



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Michael Olson, Deputy Director

Date: August 22, 2013

Subject: INVESTMENT POLICY EXTERNAL REVIEW

Recommendation

Council adopts the attached resolution revising the City of Kirkland Investment Policy and the attached housekeeping ordinance amending the Kirkland Municipal Code to update references to the "Department of Administrative Services" and "Department of Finance" to the "Department of Finance and Administration".

Background

The City of Kirkland Investment Policy requires an external review of the policy and procedures every three years. Changes to the Investment Policy must be approved by City Council Resolution while changes to Investment Procedures are reviewed and approved by the Investment Committee, which consists of the City Manager and Finance Director.

The most recent review was completed by Davidson Fixed Income Management (DFIM) in March 2013. The DFIM report on the Portfolio, Policy and Procedure are summarized in Attachment A. The report and revised policy were reviewed by the Council Finance Committee at their June 25 meeting and approval of the resolution changing the policy is recommended.

Policy

Overall, the report found that the City's investment policy is sound. A summary and detail of the proposed edits to the investment policy and the recommendation to accept or not accept are outlined in Attachment B following this memo, along with the policy in track changes mode. The majority of the changes are housekeeping in nature, updating the policy language to current industry practice. One new article, 10.0 Prohibited Securities, has been added which consolidates current language from article 9.0 and current article 10.0. A resolution adopting the revised policy is attached.

Procedures

Recommendations for edits in the Investment Procedures include the recognition of liquidity and core investment components of the portfolio, adding an internal audit of the investment purchase procedures, updating the reports, increasing the focus on investment strategy and updating the Trading Authorization, Broker Dealer Questionnaire and combining the Supplemental Information form for new brokers with the Broker Dealer Questionnaire. A summary of these changes and the Investment Procedures document in track changes mode are in Attachment C following this memo.

The Investment Committee reviewed the recommendations and revised policy and procedures at their March 18, 2013 and May 30, 2013 meetings and approved changes to the procedures and recommended policy changes for review by the Finance Committee. During the review of the investment procedures, it was recommended to update the Kirkland Municipal Code outdated references to reflect the current department name: Department of Finance and Administration.

Use of External Advisor

The consultant observed that the City would benefit from using an investment advisor for the portfolio. Investment advisors provide research and recommendations on appropriate securities for purchase while the Finance Director retains control of all security purchases. Use of an investment advisor would provide more dedicated resources to the security selection and purchase process.

During this period of unprecedented low interest rates, the City's investment practice is to purchase securities and hold them to maturity, so the relative benefit of an external advisor may be limited. However, once interest rates exhibit a sustained increase, the portfolio returns could improve by selling securities with low interest rates and reinvesting in securities with higher rates. Utilizing the expertise of and resources available to an investment advisor would be beneficial to the City. Fees for a portfolio of Kirkland's size would range between \$30,000 and \$50,000 which the City would expect to more than recoup with the increased returns on the portfolio. If the decision was made to contract with an investment advisor in the future, staff would conduct an RFP process for vendor selection.

INVESTMENT PROFILE QUESTIONNAIRE AND REVIEW

February 2013

Prepared For



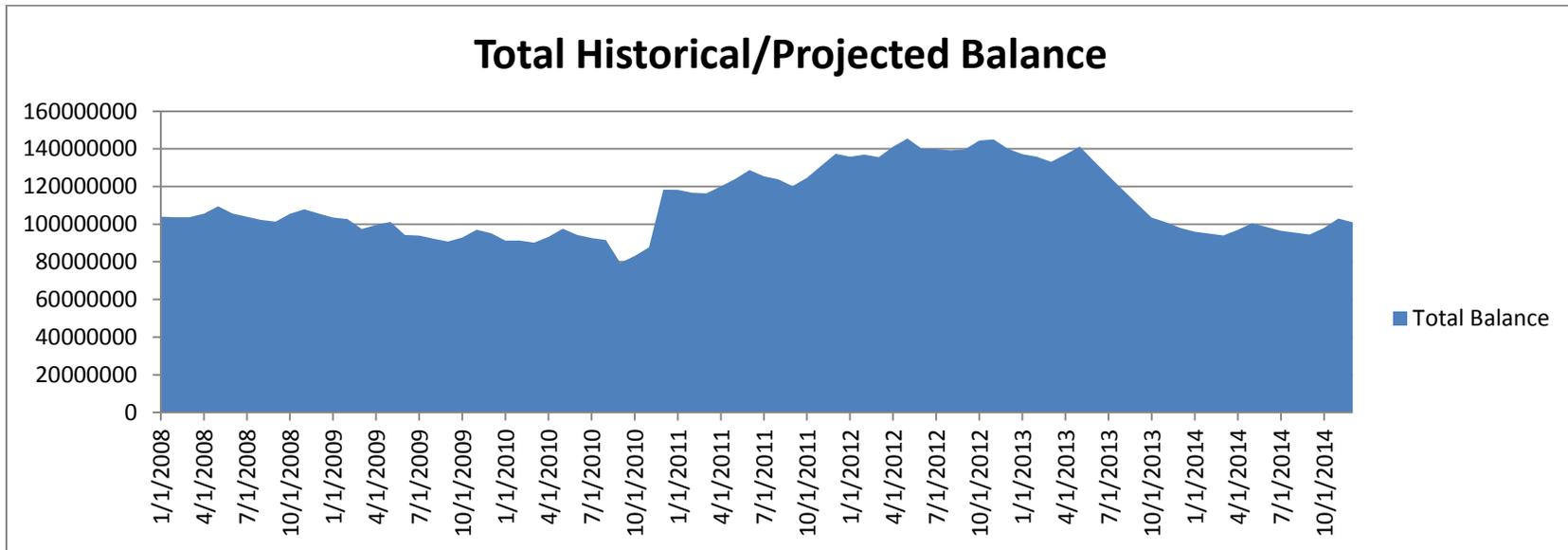
Deanne Woodring, CFA
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Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

CASH FLOW DETERMINANTS FOR LIQUIDITY AND CORE COMPONENTS

- LIQUIDITY REQUIREMENTS:** In order to determine the appropriate core fund investment balance, the City’s liquidity requirements must be established. Safety and liquidity are the primary concerns when investing public funds. Funds should be invested in a manner that ensures the City can meet all of its liquidity requirements.



Month	2008	2009	2010	2011	2012	Projected Balances	
						2013	2014
January	103,988,287	103,541,787	91,258,617	118,244,057	135,811,813	137,200,000	96,000,000
February	103,679,277	102,716,692	91,304,937	116,687,801	136,930,681	135,800,000	95,000,000
March	103,711,919	97,432,253	90,177,761	116,365,010	135,562,508	133,100,000	94,000,000
April	105,547,783	99,585,851	93,269,367	120,059,923	141,161,845	137,000,000	97,000,000
May	109,507,597	101,219,267	97,610,905	123,967,308	145,501,986	141,200,000	100,500,000
June	105,653,810	94,275,179	94,289,043	128,767,617	140,023,887	133,376,000	98,500,000
July	103,951,542	93,934,601	92,651,168	125,419,106	139,860,963	125,700,000	96,500,000
August	102,258,868	92,304,934	91,574,815	123,812,824	139,207,431	118,200,000	95,500,000
September	101,335,890	90,782,011	79,432,571	120,209,141	139,724,531	110,800,000	94,500,000
October	105,524,776	92,910,516	83,121,541	124,632,431	144,438,965	103,500,000	98,000,000
November	107,919,426	97,068,228	87,693,268	131,064,777	145,000,000	101,000,000	103,000,000
December	105,638,450	95,210,491	118,332,851	137,379,445	140,000,000	98,000,000	101,000,000
Average	104,893,135	96,748,484	92,559,737	123,884,120	140,268,718	122,906,333	97,458,333

Question 1: Based on the above historical balances, do you agree with the following liquidity range. Liquidity is defined as the balances held in the State LGIP fund and the bank deposits. The City has historically held balances in liquidity at a level above 75%, and this was brought down over the last quarter to just under 50%. Holding excess liquidity for longer periods of time can be costly in terms of earnings yield. It is important to review the expected balances in the next several years. It appears that balances are currently at a high and expected to decline by \$43MM over the next two years. Working this expectation into the liquidity/investment strategy is important. Typically operating funds maintain liquidity at 25% -50% of overall balances and invest between 50% and 75%.

Considerations of the City:

Liquidity Component: 25-50% \$25,000,000 - \$50,000,000
 Minimum Liquidity Balance - \$25,000,000

Yes _____ No _____

2) CORE FUND: Core funds are defined as operating fund balances, which exceed the City's daily liquidity needs. Core funds are invested out the yield curve to diversify the maturity structure of the overall portfolio. Having longer term investments in a portfolio will stabilize portfolio interest earnings over interest rate cycles. It is important to establish a targeted weighted average maturity for the investment component that is consistent with the City's risk /return parameters.

Portfolio Investment Component as of 12/31/12:

\$78,742,145.97	Market Value
1,490	Days to Maturity
51.27%	Total Portfolio
765	Days to Maturity of Total Portfolio (2.09 Years)
.62%	Book Earnings Yield
40%	Callable Securities

Question 2: Do you agree that based on the historical review of your cash flows your core fund component should be the amount listed below

INVESTMENT FUND COMPONENTS:

\$ 50MM to \$75MM

Yes _____

No _____

Objective of the Core Fund Management Strategy:

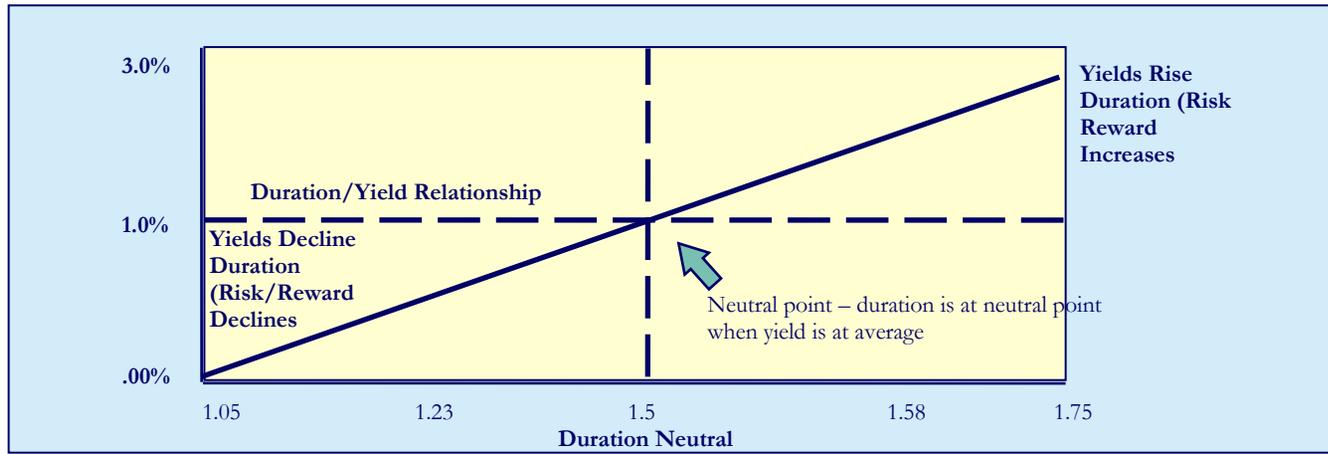
The specific objectives of the core fund are to: 1) provide returns comparable to the benchmark; and 2) control the risk and market price change of the portfolio by keeping the duration within pre-determined target ranges relative to the benchmark.

The core fund component of the portfolio should be invested to meet a risk profile (weighted average maturity or duration) that is appropriate for the City. Market benchmarks are utilized to identify the risk and return expectations of the core fund portfolio.

Develop Guidelines for Core Fund:

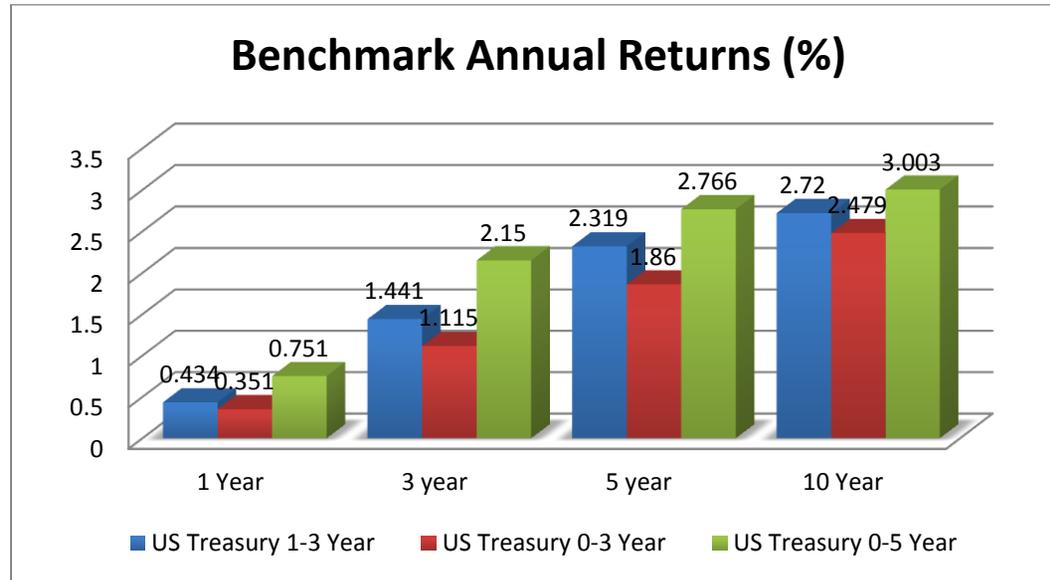
The City should establish guidelines for portfolio size, duration exposure, asset allocation and maturity structure to create a disciplined investment process. These guidelines are based on the historical yield levels of the two-year US Treasury note. to evaluate the management

CHART: Illustrating the shift in the duration of the portfolio based on current interest rates relative to historical rates.



3) SELECTION OF THE APPROPRIATE BENCHMARK: The benchmark is an important decision-making tool used to guide the maturity structure, as well as provide relevant performance accountability for the City’s investment portfolio. Many public entities are tracking their portfolio returns to a benchmark in order to improve their investment process and communication within their organization. It is important to note that the goal for public fund investing is not to outperform the benchmark each period but to use the benchmark to control risk and to identify investment opportunities. The following are standard market benchmark indices available to public funds:

Benchmark	12/31/2012	Annualized Returns (%)			
	Duration	1 Year	3 year	5 year	10 Year
US Treasury 1-3 Year	1.87	0.434	1.441	2.319	2.72
US Treasury 0-3 Year	1.44	0.351	1.115	1.86	2.479
US Treasury 0-5 Year	2.26	0.751	2.15	2.766	3.003



Historical Returns:

Review return expectations based on historical returns over the past ten years. Although history does not necessarily repeat itself, the table above illustrates the benefits of maintaining a core component within your overall portfolio over longer periods of time.

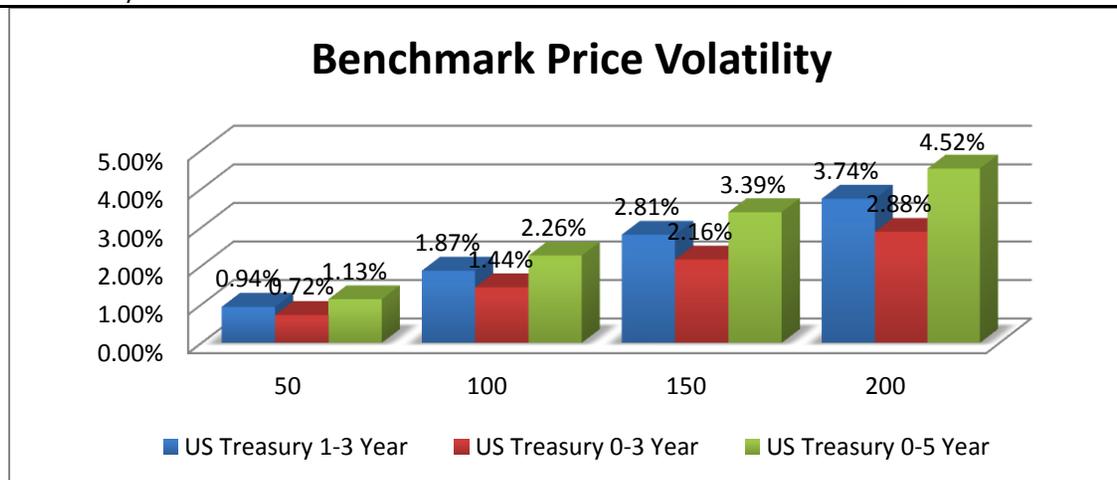
Benchmark	12/31/2012	Historical Returns for Invested Core Portfolio			
	Core Fund Target: \$75,000,000	1 Year	3 year	5 year	10 Year
US Treasury 1-3 Year	Current Duration: 1.87	\$325,500.00	\$3,289,195.24	\$9,109,044.30	\$23,086,981.67
US Treasury 0-3 Year	Current Duration: 1.44	\$263,250.00	\$2,536,826.53	\$7,239,341.19	\$20,809,826.14
US Treasury 0-5 Year	Current Duration: 2.26	\$563,250.00	\$4,942,251.63	\$10,962,398.91	\$25,823,089.70

Risk Profile of Portfolio:

The purpose of the risk evaluation is to ensure that the expected price change of the portfolio (due to market interest rate changes) is clearly understood. The price change associated with each of the indices above, based on neutral durations and standard spread relationships, is as follows:

Benchmark recommendation to client: 0-5 year Treasury benchmark

Benchmark	Duration	Interest Rate Change (bps)			
		50	100	150	200
US Treasury 1-3 Year	1.87	0.94%	1.87%	2.81%	3.74%
US Treasury 0-3 Year	1.44	0.72%	1.44%	2.16%	2.88%
US Treasury 0-5 Year	2.26	1.13%	2.26%	3.39%	4.52%



4) TARGET RANGE OF THE PORTFOLIO DURATION RELATIVE TO THE BENCHMARK: It is important to establish minimum and maximum duration variances from the benchmark for two reasons: 1) the duration of the portfolio will be adjusted strategically to add value given current yield environment and 2) the portfolio duration will adjust on its own over time and will be shifted as maturities come due.

Question 4: Please confirm that the maximum duration exposure of the chosen benchmark is acceptable?

Yes No

Target Range for Benchmark +/- 25%			
Benchmark	Duration	Minimum	Maximum
US Treasury 1-3 Year	1.87	1.40	2.34
US Treasury 0-3 Year	1.44	1.08	1.80
US Treasury 0-5 Year	2.26	1.70	2.83

Change in Value of Recommended Core Fund at Maximum Exposure					
Core Fund Target: Benchmark	\$75,000,000 Max Duration	Interest Rate Change (bps)			
		50	100	150	200
US Treasury 1-3 Year	2.34	\$876,562.50	\$1,753,125.00	\$2,629,687.50	\$3,506,250.00
US Treasury 0-3 Year	1.80	\$675,000.00	\$1,350,000.00	\$2,025,000.00	\$2,700,000.00
US Treasury 0-5 Year	2.83	\$1,059,375.00	\$2,118,750.00	\$3,178,125.00	\$4,237,500.00

Benchmark	Duration	Selection
US Treasury 1-3 Year	1.87	
US Treasury 0-3 Year	1.44	
US Treasury 0-5 Year	2.26	

Question 3: After reviewing the risk and return alternatives for the portfolio, do you agree that the recommended primary benchmark as the 0-5 year Treasury index is the most suited for your investment strategy?

Yes _____ No _____

Strategy: The current portfolio is invested longer than this target, with over 30% in the 4-5 year sector. Consideration to reduce this exposure should be made as if rates continue to rise, unrealized gains will increase. This volatility was evident this last month as 4-5 year rates increased by more than the 2 year rates.

Unrealized Gains/Losses – 12/31/12 -- \$38,095.32

Unrealized Gains/Losses – 1/31/13 - (-198,754.02)

5) ASSET ALLOCATION: An important part of a disciplined investment program is the diversification of risk through asset allocation. We recommend that the portfolio be diversified by issuer name and security type (i.e., callable versus non-callable securities). General allocation guidelines are established for the portfolio and variances will occur based on relevant market conditions at the time of investment.

Review the diversification by Issuer reports, the portfolio is diversified by issuer.

Observations:

- 1) Note that FAMC is still under review at the State Treasurers office regarding its legal acceptance under State Statute. Some entities consider them allowable while others do not. They are an agency of the US government but the issues themselves are not rated.
- 2) Callable exposure is high at 41%, always review the spreads on callable agency relative to non-callables to ensure the City is getting rewarded for the call option.

6) MATURITY BUCKETS: Diversification of maturities along the yield curve will also work to add value to the portfolio. The portfolio has been managed to a 5 year single maximum maturity.

Review the diversification by Maturity Report:

Observations:

- 1) The portfolio has been significantly extended in the last quarter of 2012, as 4-5 maturity securities were added increasing the allocation from 10% to 30%. In addition, 3-4 maturities were added increasing from 0% to 12%.
- 2) The overall maturity of the portfolio was extended from 313 days to 765 days.
- 3) Prior to these purchases, it appears the excess liquidity was being held in the state pool impacting the earning on City assets. The decision to invest was prudent, however, the longer exposure in the yield curve may be longer than your target.
- 4) Earnings yield increase from .47% to .62% with this purchases resulting in additional annual income of approximately \$225,000 on \$150,000,000 invested.

7) STRATEGY FOR CORE FUND: The strategy of establishing duration targets with variation limits and guidelines is to develop a disciplined investment process to better manage your core funds. This structure allows us to monitor and adjust the portfolio duration in response to a change in interest rates. For example, as interest rates drop and the risk/reward relationship narrows, the portfolio duration should shorten accordingly. Conversely, as interest rates rise and the risk/reward relationship widens, the portfolio duration should be extended to take advantage of higher yields. The goal of this disciplined approach is to maintain a core portfolio positioned in the market, resulting in an increased portfolio value over long time horizons. This approach reacts to changes in interest rates rather than predicting rate changes. It is not a speculative approach but one based on historical ranges and a disciplined, pre-established process to meet strategic targets.

8) TRANSITION PLAN FOR EXISTING HOLDINGS TO NEW STRUCTURE FOR OPERATING FUNDS:

Liquidity Balances: Review liquidity balances and affirm the range that is appropriate for the City. Incorporate the expected decline in overall balances as listed in the budget.

LGIP Holdings: LGIP is managed at a 60 day average maturity and holds Treasury, Agency and Repurchase Agreements – Yield expectation is .15% to .20%

Bank Deposits: The bank deposits should pay a similar rate to the LGIP pool.

Investment Component: Review the overall portfolio target in regards to total dollar amounts and the maturity structure. Begin making decisions based on the relative positioning of the portfolio target. Evaluation of the current position should be completed to determine if the City is comfortable holding the 3 year and longer exposure if rates continue to rise.

Maturity constraints on Investment Portfolio

Maturity Constraints	Investment Portfolio
Under 5 Years	100%
Total Weighted Average Maturity	2.5 years

OBSERVATION:

The City would benefit from utilizing an investment advisor to manage the investment component of the portfolio. The size and the risk parameters of this fund require a high level of attention and focus to maintain a disciplined investment process. Investment Advisors operate on a non-discretionary basis in which the finance director maintains all controls but the time consuming and strategic components are handled by investment professionals.

Many entities are having cost savings in their finance programs by hiring advisors. Staff positions can be reallocated to meet the demands of the department.

Fees for you portfolio would range between \$30,000 and \$50,000.

SUMMARY & CHECKLIST OF ACTION REQUIRED:

1. Review and approve the change in liquidity and core fund sizes
2. Review the cash flows into 2014
3. Review the tracker reports for accuracy
4. Review the reporting functions of tracker to improve transparency

Client Signature

Date



Davidson
Fixed Income Management
 REGISTERED INVESTMENT ADVISER

Investment Policy Comments

1. 1.0 – Policy Statement – Review language
2. 3.0 - Objective: Review language and determine if this is the right place for this, maybe it should go down in - Diversification or a Strategy section can be added to address Liquidity and Investment focus.
3. 4.0 – Delegation of Authority – Check wording
4. 7.0 – Authorized Dealers and Institutions- Per the GFOA sample policy it has been recommended to separate Broker/ Dealers from Financial Institutions. The BD's are the providers of securities for purchase and sales. The institutions are providers of product with their name underlying the security of the product.
5. 7.0- It reads like you are receiving and reviewing the annual financials each year. Are you doing that? While the financial status is a priority, the reality is your exposure is for the period between the purchase and settlement date. DFIM suggests requiring this information at the outset of a relationship, and then in your Certification, you request notification if anything changes. DFIM does recommend adding a procedural piece to look up brokers and their firms on the FINRA (Check Broker) site to look for any regulatory violations.
6. 7.0 – Are you doing an audit of the broker/dealers and the safekeeping bank.
7. 8.0 – Broker Allocation- How do you document this? Do you keep records of passes etc.
8. 9.0 and others- Recommend adding a section under Prohibited activities. There are several places where the prohibited action is layered in the wording and may be difficult to find.
9. – Compliance – Recommend adding a section on compliance – 1) you are doing a compliance report so this should be included as required. 2) there are issues that may come up that require you to make steps to comply. They should be easy to find –GFOA new sample policy recommendation.
10. 10.0 – RCW does allow for money market funds and mutual funds to be used with debt issuance and held in trust. You may need to use this in the case of a reserve fund or trust funds. Review
11. 12.0 – Diversification- Specials funds is standing alone—are you addressing what is pointed out in maturity – maybe an exception section?
12. 16.0 – Comment back to comment #1 – goals of funds - Strategy
13. 17- Comments in regards to reporting—Just making sure that a transaction report is provided quarterly and annually.



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 REGISTERED INVESTMENT ADVISER

Comments on other Documents provided to DFIM for Review:

Procedures:

- 1) Do you need to produce Semi-Annual Reports?
- 2) Recommend changing the name of Cash to Liquidity to be consistent with industry standards
- 3) Recommend changing name from Core Portfolio to Investment Core
- 4) Add strategy in title of #6—Strategy is emphasized in all reporting and should be incorporated.
- 5) Investment Committee—I don't see a lot of strategy documentation, DFIM is recommending to incorporate a defined report that makes the fund accountable to the % held in liquidity and the % held in Investments , including the average maturity of investments. This can be reported through Tracker
- 6) In 2.3 section B. DFIM is looking reports or process that you are doing number 4. And 5. What specifically are you doing on variances. Also, on # 7, recommending to identify the investment strategy better. Strategy is the key to a transparent program.
- 7) Reports can be improved especially with Tracker reporting. Samples are being provided by DFIM. Council should be seeing market value, change in portfolio size, Issuers, Yield and maturity terms.
- 8) DFIM has identified differences in the income numbers reported on the council reports with the income numbers on the Portfolio Software system (tracker). This flags an issue of reconciliation. Recommend reviewing these steps and updating the procedure to what is being done. (See attached Excel sheet)
- 9) Monthly Reports- Recommend improving the data and using Tracker reports to articulate more transparent Reports
- 10) Investment Purchase Procedure – This procedure is very comprehensive. DFIM did not verify that all steps are being completed. Recommend that an internal audit occur to affirm that all steps are being done. Also, you may be able to remove the requirement to call with email affirmations.
- 11) Same note as in 2 and 3- Change the terminology of cash to liquidity and core to investment core. See sample from DFIM to improve strategy tracking.

Trading Authorization:

1. Update Policy Date
2. Update City Council date- or make more generic
3. Review authorized signers

Broker/Dealer Questionnaire

- 1) Question 5: Maybe change to ask if your firm is a primary or a secondary firm and add in the supplemental information into the main questionnaire.
- 2) Question 10: Outdated – remove- you should not be purchasing securities in book entry.
- 3) Question 11: Outdated –remove - You should not be purchasing anything that is physical.
- 4) Add – what is your Fed Wire instructions.
- 5) Question 14: Do you need these? You don't need Tri party unless you are going to do repo
- 6) Question 16: This should be irrelevant as you do not hold securities with Broker/Dealers – remove if agree
- 7) Question 18: Change to FINRA from NASD

Supplemental information : Move to questionnaire

1. Question 1: Eliminate – only primary dealers do this
2. Question 2: What you are looking for is the Uniform Capital report or amount – have this reworded to tie to your policy requirement. The Federal reserve oversees banks and I think this is related to their requirements so not Broker/Dealers.
3. Question 3: Eliminate
4. Question 4 : Eliminate – You already asked in Question 18.
5. Question 5: Keep this but change institutional client to government entity client.
6. Question 6: Eliminate
7. Question 7: Keep this.

Investment Policy Certification:

No Comments

Custodial Documents:

Electronic Delivery - No comment –

Safekeeping Agreement – No Comment

Recommended Changes to Investment Policy

Article 1 **Policy Statement** - Accept Changes

Edit Policy Statement to “provide a market rate of return” rather than “provide the highest rate of return with maximum security”.

Article 3 **Objective** - Accept Changes

Changed “Investments” in securities are identified as “Investment Core Fund”.

Article 4 **Delegation of Authority**

Housekeeping change, Ordinance 1020 created the investment committee.

Article 7 **Authorized Financial Dealers and Institutions** - Accept Changes

Created separate sections for Financial Institutions and Broker/Dealers. Added a review of the FINRA (Financial Industry Regulatory Authority) report on both the firm and the broker before adding a broker to the approved broker/dealer list.

Article 9 **Authorized and Suitable Investments** - Accept Changes

Updated language to remove Government National Mortgage Association (GNMA) from the specific listing of Government Agencies.

Removed all references to prohibited security purchases and moved them to a new article 10.

Article 10 **Prohibited Securities** - Accept Changes

New article; all prohibited securities purchases moved from article 9 and former article 10.

Article 11 **Investment Pools / Money Market Funds**

Moved restriction on purchasing mutual funds to article 10. Consultant additions for restrictions on purchase of money market funds was not related to money market funds on deposit with banks and protected by the Public Deposit Protection Commission, it was referring to money market funds purchased from finance firms.

Article 12 **Safekeeping and Custody** - Accept Changes

Removed the selection of the third party custodian by the investment committee. Selection of a third party custodian would be the result of an RFP.

Article 13 **Diversification** - Accept Changes

The following language was removed: “Special funds may have maturities in excess of stated guidelines due to specific fund objectives.” This is addressed in article 14.

Article 17 **Performance Standards**- Accept Changes

The following paragraph was added: In addition, the Investment Core component may be tracked against a market index such as the US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and be an indicator for extending or reducing the duration of the portfolio.

Article 18 **Reporting Requirements** - Accept Changes

The following was added: A Compliance report will be provided to the Investment Committee on a quarterly basis.

Glossary: - Accept Changes

Removed Government National Mortgage Association (GNMA) and SEC RULE 15c3-1

**CITY OF KIRKLAND
INVESTMENT POLICY**

~~September 29, 2009~~

DRAFT 2013

July 3, 2012 Adopted:

1.0 Policy Statement

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

2.0 Scope

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

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds

Any new funds created by the Finance Director unless specifically exempted.

3.0 Objective

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

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

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

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

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

4.0 Delegation of Authority

In accordance with City of Kirkland Municipal code, Ordinance No. ~~24551020~~, an Investment Committee was created consisting of the City Manager and Finance Director. Authority is granted to these individuals to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Finance Director may designate a person to coordinate the day to day operations of the investment portfolio.

5.0 Prudence

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

The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

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

7.0 Authorized Financial Dealers and Institutions

~~Financial Institutions~~

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

Broker/Dealers

A list will also be maintained of approved security broker/dealers selected by credit worthiness ~~All brokers/dealers and financial institutions who desire to do business with the City must supply the Finance Director with the following: Annual audited financial statement, proof of Financial Industry Regulatory Authority (FINRA) Certification, The Finance Director will review the FINRA (Financial Industry Regulatory Authority) report on both the firm and the broker and maintain documentation of the review. A certification of having read the City's investment policy and receipt of the City's Trading Authorization must be completed by all brokers prior to transacting business. The Investment Committee will conduct an annual review of the financial condition of authorized brokers/dealers and the safekeeping institution and an audit of the submitted documents on file.~~ Brokers Dealers may include "primary" dealers or "secondary"- regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).

8.0 Broker Allocation

Investment transactions will be based upon the financial institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc. the Finance Director or the Deputy Director has the authority to waive this. Generally all brokers will not have the same inventory of agency securities available to sell, but should be able to offer comparable alternatives. Banker's acceptances and Certificates of Deposit (other than a compensating balance CD) also require the acquisition of at least three bids, and acceptance of the most attractive rate from among comparable alternatives. Where two

or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City.

9.0 Authorized and Suitable Investments

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

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

- Obligations of the U.S. government;
U.S. Treasury Notes, Bonds and Bills
- Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's) ~~with the exception of mortgage-backed securities (MBS), which are prohibited.~~

Specific listing:

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

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

- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1. If the banker's acceptance is rated by more than two NRSROs., it must have the highest rating from all the organizations. Banker's Acceptances are considered illiquid as there is no active secondary market for these securities.
- Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7), including the following:
 - Must have the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1.
 - Must be approved by the Investment Committee.

- ~~o Purchases of commercial paper issued by a firm on negative credit watch is prohibited.~~
 - o Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.

- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;

- Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;

- Obligations of the State of Washington or its political sub-divisions with the following guidelines:
 - o Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - ~~o Purchases of any security on negative credit watch is prohibited.~~
 - o Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.

- Obligations of a state other than the State of Washington or its political sub-divisions, with the following guidelines:
 - ~~o Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys~~
 - ~~o Purchases of any security on negative credit watch is prohibited.~~
 - o Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.

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

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

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

If the City chooses to invest in repurchase agreements, only primary dealers are to be used as counterparties to repurchase agreements, short term credit rating must be the highest credit rating, A-1 or the equivalent and a long term rating of A or the equivalent, the approved Bond Market Association's master repurchase agreement must be executed and on file prior to entering into these transactions and the maximum term for a repurchase agreement shall be limited to 30 days.

- ~~The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation on interest rates.~~

10.0 Prohibited Securities

- Mortgage Backed Securities including CMO's are prohibited.
- Derivative Products are prohibited
- The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation of interest rates
- Purchases of any security on negative credit watch isare prohibited.
- Purchasesd in Mutual Funds are prohibited

~~10.011.0~~ **Investment Pools / ~~Money Market utual Funds~~**

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Kirkland Resolution 3370. ~~The City is restricted from investing in mutual funds by State Statute. The City can only hold money market funds in trust accounts related to a debt issuance.~~

~~11.012.0~~ **Safekeeping and Custody**

All security transactions, including collateral for repurchase agreements, entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held in safekeeping by a third party custodian ~~designated~~ ~~by a member of the Investment Committee.~~

~~12.013.0~~ **Diversification**

The City will diversify its investments by security type and institution so that reliance on any one issuer or financial institution will not place an undue financial burden on the City. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

The following table provides maximum portfolio and issuer limit guidelines for the eligible securities which shall be complied with at the time of a security purchase, unless an exception waiver is approved by the Investment Committee. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

Investment	Percent of Fund	Percent Per Issuer	Maturity
US Treasury Obligations	100	100	5 Years
US Agency Obligations	100	30	5 Years
Callable Agency Securities	50	30	5 Years
State or Political Subdivision Securities	20	5	5 Years
Certificates of Deposits	10	5	5 years
Bankers Acceptances	5	5	180 days
A-1/P-1 Commercial Paper	5	5	180 days

~~Special funds may have maturities in excess of stated guidelines due to specific fund objectives.~~

13-014.0 Maximum Maturities

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

The maximum weighted average maturity (WAM) of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive market exposure. The WAM refers to the final WAM not the effective WAM.

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

14-015.0 Internal Control

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

~~15.0~~16.0 External Control

The City will have an external review of the investment policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

~~16.0~~17.0 Performance Standards

The portfolio shall be managed to obtain a fair rate of return, keeping in mind the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, "fair rate of return" will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

In addition, the Investment Core component duration may be tracked against a market index such as the US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio.

~~17.0~~18.0 Reporting Requirements

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

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

18.3 A Compliance report will be provided to the Investment Committee on at least a quarterly basis.

187.34 Additional reporting requirements are outlined in the Investment Procedures.

~~18-019.0~~ Investment Policy Adoption

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

GLOSSARY

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

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

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

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

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

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

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

DURATION - The number of years required to receive the present value of future payments, both of interest and principle, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.

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

FEDERAL HOME LOAN BANKS (FHLB) - The 12 Federal Home Loan Banks are a system of regional banks from which local lending institutions everywhere in America borrow funds to finance housing, economic development, infrastructure and jobs. About 80 percent of U.S. lending institutions rely on the Federal Home Loan Banks. Because the Federal Home Loan Banks are cooperatives, their low costs are passed on to consumers and communities.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA, or Fannie Mae) -

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

~~**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE)**~~

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

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

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

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

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

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

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

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

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

~~**SEC RULE 15c3-1** – An SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker-dealer may face restrictions on soliciting new business or on keeping existing business. See UNIFORM NET CAPITAL RULE.~~

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

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

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

UNIFORM NET CAPITAL RULE - Securities & Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY - The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer a bond is held, the greater the opportunity for interest rates to move up or down and affect the performance of the bonds in the portfolio.

EFFECTIVE WEIGHTED AVERAGE MATURITY - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer.

For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond's maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called.

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

Recommended Changes to Investment Procedures

Section 2 - **Investment Committee**

2.3 A.4. and 2.3 B.4. Removed language referring to variances – redundant as that is the meeting's purpose.

2.3 B.5. Removed requirement to review Broker Financial Statements as Broker's FINRA report is reviewed before placing brokers on the approved list.

2.3 B.7. Identify the investment strategy better – (staff will prepare recommendations for 3rd Quarter Investment Committee Meeting)

Section 3 – **Internal Controls**

3.1 E.7. Added annual internal audit of compliance to purchasing procedures to ASA IV duties.

Section 4 – **Reports**

Review and update selecting appropriate Tracker reports provided by DFIM

Add reports for the following:

- i. Liquidity and Core reports to document % of portfolio in each including average maturity of investments
- ii. Market value
- iii. Change in portfolio size
- iv. Issuers
- v. Yield
- vi. Maturity terms

(Staff will review reports with the Investment Committee at the 3rd Quarter Meeting)

4.3 Removed the requirement for semi-annual reports as monthly, quarterly and annual reports are prepared.

Section 6 – **Investment Portfolio Management**

Section amended to read "Investment Portfolio Strategy Management"

6.1 Changed "Cash" to "Liquidity" to be consistent with industry standards

6.2 Changed from "Core" to "Investment Core"

Trading Authorization

Housekeeping updates: policy date, Council approval, authorized signers

Broker Dealer Questionnaire

Updated to be consistent with industry standards

Incorporated relevant questions from supplemental information sheet

Supplemental Information

Updated to be consistent with industry standards and combined with Broker Dealer Questionnaire

CITY OF KIRKLAND INVESTMENT PROCEDURES

Last Updated ~~November 2012~~ March 2013~~Last Reviewed~~~~November 3, 2011~~

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1. Application of Investment Procedures

These procedures shall apply to all funds handled and managed by the City.

The Investment Policy adopted by the City Council and Investment Procedures approved by the Investment Committee shall apply uniformly to City employees, officials, representatives and authorized agents in the performance of their official duties and the processing and management of all investment transactions.

Investment Policies and Procedures shall be enforced by the Investment Committee.

2. Investment Committee

2.1 The Investment Committee shall be composed of the City Manager and Finance Director. KMC 5.24.010

2.2 The Investment Committee shall be responsible to:

- A. Monitor the performance and structure of the City's investments to determine if the portfolio is in compliance with the Investment Policy.
- B. Review the current portfolio holdings in light of the City's cash flow requirements, investment policy guidelines and restrictions and market conditions.
- C. Review the portfolio transactions and safekeeping of the City's assets, including the separation of duties among City staff.
- D. Set the portfolio strategy going forward.

2.3 The Investment Committee shall meet semi-annually.

A. First Meeting Agenda (First Quarter)

1. Review Investment Policy
2. Review Investment Policy Compliance Report
3. Review End of Year and most recent Monthly Reports
4. Review the annual performance, ~~including any variances that occurred and the documented reasons for the variance~~
5. Review the Treasurer's investment strategy and economic expectations for the next two quarters - See most recent Financial Management Report (FMR) Investment Report

B. Second Meeting Agenda (Third Quarter)

1. Review and approve Investment Procedures
2. Review Investment Policy Compliance Report
3. Review most recent set of Monthly and Semi-annual reports
4. Review performance, ~~including any variances that occurred and the documented reasons for the variance~~
5. Review Broker/Dealer list ~~and Broker Financial Statements~~
6. Review Financial Institution Financial Statements, including Safekeeping Financial institution
7. Review the Treasurer's investment strategy and economic expectations for the next two quarters- See most recent Financial Management Report (FMR) Investment Report

3. Internal Controls

3.1 Roles and Responsibilities

- A. Council Finance Committee
 - 1. Review Monthly Reports
 - 2. Review Annual Report

- B. Investment Committee, KMC 5.24.010
 - 1. Review policy, procedures, reports and investment strategy (See Section 2. Investment Committee)

- C. Director of Finance
 - 1. Serve on the Investment Committee
 - 2. Review monthly reports
 - 3. Review and approve investment decisions
 - 4. Review monthly Safekeeping report and trade tickets
 - 5. Review strategy and investment purchases

- D. Deputy Director, Finance and Administration
 - 1. ~~Serve as the Treasurer for the City, KMC 3.16.035~~ Coordinate the day to day operations of the investment portfolio. Investment Policy 4.0 Delegation of Authority.
 - 2. Establish, implement and coordinate cash management practices for the efficient cash management of all funds held by or belonging to the City of Kirkland
 - 3. Solicit broker investment offerings
 - 4. Select and purchase appropriate investments within policy guidelines and prudent investment analysis
 - 5. Transmit trade tickets to Safekeeping
 - 6. Create and disburse wire transfers to Safekeeping for investment purchases
 - 7. Prepare monthly, quarterly, ~~semi-annual~~ and annual reports

- E. Accounting Support Associate IV (ASA IV)
 - 1. Process and reconcile the City's daily cash management functions
 - 2. Create journal entries for other ASA IV staff to post investment purchases to the financial system
 - 3. Reconcile City's Sweep bank account, less outstanding checks, to Portfolio Software Rate of Return report and City's financial software
 - 4. Reconcile City's General bank account to Portfolio Software Rate of Return report and City's financial software
 - 5. Reconcile Local Government Investment Pool (LGIP) monthly statement to Portfolio Software Rate of Return report and City's financial software fund 910 cash.
 - 6. Reconcile City contracted Safekeeping Monthly Statement book value to Portfolio Software Rate of Return report and City's financial software fund 910 cash. Market value from the Safekeeping report should be ~~similar~~ equal to the market value of the Portfolio

Software report. ~~There will be a slight variation due to different pricing sources being utilized.~~

~~6.7.~~ Conduct and document internal audit annually on investment purchases for compliance to procedure.

4. Reports

4.1. Monthly Reports

Reports 1-3 are submitted to Council Finance Committee for review

1. Compliance Report
Excel Report - Investment Policy Compliance Report. See Exhibit 1.
Located at H:\FINANCE\Investments\2012\ Month Reports
2. Performance Report, comparison of current and past performance to benchmark: Excel file: Portfolio and Benchmark month stats
Located at H:\FINANCE\Investments\2012\ Month Reports
3. Performance Report Graph – Excel file: Portfolio and Benchmark perf graph
Located at H:\FINANCE\Investments\2012\ Month Reports

The following reports are kept electronically at H:\FINANCE\Investments by year and month for review and audit:

4. LGIP Statement
5. Safekeeping Report – US Bank Safekeeping page 1 totals
6. Bank Statement – General Account, page 1 summary
7. Bank Statement – Sweep Account, page 1 summary
8. Rate of Return
Portfolio Software Report – Portfolio Management, Portfolio Summary
9. Portfolio Software Investment Listings, Summary by Issuer
10. Portfolio Software Aging Report, under Portfolio Management Reports
11. Portfolio Software GASB 40 Credit & Interest Rate Risk by Modified Duration and Effective Duration
12. Portfolio Software Activity Report, under Portfolio Management Reports
13. E-mail offering of security quotes are saved for each day security is purchased in is saved in H:\FINANCE\Investments\YEAR\Month\Broker offerings emails

4.2 Quarterly Reports

1. Financial Management Report (FMR) – included the following:
 - a. Market Overview
 - b. City Portfolio Overview
 - 1) Diversification
 - 2) Duration (Liquidity)
 - 3) Yield and Benchmark Comparisons
 - c. Economic Outlook and Investment Strategy
 - ~~c.d.~~ Credit ratings will be reported in holdings report and included in compliance.

~~4.3~~ Semi-Annual Reports

- ~~1. Credit ratings of each security in Portfolio Software Credit Rating Report is updated semi-annually
Information is retrieved from Moody's website
<http://v3.moody.com/Pages/default.aspx> and Standard & Poors website:
<http://www.standardandpoors.com/home/en/us> . Both web sites require user id's and passwords to log in.~~

4.34 Annual Reports

1. Statistical Review
2. Council Reading File Annual Review Memo

5. Investment Purchase

1. Evaluate current portfolio for compliance to policy and cash position for available cash and determine whether the portfolio should be longer, shorter or remain the same.
2. Determine desired duration, rate of return, and type of security to comply with Investment Policy. Purchase of securities on negative watch is prohibited.
3. Send e-mail to approved brokers (at least three per Investment Policy Section 8.0) requesting their best option for securities given the desired options:
 - (a) Duration
 - (b) Security type
 - (c) Call structure
 - (d) Premium/discount
 - (e) Amount – Security purchases should ideally be \$3 to \$5 million for efficiency, with a minimum of \$2 million unless there are extenuating circumstances making a smaller purchase beneficial to the City.
4. Save e-mail offerings to
H:\FINANCE\Investments\YEAR\MONTH\Security offerings on "date specified".
5. Review for best fit to City's Investment Policy requirements/needs and select security and size to purchase.
6. Phone broker to request purchase – broker will confirm availability with a call back to confirm purchase and later send the trade ticket by fax or e-mail.

7. Complete Safekeeping Delivery Instructions form located at:
H:\FINANCE\Investments\Investment Forms\Safekeeping Delivery Instructions.docx.
8. Fax completed, signed form to US Bank Safekeeping at 612-303-0202.
9. Attach confirmation of fax to Safekeeping Delivery Instructions form.
10. Create wire transfer from bank general account to Safekeeping for day of settlement. Request approval from 2nd staff. (Three staff are authorized to create and/or approve wire transfers. One person cannot create and approve a wire transfer. Authorized staff for wire transfers are: Deputy Director, Accounting Manager, Accountant – Utilities.
11. Complete Investment Purchase memo informing ASA IV Treasury of security purchase. Form is located at: H:\FINANCE\Investments\Investment Forms\Inv Purch Forms\Investment Purchase Memo.doc
12. Save security offering e-mails to H:\FINANCE\Investments\ appropriate year in the Security Bids folder for record keeping.
13. ASA IV Treasury prepares journal entry for recording purchase in financial system.
14. Enter security information into Portfolio Software.
15. Ensure that there are funds available for wire transfer on day of security purchase.

6. Investment Portfolio Management

1. Required actions if a security placed on credit watch or downgraded.
 - a) Assess current and future risk:
 - Is the security at risk for loss of principal if held to maturity?
 - Is there a risk that further downgrades will lead to loss of principal?
 - b) Inform Investment Committee of credit rating changes to security, associated risks and recommended action.
 - c) Investment Committee will make the decision regarding continued holding or sale of security.
2. ~~Cash-Liquidity~~ Portfolio
 - a) The funds that are needed for daily cash flow needs shall be invested in the Washington State Local Government Investment Pool (LGIP) or kept in the City's sweep account depending on the rate of return of each account and cost of transfers. The LGIP provides daily accessibility for both deposits and withdrawals, resulting in a low maintenance cash flow investment strategy.
 - b) The LGIP and Sweep account along with the expected inflows and outflows will be monitored to ensure that 90 day funding needs are met.
3. Core ~~Investment~~ Portfolio
 - a) The Treasurer will manage all other investments as a core fund portfolio. This portfolio will include be invested in maturities between 1 day and 5 years. This portfolio will be managed as follows:
 1. Average maturity will be measured against the ~~Merrill Lynch 1-3 Year~~0-5 year US Treasury-all treasury Index, or the 2 Year treasury note

2. Guidelines will be established to determine the market exposure in maturity relative to the benchmark.
3. Investments will be laddered out the yield curve so that monies are consistently available to reinvest.

Exhibit 1
CITY OF KIRKLAND
INVESTMENT POLICY COMPLIANCE REPORT

Date of Report 11/5/2012Period Covered **Month of October 2012: October 31, 2012**

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
7.0 Authorized Financial Dealers and Institutions	Compliant	Detailed Authorized Brokers in Annual Review for Broker Dealer Relationships	1. Annual Audited Financial Statements 2. Proof of Financial Industry Regulatory Authority Certification 3. Certification of having read the Policy and receipt of the City's Trading Authorization	Annual
8.0 Broker Allocation	Compliant	4 securities were purchased in October, with 3 settling in November. Broker security offerings are on file in H:\FINANCE\Investments	3 bids for security purchase or sale	Monthly
9.0 Authorized Investments	Compliant	Breakdown of Portfolio listed in Section 12.0	See Section 12.0 Diversification	Monthly
9.0 Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report	Requires AA- or better from Standard & Poors and Aa3 by Moodys	Semi-Annual
11.0 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
12.0 Diversification			Maximums	Monthly
US Treasury	Compliant	0%	100%	
Government Sponsored Enterprise (GSE's)	Compliant	17%, 14% largest issuer	100%, 30% per issuer	
Callable Securities	Compliant	17%	50%	
Local Government Investment Pool	Compliant	46%	100%	
State or Political Subdivision Securities	Compliant	4%, 2% largest issuer	20%, 5% per issuer	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
A-1/P-1 Commercial Paper	Compliant	0%	5%, 5% per issuer	
13.0 Maximum Maturities	Compliant	0.89 Years	Average Maturity Exposure 3 Years	Monthly
	Compliant	5 yrs. 10/18/2017	Maximum Maturity of Individual Issue 5 Years	Monthly
14.0 Conformance to Policy	Compliant	November 3, 2011 and February 29, 2012 Investment Committee Review	Annual Review	Annual
15.0 External Review	Compliant	Last review April 2009	Every three (3) years	Every 3 Years
16.0 Performance Standards	Compliant	90 Day T Bill .11% Avg. 2 Yr. T Note 0.37% Portfolio 0.48%	Band between 90 T Bill and 2 Yr Treasury Note	Monthly
17.0 Reporting Requirements	Compliant	2012 2 nd Quarter Report is available	Annual, Quarterly & Monthly	Monthly
18.0 Policy Adoption	Compliant	Last adopted 7-3-2012	Policy shall be adopted by City Council	Changes Adopted As Needed

Exhibit 2

**City of Kirkland
Trading Authorization**

In accordance with the City of Kirkland’s Investment Policy dated ~~September 29, 2009~~ and approved by City Council ~~on January 5, 2010~~, the officers of the City of Kirkland listed below are hereby authorized to open an account or accounts for the purpose of engaging in transactions to purchase, sell, transfer, or otherwise enter into agreements, contracts, commitments or similar arrangements for settlement for the following:

U.S. Government and Federal Agency securities and Money Market Instruments, including (but not limited to) Commercial Paper, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank.

Designated Officers:

Director of Finance and Administration, Tracey Dunlap _____

Deputy Director, Michael Olson _____

Additionally, for all accounts authorized above, the designated officers are authorized to bind, and obligate said city for transactions, to execute transactions, and in connection therewith to deliver securities, and moneys, to sign and deliver agreements, or customary documents, and that U.S. Bank is authorized to act upon any verbal or written orders and instructions from the designated officer in connection with such accounts and transactions.

I, Kurt Triplett, do hereby certify that I am the City of Kirkland’s City Manager and am duly authorized to execute this certificate on behalf of said city.

Kurt Triplett Date
City Manager

Exhibit 3

**City of Kirkland
Broker/Dealer Questionnaire**

1. Name of Firm:
2. Address (Branch)
3. Address (Headquarters)
4. Is your firm certified as a Disadvantaged Business Enterprise (DBE)?
Yes No
If yes, by which institutions?
5. Is your firm a Primary Dealer of Government Securities?
Yes No
If you answer is no to this question, please complete the supplemental information.
6. Primary Account Representative(s)
Name:
Address:
Phone Number:
E-Mail:
Fax:
7. Department Manager
Name/Title:
Address:
Phone Number:
E-Mail:
Fax:
8. Provide the name and telephone number of the person who performs your day-to-day operations function.
9. If this person is unavailable, who else in your organization can be contacted for operations functions?

~~10. What are your firm's delivery instructions for book entry securities through the Federal Reserve?~~

~~11. What are your firm's physical delivery instructions?~~

12. What are your firm's DTC delivery instructions?

13. What types of fixed income research will you provide? (List and enclose sample copies.)

~~14. Enclose samples of the following documents:~~

- ~~Customer confirmation of a securities transaction~~
- ~~Customer confirmation of a buy and sell for a repurchase agreement~~
- ~~Monthly customer statement~~
- ~~Tri-Party Repurchase Agreement, if applicable~~

~~15.~~14. Enclose a copy of your firm's most recent:

- Annual Report
- Interim financial report

~~16.~~15. Provide information regarding SIPC and other insurance coverage offered by your firm for securities held by your firm for a customer.

~~17.~~16. Provide documentation showing that your firm is licensed in the State of Washington.

~~18.~~17. Provide proof of your firm's FINRA registration.

LIST OF PERSONNEL

Identify all persons who will be accepting orders from (or quoting prices to) City of Kirkland. List personnel in the order in which they would normally be contacted, listing yourself first. Attach an additional sheet if needed

Name:
Telephone:
Toll Free:
Fax:
E-mail:
Title/Function:
NASD Registration Date:
Document Registration In Washington:
Years with firm:
Years as institutional broker:
Year the firm was founded:

If resume is available, please attach.

Name:
Telephone:
Toll Free:
Fax:
E-mail:
Title/Function:
NASD Registration Date:
Washington Registration Date:
Years with firm:
Years as institutional broker:
Year the firm was founded:

CLIENT REFERENCES

As references, provide the following information regarding the public sector or institutional clients with whom you have an established, active relationship. A minimum of three references is required.

1. Name of organization
Address
Contact
Telephone
Length of relationship
Typical transactions

2. Name of organization
Address
Contact
Telephone
Length of relationship
Typical transactions

3. Name of organization
Address
Contact
Telephone
Length of relationship
Typical transactions

If yes, provide information about the relationship and a copy of the parent company's most recent annual report.

Exhibit 4

**City of Kirkland
Investment Policy Certification**

I hereby certify that I have personally read and understand the investment policies and objectives of the City of Kirkland as stated in the Investment Policy dated ~~July 3, 2012~~, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions objectives, horizon, outlook, strategies and risk constraints. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm.

Firm:

Firm:

Signed Date

Signed Date

Title

Title

Name of Sales Representative

Name of Manager

RESOLUTION R-4996

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

WHEREAS, the City Council of the City of Kirkland desires to have City funds invested in secure depositories and maximize returns on these investments while maintaining safety objectives; and

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

WHEREAS, the City of Kirkland investment policy requires an external review of the policy and procedures every three years and such a review was completed in March of 2013; and

WHEREAS, the Kirkland City Treasurer (Deputy Director of Finance and Administration) has recommended revisions to the policy for investment of City funds as well as revisions to the investment procedures, based in part on the external review; and

WHEREAS, the investment policy and procedure revisions have been reviewed and approved by the City's Investment Committee, which consists of the City Manager and Finance Director; and

WHEREAS, the City of Kirkland investment policy has been written in accordance with the Washington Municipal Treasurers' Model Investment Policy; and

WHEREAS, revisions to the City's investment policies must be approved by the City Council of the City of Kirkland;

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

Section 1. The policy for investment of City funds set forth in the document entitled "City of Kirkland Investment Policy September 3, 2013" which is attached as Attachment A and incorporated by this reference is adopted as the official policy for investment of City funds.

Section 2. That the document entitled City of Kirkland Investment Policy September 3, 2013, replaces all previous City of Kirkland Investment Policies.

Passed by majority vote of the Kirkland City Council in open meeting this ____ day of _____, 2013.

Signed in authentication thereof this ____ day of _____, 2013.

MAYOR

Attest:

City Clerk

***CITY OF KIRKLAND
INVESTMENT POLICY***

Adopted September 3, 2013

1.0 Policy Statement

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

2.0 Scope

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

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

3.0 Objective

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

- 3.1 **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
- 3.2 **Liquidity:** The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
- 3.3 **Safety:** Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from other investments.
- 3.4 **Yield:** The City's investments will be designed with the objective of attaining a market rate return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

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

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

4.0 Delegation of Authority

In accordance with City of Kirkland Municipal code, Ordinance No.1020, an Investment Committee was created consisting of the City Manager and Finance Director. Authority is granted to these individuals to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Finance Director may designate a person to coordinate the day to day operations of the investment portfolio.

5.0 Prudence

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

The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

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

7.0 Authorized Financial Dealers and Institutions

Financial Institutions

The Investment Committee will maintain a list of financial institutions as required by the Public Deposit Protection Commission (PDPC), authorized to provide investment services

as outlined in R.C.W. 39.58.080. No public deposits will be made except in a qualified public depository in the State of Washington.

Broker/Dealers

A list will also be maintained of approved security broker/dealers selected by credit worthiness. The Finance Director will review the FINRA (Financial Industry Regulatory Authority) report on both the firm and the broker and maintain documentation of the review. A certification of having read the City's investment policy and receipt of the City's Trading Authorization must be completed by all brokers prior to transacting business. The Brokers Dealers may include "primary" dealers or "secondary" regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).

8.0 Broker Allocation

Investment transactions will be based upon the financial institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc. the Finance Director or the Deputy Director has the authority to waive this. Generally all brokers will not have the same inventory of agency securities available to sell, but should be able to offer comparable alternatives. Banker's acceptances and Certificates of Deposit (other than a compensating balance CD) also require the acquisition of at least three bids, and acceptance of the most attractive rate from among comparable alternatives. Where two or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City.

9.0 Authorized and Suitable Investments

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

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

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

Specific listing:

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

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

- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1. If the banker's acceptance is rated by more than two NRSROs., it must have the highest rating from all the organizations. Banker's Acceptances are considered illiquid as there is no active secondary market for these securities.
- Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7), including the following:
 - Must have the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1.
 - Must be approved by the Investment Committee.
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;
- Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;
- Obligations of the State of Washington or its political sub-divisions with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Obligations of a state other than the State of Washington or its political sub-divisions, with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.

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

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

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

If the City chooses to invest in repurchase agreements, only primary dealers are to be used as counterparties to repurchase agreements, short term credit rating must be the highest credit rating, A-1 or the equivalent and a long term rating of A or the equivalent, the approved Bond Market Association's master repurchase agreement must be executed and on file prior to entering into these transactions and the maximum term for a repurchase agreement shall be limited to 30 days.

10.0 Prohibited Securities

- Mortgage Backed Securities including CMO's are prohibited.
- Derivative Products are prohibited
- The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation of interest rates
- Purchases of any security on negative credit watch are prohibited.
- Purchases in Mutual Funds are prohibited

11.0 Investment Pools

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Kirkland Resolution 3370.

12.0 Safekeeping and Custody

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

13.0 Diversification

The City will diversify its investments by security type and institution so that reliance on any one issuer or financial institution will not place an undue financial burden on the City. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

The following table provides maximum portfolio and issuer limit guidelines for the eligible securities which shall be complied with at the time of a security purchase, unless an exception waiver is approved by the Investment Committee. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

Investment	Percent of Fund	Percent Per Issuer	Maturity
US Treasury Obligations	100	100	5 Years
US Agency Obligations	100	30	5 Years
Callable Agency Securities	50	30	5 Years
State or Political Subdivision Securities	20	5	5 Years
Certificates of Deposits	10	5	5 years
Bankers Acceptances	5	5	180 days
A-1/P-1 Commercial Paper	5	5	180 days

14.0 Maximum Maturities

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

The maximum weighted average maturity (WAM) of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive market exposure. The WAM refers to the final WAM not the effective WAM.

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

15.0 Internal Control

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

16.0 External Control

The City will have an external review of the investment policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

17.0 Performance Standards

The portfolio shall be managed to obtain a fair rate of return, keeping in mind the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, "fair rate of return" will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

In addition, the Investment Core component duration may be tracked against a market index such as the US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio.

18.0 Reporting Requirements

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

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

18.3 A Compliance report will be provided to the Investment Committee on at least a quarterly basis.

18.4 Additional reporting requirements are outlined in the Investment Procedures.

19.0 Investment Policy Adoption

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

GLOSSARY

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

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

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

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

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

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

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

DURATION - The number of years required to receive the present value of future payments, both of interest and principle, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.

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

FEDERAL HOME LOAN BANKS (FHLB) - The 12 Federal Home Loan Banks are a system of regional banks from which local lending institutions everywhere in America borrow funds to finance housing, economic development, infrastructure and jobs. About 80 percent of U.S. lending institutions rely on the Federal Home Loan Banks. Because the Federal Home Loan Banks are cooperatives, their low costs are passed on to consumers and communities.

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

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

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

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

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

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

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

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

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

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

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

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

UNIFORM NET CAPITAL RULE - Securities & Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY - The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer a bond is held, the greater the opportunity for interest rates to move up or down and affect the performance of the bonds in the portfolio.

EFFECTIVE WEIGHTED AVERAGE MATURITY - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer.

For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond's maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called.

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

ORDINANCE O-4416

AN ORDINANCE OF THE CITY OF KIRKLAND UPDATING REFERENCES TO THE DEPARTMENT OF FINANCE AND ADMINISTRATION IN THE KIRKLAND MUNICIPAL CODE AND MAKING CERTAIN HOUSEKEEPING CORRECTIONS.

The City Council of the City of Kirkland do ordain as follows:

Section 1. Section 3.16.030 of the Kirkland Municipal Code is repealed.

Section 2. Section 3.16.035 of the Kirkland Municipal Code is amended to read as follows:

3.16.035 Department of finance and administration.

There shall also be a department of finance and administration. The director of the department of finance and administration may, with the concurrence of the city manager, establish within the department functional divisions, ~~such as budget and finance (including warrant operations) and purchasing.~~ The director of finance and administration may designate division managers of the department ~~as budget and finance supervisor or manager may be designated "city clerk" and "city treasurer."~~

Section 3. Section 3.60.010 of the Kirkland Municipal Code is amended to read as follows:

3.60.010 Relief and pension system established—Board membership.

A ~~Fireman's—firefighters'~~ relief and pension system is hereby declared to have been established and created for the city full-time, full-paid fire department as of March 1, 1969, and the ~~fireman's—firefighters'~~ pension board thereby created shall consist of the following five members, ex officio the mayor who shall be chairman of the board, the city manager, the director of ~~administrative services—finance and administration~~ and in addition two members to be elected by secret ballot of the ~~firemen—firefighters~~, at least one of which must be a regularly employed ~~fireman—firefighter~~.

Section 4. Section 3.72.010 of the Kirkland Municipal Code is amended to read as follows:

3.72.010 Officers.

The following named city officials shall, as required by RCW 35A.13.080, furnish a surety or guaranty bond for the faithful performance of their duties; provided, that said bonds may be combined in the form known as a named schedule bond, and the cost thereof shall be paid by the city of Kirkland.

Office	Bond Amount	Term
City manager	\$50,000	Annual
Director of finance and administration	\$100,000	Annual
Chief of police	\$5,000	Annual

Section 5. Section 3.88.040 of the Kirkland Municipal Code is amended to read as follows:

3.88.040 Reimbursement to owner.

If the owner of the personal property so sold, or his or her legal representative, shall, at any time within three years after such money has been deposited in the city current expense fund or with the director of finance and administration, demand, he, she, or they shall be entitled to receive from the city current expense fund the amount so deposited therein.

Section 6. Section 5.04.050 of the Kirkland Municipal Code is amended to read as follows:

5.04.050 Administration and collection—Contract authorized.

The director of finance and administration is hereby authorized and directed to enter into a contract with the Department of Revenue for the state of Washington for administration of the tax herein imposed. ~~The contract shall be substantially in the form as Exhibit A on file in the office of the city clerk and by this reference incorporated herein.~~

Section 7. Subsection 5.08.020(6) of the Kirkland Municipal Code is amended to read as follows:

5.08.020 Definitions.

(6) "Tax year" or "taxable year" means the year commencing January 1st and ending on the last day of December of the same year, or, in lieu thereof, the taxpayer's fiscal year when permission is obtained from the director of finance and administration to use the same as the tax period;

Section 8. Section 5.08.040 of the Kirkland Municipal Code is amended to read as follows:

5.08.040 License tax year.

All occupation licenses shall be for the tax year for which issued and shall expire at the end of such tax year. Such occupation license and the fee or tax therefor hereby imposed shall be for the year commencing January 1st and ending on the last day of December of the same year; provided, however, that if the taxpayer in transacting his or her business keeps the books reflecting same for a fiscal year not based on the calendar year, he or she may, with the assent of the director of finance and administration, obtain his or her license for the

period of his or her current fiscal year which shall be deemed his or her tax year, and pay the fee or tax computed upon his or her gross income made during his or her fiscal year covering his or her accounting period as shown by the method of keeping the books of the business.

Section 9. Subsection 5.08.070(a) of the Kirkland Municipal Code is amended to read as follows:

5.08.070 Application or return for license.

(a) On or before the first day of each tax year, every taxpayer shall apply to the director of finance and administration for an occupation license upon blanks or forms of return to be prepared and provided by the director requesting such information as may be necessary to enable the director to arrive at the lawful amount of the fee or tax. The taxpayer shall, in a legible manner, write in such blank or form of return the information required and shall sign the same by affidavit at the foot thereof, shall swear or affirm that the information therein given is full and true and that he or she knows the same to be so.

Section 10. Subsections 5.08.120(a) and (b) of the Kirkland Municipal Code are amended to read as follows:

5.08.120 Taxpayer—Books and records required—Returns confidential.

(a) It shall be the duty of each taxpayer taxed upon his or her gross income to keep and enter in a proper book or set of books or records an account which shall accurately reflect the amount of his or her gross income, which account shall always be open to the inspection of the director of finance and administration or his or her duly authorized agent, and from which the officer or his or her agent may verify the return made by the taxpayer.

(b) The applications, statements or returns made to the director of finance and administration pursuant to this chapter shall not be made public nor shall they be subject to the inspection of any person except the mayor, the city attorney, the director of finance and administration or his or her authorized agent, and members of the city council.

Section 11. Section 5.08.130 of the Kirkland Municipal Code is amended to read as follows:

5.08.130 Director of finance and administration to investigate returns.

If any taxpayer fails to apply for license or make return, or if the director of finance and administration is dissatisfied as to the correctness of the statements made in the application or return of any taxpayer, the officer or his authorized agent may enter the premises of such taxpayer at any reasonable time for the purpose of inspecting his or her books or records of account to ascertain the amount of the fee or tax or to determine the correctness of such statements as the case may be and may examine any person under oath administered by the officer, or his agent, touching the matters inquired into, or the officer

or his authorized agent may fix a time and place for an investigation of the correctness of the return and may issue a subpoena to the taxpayer or any other person, to attend upon such investigation and there testify, under oath administered by the officer, or his agent, in regard to the matters inquired into and may, by subpoena, require him, her, or any person, to bring with him such books, records and papers as may be necessary.

Section 12. Section 5.08.140 of the Kirkland Municipal Code is amended to read as follows:

5.08.140 Cost of audit.

Upon the failure or refusal of the taxpayer to furnish the information called for by the director of finance and administration, or if the books and records of the taxpayer are complicated, or do not readily disclose the information required for making a complete or satisfactory return without the assistance of a skilled accountant, then the director of finance and administration may in his or her discretion employ a skilled accountant and such clerical assistance as is necessary to make an audit of the books and records of the taxpayer and such expenses shall be collected from the taxpayer in the manner provided for the collection of the license or tax.

Section 13. Section 5.08.160 of the Kirkland Municipal Code is amended to read as follows:

5.08.160 Over or under payment of tax.

If the director of finance and administration upon investigation or upon checking returns finds that the fee or tax paid or any of them is more than the amount required of the taxpayer, he shall refund the amount overpaid by a warrant upon the current expense fund. If the director of finance and administration finds that the fee or tax paid is less than required, he or she shall send a statement to the taxpayer showing the balance due, who shall within three days pay the amount shown thereon.

Section 14. Section 5.08.170 of the Kirkland Municipal Code is amended to read as follows:

5.08.170 Remedy for nonpayment of tax.

If any taxpayer fails to apply for license or make his or her return, or to pay the fee or tax therefor, or the cost of any audit required by the director of finance and administration or any part thereof within three days after the same shall have become due, the director of finance and administration shall ascertain the amount of the fee or tax or installment thereof and/or cost of audit due, and shall notify such taxpayer thereof, who shall be liable therefor in any suit or action by the city for the collection thereof. The director of finance and administration shall also notify the city attorney in writing of the name of such delinquent taxpayer and the amount due from him or her and the officer shall, with the assistance of the director of finance and administration collect the same by any appropriate means or by suit or action in the name of the city.

Section 15. Section 5.08.180 of the Kirkland Municipal Code is amended to read as follows:

5.08.180 Appeals to city council.

All taxpayers aggrieved by the amount of the fee or tax found by the director of finance and administration to be required under the provisions of this chapter may appeal to the city council from such finding by filing a written notice of appeal with the city clerk within five days from the time such taxpayer was given notice of such amount. The director shall, as soon as practicable, fix a time and place for the hearing of such appeal, which time shall be not more than ten days after filing of the notice of appeal, and he or she shall cause a notice of the time and place thereof to be delivered or mailed to the appellant. At such hearing the taxpayer shall be entitled to be heard and to introduce evidence in his or her own behalf. The city council shall thereupon ascertain the correct amount of the fee or tax by resolution and the city clerk shall immediately notify the appellant thereof, which amount, together with costs of appeal, if appellant is unsuccessful therein, must be paid within three days after such notice is given.

The mayor of the city, or any ~~councilman~~ council member of the city, may, by subpoena, require the attendance thereat of any person, and may also require him or her to produce any pertinent books and records. Any person served with subpoena shall appear at the time and place therein stated and produce the books and records required, if any, and shall testify truthfully under oath administered by the mayor or any member of the city council in charge of the hearing on appeal as to any matter required of him or her pertinent to the appeal, and it is unlawful for him or her to fail or refuse to do so.

Section 16. Section 5.12.060 of the Kirkland Municipal Code is amended to read as follows:

5.12.060 Counting number of admissions—Posting admission charge required.

Whenever a charge is made for admission to any place, a serially numbered or reserved seat ticket shall be furnished the person paying such charge unless written approval has been obtained from the director of finance and administration to use a turnstile or other counting device which will accurately count the number of paid admissions. The established price, any noncity tax, city tax, and total price at which every such admission ticket or card is sold shall be conspicuously and indelibly printed or written on the face or back of that part of the ticket which is to be taken up by the management of the place to which admission is gained. It is unlawful for any person to sell an admission ticket or card on which the name of the person conducting the event or the price is not so printed, stamped or written, or to sell or offer to sell an admission ticket or card at a price in excess of the price printed, stamped or written thereon. The admission tax due shall be based on the established price printed on each ticket. When a charge is made for admission, a sign must be posted in a conspicuous place on the entrance or ticket office which breaks down the admission charge as follows:

Established Price	_____
Non-City Tax	_____
City Tax	_____
Total Price	_____

Section 17. Section 5.12.070 of the Kirkland Municipal Code is amended to read as follows:

5.12.070 Remittance of taxes collected.

Any person, including any municipal or quasi-municipal corporation, who receives any payment for any admission charge on which a tax is imposed by this chapter shall collect same from the person making the admission payment and shall remit the same to the director of finance and administration as herein provided. The tax required to be collected under this chapter shall be deemed held in trust by the person required to collect the same until remitted to the director of finance and administration as herein provided. Any person required to collect the tax imposed under this chapter who fails to collect same, or who collects the same but fails to remit the same to the director of finance and administration in the manner prescribed by this chapter shall be liable to the city for the amount of such tax, and shall, unless the remittance be made as herein required, be guilty of a violation of this chapter whether such failure be the result of his, her or its own act or the result of acts or conditions beyond his or its control. The tax imposed hereunder shall be collected from the person paying the admission charge at the time the admission charge is paid and such taxes shall be remitted by the person collecting the tax to the director of finance and administration in monthly remittances on or before the fifteenth day of the month succeeding the end of the monthly period in which the tax is collected or received and accompanied by such reports as the director of finance and administration shall require: provided, that the director of finance and administration, for good cause shown, may extend the time for making and filing the return and remittance of the tax due. Payment or remittance of the tax collected may be made by check unless payment or remittance is otherwise required by the director of finance and administration, but payment by check shall not relieve the one collecting the tax from liability for payment and remittance of the tax to the director of finance and administration unless the check is in the full and correct amount and until the check is honored. Any person receiving any payment for admissions shall make out a return upon such forms and setting forth such information as the director of finance and administration may require, showing the amount of the tax upon admissions for which he is liable for the preceding monthly period, and shall sign and transmit the same to the director of finance and administration with a remittance for the amount; provided, that the director of finance and administration may in his or her discretion require verified annual returns from any person receiving admission payments setting forth such additional information as he or she may deem necessary to determine correctly the amount

of tax collected and payable. If the return provided for herein is not made and the tax is not collected and paid within fifteen days after the end of the month in which the tax was collected, the director of finance and administration shall add a penalty of ten percent of the tax per month or fraction thereof for each month overdue, which shall be added to the amount of the tax due, and remitted in the same manner. Whenever any theater, circus, show, exhibition, entertainment or amusement makes an admission charge which is subject to the tax herein levied, and the same is of a temporary or transitory nature or there exists a reasonable question of financial responsibility, of which the director of finance and administration shall be the judge, the director of finance and administration may require the report and remittance of the admission tax immediately upon the collection of the same, at the conclusion of the performance or exhibition, or at the conclusion of the series of performances or exhibitions or at such other times as the director of finance and administration shall determine; and failure to comply with any requirement of the director of finance and administration as to report and remittance of the tax as required shall be a violation of this chapter. Every person liable for the collection and payment of the tax imposed by this chapter shall keep and preserve for a period of five years all unused tickets, ticket manifests, books and all other records from which can be determined the amount of admission tax which he or she was liable to remit under the provisions of this chapter, and all such tickets, books and records shall be open for examination and audit at all reasonable times by the director of finance and administration or his or her duly authorized agent. Written permission may be granted by the director of finance and administration to destroy unused tickets prior to the expiration of the five-year period.

Section 18. Section 5.12.080 of the Kirkland Municipal Code is amended to read as follows:

5.12.080 Certificate of registration—Fee—Posting.

Any person conducting or operating any place for entrance to which an admission charge is made shall, on a form prescribed by the director of finance and administration, make application to and procure from the city a certificate of registration, the fee for which shall be one dollar, which certificate shall continue valid until the thirty-first day of December of the year in which the same is issued. Such certificate of registration, or duplicate original copies thereof to be issued by the director of finance and administration without additional charge, shall be posted in a conspicuous place in each ticket or box office where tickets of admission are sold.

Section 19. Section 5.12.090 of the Kirkland Municipal Code is amended to read as follows:

5.12.090 Certificate of registration—Application by other than owner, lessee, or custodian.

Whenever the applicant for a certificate of registration, obtained for the purpose of operating or conducting a temporary or transitory amusement, entertainment or exhibition, is not the owner, lessee, or custodian of the buildings, lots or place where the amusement is to be

conducted, the tax imposed by this chapter shall be reported and remitted as provided in Section 5.12.070 hereof by the person who is the owner, lessee or custodian, if not paid by the person conducting the amusement, entertainment or exhibition. The applicant for a certificate of registration in any case shall furnish the director of finance and administration, with the application with the name and address of the owner, lessee or custodian of the premises upon which the amusement is to be conducted, and such owner, lessee or custodian shall be notified by the director of finance and administration of the issuance of such certificate and of his or her joint liability for collection and remittance of such tax.

Section 20. Section 5.12.100 of the Kirkland Municipal Code is amended to read as follows:

5.12.100 Director of finance and administration to adopt rules.

The director of finance and administration shall have power to adopt rules and regulations not inconsistent with the terms of this chapter for carrying out and enforcing the payment, collection and remittance of the tax herein levied; and a copy of the rules and regulations shall be on file and available for public examination in the director of finance and administration's office. Failure or refusal to comply with any such rules and regulations is a violation of this chapter.

Section 21. Section 5.12.130 of the Kirkland Municipal Code is amended to read as follows:

5.12.130 Applications and returns confidential.

The applications and returns made to the director of finance and administration pursuant to this chapter shall not be made public, nor shall they be subject to the inspection of anyone except the city manager, city attorney, director of finance and administration or authorized agent, and members of the city council, and it is unlawful for any person to make public or to inform another person as to the contents or any information contained in or to permit inspection of any application or return except as in this section authorized.

Section 22. Section 5.18.100 of the Kirkland Municipal Code is amended to read as follows:

5.18.100 Collection and enforcement authority.

The city manager or the director of finance and administration as his or her delegate is authorized and directed to take all steps necessary and required, including the preparation and execution of any contracts or other agreements with King County, to establish the payment collection and enforcement procedures provided for in this chapter.

Section 23. Section 5.19.070 of the Kirkland Municipal Code is amended to read as follows:

5.19.070 Adoption of rules.

The director of finance and administration shall have the power to adopt rules and regulations not inconsistent with the terms of this chapter for carrying out and enforcing the payment, collection and remittance of the tax herein levied such as concerning inspection of records; and a copy of the rules and regulations shall be on file and available for public examination in the director of finance and administration's office. Failure or refusal to comply with any such rules and regulations is a violation of this chapter.

Section 24. Subsection 5.19.230(c) of the Kirkland Municipal Code is amended to read as follows:

5.19.230 Duties.

(c) In addition to the foregoing, the LTAC will submit a report to the city's ~~finance~~-director of finance and administration as to whether the proposed budget for lodging tax revenue and lodging fund expenditures is consistent with long-term stability of the lodging tax fund.

Section 25. Section 5.20.010 of the Kirkland Municipal Code is amended to read as follows:

5.20.010 Authority to create or cancel specific city funds.

The director of finance and administration shall have the authority, without prior consent of the city council, to create or cancel a specific fund among the individual funds of the city.

Section 26. Section 5.20.020 of the Kirkland Municipal Code is amended to read as follows:

5.20.020 Transfer of fund balance.

The director of finance and administration shall have the authority, without the prior consent of the city council, to transfer the balance of an individual city fund to one or more other individual city funds.

Section 27. Section 5.24.010 of the Kirkland Municipal Code is amended to read as follows:

5.24.010 Investment committee —Investments designated.

In accordance with RCW 35.39.030, authority is hereby granted to a committee composed of city manager and the director of finance and administration to invest any portion of the moneys in its inactive funds or in other funds in excess of current needs in:

- (1) United States Bonds;
- (2) United States Certificates of Indebtedness;
- (3) Bonds or warrants of this state;
- (4) General obligation or utility revenue bonds or warrants of its own or any other city or town in the state;
- (5) Its own bonds or warrants of a local improvement or condemnation award district which is within the protection of the local improvement guaranty fund law; and
- (6) In other investments authorized by law.

Section 28. Section 5.24.020 of the Kirkland Municipal Code is amended to read as follows:

5.24.020 Council consent not required –Conversion into cash.

The city manager and the director of finance and administration ~~acting in committee~~, shall have the authority to make the investments without the consent of the city council for each investment and may, at any time, convert the above-mentioned securities, or any part thereof, into cash.

Section 29. Section 5.24.030 of the Kirkland Municipal Code is amended to read as follows:

5.24.030 Report of transactions.

The director of finance and administration shall prepare a report for the city council each month showing all investment transactions.

Section 30. Section 5.32.030 of the Kirkland Municipal Code is amended to read as follows:

5.32.030 Procedure for audit of accounts payable and issuance of ~~warrants checks~~ in payment.

Before any city ~~warrant check~~ may be drawn and issued for payment of claims, bills, invoices and other demands or obligations payable from the claims fund, or any other city fund, the claims or other requests for payment shall be audited by the department of finance and administration and a detailed summary thereof submitted to the city council for its approval at the next regular council meeting; provided, that such ~~warrants checks~~ may be issued after audit and approval by the director of finance and administration and countersigned by the city manager but prior to approval by the city council, subject to the conditions set forth in Section 5.32.031 of this code.

Section 31. Section 5.32.031 of the Kirkland Municipal Code is amended to read as follows:

5.32.031 Issuance of ~~warrants checks~~ before approval by city council.

As authorized by RCW 42.24.180, city ~~warrants checks~~ may be drawn and issued for payment of claims, bills, invoices and other demands or obligations after audit and approval by the director of finance and administration and countersigned by the city manager but prior to approval by the city council under the following conditions:

(1) The director of finance and administration and the city manager have each furnished to the city an official bond for the faithful discharge of their respective duties in an amount and in accordance with the provisions of Section 3.72.010 of this code;

(2) Contracting, hiring, purchasing and disbursing policies that implement effective internal control as adopted by the city council are and remain in effect;

(3) Documentation supporting each claim for which such ~~warrants-checks~~ are issued is submitted to the city council for its approval at the council's next regularly scheduled public meeting; and

(4) If upon council review the council disapproves some claims for which such ~~warrants-checks~~ have been issued, the director of finance and administration and the city manager shall jointly cause the disapproved claims to be recognized as receivables of the city of Kirkland and to pursue collection diligently until the amounts disapproved are either collected or until the legislative body is satisfied and approves the claims.

Section 32. Chapter 5.69 of the Kirkland Municipal Code is amended to read as follows:

Chapter 5.69 PETTY CASH FUND

5.69.010 Established.

The director of finance and administration is authorized to establish a petty cash fund not to exceed twenty-five thousand dollars, composed of two categories of cash, as follows:

(1) Petty cash – such amount as the director of finance and administration determines necessary for the making of minor authorized disbursements and the making of change, but not to exceed fifteen thousand dollars; and

(2) Eastside Narcotics Task Force – amount of cash contribution from city of Kirkland held by the Eastside Narcotics Task Force, but not to exceed ten thousand dollars.

5.69.020 Regulations conform to State Auditor's Office requirements.

The director of finance and administration is hereby authorized and directed to establish written regulations for the creation and operation of said petty cash fund which regulations shall conform to the petty cash requirements of the State Auditor's Office as set forth in ~~BARS System manual, Volume 1, Part 3, Chapter 3, Section E, page 23, effective date January 1, 1990.~~

Section 33. Subsection 5.74.070(b) of the Kirkland Municipal Code is amended to read as follows:

5.74.070 Fees charged by planning department.

(b) The director of finance and administration is authorized to interpret the provisions of this chapter and may issue rules for its administration. This includes, but is not limited to, correcting errors and omissions and adjusting fees to match the scope of the project. The fees established here will be reviewed annually, and, effective January 1st of each year, may be administratively increased or decreased, by an adjustment to reflect the current published annual change in the Seattle Consumer Price Index for Wage Earners and Clerical Workers as needed in order to maintain the cost recovery objectives established by the city council.

Section 34. Section 5.76.010 of the Kirkland Municipal Code is amended to read as follows:

5.76.010 Fund established.

The director of finance and administration is directed to establish a fund to be known as the "Real Estate Excise Tax Revenue Municipal Capital Improvement Fund." All moneys received by the city from the treasurer for King County in distribution of the ~~one-quarter of one percent~~ real estate excise tax imposed by the city pursuant to Chapter 5.18 of this code and Chapter ~~82.46 RCW49, Washington Laws 1982, First Ex. Sess.,~~ shall be deposited in the fund created by this chapter.

Section 35. Section 5.80.030 of the Kirkland Municipal Code is amended to read as follows:

5.80.030 Bond issuance—Information to be included in issuing ordinance.

Registered bonds or other registered obligation may be issued in any denomination to represent several registered bonds or other obligations of smaller denominations and may permit the issuance of bonds or other obligations in denominations smaller than a larger denomination bond or obligations requested to be transferred. The ordinance authorizing the issuance of the bonds or other obligations shall provide for an authenticating trustee, transfer agent, registrar and paying agent, which shall be one or more of the fiscal agencies of the state of Washington appointed in accordance with RCW Chapter 43.80, except that with respect to interest-bearing warrants, installment contracts, interest-bearing leases and other instruments or obligations not usually subject to trading, assignment or transfer, the director of finance and administration for the city may serve as the transfer agent, registrar and paying officer. Any transfer agent, registrar and paying agent or officer shall comply with all applicable federal and state laws and regulations respecting the carrying out of such duties. Unless provided for in the contract between the city and the fiscal agencies, each such ordinance authorizing the issuance of such bonds or other obligations shall specify the terms and conditions of making payments of principal and interest, for the provision of printing any physical instruments including the use of identifying numbers or other designations, the specifying of record and payment dates, the determination of denominations, the manner of communicating to the owners of such bonds or other obligations, the receipt of the physical instruments for payment of principal, the destruction of such instruments and the certification of such destruction, the registration and release of securing interests and for such other matters pertaining to the registration of such bonds or other obligations authorized by such ordinance as the city may deem to be necessary or appropriate.

Section 36. Section 5.80.040 of the Kirkland Municipal Code is amended to read as follows:

5.80.040 Contract with state as central depository—Registrar.

The director of finance and administration for the city is authorized to enter into a contract with the fiscal agency or agencies of the state of Washington in connection with the establishment and maintenance by such fiscal agency or agencies of a central depository system for the transfer or pledge of bonds or other obligations and for the services as authenticating trustee, transfer agent, registrar and paying agent for such bonds and other obligations. Such contract shall define the rights and duties of such fiscal agency so acting and the means of compensation thereof. In addition, in lieu of making provisions in each ordinance authorizing the issuance of bonds or other obligations, such contract may make specific provision for the procedures for payment, identification by numbers or other designations, the manner of issuance or reissuance of certificates, the manner of transfer, the manner of communication to owners of bonds or other obligations for accounting to the city and for cancelled certificate of destruction, registration and release of securing interest and for such other matters as may be appropriate; provided however, that in instances where the fiscal agencies of the state of Washington serve as registrar, the city adopts by reference the contract between the state finance committee of the state of Washington and the fiscal agencies in lieu of executing a separate contract and prescribing by ordinance the rights, duties, obligations and compensation of the registrar; further provided, that when the city director of finance and administration serves as registrar a separate contract shall not be required.

Section 37. Section 5.82.040 of the Kirkland Municipal Code is amended to read as follows:

5.82.040 King County comptroller—directed to distribute property taxes together with accrued interest on investments thereof.

~~The King County comptroller~~ is authorized and directed to distribute to the director of finance and administration, for and on behalf of the city of Kirkland, all property taxes collected as frequently as daily, and the comptroller is directed to distribute to the city all interest accrued on the investment thereof by the county at the time of the distribution of the property tax moneys to the city. The director of finance and administration is authorized to give a receipt therefor whenever funds are delivered to the city. Delivery may be in money, or as a transfer of an investment authorized by RCW 36.29.020, made by the comptroller on behalf of the city.

Section 38. Section 7.02.030 of the Kirkland Municipal Code is amended to read as follows:

7.02.030 Definitions.

Where used in this chapter, the following words and terms shall have the meanings as defined in this section, unless, from the context, a more limited or different meaning is clearly defined or apparent:

(a) "Business" includes all activities, occupations, pursuits, or professions located and/or engaged within the city, with the object of gain, benefit or advantage to the person engaging in the same, or to any other person or class, directly or indirectly, and includes nonprofit enterprises.

(b) "Business license" means that document issued by the city licensing the transaction of the indicated business by the person whose name appears thereon for the stated period.

(c) "Engaging in business" means commencing, conducting or continuing in any business within the city, whether or not an office or physical location for the business lies within the city. "Engaging in business" includes the performance of work or services by contractors, consultants, representatives, agents or other persons within the city, even though the office location of the contractor, consultant, representative, agent or other person is not within the city limits; the exercise of corporate or franchise powers, as well as the liquidation of a business when the liquidators hold themselves out to the public as conducting such business; acting as a solicitor or canvasser; and furnishing temporary employees and/or workers to other businesses. By way of illustration only and without being all-inclusive, a business with an office or physical location outside the city limits which sells or leases personal property to buyers or lessees in the city; accepts or executes a contract to perform construction or installation services contracts in the city; solicits sales in the city; or renders services to others in the city; is engaged in business in this city, irrespective of whether or not such business maintains a permanent place of business in the city.

(d) "Finance and administration director" or "director" means the city of Kirkland director of finance and administration or his/her designee.

(e) "Gross receipts" shall have its ordinary meaning and also means the value accruing from the business activity within the city or conducted from the city including compensation for the rendition of services (without any deduction for labor costs or the cost of materials used), sale of personal property (without any deduction for the cost of property sold), gains or dividends realized, rents, royalties, contributions, fees and commissions, all without any deduction for any expense, taxes, or losses.

(f) "Person" includes individual natural persons, any firm, corporation, association, sole proprietor, club, partnership, trust, receiver, administrator, executor, estate, company, independent contractor, society, any officer, agent, personal representative, any group of individuals acting as a unit, the United States or the state of Washington or any instrumentality thereof, and includes the singular and the plural.

(g) "City" means the city of Kirkland, Washington.

(h) "Year" means a calendar year, except where otherwise specified or when permission is obtained from the director to use a different fiscal year.

(i) "L&I" means the Washington State Department of Labor and Industries.

(j) "Place of business" or "office" includes, but is not limited to, the following: maintaining, occupying, or using a permanent building or facility or fixed location as an office or location for conducting business; or a location where the regular business of the person is conducted and which is either owned by the person or over which the person exercises legal dominion and control; or a location which includes a business sign, mailing address, and permanent phone. A

vehicle such as a pickup, van, truck, boat or other motor vehicle will not be considered a place of business for purposes of this chapter.

(k) "Casual or isolated sale" means a sale made by a person who is not engaged in the business of selling the type of property involved. Persons who hold themselves out to the public as making sales at retail or wholesale are deemed to be engaged in business, and sales made by them of the type of property which they hold themselves out as selling are not casual or isolated sales even though such sales are not made frequently.

(l) "Employee" means and includes each of the following persons who are not required by the city to have his/her/its own separate city of Kirkland business license:

(1) Any person who is on the business's payroll, and includes all full-time, part-time, and temporary employees or workers; and

(2) Self-employed persons, sole proprietors, owners, managers, and partners; and

(3) Any other person who performs work, services or labor at the business, including an independent contractor who is not required to have a separate city of Kirkland business license.

(m) "Contractor" means any person who, in the capacity of an independent contractor, contracts with any business, property owner or person to perform a particular job or jobs, whether the remuneration received for performing the job or jobs is on a cost-plus basis, a flat sum basis or a salary computed at so much per hour.

(n) "Subcontractor" means any person who in the capacity of an independent contractor contracts with any contractor to perform a particular trade or job, whether the remuneration received for performing the job or jobs is on a cost-plus basis, a flat sum basis, or a salary basis computed at so much per hour.

Section 39. Section 7.02.080 of the Kirkland Municipal Code is amended to read as follows:

7.02.080 Finance and administration director as license officer.

(a) The administration of this chapter shall be accomplished under the direction of the director. The director may make and publish rules of procedure and regulations for the administration of this chapter. It is unlawful to violate or knowingly fail to comply with any such rule or regulation.

(b) The finance and administration director shall collect all license fees and shall issue licenses in the name of the city to all persons qualified under the provisions of this chapter and shall have the authority to:

(1) Adopt Forms. Adopt application, license, renewal, annual return, and all other necessary or convenient forms and prescribe the information to be provided. Such required information shall include, but not be limited to, the name of the applicant, his or her residence address, place of business, the nature of the business, the form of ownership, the names of all officers of the business and the number of employees.

(2) Obtain Endorsement. Submit applications, when deemed appropriate, to other city officials for their endorsements thereon as to

compliance by the applicant with all city regulations which the officials have the duty of enforcing.

(3) Investigate. Investigate and determine the eligibility of any applicant for a license, the amount of fees or other amounts due as prescribed herein, and the correctness of data submitted to the city.

(4) Examine Records. Examine and audit the books and records of any applicant, licensee, or business when reasonably necessary to the administration of this chapter. The records of a business, including federal and state tax returns and invoices, shall be open for examination by the director or authorized agent at any time to the extent authorized by law. The director may require the attendance of any person at a time and place fixed by the director or authorized agent in accordance with and to the extent authorized by applicable law.

(5) Give Notice. Notify any applicant of the acceptance or rejection of the application.

(6) Regulate Form of Licenses. Ensure that each license is numbered, and shows the name of the licensee, and business address.

Section 40. Section 7.02.160 of the Kirkland Municipal Code is amended to read as follows:

7.02.160 Revenue generating regulatory license fee (RGRL).

(a) General. In addition to the basic license fee, the highest applicable RGRL in this section shall be paid for the annual license issued under this chapter.

(1) A business with less than twelve thousand dollars of average annual gross receipts shall be exempt from any RGRL.

(2) A business located within the city limits of Kirkland with ten or fewer employees or FTEs shall be exempt from the RGRL for the first year of business operation only. Businesses exempt from the RGRL under this subsection shall still be required to pay the basic license fee under Section 7.02.120 and register the number of employees and FTEs under this chapter.

(3) For the purposes of this section and in determining the applicable RGRL, the term "employee" means and includes each of the following persons who are not required by the city to have his/her/its own separate city of Kirkland business license:

(A) Any person who is on the business's payroll, and includes all full-time, part-time, and temporary employees or workers; and

(B) Self-employed persons, sole proprietors, owners, managers, and partners; and

(C) Any other person who performs work, services or labor at the business, including an independent contractor who is not required to have a separate city of Kirkland business license.

(4) An entity that is entirely exempt from paying the basic license fee shall be exempt from any RGRL.

(5) An entity with some activities or functions that are exempt from the basic license fee and some that are not exempt shall pay an RGRL based on the number of its employees that are involved in the functions or activities that are not exempt.

(b) Amount of RGRL.

(1) Revenue Generating Regulatory License (RGRL) Fee Method. Except as otherwise provided by this chapter, every person engaging

in business within the city shall pay an RGRL based upon the number of employee hours worked in Kirkland during the previous year. Annual employee hours are calculated based on the sum of the four quarterly reports submitted to the Washington State Department of Labor and Industries for the previous year. It will be the responsibility of the employer to determine the number of hours worked within the city from these reports. Businesses that did not file quarterly reports with the Washington State Department of Labor and Industries shall determine the number of hours worked within the city and demonstrate, if required, to the satisfaction of the finance and administration director or his/her authorized agent, that the number of employee hours worked is correct.

(2) The annual license fee (base fee and RGRL) shall be calculated by adding the base fee of one hundred dollars per business license to the full-time-equivalent employees that worked in Kirkland multiplied by one hundred dollars. The approved tax rate per full-time employee is \$0.052084 (which represents a RGRL multiplier of \$0.052084 per employee hour worked), as may be adjusted herein. Employers without a full year history would need to estimate the number of employee hours that will be worked in the current calendar year.

(3) If a business has more than one location in Kirkland, the annual business license fee calculation must include a base fee for each location and the RGRL for annual employee hours at all locations.

(c) Alternative FTE Method. A business may choose to calculate its annual license fee by adding the one-hundred-dollar base fee to the RGRL based on multiplying one hundred dollars by the number of its employees. The number of employees shall be based on the sum of the employees in the four quarterly reports submitted to the Washington State Department of Labor and Industries for the previous year divided by four. It will be the responsibility of the employer to determine the number of employees working within the city from these reports. Businesses that did not file quarterly reports with the Washington State Department of Labor and Industries shall determine the number of employees working in the city and demonstrate, if required, to the satisfaction of the finance and administration director or his/her authorized agent, that the number of employees is correct. Employers without a full year history would need to estimate the number of employees that will work in the city for the current calendar year.

(1) Once the FTE methodology has been selected, it must be used for future renewals.

(2) Businesses with more than one location must use the same method of calculation for all locations.

(3) For businesses with employees who work less than one thousand, nine hundred twenty hours per year (the work hour figure used by the Washington Department of Labor and Industries) the total number of hours worked by all such employees during the four quarters of the previous year shall be added together and divided by one thousand, nine hundred twenty to determine the FTE equivalency.

(4) It will be the responsibility of the business to determine the total number of FTEs (or equivalency) and demonstrate, if required, to the satisfaction of the finance and administration director or his/her authorized agent that the calculation is accurate.

(d) The license fee for a business required to be licensed under this chapter and not located within the city's corporate limits shall be calculated by adding the one-hundred-dollar base fee and the RGRL based upon the number of employee hours worked within the city, but in no event shall the license fee be less than the minimum fee set forth in this chapter. If the number of employee hours worked is not known at the time of renewal, the business shall estimate the maximum number of employee hours they anticipate using in Kirkland during the year.

(e) Businesses doing business in the city that have no employees physically working within the city shall pay the minimum license fee required under this chapter.

(f) The minimum fee for any license issued under this chapter shall be two hundred dollars (a base fee of one hundred dollars and an RGRL of one hundred dollars), as may be adjusted herein.

(g) Payment made by draft or check shall not be deemed a payment of the fee unless and until the same has been honored in the usual course of business, nor shall acceptance of any such check or draft operate as a quittance or discharge of the fee unless and until the check or draft is honored. Any person who submits a business license fee payment by check to the city pursuant to the provisions of this chapter shall be assessed an NSF fee set by the finance and administration director if the check is returned unpaid by a bank or other financial institution for insufficient funds in the account or for any other reason.

(h) If any person required by the terms and provisions of this chapter to pay a license fee for any period fails or refuses to do so, he or she shall not be granted a license for the current period until the delinquent license fee, together with penalties, has been paid in full. Any license fee due and unpaid under this chapter and any penalties thereon shall constitute a debt to the city and may be collected in court proceedings in the same manner as any other debt in like amount, which remedy shall be in addition to all other existing remedies.

(i) If no higher RGRL applies under this section, then the minimum RGRL shall be one hundred dollars.

Section 41. Subsections 7.12.020(a) and (b) of the Kirkland Municipal Code are amended to read as follows:

7.12.020 License fees.

(a) Amusement Devices. Any distributor, owner or operator of an amusement device shall pay a license fee of fifty dollars per machine per year, payable annually in advance to the director of finance and administration at the time of issuance or renewal of the distributor's, owner's or operator's business license.

(b) Every distributor, owner or operator of cigarette vending machines doing business as such within the city shall pay an annual license fee in the sum of fifty dollars for a master license payable annually in advance to the director of finance and administration. Also, any distributor, owner, operator or user of such cigarette vending machines shall pay an additional sum of ten dollars per machine per year, payable annually in advance to the director of finance and

administration. Payment shall be made at the time of the issuance or renewal of the distributor's, owner's or operator's business license.

It is further required that each cigarette vending machine in the city shall be equipped with an electric lock or device to be operated by the owner and/or employees only.

Section 42. Section 7.16.030 of the Kirkland Municipal Code is amended to read as follows:

7.16.030 Inventory—Contents—False statements unlawful.

The inventory required for securing the license herein provided for shall contain a complete and accurate list of the stock of goods, wares and merchandise to be sold at any sale for which a license is hereby required, together with the wholesale price thereof; which inventory or list shall be signed by the person seeking the license, or by a resident agent thereunto authorized, and by affidavit at the foot thereof, the applicant or his agent shall swear or affirm that the information therein given is full and true and known by him to be so. It is unlawful to sell, offer or expose for sale at any such sale, or to list on such inventory any goods, wares or merchandise which are not the regular stock of the store or other place, the business of which is to be closed out by such sale, or to make any replenishments or additions to such stock for the purposes of such sale or during the time thereof, or to fail, neglect or refuse to keep accurate records of the articles or things sold, from which records the director of finance and administration may ascertain the number or the kind and quantity sold. Commingling of additional merchandise with that inventory shall cause the merchandise inventory to lose its identity as distressed goods, and any license issued shall cease to apply to the sale of such goods. If the inventoried stock shall be offered for sale on the same premises with other stock by the same person, firm or corporation, the same shall be deemed to be commingled.

Section 43. Section 7.16.040 of the Kirkland Municipal Code is amended to read as follows:

7.16.040 License—Term—Fees.

All licenses issued for the sale of goods, wares or merchandise at auction, by sale of distressed goods, or removal or closing out sale, shall be valid for a period of not exceeding thirty days unless renewed as hereinafter provided. The fee for such license is fixed as follows: The sum of twenty-five dollars plus two dollars for each one thousand dollars or fraction thereof of value of inventory submitted pursuant to Sections 7.16.010 through 7.16.070. Upon expiration of the thirty-day period, the director of finance and administration may extend such license on a daily basis upon the payment of an additional license fee of twenty-five dollars per day, which license shall continue in effect only so long as this daily license fee is paid and the licensee shall comply with the provisions of Sections 7.16.010 through 7.16.070. Auction sales shall be subject to an additional license fee of twenty-five dollars per day and shall be limited to a period of not exceeding thirty days.

Section 44. Section 7.20.040 of the Kirkland Municipal Code is amended to read as follows:

7.20.040 License—Application—Procedure.

Any person desiring such a license shall file written application with the city on forms provided by the city for that purpose. Fifteen dollars shall be deposited with the city when application is made. This deposit will be applied to costs, if any, charged to the city for investigation. Upon filing, the police department shall conduct a full investigation as to the truth of the statements contained therein, and as to any and all other matters which might tend to aid the city in determining whether or not such application should be granted. The police department shall forward the results of its investigation to the director of finance and administration, who shall issue or deny the license based on whether the application meets the requirements of this chapter. An applicant may appeal the denial of a cabaret license utilizing the appeal procedures set forth in Section 7.02.250.

Section 45. Section 7.24.064 of the Kirkland Municipal Code is amended to read as follows:

7.24.064 Access—Peace officer—Director.

All peace officers of the city and/or the director of the department of finance and administration shall have free access to public dances and dance halls when a dance is being conducted for the purpose of inspection and to enforce compliance with the provisions of Sections 7.24.060 through 7.24.066.

Section 46. Subsections 7.24.066 (b) and (c) of the Kirkland Municipal Code are amended to read as follows:

7.24.066 Indemnification.

(b) As a condition precedent to obtaining a license, the licensee shall, at no expense to the city, secure and maintain during the full term of this agreement general comprehensive liability insurance issued by one or more companies authorized to do business in the state of Washington, which insurance shall be subject to the approval of the city attorney as to company, form, coverage, and which insurance must fully protect the city from any and all claims and risks in connection with any activity performed by the licensee by virtue of this agreement and provide the following minimum coverage:

- (1) One million dollars per person, per occurrence;
- (2) One million dollars annual aggregate.

Said policy must specifically name the city of Kirkland as an additional insured party thereunder in the following manner:

The City of Kirkland is an additional insured for all coverages provided by this policy of insurance and shall be fully and completely protected by this policy and for any claim, suit, injury, death, damage or loss of any sort sustained by a person, organization or corporation in connection with any activity upon or use or occupancy of establishments regulated by this section.

The coverages provided by this policy to the City or any other named insured shall not be terminated, reduced, or otherwise changed in any respect without providing at least thirty (30) days' prior written

notice to the department of finance and administration of the City of Kirkland.

(c) The licensee shall deliver to the department of finance and administration of the city a copy of all policies required under this provision and all endorsements thereto or other evidence to the reasonable satisfaction of the department of finance and administration that the licensee has secured or renewed and is maintaining insurance as required by this section.

Section 47. Section 7.36.050 of the Kirkland Municipal Code is amended to read as follows:

7.36.050 License—Fees.

Every pawnbroker, secondhand dealer or coin dealer, before commencing to carry on or conduct such a business within the corporate limits of the city, shall obtain a license for the operation of said business from the director of finance and administration and pay a license fee of one hundred dollars for one year. There shall be no prorating of the license fee. The license shall not be assignable.

Section 48. Section 7.48.035 of the Kirkland Municipal Code is amended to read as follows:

7.48.035 Director of finance and administration to adopt rules.

(a) The director of finance and administration shall have authority to adopt rules and regulations not inconsistent with the provisions of this chapter for carrying out and enforcing payment, collection and remittance of the taxes herein levied. A copy of the rules and regulations so adopted shall be on file and available for public examination in the director of ~~finance's~~ finance and administration's office. Failure or refusal to comply with any such rules and regulations is a violation of this chapter.

(b) Such administrative rules shall include the form of tax return required to be filed with the city at the time of payment of the gambling tax, and the procedures for when and how audit of the gambling licensee's records, for the purpose of verifying the tax return, may be conducted by the director of finance and administration.

Section 49. Subsection 7.56.030(1) of the Kirkland Municipal Code is amended to read as follows:

7.56.030 Additional local regulations authorized by RCW 19.09.100(7).

A charitable solicitation to be conducted within the city shall conform to the following:

(1) Before commencing any charitable solicitation campaign, the person or organization soliciting such charitable contributions shall file with the department of finance and administration the following information:

(A) The beginning and estimated ending date for the solicitation campaign;

(B) The name, address and telephone number of the person or organization conducting the campaign, or making the solicitation for charitable contributions;

(C) A verification of the registration and filing of disclosure documents required by RCW Chapter 19.09, or, in the alternative, verification of exemption therefrom;

(D) The name of each person who will be acting as a charitable solicitor, or, in the alternative, a facsimile copy of the solicitor's identification, if such identification is to be furnished, by the organization conducting the campaign to each of its individual solicitors.

Section 50. Section 15.04.060 of the Kirkland Municipal Code is amended to read as follows:

15.04.060 City manager.

"City manager" means the city manager, the director of public works, the operations and maintenance engineer, the director of finance and administration or any authorized agent, deputy or other person acting under the authority of the city manager.

Section 51. Section 15.04.080 of the Kirkland Municipal Code is amended to read as follows:

15.04.080 Department of finance and administration.

"Department of finance and administration" means the person or persons designated by the city manager to collect water and sewer rates and charges.

Section 52. Subsection 15.12.064(4) of the Kirkland Municipal Code is amended to read as follows:

15.12.064 Sewer capital facility charge adjustment.

(4) Upon determining the adjusted SCFC, the director of public works shall file with the director of finance and administration three copies of the adjusted fee schedule along with the values the fee schedule is based on. The director of finance and administration shall file said schedules and values with the city clerk to be available for use by the general public and the affected city officials and departments;

Section 53. Section 15.14.020 of the Kirkland Municipal Code is amended to read as follows:

15.14.020 Water capital facility charges (WCFC).

The water connection charge(s) must be paid prior to issuance of the permit and shall be determined as to each requested connection by the application of the criteria set forth below.

(1) For all water connections a base local water capital facility charge (WCFC) will be assessed and will consist of the following:

(a) Each water connection will be assigned a "residential customer equivalent" (RCE) factor;

(b) The water connection RCE shall be determined based on the proposed water meter size;

(c) The water meter shall be sized in accordance with the Uniform Plumbing Code as amended and adopted by Chapter 21.20 of this code;

(d) A water connection's RCE is based on the flow potential through its meter. A five-eighths-inch by three-fourths-inch meter is assigned a base factor of one;

(e) The base WCFC is multiplied by RCE factors based upon water meter sizes as follows:

Meter Size	RCE
5/8" x 3/4"	1
1"	2.5
1-1/2"	5
2"	8
3"	16
4"	25
6"	50
8"	80

(f) The fee schedule will be adjusted periodically, but not less often than every odd number year, to reflect a change in the WCFC. The adjustment shall use the method following:

(i) At the time of adjustment, the value of the water capital facility shall be determined based on the worth of all city water mains less any water mains funded by local improvement districts, grants or installation by private entities (developers); this shall be known as the in-plant service;

(ii) The total of connections to the water capital facility shall be determined and a RCE factor assigned;

(iii) The adjusted WCFC shall be calculated by dividing the current water capital facility value by the current number of RCEs;

(iv) Upon determining the adjusted WCFC, the director of public works shall file with the director of finance and administration three copies of the adjusted fee schedule along with the values the fee schedule is based on. The director of finance and administration shall file the schedules and values with the city clerk to be available for use by the general public and the affected city officials and departments.

(2) For all water connections a based regional capital facility charge (RCFC) will be assessed and will consist of the following:

(a) Each water connection will be assigned a "cascade equivalent residential unit" (CERU) factor based on the proposed meter size;

(b) The water meter shall be sized in accordance with the Uniform Plumbing Code as amended and adopted by Chapter 21.20 of this code;

(c) A water connection's CERU factor is based on the flow potential through its meter. A five-eighths-inch by three-fourths-inch meter is assigned a base factor of one. The base RCFC is multiplied by CERU factors based upon water meter sizes as follows:

Meter Size	CERU
5/8" x 3/4"	1
1"	2.5
1-1/2"	5
2"	8
3"	16

4"	25
6"	50
8"	80
10"	115
12"	160

(d) The RCFC may be adjusted periodically pursuant to the terms of the interlocal agreement between the city and the Cascade Water Alliance.

(e) Upon receiving the adjusted RCFC, the director of public works shall file with the director of finance and administration three copies of the adjusted fee schedule. The director of finance and administration shall file the schedules with the city clerk to be available for use by the general public and the affected city officials and departments.

(3) The water connection charge required by subsections (1) and (2) of this section will be assessed against both domestic and irrigation water meter connections.

(4) When water meter size is increased solely to provide fire sprinkler protection, the water connection charge required by subsections (1) and (2) of this section shall be based on the size required by the Uniform Plumbing Code, as amended and adopted by Chapter 21.20 of this code.

Section 54. Section 15.20.010 of the Kirkland Municipal Code is amended to read as follows:

15.20.010 Person billed.

Charges for refuse, water and sewer services furnished by the city shall be billed to the owner of the property to which the services are rendered; provided, that when the owner and tenant in possession, in writing, file with the city a request that the billing be sent to the tenant, the city manager acting through the director of finance and administration may, at his discretion, grant such a request, subject to such reasonable conditions as he finds are appropriate. Notwithstanding to whom the billing is sent, the obligation for payment shall be the joint and several responsibility of the property owner and the tenant.

Section 55. Section 15.20.050 of the Kirkland Municipal Code is amended to read as follows:

15.20.050 Bimonthly billing.

All charges for water services and for sewer services shall be billed to the customer by the city on a bimonthly billing cycle. Actual water consumption will be charged to the date of the meter reading. All charges for service will be from the beginning of one month to the end of the following month. All bills shall be paid to the department of finance and administration.

Section 56. Section 18.08.060 of the Kirkland Municipal Code is amended to read as follows:

18.08.060 Assessments—Installments—Foreclosure.

Foreclosure of delinquent local and utility local improvement district assessments or installments thereof may be commenced by the methods provided in RCW Chapter 35.50.

The director of finance and administration shall first give to the persons whose names appear on the assessment roll as owners of the property charged with the assessments or installments which are delinquent notice of commencement of foreclosure proceedings in the form and manner required by RCW 35.50.030.

The foreclosure proceedings shall then be commenced not less than thirty-five days nor more than sixty days after the date of mailing such notice; provided, however, that no foreclosure action shall be commenced after July 15th in any year.

Section 57. If any provision of this ordinance or its application to any person or circumstance is held invalid, the remainder of the ordinance or the application of the provision to other persons or circumstances is not affected.

Section 58. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication pursuant to Section 1.08.017, Kirkland Municipal Code in the summary form attached to the original of this ordinance and by this reference approved by the City Council.

Passed by majority vote of the Kirkland City Council in open meeting this _____ day of _____, 2013.

Signed in authentication thereof this _____ day of _____, 2013.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

PUBLICATION SUMMARY
OF ORDINANCE O-4416

AN ORDINANCE OF THE CITY OF KIRKLAND UPDATING REFERENCES TO THE DEPARTMENT OF FINANCE AND ADMINISTRATION IN THE KIRKLAND MUNICIPAL CODE AND MAKING CERTAIN HOUSEKEEPING CORRECTIONS.

SECTION 1. Repeals Section 3.16.030 of the Kirkland Municipal Code.

SECTIONS 2 - 56. Amends sections of the Kirkland Municipal Code to reflect the Department of Finance and Administration and other housekeeping updates.

SECTION 57. Provides a severability clause for the ordinance.

SECTION 58. Authorizes publication of the ordinance by summary, which summary is approved by the City Council pursuant to Section 1.08.017 Kirkland Municipal Code and establishes the effective date as five days after publication of summary.

The full text of this Ordinance will be mailed without charge to any person upon request made to the City Clerk for the City of Kirkland. The Ordinance was passed by the Kirkland City Council at its meeting on the _____ day of _____, 2013.

I certify that the foregoing is a summary of Ordinance _____ approved by the Kirkland City Council for summary publication.

City Clerk