of when and how these policies should be utilized.
  
- B. The use of “shall” indicates the City’s intent to closely adhere to the stated policy. The use of “should” or “may” indicates a preferred approach. These policies serve to guide the City Council while enabling flexibility for the Council to respond to specific circumstances.
  
- C. Review of Financial Policies:
  - i. The Financial Policies should be reviewed with the review of the Second-Quarter Financial Report. This review may include recommended changes to the Policies.
  
  - ii. This section should not preclude the review and amendment of the Financial Policies at other times, as deemed necessary by the City Council.

**2. General Policies**

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- A. The City shall maintain the fiscal integrity of its operating, debt service, and capital improvement budgets. It is the City’s intent to maintain fiscal integrity while providing a level of public goods and services that is within the city’s fiscal capacity.

**3. Budgeting: General**

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- A. These Financial Policies shall be used to guide major policy initiatives and shall be incorporated or summarized in the adopted biennial budget document.
  
- B. The City of Lynnwood shall prepare and adopt a biennial budget in accordance with Chapter 35A.34 RCW, Chapter 2.72 LMC, and these Policies. Fiscal years shall begin on January 1<sup>st</sup> and conclude on December 31<sup>st</sup>.
  
- C. For clarity, the budget document required by RCW 35A.34.070 and LMC 2.72.030 shall be referred to as the “proposed preliminary budget”, and the budget document required by RCW 35A.34.080-100 and LMC 2.72.040 shall be referred to the “Preliminary Budget”.
  
- D. Pursuant to the opinion of the Municipal Research and Services Center (MRSC) published on October 30, 2015, the City shall conduct a minimum of two public hearings on the Preliminary Budget, and a minimum of one public hearing fixing the final budget. One of the two public hearings required for the Preliminary Budget may be the public hearing required for the property tax levy.
  
- E. The Preliminary Budget shall include reference to these Financial Policies, including:
  - i. An assessment of its conformance to the Financial Policies and an explanation if there are areas of non-conformance.

- 1           ii.   References as to how the Financial Policies were used to develop recommendations  
2           for balancing the budget.
- 3    F.   The proposed preliminary budget, Preliminary Budget, adopted budget, and the mid-  
4           biennial modification of the adopted budget shall be based upon, and consistent, with:
- 5           i.    The Community Vision.
- 6           ii.   Performance management/measurement techniques and principals set forth by  
7           the Mayor.
- 8           iii.   The method of Budgeting for Outcomes (BFO), also known as Priority-Based  
9           Budgeting, as indicated in Resolution 2015-05.
- 10   G.   General Fund budget requests in the Preliminary Budget and the mid-biennial  
11           modification shall include a written assessment of:
- 12           i.    How the proposal is consistent with and furthers the Community Vision.
- 13           ii.   Whether the service or program is mandatory (required by law) or discretionary  
14           (optional), and whether the service or program can be achieved through other  
15           means.
- 16           iii.   The degree to which the service or program is fiscally sustainable.
- 17   H.   The budget should provide for adequate maintenance of capital assets.
- 18   I.   The budget process shall be consistent with and integrated with long-term forecasting  
19           and ongoing financial reporting.
- 20   J.   It is the policy of the City of Lynnwood to adopt structurally-balanced budgets.
- 21           i.    A structurally-balanced budget shall mean:
- 22                   a.   Ongoing expenditures shall be provided for by anticipated ongoing revenue.
- 23                   b.   Ongoing expenditures do not include:
- 24                           (1) "One-time" items such as capital outlay, projects or studies.
- 25                           (2) Allocations to other funds dependent on general revenues sufficient to  
26                           balance dependent budgets (i.e.: Street Fund, Solid Waste Fund).
- 27           ii.   Anticipated ongoing revenues may include:
- 28                   a.   Reoccurring revenue such as taxes, fees, etc.
- 29                   b.   A reasonable amount of resources remaining unspent from the previous year's  
30                   budget based on historical experience and an assessment of the current budget.
- 31                   c.   A portion of the unencumbered fund balance above the minimum levels  
32                   established by this policy.
- 33                   d.   Reoccurring transfers from other funds.

- 1 K. The Mayor shall submit a balanced Preliminary Budget.
- 2     a. The Mayor's budget proposal shall balance all city funds.
- 3     b. The transfers between funds shall be clearly illustrated.
- 4     c. The use any proposed new revenues from proposed new fees or taxes should be
- 5         clearly illustrated.
- 6 L. The anticipated amounts of reserves should be clearly illustrated.
- 7     a. The reserve estimates shall be provided for the beginning and the end of the
- 8         Preliminary Budget period (beginning and ending fund balances).
- 9 M. The budget shall be developed consistent with State law and in a manner which
- 10     encourages early involvement with the public and City Council as provided for by
- 11     Chapter 2.72 LMC.
- 12 N. The budget shall integrate into Capital Facilities Plan (CFP) and Strategic Financial Plan
- 13     (SFP). The budget shall be consistent with the current year of the CFP and SFP.
- 14     Budget planning activities shall be based on the next year of the SFP.
- 15 O. The budget shall provide an account for one-time expenditures associated with an
- 16     employee's end of employment. The Finance Director may establish administrative
- 17     procedures specifying the conditions under which such funds may be expended.

#### 18 **4. Financial Forecasts**

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- 19 A. As a part of each biennial budget process, the City shall prepare six-year expenditure
- 20     and revenue forecasts for the City's principal operating and capital funds.
- 21     i. Revenue forecasts for major revenues (those which represent at least 10% of the
- 22         General Fund) should include "conservative", "moderate", "optimistic" forecasts and
- 23         the assumptions used for each. The forecasts shall be based on the best
- 24         information available and should reference assumptions and data sources.
- 25     ii. Revenue forecasts should include all sources of revenue.
- 26     iii. Forecasts shall include alternative expenditure scenarios, based on different policy
- 27         and economic assumptions.
- 28 B. Financial Forecasts shall:
- 29     i. Incorporate plans for reserves and specific fund balances.
- 30     ii. Include revenue streams as may be appropriate to support capital projects in
- 31         accordance with the city's Capital Facilities Plan and Strategic Investment Plan
- 32         Component.
- 33     iii. Serve as a basis for decision making that may affect long-term trends and financial
- 34         needs.
- 35 C. All financial decisions shall be within the context of the long-range planning forecast and
- 36     other related long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff

1 shall provide a review of the implications of budgetary and other fiscal proposals on  
2 these long-range forecasts and plans. Staff shall include a “fiscal note”, in a format to be  
3 provided by the Finance Director and approved by the Council, with each action item on  
4 the council agenda. If no note is deemed necessary, the agenda cover sheet shall so  
5 state.

6 D. Assumptions used in the CFP and SFP shall be noted and defined.

7 E. Basis of long-range planning shall be outcome oriented. In accordance with Chapters  
8 2.70 and 2.72 LMC, and Resolution 2000-03, the City shall strive to illustrate the output  
9 from CFP and SFP expenditures.

10 F. The forecasts developed under these policies shall be incorporated into the adopted  
11 Long-Term Financial Plan which shall be periodically updated and reviewed consistent  
12 with the updating of the financial forecasts as set forth by these policies.

13 **5. Reserves**

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14 **A. Reserves, General Fund**

15 i. Adequate reserve levels are a necessary component of the City’s overall financial  
16 management strategy and key factor in external agencies’ measurement of the City’s  
17 financial strength. Collectively, the adopted budget should include General Fund  
18 reserve balances equaling not less than 2.5 months of the operating expenditures of  
19 the prior fiscal year. The reserves specified by this policy consist of the aggregate  
20 total of the General Fund Unassigned Fund Balance and the Revenue Stabilization  
21 Fund balance.

22 ii. The purpose of the General Fund Unassigned Fund Balance is to provide for  
23 adequate operating cash and to cover receivables until they are collected. Achieving  
24 and maintaining this unassigned fund balance is the highest priority over developing  
25 and maintaining other general fund reserves.

26 iii. The purpose of the reserves of the Revenue Stabilization Fund is to help protect the  
27 city from major economic downturns and other unanticipated, adverse financial  
28 conditions.

29 iv. City Council authorization shall be required for expenditure of Unassigned Fund  
30 Balance or Revenue Stabilization Fund Balance.

31 **B. Reserves, Enterprise Funds**

32 i. Adequate reserve levels are a necessary component of the overall financial  
33 management strategy for enterprise funds such as utilities, and a key factor in  
34 external agencies’ measurement of the City’s financial strength.

35 ii. City Council authorization shall be required for expenditure of Enterprise Fund  
36 Reserves.

37 iii. Utility Operating Fund.

38 a. The purpose of Utility Operating Fund reserves is to provide for adequate  
39 operating cash and to cover receivables until they are collected.

1           b. The reserve balance target for the Water Utility is the amount equivalent to 90  
2           days of operating expenses.

3           c. The reserve balance target for the Sewer Utility (wastewater) is the amount  
4           equivalent to 45 days of operating expenses.

5           d. The reserve balance target for the Storm Utility (stormwater) is the amount  
6           equivalent to 30 days of operating expenses.

7           iv. **Utility Capital Fund.**

8           a. The purpose of Utility Capital Fund reserves is to provide funding for  
9           emergency repairs, unanticipated capital expenses, and project cost  
10           overruns.

11           b. The reserve balance target for the Water Utility is the amount equivalent to  
12           1% of all Original Asset Values.

13           c. The reserve balance target for the Sewer Utility (wastewater) is the  
14           amount equivalent to 2% of all Original Asset Values.

15           d. The reserve balance target for the Storm Utility (stormwater) is the amount  
16           equivalent to 1% of all Original Asset Values.

17           v. **Golf Fund.**

18           a. The reserve balance target for the Golf Fund is the amount equivalent to 30 days  
19           of operating expenses.

20           **6. Reporting: General**

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21           A. The Administrative Services Department shall prepare financial reports that show and  
22           monitor actual performance in various expenditures and revenues with the adopted  
23           budget and planning forecasts.

24           i. The reporting system shall include a financial analysis of the overall financial status  
25           of the City and of its key funds, including, but not limited to, an analysis of all  
26           available financial resources.

27           ii. This analysis should discuss the current financial status, and the immediate and  
28           longer-term future financial status.

29           iii. A complete analysis shall be prepared quarterly with monthly updates.

30           iv. Quarterly financial reports shall include a summary of Departments' progress  
31           regarding the performance measures set forth in the adopted budget.

32           **7. Revenues: General**

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33           A. To the extent possible, diversified and stable sources of revenue shall be maintained to  
34           shelter public services from downward fluctuations in any one revenue source. Periodic  
35           financial reports shall include trend analysis of the City's primary sources of revenue.



1 B. All potential grants shall be carefully examined for matching requirements. Some grants  
2 may not be accepted if the local matching funds cannot be justified. Grants may also be  
3 rejected if programs must be continued with local resources after grant funds are  
4 exhausted.

5 **8. Revenues: Fees and Charges**

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6 A. The City shall develop and maintain a comprehensive schedule of fees and charges.

7 i. The fees and charges should be reviewed in connection with each biennial budget.

8 ii. Fees shall be reviewed by general type as described below:

9 a. Development-related fees (land use, building and property, fire marshal's office  
10 and engineering fees) shall be established by ordinance; adjusted for inflation  
11 and periodically subjected to a comprehensive rate analysis. Development-  
12 related fees should be based on recovering costs of permitting and inspection  
13 services.

14 b. Regulatory Fees (such as those related to Title 5 LMC) shall be established by  
15 ordinance. As may be permitted by law, these fees may be used for generating  
16 city revenues in addition to recovering costs of the regulatory services.

17 c. Recreation and parks use fees shall be set by the Director of Parks, Recreation  
18 and Cultural Arts within ranges established by ordinance.

19 d. General fees (such as rental rates, copy charges, and other miscellaneous fees)  
20 shall be established by ordinance. These services should charge fees to assist  
21 in making these services self-supporting.

22 e. Enterprise Funds (Utilities and Golf Course) fees shall be set by ordinance, and  
23 set at a level necessary to support the costs of services in the fund and to  
24 maintain long-term financial stability. To insure that the enterprise funds remain  
25 self-supporting, fee and rate structures shall fully fund the direct and indirect  
26 costs of operations, capital plant maintenance, debt service, depreciation, and  
27 reasonable system extensions. See "Revenues: Utility Rates" below for  
28 additional provisions.

29 **9. Revenues: Utility Rates**

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30 A. Every three years, the City shall conduct a comprehensive, third-party, expert analysis of  
31 utility rates.

32 B. Revenues generated by utilities should provide adequate resources to provide for proper  
33 operation of the related programs, servicing of related debt at prescribed levels,  
34 maintenance of the capital plant, and adequate reserves.

35 C. Utility rates shall be set utilizing the following guidelines:

36 i. The rate structure should encourage consumers to conserve natural resources while  
37 providing a stable and predictable revenue base for the proper management of the  
38 utility.

- 1       ii.    The rates shall strive to be equitable among the classes (general types) of  
2       ratepayers.
- 3       iii.   The revenue target of the utility rates should maintain a minimum debt service  
4       coverage ratio (DSCR) of 1.5. DSCR is a financial formula that equals net operating  
5       income divided by annual debt service.
- 6       iv.    Rates should be set using an assumption of 95% of the average water consumption  
7       for the five previous years.
- 8       v.    A complete rate analysis, when finished, shall be included with the proposed  
9       preliminary budget, if not already adopted by separate ordinance.

10   **10. Expenditures: General**

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- 11    A. The City shall authorize only those ongoing, operating expenditures that may be  
12    supported by ongoing operating revenues. Before the City undertakes any agreements  
13    that would create fixed, ongoing expenses, the cost implications of such agreements  
14    shall be fully determined for current and future years with the aid of strategic financial  
15    planning models as described in Financial Management/Strategic Forecasting Policies.  
16    Capital expenditures may be funded from one-time revenues, but the operating budget  
17    expenditure impacts of capital expenditures shall be reviewed for compliance with this  
18    policy provision.
- 19    i.    Operating revenues are those revenues that recur regularly on an annual basis,  
20    excluding revenues that may be available only on a one time basis such as revenues  
21    derived from land sales, bond proceeds, etc.
- 22    B. Department heads are responsible for managing their budgets within the total  
23    appropriation for their department.
- 24    C. The City shall maintain expenditure categories according to state statute and  
25    administrative regulation as described in the State Auditor’s Budgetary, Accounting, and  
26    Reporting System (BARS).
- 27    D. The City shall assess funds for services provided internally by other funds. The  
28    estimated direct and indirect costs of service shall be budgeted as an expense to the  
29    fund receiving or benefiting from the service, and the cost of the service shall be  
30    recognized as revenue to the providing fund. A review of the method for determining the  
31    amount of the interfund assessment shall be reviewed periodically.
- 32    E. Emphasis shall be placed on improving productivity, workplace innovation, program  
33    evaluation, and alternative means of service delivery rather than adding to the work  
34    force. The City shall invest in technology and other efficiency tools to ensure high  
35    productivity. The City may hire additional staff only after the need of such positions has  
36    been demonstrated and documented, including assessment of alternative measures,  
37    such as contracting for professional services and partnering with other  
38    agencies/organizations.
- 39    F. All compensation planning and collective bargaining shall focus on the total cost of  
40    compensation which includes direct salary, health care benefits, pension contributions,  
41    training allowance, and other benefits of a non-salary nature which are a cost to the City.

- 1 G. Enterprise Funds expenditures shall be fully supported by their own rates, fees, and  
2 charges, and not subsidized by the General Fund. The Enterprise Funds shall pay their  
3 share of overhead costs and services provided by the General Fund.

4 **11. Contingency Planning and Responding to Revenue Downturns**

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- 5 A. Short-term (anticipated less than one year) economic downturns and temporary gaps in  
6 cash flow: Expenditure reductions or restrictions may be imposed. Expenditures from  
7 the General Fund Unassigned Fund Balance, the Revenue Stabilization Fund, or  
8 interfund loans may be used with City Council approval to address short-term downturns  
9 in City revenues. The City Council may authorize interfund loans to cover short-term  
10 gaps in cash flow.
- 11 B. Long-term (greater than one year) revenue downturns: Revenue forecasts shall be  
12 revised. When long-term revenue downturns are likely, deficit financing (borrowing) is  
13 not an appropriate fiscal response. One-time and/or ongoing expenses shall be  
14 reduced, new revenues shall be secured, or a combination thereof—as necessary to  
15 achieve a balanced budget.
- 16 C. Periodic financial reports prepared by the Administrative Services Department shall be  
17 utilized to monitor forecasted, budgeted, and actual revenues and expenditures. In  
18 instances when combined, actual revenues are less than the combined, budgeted  
19 revenues for a period of two consecutive quarters, the Mayor shall put forth to the  
20 Finance Committee a proposed budget amendment that responds to the under-  
21 performance of revenues. The Mayor's proposed budget amendment shall include an  
22 updated financial forecast and a written description of the anticipated changes to  
23 performance measures, program outcomes, and levels of service. This policy shall not  
24 preclude the Mayor from initiating corrective action pursuant to his/her administrative  
25 authorities prior to action by the City Council. The recommendation(s) of the Finance  
26 Committee shall be forwarded to the City Council.

27 **12. Investments**

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- 28 A. The City of Lynnwood shall invest its funds in a manner that:
- 29 i. Provide the highest investment return consistent with a high degree of security.
- 30 ii. Meet the daily cash flow demands of the City.
- 31 iii. Conform to all state statutes and local ordinances governing the investment of public  
32 funds.
- 33 B. At the discretion of the Finance Director, cash may be invested separately by fund or be  
34 commingled into a common investment portfolio and earnings from such portfolio  
35 distributed monthly.
- 36 C. These policies supersede Resolution 2009-11 and apply to all financial assets of the  
37 City, except: assets held in escrow in order to defease refunded debt; and retirement  
38 funds managed by others such as the State or ICMA.
- 39 D. Investments shall be made with judgment and care, considering the probable safety of  
40 the capital as well as the probable income to be derived.

- 1 E. The primary objectives, in priority order, of the City's investment activities shall be as  
2 follows:
- 3 i. Legality: The City's investments shall be in compliance with all statutes governing  
4 the investment of public funds and the provisions of all applicable bond ordinances.
- 5 ii. Safety: Investments of the City shall be undertaken in a manner that seeks to  
6 ensure the preservation of capital in the overall portfolio. To attain this  
7 objective, diversification is required in order that potential losses on individual  
8 securities do not exceed the income generated from the remainder of the  
9 portfolio.
- 10 iii. Liquidity: The City's investment portfolio shall remain sufficiently liquid to enable  
11 the City to meet all operating requirements, which might be reasonably anticipated.  
12 The City shall maintain adequate liquidity by maintaining a minimum balance in the  
13 Local Government Investment Pool (LGIP). Any short-term borrowings require  
14 Council approval regarding securities lending and reverse transactions.
- 15 iv. Return on Investment: The City's investment portfolio shall be designed with the  
16 objective of attaining a market rate of return throughout budgetary and economic  
17 cycles, taking into account the City's investment risk constraints and the cash  
18 flow characteristics of the portfolio.
- 19 v. Local Institutions: Local institutions shall be given preference when they are, in  
20 the judgment of the Finance Director, competitive with other institutions.
- 21 F. The Finance Director is authorized to undertake transactions regarding the investment of  
22 City funds. By written memorandum, the Finance Director may delegate authority to a  
23 single City employee.
- 24 G. The Finance Director shall establish and maintain procedures/internal controls to  
25 implement this investment policy. Procedures shall cover topics such as: safekeeping,  
26 Public Securities Association (PSA) repurchase agreements, wire transfer agreements,  
27 collateral/depository agreements, conflict of interest, and banking service contracts.
- 28 H. The Finance Director shall maintain a list of financial institutions authorized to provide  
29 investment services to the City of Lynnwood. In addition, a list shall also be maintained  
30 of approved security broker/dealers selected by credit worthiness, who maintain an  
31 office in the State of Washington. These may include "primary" dealers or regional  
32 dealers that qualify under US Securities and Exchange Commission Rule 15c3-1  
33 (uniform net capital rule). No public deposit shall be made except in a qualified public  
34 depository as established by State law.
- 35 I. The City may invest in any of the securities identified as eligible investments as  
36 defined by RCW 35A.40.050. In general, these consist of:
- 37 i. Investment deposits (certificates of deposits) with qualified public depositories as  
38 defined in Chapter 39.58 RCW.
- 39 ii. Certificates, notes or bonds of the United States, or other obligations of the United  
40 States or its agencies, or of any corporation wholly owned by the government of the  
41 United States whose securities carry full faith and credit guarantees.

- 1           iii.   Obligations of government-sponsored corporations which are eligible as collateral for  
2           advances to member banks as determined by the Board of Governors of the Federal  
3           Reserve System. (These include but are not limited to, Federal Home Loan Bank  
4           notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and  
5           Federal National Mortgage Association notes.)
- 6           iv.   Prime bankers' acceptances purchased on the secondary market.
- 7           v.   Repurchase agreements for securities above, provided that the transaction is  
8           structured so that the City obtains ownership and control over the underlying  
9           securities. A master repurchase agreement between the City and the bank or  
10          dealer must be on file prior to any repurchase agreement transaction.
- 11          vi.   The Washington Local Government Investment Pool.
- 12   J.   Collateralization shall be on repurchase agreements to anticipate market changes  
13          and provide a level of security for all funds; the collateralization level shall be 102%  
14          of market value of principal and accrued interest.
  - 15          i.   The City shall limit collateral to the obligations of the United States Government and  
16              its agencies.
  - 17          ii.  Collateral shall be held by an independent third party with whom the entity has a  
18              current custodial agreement (except certificates of deposits). A clearly marked  
19              evidence of ownership (safekeeping receipt) must be supplied to the entity and  
20              retained.
  - 21          iii.  Certificates of deposit shall be delivered to and held by the Finance Director.
- 22   K.   All securities transactions, including collateral for repurchase agreements, entered  
23          into by the City shall be conducted on a delivery-versus-payment (DVP) basis.  
24          Securities shall be held by a third-party custodian designated by the City Investment  
25          Committee and evidenced by safekeeping receipts listing the specific instrument,  
26          rate, maturity and other pertinent information.
- 27   L.   The City shall diversify its investments by security type and institution in manner that  
28          manages overall portfolio risk, attains market-average rates of return, and precludes  
29          current cash flow issues. To achieve these purposes, investment of City funds  
30          should not exceed the percentages specified below:

Investment Security Type	Max. Percent of City Portfolio
US Federal Agency Securities	50
Certificates of Deposits (within PDPC)	50
General Obligation Bonds of State and Local Government	20
Repurchase Agreements	10
Banker's Acceptance	10
US Treasury Securities	100
Washington State Local Government Investment Pool	100

31

- 1 M. The City shall attempt to match its investments with anticipated cash flow requirements.  
2 Unless matched to a specific cash flow, the City shall not directly invest in securities  
3 maturing more than five (5) years from the date of purchase.
- 4 N. The City's reserve funds may be invested in securities not to exceed ten (10) years if  
5 the maturity of such investments is made to coincide as nearly as possible with the  
6 expected use of funds.
- 7 O. The City's investment portfolio shall be designed to obtain a market-average rate of  
8 return, taking into account the City's investment risk constraints and cash flow needs.
- 9 P. The City's investment strategy is dynamic. Securities shall be purchased and sold as  
10 appropriate to best meet the needs of the City. The Finance Director may trade  
11 securities before maturity if it is in the best interest of the City to do so.
- 12 Q. The basis used by the City to determine whether market yields are being achieved shall  
13 be the Average US Treasury Note Rate that corresponds to the average life of the  
14 investments.
- 15 R. The Finance Director shall report on investment activity and returns in quarterly  
16 financial reports and the CAFR. Monthly financial reports should denote changes in  
17 market value and investment income.

### 18 **13. Debt and Debt Management**

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- 19 A. The City may issue interfund loans consistent with Chapter 3.90 LMC.
- 20 B. All professional service providers (underwriters, financial advisors, bond insurers, etc.)  
21 selected in connection with the City's debt issues shall be selected in accordance with  
22 the City's procurement policies.
- 23 C. The term of long-term debt issued shall not exceed the life of the projects financed.  
24 Ongoing operational expenses shall not be financed with long-term debt.
- 25 D. The City shall maintain an open line of communication with the rating agencies (Moody's  
26 and Standard and Poors), informing them of major financial events in the City as they  
27 occur. The Comprehensive Annual Report (CAFR) shall be distributed to the rating  
28 agencies and The National Recognized Municipal Information Repository Securities  
29 (NRMIRS) within 30 days of State Auditor's Office (SAO) approval of the CAFR. The  
30 CAFR shall include all secondary market disclosure required by the SEC.
- 31 i. The City shall strive to maintain or exceed favorable credit ratings as follows:
- 32 a. General Obligation: A1 with Moodys Investor's Service and A+ with Standard  
33 and Poors.
- 34 b. Revenue Bonds: A with Moodys Investor's Service and AA with Standard and  
35 Poors.
- 36 E. As part of the debt policy, the City shall use debt ratios based on debt per assessed  
37 value, debt per capita, and debt per capita as a percentage of per capita income as  
38 guides. These ratios may assist in guiding amounts that the City may authorize in debt  
39 issuance.

- 1 F. Assessment bonds shall be issued in place of general obligation bonds, where possible,  
2 to assure the greatest degree of public equity and flexibility for City finances.
- 3 G. The City of Lynnwood debt shall not exceed an aggregated total of 7.5% of the assessed  
4 valuation of the taxable property within the City. Compliance with state law and this  
5 policy shall be documented each year in the city's Comprehensive Annual Financial  
6 Report (CAFR).
- 7 H. The following individual percentages (as defined in state law) shall not be exceeded in  
8 any specific debt category:
  - 9 i. General Debt: 2.5% of assessed valuation
  - 10 ii. Utility Debt: 2.5% of assessed valuation
  - 11 iii. Open Space and Park facilities: 2.5% of assessed valuation
- 12 I. No debt shall be issued for which the City is not confident that a sufficient, specifically  
13 identified revenue source is available for repayment. The Finance Director shall prepare  
14 an analytical review for this purpose prior to the issuance of any debt.
- 15 J. Credit enhancements shall be considered with a cost/benefit analysis for each long-term  
16 bond issue.
- 17 K. Reserve accounts shall be maintained as required by bond ordinances and where  
18 deemed advisable by the City Council. Debt service reserves shall conform to IRS  
19 arbitrage regulations.

20 **14. Capital Funds: General**

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- 21 A. The City shall maintain a Capital Development Fund #333 to provide funding for the six-  
22 year Capital Facilities Plan, less proprietary fund projects as defined by Chapter 3.50  
23 LMC. The use of any funds within the Capital Development Fund shall be as defined by  
24 the Lynnwood Municipal Code. Once the policy target for General Fund reserves is  
25 achieved [see Reserves above] the City shall set aside at least \$1.1 million per year for  
26 capital development (an amount equivalent to the savings to the City generated by the  
27 public vote annexing city into the Sno-Isle Library District).
- 28 B. Contributions to development funds shall be made from available funds as identified  
29 during the biennial budget process or the mid-biennial budget modification. The Finance  
30 Director shall make a recommendation to the Council with regard to transfers to reserve  
31 funds as a part of that report. The Council, by motion (and amending the budget by  
32 ordinance as necessary) shall authorize the transfers as the Council shall determine to  
33 be appropriate at that time.

34 **15. Capital Planning and Asset Management**

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- 35 A. The City shall annually develop a Capital Facilities Plan (CFP) as defined and required  
36 by RCW 36.70A.070 which is consistent with the Capital Facilities Element of the City  
37 Comprehensive Plan.
- 38 B. Such plan shall include all projects to maintain public capital facilities required to  
39 maintain service levels at standards established by the City Council. The plan shall  
40 include a complete inventory and analysis of building conditions including the extent and

1 estimated costs regarding maintenance, remodel and replacement of buildings. This  
2 plan shall be reviewed in the mid-year financial review.

3 C. The proposed CFP may include for consideration such other projects as requested by  
4 the City Council or Mayor.

5 D. Funding for capital projects shall be classified as to source (general government,  
6 enterprise or other) within the plan.

7 i. The extent to which funds exist for each project shall be described in the plan.

8 ii. The plan shall integrate with the Proposed Preliminary Budget (LMC 2.72.110) in that  
9 funds required for the projects recommended for the ensuing budget period shall be  
10 identified in the Preliminary Budget.

11 iii. The CFP shall include a recommended level of funding from general revenues in  
12 order to provide for "ongoing" projects (as defined in the CFP).

13 A. The plan shall be for a period of six years as required by state law (GMA).

14 B. With the exception of "ongoing projects", each project shall be described such that  
15 development phases are delineated as separate stages of the project. Examples  
16 include land acquisition, design and construction. "Ongoing projects" represent annual  
17 capital programs such as street overlay, sidewalk expansion or traffic signal rebuild.

18 C. An estimate for the operating budget impact of each proposed project shall be identified  
19 and incorporated into the City Strategic Financial Plan.

20 D. The CFP shall be approved by ordinance annually. The approving ordinance shall  
21 constitute a plan of action wherein no final approval to proceed with specific projects is  
22 made, but requires specific authorization and appropriation (by ordinance in the form of  
23 a budget amendment or financial plan for each project) by the Council in a manner as  
24 the Council shall determine.

25 E. The adopted CFP shall constitute the City's long-range financial plan for capital  
26 expenditures and shall be consistent with the City Strategic Financial Plan.

## 27 **16. Other Funds**

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28 A. The City shall maintain a Program Development Fund as defined in Chapter 3.51 LMC.  
29 The use of any funds within the Program Development Fund shall be as defined by the  
30 Lynnwood Municipal Code.

31 B. In accordance with RCW 41.16.050, the City shall maintain a Firemen's Pension Fund to  
32 record all monies received from taxes on fire insurance premiums received from the  
33 state, contributions made by firefighters (before the inception of LEOFF I) and interest  
34 earned on the investment of these funds. These funds are used to cover benefits  
35 payable to members (or to their survivors) who retired prior to March 1, 1970 or who  
36 were active on that date.

