



**RESOLUTION NO. 2019-10**

**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 2017-07, 2016-19, 2014-20, 2011-06, 2005-04, and 2003-06, the City Council has amended the Financial Policies; and

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

**WHEREAS**, during 2019, the City Council Finance Committee reviewed and evaluated various amendments to the Financial Policies; and

**WHEREAS**, on July 25, 2019, 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 November 12, 2019, 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.

This resolution was adopted by the City Council at its meeting held November 12, 2019 at the City of Lynnwood Council Chambers.

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RESOLVED this 12<sup>th</sup> day of November 2019.

APPROVED:



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Nicola Smith, Mayor

ATTEST/AUTHENTICATED:



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Sonja Springer, Finance Director

**ATTACHMENT A  
RESOLUTION 2019-10**

## Financial Policies

Legislative History

Revised November 12, 2019, Resolution 2019-10  
 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.

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

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

#### 23   **4. Financial Forecasts**

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- 24       A. As a part of each biennial budget process, the City shall prepare six-year expenditure  
25          and revenue forecasts for the City's principal operating and capital funds.
- 26           i. Revenue forecasts for major revenues (those which represent at least 10% of the  
27           General Fund) should include "conservative", "moderate", "optimistic" forecasts and  
28           the assumptions used for each. The forecasts shall be based on the best  
29           information available and should reference assumptions and data sources.
- 30           ii. Revenue forecasts should include all sources of revenue.
- 31           iii. Forecasts shall include alternative expenditure scenarios, based on different policy  
32           and economic assumptions.
- 33       B. Financial Forecasts shall:

- 1           i.    Incorporate plans for reserves and specific fund balances.
- 2           ii.   Include revenue streams as may be appropriate to support capital projects in  
3           accordance with the city’s Capital Facilities Plan and Strategic Investment Plan  
4           Component.
- 5           iii.   Serve as a basis for decision making that may affect long-term trends and financial  
6           needs.
- 7    C.   All financial decisions shall be within the context of the long-range planning forecast and  
8       other related long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff  
9       shall provide a review of the implications of budgetary and other fiscal proposals on  
10       these long-range forecasts and plans. Staff shall include a “fiscal note”, in a format to be  
11       provided by the Finance Director and approved by the Council, with each action item on  
12       the council agenda. If no note is deemed necessary, the agenda cover sheet shall so  
13       state.
- 14   D.   Assumptions used in the CFP and SFP shall be noted and defined.
- 15   E.   Basis of long-range planning shall be outcome oriented. In accordance with Chapters  
16       2.70 and 2.72 LMC, and Resolution 2000-03, the City shall strive to illustrate the output  
17       from CFP and SFP expenditures.
- 18   F.   The forecasts developed under these policies shall be incorporated into the adopted  
19       Long-Term Financial Plan which shall be periodically updated and reviewed consistent  
20       with the updating of the financial forecasts as set forth by these policies.

21   **5.   Reserves**

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- 22   A.   Reserves, General Fund
- 23       i.    Adequate reserve levels are a necessary component of the City’s overall financial  
24       management strategy and key factor in external agencies’ measurement of the City’s  
25       financial strength. Collectively, the adopted budget should include General Fund  
26       reserve balances equaling not less than 2.5 months of the operating expenditures of  
27       the prior fiscal year. The reserves specified by this policy consist of the aggregate  
28       total of the General Fund Unassigned Fund Balance and the Revenue Stabilization  
29       Fund balance.
- 30       ii.   The purpose of the General Fund Unassigned Fund Balance is to provide for  
31       adequate operating cash and to cover receivables until they are collected. Achieving  
32       and maintaining this unassigned fund balance is the highest priority over developing  
33       and maintaining other general fund reserves.
- 34       iii.   The purpose of the reserves of the Revenue Stabilization Fund is to help protect the  
35       city from major economic downturns and other unanticipated, adverse financial  
36       conditions.
- 37       iv.   City Council authorization shall be required for expenditure of Unassigned Fund  
38       Balance or Revenue Stabilization Fund Balance.

1 B. Reserves, Enterprise Funds

- 2 i. Adequate reserve levels are a necessary component of the overall financial  
3 management strategy for enterprise funds such as utilities, and a key factor in  
4 external agencies' measurement of the City's financial strength.
- 5 ii. City Council authorization shall be required for expenditure of Enterprise Fund  
6 Reserves.
- 7 iii. Utility Operating Fund.
- 8 a. The purpose of Utility Operating Fund reserves is to provide for adequate  
9 operating cash and to cover receivables until they are collected.
- 10 b. The reserve balance target for the Water Utility is the amount equivalent to 90  
11 days of operating expenses.
- 12 c. The reserve balance target for the Sewer Utility (wastewater) is the amount  
13 equivalent to 45 days of operating expenses.
- 14 d. The reserve balance target for the Storm Utility (stormwater) is the amount  
15 equivalent to 30 days of operating expenses.
- 16 iv. Utility Capital Fund.
- 17 a. The purpose of Utility Capital Fund reserves is to provide funding for  
18 emergency repairs, unanticipated capital expenses, and project cost  
19 overruns.
- 20 b. The reserve balance target for the Water Utility is the amount equivalent to  
21 1% of all Original Asset Values.
- 22 c. The reserve balance target for the Sewer Utility (wastewater) is the  
23 amount equivalent to 2% of all Original Asset Values.
- 24 d. The reserve balance target for the Storm Utility (stormwater) is the amount  
25 equivalent to 1% of all Original Asset Values.
- 26 v. Golf Fund.
- 27 a. The reserve balance target for the Golf Fund is the amount equivalent to 30 days  
28 of operating expenses.

29 **6. Reporting: General**

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- 30 A. The Administrative Services Department shall prepare financial reports that show and  
31 monitor actual performance in various expenditures and revenues with the adopted  
32 budget and planning forecasts.

- 1 i. The reporting system shall include a financial analysis of the overall financial status  
2 of the City and of its key funds, including, but not limited to, an analysis of all  
3 available financial resources.
- 4 ii. This analysis should discuss the current financial status, and the immediate and  
5 longer-term future financial status.
- 6 iii. A complete analysis shall be prepared quarterly with monthly updates.
- 7 iv. Quarterly financial reports shall include a summary of Departments' progress  
8 regarding the performance measures set forth in the adopted budget.

9 **7. Revenues: General**

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- 10 A. To the extent possible, diversified and stable sources of revenue shall be maintained to  
11 shelter public services from downward fluctuations in any one revenue source. Periodic  
12 financial reports shall include trend analysis of the City's primary sources of revenue.
- 13 B. All potential grants shall be carefully examined for matching requirements. Some grants  
14 may not be accepted if the local matching funds cannot be justified. Grants may also be  
15 rejected if programs must be continued with local resources after grant funds are  
16 exhausted.

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

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- 18 A. The City shall develop and maintain a comprehensive schedule of fees and charges.
- 19 i. The fees and charges should be reviewed in connection with each biennial budget.
- 20 ii. Fees shall be reviewed by general type as described below:
  - 21 a. Development-related fees (land use, building and property, fire marshal's office  
22 and engineering fees) shall be established by ordinance; adjusted for inflation  
23 and periodically subjected to a comprehensive rate analysis. Development-  
24 related fees should be based on recovering costs of permitting and inspection  
25 services.
  - 26 b. Regulatory Fees (such as those related to Title 5 LMC) shall be established by  
27 ordinance. As may be permitted by law, these fees may be used for generating  
28 city revenues in addition to recovering costs of the regulatory services.
  - 29 c. Recreation and parks use fees shall be set by the Director of Parks, Recreation  
30 and Cultural Arts within ranges established by ordinance.
  - 31 d. General fees (such as rental rates, copy charges, and other miscellaneous fees)  
32 shall be established by ordinance. These services should charge fees to assist  
33 in making these services self-supporting.
  - 34 e. Enterprise Funds (Utilities and Golf Course) fees shall be set by ordinance, and  
35 set at a level necessary to support the costs of services in the fund and to

1 maintain long-term financial stability. To insure that the enterprise funds remain  
2 self-supporting, fee and rate structures shall fully fund the direct and indirect  
3 costs of operations, capital plant maintenance, debt service, depreciation, and  
4 reasonable system extensions. See “Revenues: Utility Rates” below for  
5 additional provisions.

## 6 **9. Revenues: Utility Rates**

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- 7 A. Every three years, the City shall conduct a comprehensive, third-party, expert analysis of  
8 utility rates.
- 9 B. Revenues generated by utilities should provide adequate resources to provide for proper  
10 operation of the related programs, servicing of related debt at prescribed levels,  
11 maintenance of the capital plant, and adequate reserves.
- 12 C. Utility rates shall be set utilizing the following guidelines:
- 13 i. The rate structure should encourage consumers to conserve natural resources while  
14 providing a stable and predictable revenue base for the proper management of the  
15 utility.
- 16 ii. The rates shall strive to be equitable among the classes (general types) of  
17 ratepayers.
- 18 iii. The revenue target of the utility rates should maintain a minimum debt service  
19 coverage ratio (DSCR) of 1.5. DSCR is a financial formula that equals net operating  
20 income divided by annual debt service.
- 21 iv. Rates should be set using an assumption of 95% of the average water consumption  
22 for the five previous years.
- 23 v. A complete rate analysis, when finished, shall be included with the proposed  
24 preliminary budget, if not already adopted by separate ordinance.

## 25 **10. Expenditures: General**

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- 26 A. The City shall authorize only those ongoing, operating expenditures that may be  
27 supported by ongoing operating revenues. Before the City undertakes any agreements  
28 that would create fixed, ongoing expenses, the cost implications of such agreements  
29 shall be fully determined for current and future years with the aid of strategic financial  
30 planning models as described in Financial Management/Strategic Forecasting Policies.  
31 Capital expenditures may be funded from one-time revenues, but the operating budget  
32 expenditure impacts of capital expenditures shall be reviewed for compliance with this  
33 policy provision.
- 34 i. Operating revenues are those revenues that recur regularly on an annual basis,  
35 excluding revenues that may be available only on a one time basis such as revenues  
36 derived from land sales, bond proceeds, etc.

- 1 B. Department heads are responsible for managing their budgets within the total  
2 appropriation for their department.
- 3 C. The City shall maintain expenditure categories according to state statute and  
4 administrative regulation as described in the State Auditor's Budgetary, Accounting, and  
5 Reporting System (BARS).
- 6 D. The City shall assess funds for services provided internally by other funds. The  
7 estimated direct and indirect costs of service shall be budgeted as an expense to the  
8 fund receiving or benefiting from the service, and the cost of the service shall be  
9 recognized as revenue to the providing fund. A review of the method for determining the  
10 amount of the interfund assessment shall be reviewed periodically.
- 11 E. Emphasis shall be placed on improving productivity, workplace innovation, program  
12 evaluation, and alternative means of service delivery rather than adding to the work  
13 force. The City shall invest in technology and other efficiency tools to ensure high  
14 productivity. The City may hire additional staff only after the need of such positions has  
15 been demonstrated and documented, including assessment of alternative measures,  
16 such as contracting for professional services and partnering with other  
17 agencies/organizations.
- 18 F. All compensation planning and collective bargaining shall focus on the total cost of  
19 compensation which includes direct salary, health care benefits, pension contributions,  
20 training allowance, and other benefits of a non-salary nature which are a cost to the City.
- 21 G. Enterprise Funds expenditures shall be fully supported by their own rates, fees, and  
22 charges, and not subsidized by the General Fund. The Enterprise Funds shall pay their  
23 share of overhead costs and services provided by the General Fund.

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

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- 25 A. Short-term (anticipated less than one year) economic downturns and temporary gaps in  
26 cash flow: Expenditure reductions or restrictions may be imposed. Expenditures from  
27 the General Fund Unassigned Fund Balance, the Revenue Stabilization Fund, or  
28 interfund loans may be used with City Council approval to address short-term downturns  
29 in City revenues. The City Council may authorize interfund loans to cover short-term  
30 gaps in cash flow.
- 31 B. Long-term (greater than one year) revenue downturns: Revenue forecasts shall be  
32 revised. When long-term revenue downturns are likely, the following guidelines for  
33 addressing the revenue shortfall shall be considered.
  - 34 i. Deficit financing (borrowing) should not be considered as an appropriate fiscal  
35 response.
  - 36 ii. Prior to increasing taxes and/or fees to achieve a balanced budget, the City should  
37 evaluate opportunities to reduce one-time and/or ongoing expenses.

- 1           iii.    Rather than instituting “across the board” reductions, Budgeting for Outcomes  
2                   principles and criteria should be utilized to reduce/discontinue certain levels of  
3                   service, or delay/discontinue certain projects.
- 4           C.    Periodic financial reports prepared by the Administrative Services Department shall be  
5                   utilized to monitor forecasted, budgeted, and actual revenues and expenditures.
- 6           D.    In instances when combined, actual sales and use tax revenue for the previous two  
7                   quarters is less than the revenue received during the same period of the previous year,  
8                   the Mayor shall put forth to the Finance Committee a proposed budget amendment that  
9                   responds to the under-performance of revenues.
- 10           i.    The Mayor’s proposed budget amendment shall include an updated financial  
11                   forecast and a written description of the anticipated changes to performance  
12                   measures, program outcomes, and levels of service.
- 13           ii.   This policy shall not preclude the Mayor from initiating corrective action pursuant to  
14                   his/her administrative authorities prior to action by the City Council.
- 15           iii.   The recommendation(s) of the Mayor and Finance Committee shall be forwarded to  
16                   the City Council.

17   **12.   Investments**

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- 18           A.    The City of Lynnwood shall invest its funds in a manner that:
- 19                   i.    Provide the highest investment return consistent with a high degree of security.
- 20                   ii.   Meet the daily cash flow demands of the City.
- 21                   iii.   Conform to all state statutes and local ordinances governing the investment of public  
22                   funds.
- 23           B.    At the discretion of the Finance Director, cash may be invested separately by fund or be  
24                   commingled into a common investment portfolio and earnings from such portfolio  
25                   distributed monthly.
- 26           C.    These policies supersede Resolution 2009-11 and apply to all financial assets of the  
27                   City, except: assets held in escrow in order to defease refunded debt; and retirement  
28                   funds managed by others such as the State or ICMA.
- 29           D.    Investments shall be made with judgment and care, considering the probable safety of  
30                   the capital as well as the probable income to be derived.
- 31           E.    The primary objectives, in priority order, of the City's investment activities shall be as  
32                   follows:
- 33                   i.    Legality: The City's investments shall be in compliance with all statutes governing  
34                   the investment of public funds and the provisions of all applicable bond ordinances.

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

- 1 notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and  
 2 Federal National Mortgage Association notes.)
- 3 iv. Prime bankers' acceptances purchased on the secondary market.
- 4 v. Repurchase agreements for securities above, provided that the transaction is  
 5 structured so that the City obtains ownership and control over the underlying  
 6 securities. A master repurchase agreement between the City and the bank or  
 7 dealer must be on file prior to any repurchase agreement transaction.
- 8 vi. The Washington Local Government Investment Pool.
- 9 J. Collateralization shall be on repurchase agreements to anticipate market changes  
 10 and provide a level of security for all funds; the collateralization level shall be 102%  
 11 of market value of principal and accrued interest.
- 12 i. The City shall limit collateral to the obligations of the United States Government and  
 13 its agencies.
- 14 ii. Collateral shall be held by an independent third party with whom the entity has a  
 15 current custodial agreement (except certificates of deposits). A clearly marked  
 16 evidence of ownership (safekeeping receipt) must be supplied to the entity and  
 17 retained.
- 18 iii. Certificates of deposit shall be delivered to and held by the Finance Director.
- 19 K. All securities transactions, including collateral for repurchase agreements, entered  
 20 into by the City shall be conducted on a delivery-versus-payment (DVP) basis.  
 21 Securities shall be held by a third-party custodian designated by the City Investment  
 22 Committee and evidenced by safekeeping receipts listing the specific instrument,  
 23 rate, maturity and other pertinent information.
- 24 L. The City shall diversify its investments by security type and institution in manner that  
 25 manages overall portfolio risk, attains market-average rates of return, and precludes  
 26 current cash flow issues. To achieve these purposes, investment of City funds  
 27 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

28

- 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

1 guides. These ratios may assist in guiding amounts that the City may authorize in debt  
2 issuance.

3 F. Assessment bonds shall be issued in place of general obligation bonds, where possible,  
4 to assure the greatest degree of public equity and flexibility for City finances.

5 G. The City of Lynnwood debt shall not exceed an aggregated total of 7.5% of the assessed  
6 valuation of the taxable property within the City. Compliance with state law and this  
7 policy shall be documented each year in the city's Comprehensive Annual Financial  
8 Report (CAFR).

9 H. The following individual percentages (as defined in state law) shall not be exceeded in  
10 any specific debt category:

11 i. General Debt: 2.5% of assessed valuation

12 ii. Utility Debt: 2.5% of assessed valuation

13 iii. Open Space and Park facilities: 2.5% of assessed valuation

14 I. No debt shall be issued for which the City is not confident that a sufficient, specifically  
15 identified revenue source is available for repayment. The Finance Director shall prepare  
16 an analytical review for this purpose prior to the issuance of any debt.

17 J. Credit enhancements shall be considered with a cost/benefit analysis for each long-term  
18 bond issue.

19 K. Reserve accounts shall be maintained as required by bond ordinances and where  
20 deemed advisable by the City Council. Debt service reserves shall conform to IRS  
21 arbitrage regulations.

## 22 **14. Capital Funds: General**

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23 A. The City shall maintain a Capital Development Fund #333 to provide funding for the six-  
24 year Capital Facilities Plan, less proprietary fund projects as defined by Chapter 3.50  
25 LMC. The use of any funds within the Capital Development Fund shall be as defined by  
26 the Lynnwood Municipal Code. Once the policy target for General Fund reserves is  
27 achieved [see Reserves above] the City shall set aside at least \$1.1 million per year for  
28 capital development (an amount equivalent to the savings to the City generated by the  
29 public vote annexing city into the Sno-Isle Library District).

30 B. Contributions to development funds shall be made from available funds as identified  
31 during the biennial budget process or the mid-biennial budget modification. The Finance  
32 Director shall make a recommendation to the Council with regard to transfers to reserve  
33 funds as a part of that report. The Council, by motion (and amending the budget by  
34 ordinance as necessary) shall authorize the transfers as the Council shall determine to  
35 be appropriate at that time.

## 15. Capital Planning and Asset Management

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- 1
- 2 A. The City shall annually develop a Capital Facilities Plan (CFP) as defined and required
- 3 by RCW 36.70A.070 which is consistent with the Capital Facilities Element of the City
- 4 Comprehensive Plan.
- 5 B. Such plan shall include all projects to maintain public capital facilities required to
- 6 maintain service levels at standards established by the City Council. The plan shall
- 7 include a complete inventory and analysis of building conditions including the extent and
- 8 estimated costs regarding maintenance, remodel and replacement of buildings. This
- 9 plan shall be reviewed in the mid-year financial review.
- 10 C. The proposed CFP may include for consideration such other projects as requested by
- 11 the City Council or Mayor.
- 12 D. Funding for capital projects shall be classified as to source (general government,
- 13 enterprise or other) within the plan.
- 14 i. The extent to which funds exist for each project shall be described in the plan.
- 15 ii. The plan shall integrate with the Proposed Preliminary Budget (LMC 2.72.110) in that
- 16 funds required for the projects recommended for the ensuing budget period shall be
- 17 identified in the Preliminary Budget.
- 18 iii. The CFP shall include a recommended level of funding from general revenues in
- 19 order to provide for “ongoing” projects (as defined in the CFP).
- 20 A. The plan shall be for a period of six years as required by state law (GMA).
- 21 B. With the exception of “ongoing projects”, each project shall be described such that
- 22 development phases are delineated as separate stages of the project. Examples
- 23 include land acquisition, design and construction. “Ongoing projects” represent annual
- 24 capital programs such as street overlay, sidewalk expansion or traffic signal rebuild.
- 25 C. An estimate for the operating budget impact of each proposed project shall be identified
- 26 and incorporated into the City Strategic Financial Plan.
- 27 D. The CFP shall be approved by ordinance annually. The approving ordinance shall
- 28 constitute a plan of action wherein no final approval to proceed with specific projects is
- 29 made, but requires specific authorization and appropriation (by ordinance in the form of
- 30 a budget amendment or financial plan for each project) by the Council in a manner as
- 31 the Council shall determine.
- 32 E. The adopted CFP shall constitute the City’s long-range financial plan for capital
- 33 expenditures and shall be consistent with the City Strategic Financial Plan.

1 **16. Other Funds**

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

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

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