



**RESOLUTION NO. 2021-08**

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

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

**WHEREAS**, by approval of Resolutions 2019-10, 2017-07, 2016-19, 2014-20, 2011-06, 2005-04, and 2003-06, the City Council has amended the Financial Policies; and

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

**WHEREAS**, during 2021, the City Council Finance Committee reviewed and evaluated various amendments to the Financial Policies; and

**WHEREAS**, on September 23, 2021, the Finance Committee unanimously recommended that the City Council approve the revised Financial Policies; and

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

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

**Section 1.** The City of Lynnwood Financial Policies, consisting of 14 pages and dated November 22, 2021, as set forth by Attachment A to this resolution are hereby approved. The Financial Policies approved by this Section supersede earlier iterations of the Financial Policies referenced within the recitals of this resolution.

RESOLVED this 22<sup>nd</sup> day of November 2021.

DocuSigned by:  
*Nicola Smith* 12/14/2021  
281B3CE79E884DA...  
Nicola Smith, Mayor

ATTEST/AUTHENTICATED:

DocuSigned by:  
*Karen Fitzthum*  
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Karen Fitzthum, Interim City Clerk



**ATTACHMENT A  
RESOLUTION 2021-\_\_**

# Financial Policies

Legislative History

Revised November 22, 2021, Resolution 2021-\_\_  
Revised November 12, 2019, Resolution 2019-10  
Rewrite April 10, 2017, Resolution 2017-07  
Revised November 28, 2016, Resolution 2016-19  
Reformatted 11/20/2015  
Revised November 10, 2014, Resolution 2014-20  
Revised May 9, 2011, Resolution 2011-06  
Revised April 11, 2005, Resolution 2005-04  
Revised April 15, 2003, Resolution 2003-06  
Adopted August 14, 2000, Resolution 2000-12

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

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 **Financial Policies**

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**2 1. Application and Administration**

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3 A. It is the intent of the City Council to utilize and reference these policies in decisions and  
4 other actions with financial ramifications for the City. This section outlines examples of  
5 when and how these policies should be utilized.

6 B. The use of “shall” indicates the City’s intent to closely adhere to the stated policy. The  
7 use of “should” or “may” indicates a preferred approach. These policies serve to guide  
8 the City Council while enabling flexibility for the Council to respond to specific  
9 circumstances.

10 C. Review of Financial Policies:

11 i. The Financial Policies should be reviewed with the review of the Second-Quarter  
12 Financial Report. This review may include recommended changes to the Policies.

13 ii. This section should not preclude the review and amendment of the Financial Policies  
14 at other times, as deemed necessary by the City Council.

**15 2. General Policies**

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

**19 3. Budgeting: General**

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20 A. These Financial Policies shall be used to guide major policy initiatives and shall be  
21 incorporated or summarized in the adopted biennial budget document.

22 B. The City of Lynnwood shall prepare and adopt a biennial budget in accordance with  
23 Chapter 35A.34 RCW, Chapter 2.72 LMC, and these Policies. Fiscal years shall begin  
24 on January 1<sup>st</sup> and conclude on December 31<sup>st</sup>.

25 C. For clarity, the budget document required by RCW 35A.34.070 and LMC 2.72.030 shall  
26 be referred to as the “proposed preliminary budget”, and the budget document required  
27 by RCW 35A.34.080-100 and LMC 2.72.040 shall be referred to the “Preliminary  
28 Budget”.

29 D. Pursuant to the opinion of the Municipal Research and Services Center (MRSC)  
30 published on October 30, 2015, the City shall conduct a minimum of two public hearings  
31 on the Preliminary Budget, and a minimum of one public hearing fixing the final budget.  
32 One of the two public hearings required for the Preliminary Budget may be the public  
33 hearing required for the property tax levy.

34 E. The Preliminary Budget shall include reference to these Financial Policies, including:

35 i. An assessment of its conformance to the Financial Policies and an explanation if  
36 there are areas of non-conformance.

37 ii. References as to how the Financial Policies were used to develop recommendations  
38 for balancing the budget.

 **Financial Policies**

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



## Financial Policies

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

#### 4. Financial Forecasts

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- 17           A. As a part of each biennial budget process, the City shall prepare six-year expenditure
- 18                   and revenue forecasts for the City's principal operating and capital funds.
- 19                   i. Revenue forecasts for major revenues (those which represent at least 10% of the
- 20                   General Fund) should be based on the best information available and should
- 21                   reference assumptions and data sources.
- 22                   ii. Revenue forecasts should include all sources of revenue.
- 23                   iii. Forecasts shall include alternative expenditure scenarios, based on different policy
- 24                   and economic assumptions.
- 25           B. Financial Forecasts shall:
- 26                   i. Incorporate plans for reserves and specific fund balances.
- 27                   ii. Include revenue streams as may be appropriate to support capital projects in
- 28                   accordance with the city's Capital Facilities Plan and Strategic Investment Plan
- 29                   Component.
- 30                   iii. Serve as a basis for decision making that may affect long-term trends and financial
- 31                   needs.
- 32           C. All financial decisions shall be within the context of the long-range planning forecast and
- 33                   other related long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff
- 34                   shall provide a review of the implications of budgetary and other fiscal proposals on
- 35                   these long-range forecasts and plans. Staff shall include a "fiscal note", in a format to be
- 36                   provided by the Finance Director and approved by the Council, with each action item on
- 37                   the council agenda. If no note is deemed necessary, the agenda cover sheet shall so
- 38                   state.

 **Financial Policies**

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- 1 D. Assumptions used in the CFP and SFP shall be noted and defined.
- 2 E. Basis of long-range planning shall be outcome oriented. In accordance with Chapters  
3 2.70 and 2.72 LMC, and Resolution 2000-03, the City shall strive to illustrate the output  
4 from CFP and SFP expenditures.

## 5. **Reserves**

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### 6 A. Reserves, General Fund

- 7 i. Adequate reserve levels are a necessary component of the City's overall financial  
8 management strategy and a key factor in external agencies' measurement of the  
9 City's financial strength. Collectively, the adopted budget should include General  
10 Fund reserve balances equaling not less than 2.5 months of the operating  
11 expenditures of the prior fiscal year. The reserves specified by this policy consist of  
12 the aggregate total of the General Fund Unassigned Fund Balance and the Revenue  
13 Stabilization Fund balance.
- 14 ii. The purpose of the General Fund Unassigned Fund Balance is to provide for  
15 adequate operating cash and to cover receivables until they are collected. Achieving  
16 and maintaining this unassigned fund balance is the highest priority over developing  
17 and maintaining other general fund reserves.
- 18 iii. The purpose of the reserves of the Revenue Stabilization Fund is to help protect the  
19 city from major economic downturns and other unanticipated, adverse financial  
20 conditions.
- 21 iv. City Council authorization shall be required for expenditure of Unassigned Fund  
22 Balance or Revenue Stabilization Fund Balance.

### 23 B. Reserves, Enterprise Funds

- 24 i. Adequate reserve levels are a necessary component of the overall financial  
25 management strategy for enterprise funds such as utilities, and a key factor in  
26 external agencies' measurement of the City's financial strength.
- 27 ii. City Council authorization shall be required for expenditure of Enterprise Fund  
28 Reserves.
- 29 iii. Utility Operating Fund.
- 30 a. The purpose of Utility Operations Fund reserves is to provide for adequate  
31 operating cash and to cover receivables until they are collected.
- 32 b. The reserve balance target for the Water Utility is the amount equivalent to 90  
33 days of operating expenses.
- 34 c. The reserve balance target for the Sewer Utility (wastewater) is the amount  
35 equivalent to 45 days of operating expenses.
- 36 d. The reserve balance target for the Storm Utility (stormwater) is the amount  
37 equivalent to 30 days of operating expenses.

 **Financial Policies**

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## 1       iv.    Utility Capital Fund.

2           a.    The purpose of Utility Capital Fund reserves is to provide funding for  
3           emergency repairs, unanticipated capital expenses, and project cost  
4           overruns.5           b.    The reserve balance target for the Water Utility is the amount equivalent to  
6           1% of all Original Asset Values.7           c.    The reserve balance target for the Sewer Utility (wastewater) is the  
8           amount equivalent to 2% of all Original Asset Values.9           d.    The reserve balance target for the Storm Utility (stormwater) is the amount  
10          equivalent to 1% of all Original Asset Values.

## 11       v.    Golf Fund.

12           a.    The reserve balance target for the Golf Fund is the amount equivalent to 30 days  
13           of operating expenses.14    **6.    Reporting: General**

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15    A.    The Finance Department shall prepare financial reports that show and monitor actual  
16    performance in various expenditures and revenues with the adopted budget and  
17    planning forecasts.18       i.    The reporting system shall include a financial analysis of the overall financial status  
19       of the City and of its key funds, including, but not limited to, an analysis of all  
20       available financial resources.21       ii.   This analysis should discuss the current financial status, and the immediate and  
22       longer-term future financial status.

23       iii.   A complete analysis shall be prepared quarterly.

24       iv.

25    **7.    Revenues: General**

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26    A.    To the extent possible, diversified and stable sources of revenue shall be maintained to  
27    shelter public services from downward fluctuations in any one revenue source. Periodic  
28    financial reports shall include trend analysis of the City's primary sources of revenue.29    B.    All potential grants shall be carefully examined for matching requirements. Some grants  
30    may not be accepted if the local matching funds cannot be justified. Grants may also be  
31    rejected if programs must be continued with local resources after grant funds are  
32    exhausted.33    **8.    Revenues: Fees and Charges**

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

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

## Financial Policies

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- 1           ii. Fees shall be reviewed by general type as described below:
- 2           a. Development-related fees (land use, building and property, fire marshal's office
- 3           and engineering fees) shall be established by ordinance; adjusted for inflation
- 4           and periodically subjected to a comprehensive rate analysis. Development-
- 5           related fees should be based on recovering costs of permitting and inspection
- 6           services.
- 7           b. Regulatory Fees (such as those related to Title 5 LMC) shall be established by
- 8           ordinance. As may be permitted by law, these fees may be used for generating
- 9           city revenues in addition to recovering costs of the regulatory services.
- 10          c. Recreation and parks use fees shall be set by the Director of Parks, Recreation
- 11          and Cultural Arts within ranges established by ordinance.
- 12          d. General fees (such as rental rates, copy charges, and other miscellaneous fees)
- 13          shall be established by ordinance. These services should charge fees to assist
- 14          in making these services self-supporting.
- 15          e. Enterprise Funds (Utilities and Golf Course) fees shall be set by ordinance, and
- 16          set at a level necessary to support the costs of services in the fund and to
- 17          maintain long-term financial stability. To insure that the enterprise funds remain
- 18          self-supporting, fee and rate structures shall fully fund the direct and indirect
- 19          costs of operations, capital plant maintenance, debt service, depreciation, and
- 20          reasonable system extensions. See "Revenues: Utility Rates" below for
- 21          additional provisions.

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

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- 23          A. Every three years, the City shall conduct a comprehensive, third-party, expert analysis of
- 24          utility rates.
- 25          B. Revenues generated by utilities should provide adequate resources to provide for proper
- 26          operation of the related programs, servicing of related debt at prescribed levels,
- 27          maintenance of the capital plant, and adequate reserves.
- 28          C. Utility rates shall be set utilizing the following guidelines:
- 29            i. The rate structure should encourage consumers to conserve natural resources while
- 30            providing a stable and predictable revenue base for the proper management of the
- 31            utility.
- 32            ii. The rates shall strive to be equitable among the classes (general types) of
- 33            ratepayers.
- 34            iii. The revenue target of the utility rates should maintain a minimum debt service
- 35            coverage ratio (DSCR) of 1.5. DSCR is a financial formula that equals net operating
- 36            income divided by annual debt service.
- 37            iv. Rates should be set using an assumption of 95% of the average water consumption
- 38            for the five previous years.
- 39            v. A complete rate analysis, when finished, shall be included with the proposed
- 40            preliminary budget, if not already adopted by separate ordinance.



 **Financial Policies**

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**10. Expenditures: General**

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- 1           A. The City shall authorize only those ongoing, operating expenditures that may be  
2 supported by ongoing operating revenues. Before the City takes a policy or budgetary  
3 action that will create fixed, ongoing expenses, the cost implications of such actions shall  
4 be estimated/determined for current and future years with the aid of strategic financial  
5 planning models as described in Financial Management/Strategic Forecasting Policies.  
6 Capital expenditures may be funded from one-time revenues, but the operating budget  
7 expenditure impacts of capital expenditures shall be reviewed for compliance with this  
8 policy provision.  
9
- 10           i. Operating revenues are those revenues that recur regularly on an annual basis,  
11 excluding revenues that may be available only on a one time basis such as revenues  
12 derived from land sales, bond proceeds, etc.
- 13           B. Department heads are responsible for managing their budgets within the total  
14 appropriation for their department.
- 15           C. The City shall maintain expenditure categories according to state statute and  
16 administrative regulation as described in the State Auditor's Budgetary, Accounting, and  
17 Reporting System (BARS).
- 18           D. The City shall assess funds for services provided internally by other funds. The  
19 estimated direct and indirect costs of service shall be budgeted as an expense to the  
20 fund receiving or benefiting from the service, and the cost of the service shall be  
21 recognized as revenue to the providing fund. A review of the method for determining the  
22 amount of the interfund assessment shall be reviewed periodically.
- 23           E. Emphasis shall be placed on improving productivity, workplace innovation, program  
24 evaluation, and alternative means of service delivery rather than adding to the work  
25 force. The City shall invest in technology and other efficiency tools to ensure high  
26 productivity. The City may hire additional staff only after the need of such positions has  
27 been demonstrated and documented, including assessment of alternative measures,  
28 such as contracting for professional services and partnering with other  
29 agencies/organizations.
- 30           F. All compensation planning and collective bargaining shall focus on the total cost of  
31 compensation which includes direct salary, health care benefits, pension contributions,  
32 training allowance, and other benefits of a non-salary nature which are a cost to the City.
- 33           G. Enterprise Funds expenditures shall be fully supported by their own rates, fees, and  
34 charges, and not subsidized by the General Fund. The Enterprise Funds shall pay their  
35 share of overhead costs and services provided by the General Fund.

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

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- 37           A. Short-term (anticipated less than one year) economic downturns and temporary gaps in  
38 cash flow: Expenditure reductions or restrictions may be imposed. Expenditures from  
39 the General Fund Unassigned Fund Balance, the Revenue Stabilization Fund, or  
40 interfund loans may be used with City Council approval to address short-term downturns  
41 in City revenues. The City Council may authorize interfund loans to cover short-term  
42 gaps in cash flow.

 **Financial Policies**

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- 1 B. Long-term (greater than one year) revenue downturns: Revenue forecasts shall be  
2 revised. When long-term revenue downturns are likely, the following guidelines for  
3 addressing the revenue shortfall shall be considered.
- 4 i. Deficit financing (borrowing) should not be considered as an appropriate fiscal  
5 response.
- 6 ii. Prior to increasing taxes and/or fees to achieve a balanced budget, the City should  
7 evaluate opportunities to reduce one-time and/or ongoing expenses.
- 8 iii. Rather than instituting “across the board” reductions, Budgeting for Outcomes  
9 principles and criteria should be utilized to reduce/discontinue certain levels of  
10 service, or delay/discontinue certain projects.
- 11 C. Periodic financial reports prepared by the Finance Department shall be utilized to  
12 monitor forecasted, budgeted, and actual revenues and expenditures.
- 13 D. In instances when combined, actual sales and use tax revenue for the previous two  
14 quarters is less than the revenue received during the same period of the previous year,  
15 the Mayor shall put forth to the Finance Committee a proposed budget amendment that  
16 responds to the under-performance of revenues.
- 17 i. The Mayor’s proposed budget amendment shall include an updated financial  
18 forecast and a written description of the anticipated changes to performance  
19 measures, program outcomes, and levels of service.
- 20 ii. This policy shall not preclude the Mayor from initiating corrective action pursuant to  
21 his/her administrative authorities prior to action by the City Council.
- 22 iii. The recommendation(s) of the Mayor and Finance Committee shall be forwarded to  
23 the City Council.

## 24 **12. Investments**

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

 **Financial Policies**

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



## Financial Policies

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

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

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 **Financial Policies**

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

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

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

 **Financial Policies**

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

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

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

#### 33 **15. Capital Planning and Asset Management**

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

 **Financial Policies**

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

27 **16. Other Funds**

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

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