

# City of Tualatin



## Financial Policies

“Dedicated to being Good Stewards of Public Funds”



Updated December 9, 2024

# Financial Policies

## *City of Tualatin's Financial Policies*

### **Purpose**

Financial policies are vital to a strategic, long-term approach to financial management, and to achieve and maintain a stable and positive financial position while ensuring the financial integrity of City operations. They are used as a guideline for operational decision making and maintaining a fiscally prudent budget while carrying out the needs and wants of the City of Tualatin and its residents. These policies establish parameters in which we operate while providing a standard against which our fiscal performance can be judged.

Financial policies also establish a framework for planning and decision making to meet the City's goal of maintaining an adequate financial base to sustain the desired level of services residents have come to know and expect. It provides guidelines for managing risk and assisting the City in complying with established public management best practices, while ensuring compliance with federal, state, and local legal and reporting requirements.

These policies are adopted to achieve the following general financial goals:

1. Provide an adequate financial base to sustain the desired level of municipal services.
2. Deliver cost effective and efficient services to our residents.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and assure taxpayers and the financial community that the City is well managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect the City's residents and businesses.
6. Adhere to the highest standards of financial management and reporting practices as set by the Government Finance Officers Association, the Governmental Accounting Standards Board and other professional standards.
7. Comply with finance related legal mandates, laws and regulations.

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt

management, accounting and financial reporting, reserves and internal controls. The following policies are adopted by the City Council, reviewed annually by management and amended as necessary.

## **I. Revenue Policy**

The goal of the Revenue Policy is to create and maintain a diversified and stable revenue system to mitigate the impact of short-term fluctuations in any revenue source and provide a stable revenue stream to support City services.

1. Significant one-time and or temporary revenue sources will not be used to fund continuing programs and services, but rather to fund one-time, or intermittent, expenditures.
2. The City will establish user fees for services that can be identified and where costs are directly related to the level of service provided and to the cost of providing the service. User fees will be reviewed on an established periodic basis.
  - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay and debt service expenses of the City's utility funds, including operating contingency, reserve requirements and capital replacement.
  - b. User charges shall be sufficient to finance the City's costs to perform development review and building activities.
  - c. Other reimbursable work performed by the City (full labor costs, overhead, contracted services, equipment and other indirect expenses) should be billed at total actual or estimated total actual cost.
  - d. Charges for services will accurately reflect the total actual or estimated cost of providing a specific service. The cost of providing specific services will be recalculated periodically, and the fee adjusted accordingly. The City will maintain a current schedule of fees.
  - e. The City will consider market rates and charges levied by other municipalities of similar size for like services in establishing rates, fees and charges.
3. The City will pursue an aggressive policy of collecting delinquent accounts. When necessary, discontinuing service, collection agencies, liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.
4. All potential grants that require matching funds, on-going resource requirements, or include new or additional continuing compliance requirements shall be evaluated and considered before submittal of the application. Approval by the City Manager shall be obtained, prior to the submittal of an application.

5. Revenues will be estimated realistically and prudently. Revenue of a volatile nature will be estimated conservatively. The City will estimate its revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association, or other reliable sources.

## **II. Operating Budget Policy**

The City shall prepare, present, adopt and amend its operating budget in accordance with Oregon Local Budget Law.

1. The City will prepare the budget with participation by all departments, guided by City Council goals and the work plan to accomplish these goals.
2. A budget calendar will be prepared with key elements/deadlines in the development of the budget.
3. Departmental objectives will be integrated into the City's annual budget.
4. The City shall maintain a budget system to monitor revenue and expenditures on an ongoing basis with adjustments made as necessary.
5. The amount of funding available will be determined for each fund. The budget will be developed based upon expected revenues.
6. Budget Committee meetings will be advertised and posted, as required by Oregon Budget Law, and on the City's website, as well as the public hearing to adopt the City's budget.
7. The City Manager shall present a proposed budget to the Budget Committee for evaluation and approval before sending the Approved Budget to the City Council for adoption.
8. Budgetary procedures shall conform to state regulations and generally accepted accounting principles.
9. Budget amendments will be prepared by the Finance Director, under the direction of the City Manager, to ensure compliance with Oregon Budget Law.

## **III. Expenditure Policy**

The City will prioritize services, establish appropriate service levels, and manage the expenditure of available resources while ensuring fiscal stability and providing necessary services.

1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Department or Division Manager or Director will be responsible for the administration of his/her department/program budget. This includes accomplishing the goals and objectives

incorporated into the budget and monitoring each department/division budget for compliance with spending limitations

2. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures and with State laws and regulations.
3. Staff will make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient. Expenditures that will reduce future costs will be encouraged.
4. Staff will make every effort to maximize any discounts offered by vendors, and will use competitive bidding and/or the Oregon Cooperative Procurement Program when considering purchases.
5. All compensation planning and collective bargaining will include analyses of total cost of compensation, which includes analysis of salary increases, health benefits, pension contributions, and other fringe benefits. City management will only propose operating personnel costs that can be supported by continuing operating revenues.

#### **IV. Capital Improvement Plan Policy**

The goal of this policy is to provide guidelines for annually reviewing and monitoring the City's Capital Improvement Plan, and monitoring the state of the City's capital equipment and infrastructure, and setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

1. The City will complete a Capital Improvement Plan (CIP) for capital improvements, update it annually and will use the CIP as a planning tool for capital improvements to be programmed into the annual budget.
2. The CIP will be used as a financial planning tool to fund future capital projects, improvements and purchases.
3. Each project will include the need, scope of work, total cost estimates, and future operating and maintenance costs (if applicable and available).
4. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacements costs.
5. Each year, an internal CIP committee will evaluate the list of proposed CIP projects and determine which projects to recommend to the City Manager and Finance Department for inclusion in the annual budget.

## V. Investment Policy

The purpose of this policy is to guide the investment of the City's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield, while meeting the requirements of Oregon Revised Statutes (ORS) 294.035.

The City's Investment Policy is adopted annually by the City Council. Annual updates will be incorporated into the Financial Policies Manual when adopted.

*See Attachment A for the full Investment Policy, as approved by the Oregon Short Term Fund Board, and adopted by the Tualatin City Council.*

## VI. Contingency and Reserve Policy

The purpose of this policy is to ensure that the City maintains a prudent level of financial resources to protect against the need to reduce service levels due to temporary revenue shortfalls or unpredicted one-time expenditures.

1. The City will maintain fund balances of the various operating funds of the City at adequate levels to mitigate current and future risks from revenue shortfalls or unanticipated expenditures and at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.
2. The City shall establish a contingency to provide for unanticipated expenditures of a nonrecurring nature to meet unexpected increases in service delivery costs. In accordance with local budget law in the State of Oregon, the contingency must be an appropriated budget item, though funds may not be directly disbursed from the contingency account. Amounts must be reclassified into another appropriation of a fund by resolution or through a supplemental budget process. The City shall maintain minimum contingency amounts for the following funds:
  - a. General Fund – 15% of total expenditures
  - b. Building Fund and all Utility Funds – 15% of total expenditures
  - c. Capital Project Funds – 15% of total expenditures, or net balance of the fund
3. Unappropriated Fund Balances are amounts that are set aside for future years and cannot be transferred by resolution or appropriated through a supplemental budget, unless necessitated by a qualifying emergency as defined in Oregon Revised Statutes (ORS) 294.481. Reserves for Future Expenditure are amounts that are planned to be saved for use in future fiscal years. If the need arises during the fiscal year to spend reserves, a supplemental budget may be

adopted to appropriate the expenditure, as defined in ORS 294.471. The City should maintain the following as either Unappropriated Fund Balances or Reserves for Future Expenditures:

- a. General Fund – 10% of total appropriations to provide the City with the necessary working capital until property tax receipts are received from the County Treasurer in November.
  - b. Building Fund – net balance of building related fees, as per ORS 455.210
    - i. Due to fluctuations in development related activity year-to-year, the target for total reserves and contingencies should be 18 months of operating expenditures,
  - c. Utility Funds – net balance of fund
4. Other individual funds may have contingency or reserve requirements set by the Tualatin Municipal Code, State Statutes, Bond Covenants or other legally binding documents.

The amounts recommended above may be exceeded as circumstances warrant due to special operational or capital project needs, but the City will adhere to the policy that expenditures which are anticipated, expected to occur during the fiscal year and can reasonably be ascertained and estimated, should be part of the basic budgeted appropriations.

## **VII. Capital Asset Management Policy**

This policy addresses capital asset planning, acquisition, funding and management in order to ensure fiscally responsible stewardship.

1. The City will maintain its physical assets at a level adequate to protect the city's capital investments and to minimize future operating costs.
2. The City will determine the most cost effective funding method for its capital projects and will obtain grants, contributions and alternative sources of funding when possible.
3. To the extent allowed by law, system development charges will be designed to recapture from new private development the full cost of community assets in place at the time for the development and the necessary expansion of those systems caused by increased demand on those assets.
4. The capitalization threshold used in determining if a given asset qualifies for capitalization is \$10,000 per item.
5. The Finance Department will maintain a capital asset inventory.
6. Adequate insurance shall be maintained on all capital assets.

## **VIII. Accounting, Auditing & Financial Reporting Policy**

The City shall comply with federal, state, and local statutes and regulations and conform to generally accepted accounting practices as promulgated by the Governmental Accounting Standards Board (GASB), The American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

1. The Finance Director and staff will prepare and present regular reports that analyze, evaluate, and forecast the City's financial and economic conditions.
2. Monthly financial statements will be provided to all departments for their review.
3. Internal controls and procedures will be maintained.
4. An annual audit shall be performed by an independent public accounting firm, which will issue an opinion on the Annual Comprehensive Financial Report (ACFR), along with a management letter identifying areas needing improvement, if necessary.
5. The City will submit the ACFR to the GFOA for its "Certificate of Achievement for Excellence in Financial Reporting" program.
6. The City will issue annual financial reports in accordance with generally accepted accounting principles (GAAP) as outlined in the Governmental Accounting, Auditing of Financial Reporting (GAAFR) publication.

## **IX. Debt Policy**

This policy establishes guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

1. The Finance Director will structure all debt issuances and oversee the on-going management of all City debt. Debt includes general obligation bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, equipment financing agreements and any other contractual agreements that obligate the City to make future principal and interest payments.
2. Capital projects financed through the issuance of bonds shall not be financed for a period which exceeds the useful life of the project.
3. The City will strive to maintain its high bond rating, and will receive credit ratings on all its bond issues.
4. No debt shall be issued for which the City has not identified specific revenue sources sufficient for repayment. The Finance Director shall prepare an analysis of the source of repayment prior to issuance of any debt.

5. The City will not use long-term debt to fund current operations, to balance the budget or to fund projects that can be funded from current resources, unless the debt is otherwise determined to be in the best interest of the City.
6. The City may utilize short-term debt or inter-fund loans as permitted, to cover temporary cash flow deficiencies due to timing of cash flows.
7. The City shall ensure that its debt margins are within the 3% RMV (real market value) limitation as set forth in ORS 287A.004§2.



**INVESTMENT POLICY  
2024**

**TABLE OF CONTENTS**

- 1. INTRODUCTION..... 3
- 2. GOVERNING AUTHORITY..... 3
- 3. SCOPE ..... 3
- 4. OBJECTIVES ..... 3
- 5. STANDARDS OF CARE..... 4
- 6. AUTHORIZED FINANCIAL INSTITUTIONS ..... 5
- 7. SAFEKEEPING AND CUSTODY..... 7
- 8. AUTHORIZED AND SUITABLE INVESTMENTS ..... 8
- 9. INVESTMENT PARAMETERS..... 10
- 10. INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE ..... 11
- 11. INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENTS ..... 12
- 12. POLICY COMPLIANCE AND PERFORMANCE STANDARDS ..... 12
- 13. REPORTING REQUIREMENTS..... 13
- 14. INVESTMENT POLICY ADOPTION ..... 13
- 15. GLOSSARY ..... 14

## **1. INTRODUCTION**

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City of Tualatin.

## **2. GOVERNING AUTHORITY**

The investment program shall be operated in conformance with federal, state, and other legal requirements. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145 and 294.810. All funds within the scope of this policy are subject to regulations established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

This Policy has been adopted by Resolution No. 5817-24 by the City Council of Tualatin, Oregon on October 28, 2024.

## **3. SCOPE**

This policy applies to activities of the City with regards to investing the financial assets of all funds except for funds held in trust for the Pension Portfolio and deferred compensation funds for the employees of the City which have separate rules. Other than bond proceeds or other unusual situations, the total of all funds ranges from \$70,000,000 to \$110,000,000. This policy provides direction for the following fund types:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds
5. Enterprise Funds
6. Internal Service Funds
7. Trust and Agency Funds
8. Other Funds

## **4. OBJECTIVES**

The City's principal investment objectives in order of priority are:

### **4.1 Safety:**

- Preservation of capital and protection of investment principal.
- Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

#### **4.2 Liquidity:**

- Maintenance of sufficient liquidity to meet operating requirements that are reasonably anticipated.

#### **4.3 Yield – Return:**

- Attainment of a market value rate of return throughout budgetary and economic cycles.

## **5. STANDARDS OF CARE**

### **5.1 Delegation of Authority**

- a. **Governing Body:** The ultimate fiduciary responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Finance Director as the Investment Officer for the City's funds. The Finance Director shall invest City funds in accordance with ORS Chapter 294, Public Financial Administration, and with this Investment Policy. This Policy shall constitute a "written order" from City Council per ORS 294.035.
- b. **Investment Advisor:** Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage or necessary financial protection of the City's resources. External investment advisors shall be subject to Oregon Revised Statutes and the provisions of this Investment Policy. The Advisor shall provide non-discretionary advisory services, which require prior approval from the Finance Director on all transactions.

In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

### **5.2 Prudence:**

The standard of prudence to be used, by the Finance Director, in the context of managing the overall portfolio is the prudent person rule which states:

"Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The City's Finance Director (ORS 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and Oregon Revised Statutes 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.

### **5.3 Ethics:**

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

## **6. AUTHORIZED FINANCIAL INSTITUTIONS**

The City shall maintain a list of all authorized financial institutions and dealers that are approved for investment purposes. Any firm is eligible to make an application to the Finance Director and upon due consideration and approval, will be added to the list. Additions and deletions to the list will be made at the City's discretion. There should be in place, proof as to all the necessary credentials and licenses held by employees of the brokers/dealers who will have contact with the City of Tualatin as specified by but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc.

### **6.1 Broker/Dealers:**

The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives. The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

- a. Broker/Dealer firms must meet the following minimum criteria:
  - i. Be registered with the Securities and Exchange Commission (SEC);
  - ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
  - iii. Provide most recent audited financials.
  - iv. Provide FINRA Focus Report filings.
- b. Approved broker/dealer employees who execute transactions with the City must meet the following minimum criteria:
  - i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
  - ii. Be licensed by the state of Oregon;
  - iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.
- c. If the City's investment advisor is contracted to provide securities transactions on behalf of the City, the advisor's broker/dealer list must be provided to the Investment Officer for approval. The Investment Officer can assign the responsibility of

broker/dealer due diligence process to the Advisor, and all licensing information on the counterparties will be maintained by the Advisor and available upon request.

The advisor broker/dealer review should include:

- i. FINRA Certification check
- ii. Firm Profile
- iii. Firm History
- iv. Firm Operations
- v. Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
- vi. State Registration Verification
- vii. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisors must provide the City with any changes to the list prior to transacting on behalf of the City.

## **6.2 Financial Bank Institutions:**

All financial banks that provide bank deposits, certificates of deposits or any other deposit of the bank to the City must either be fully covered by the FDIC or the bank must be a participant of the Public Funds Collateralization Program (PFCP) program. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS Chapter 295 creates a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

## **6.3 Investment Advisors:**

An Investment Advisor may be utilized to manage funds and will be selected through a competitive RFP process. The Advisor must meet the following criteria:

- a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon);
- b. All investment advisor firm representatives conducting investment transactions on behalf of City must be registered representatives with FINRA;
- c. All investment advisor firm representatives conducting investment transactions on behalf of City must be licensed by the state of Oregon;
- d. Contract terms will include that the Investment advisor will comply with the City's Investment Policy.

A periodic (at least annual) review of all authorized investment advisors under contract will be conducted by the Finance director to determine their continued eligibility within the portfolio guidelines. The Investment Advisor must notify the City immediately if any of the following issues arise while serving under a City Contract:

- a. Pending investigations by securities regulators.
- b. Significant changes in net capital.
- c. Pending customer arbitration cases.
- d. Regulatory enforcement actions.

#### **6.4 Competitive Transactions:**

The Finance Director will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The Finance Director will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Finance Director and/or the Investment Advisor will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the Investment Officer shall document quotations for comparable or alternative securities.

The City's investment advisor that is providing investment management services must provide documentation of competitive pricing execution on each transaction. The investment advisor will retain documentation and provide upon request.

## **7. SAFEKEEPING AND CUSTODY**

### **7.1 Safekeeping of Securities and Funds:**

Securities will be held by an independent third-party safekeeping institution selected by the City in the City's segregated account. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

All trades of marketable securities will be executed on a delivery vs payment (DVP) basis to ensure that securities are deposited in the City of Tualatin's safekeeping institution prior to the release of funds. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

### **7.2 Bank Deposits and Certificates of Deposit:**

The City may hold bank deposits or certificates of deposits at banks qualified under ORS 295.

### **7.3 Accounting Method:**

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

#### **7.4 Internal Controls:**

The Finance Director shall maintain a system of written internal controls which shall address the following areas of concern:

- Compliance with investment policy constraints and requirements
- Clear delegation of authority
- Segregation of duties and separation of responsibilities for trade execution, accounting, and record keeping
- Written confirmation of transactions and funds transfers
- Timely reconciliation of custodial reports
- Appropriate security for online transactions and access to bank accounts and bank data
- Custodial safekeeping
- Control of collusion
- Review, maintenance and monitoring of security procedures both manual and automated
- Dual authorizations of wire and automated clearing house (ACH) transfers
- Avoidance of physical delivery of securities wherever possible and address control requirements for physical delivery where necessary

An external auditor shall provide an annual independent audit to assure compliance with Oregon state law and City of Tualatin policies and procedures.

### **8. AUTHORIZED AND SUITABLE INVESTMENTS**

#### **8.1 Authorized Investments:**

All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for Finance Director including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS must be amended to this policy in order to be allowable. If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by City Council. Minimum credit ratings and percentage limitations apply to the time of purchase.

#### **8.2 Suitable Investments:**

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

**US Treasury Obligations:** US Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest [ORS Section 294.035(3)(a)].

**US Agency Obligations:** Senior debenture obligations of US federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE) whose payment is guaranteed by the United States [ORS Section 294.035(3)(a)].

**Municipal Debt:** Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization, or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization [ORS Section 294.035(3)(c)].

**Corporate Indebtedness:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Corporate indebtedness must be rated on the settlement date AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization [ORS Section 294.035(3)(i)].

**Commercial Paper:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Commercial Paper must be rated A1 by Standard and Poor's or P1 by Moody's or equivalent rating by any nationally recognized statistical rating organization. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer [ORS Section 294.035(3)(i)].

**Certificates of Deposit:** Certificates of deposit in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

**Bank Time Deposit/Savings Accounts:** Time deposit open accounts or savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

**Bankers' Acceptance:** Banker's acceptances, if the banker's acceptances are: (i) Guaranteed by, and carried on the books of, a qualified financial institution\*; (ii) Eligible for discount by the Federal Reserve System; and (iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations [ORS Section 294.035(3)(h)].

**Local Government Investment Pool:** State Treasurer's local short-term investment fund up to the statutory limit per ORS Section 294.810.

\*For the purposes of this paragraph, "qualified financial institution" means: (i) A financial institution that is located and licensed to do banking business in the State of Oregon; or (ii) A financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon [ORS Section 294.035(3)(h)].

### 8.3 Collateralization:

Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.015 and ORS 295.018.

## 9. INVESTMENT PARAMETERS

### 9.1 Diversification:

The City will diversify the investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk, inherent in over investing in specific instruments, individual financial institutions or maturities.

**Credit risk:** is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt.

**Liquidity risk:** is the risk that an investment may not be easily marketable or redeemable.

**Interest rate risk:** longer term investments have the potential to achieve higher returns but are also likely to exhibit higher market value price volatility due to the changes in the general level of interest rates.

#### Diversification Constraints on Total Holdings – Liquidity and Core Funds

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's or Equivalent	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	35%	N/A	5.25 years
Municipal Obligations (OR, CA, ID, WA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Notes	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings Accounts	25%	10%	Oregon Public Depository	N/A
Certificates of Deposit	10%	5%	Oregon Public Depository	5.25 years
Banker's Acceptance	25%	5%	A1 / P1	180 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

\*Short Term Ratings: Moody's- P1/MIG1/VMIG1, S&P - A-1/SP-1, Fitch - F1

\*\*35% maximum combined corporate and commercial paper per ORS.

\*\*\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

## 9.2 Investment Maturity:

The City will not directly invest in securities with a stated maturity of more than 5.25 years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed two and a half (2.5) years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, Bank Deposits or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent six month budgeted outflows.
- Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5.25 years and will be only invested based on the diversification parameters listed in 9.1 of this policy.
- Total Portfolio Maturity Constraints:

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	25%
Under 5.25 years	100%
<b>Maturity Constraints</b>	<b>Total Portfolio Maximum</b>
Weighted Average Maturity	2.5 years
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</b>
Callable Agency Securities	25%

## 9.3 Prohibited Investments:

- The City shall not invest in "144A" private placement securities, this includes commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933
- The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
- The City shall not purchase mortgage-backed securities.
- The City will not purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history.
- No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

## 10. INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE

Investments of bond proceeds are restricted further and will not include corporate bonds in the dedicated bond proceed portfolio. All other allowable investments including: US Treasury, US Agency and Commercial Paper may be utilized. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Liquidity for bond proceeds will be managed through the OSTF Pool or Bank deposit balances.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and maturity matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

## **11. INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENTS**

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities exceeding 5.25 years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

## **12. POLICY COMPLIANCE AND PERFORMANCE STANDARDS**

### **12.1 Compliance Measurement and Procedures:**

- a. Compliance Report: A compliance report documenting the portfolio versus the investment policy shall be maintained quarterly.
- b. Compliance Measurement: Guideline measurements will use market value of investments.
- c. Compliance Procedures:
  - i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
  - ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the City Council.
  - iii. Due to fluctuations in the aggregate surplus funds balance, minimum or maximum percentages for a particular issuer, investment type or maturity constraint may be surpassed at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
  - iv. As determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Finance Director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Finance Director will apply the general objectives of Safety, Liquidity, Yield and

Legality to make the decision. If the City has hired the services of an Investor Advisor, the Finance Director will act on the recommendation of the Advisor.

### **12.2 Performance Measurement:**

- a. The City yields will be compared to the OST Pool rates.
- b. The portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum effective duration and will have the objective to achieve market rates of returns over long investment horizons. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core portfolio is expected to provide similar returns to the benchmark over interest rate cycles, but may underperform or out perform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.
- c. When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.
- d. The mark to market pricing will be calculated monthly and be provided in a monthly report.

## **13. REPORTING REQUIREMENTS**

The Finance Director will retain and provide quarterly investment reports to the City Council in a similar manner as outlined in ORS 208.090. The reports also will be available upon request. Securities holdings and cash balances held in the investment portfolio will be provided on the reports.

The minimum quarterly reporting requirements for total portfolio are as follows:

- Earnings Yield
- Holdings Report (including mark to market)
- Transactions Report
- Weighted Average Maturity or Duration
- Compliance Report

## **14. INVESTMENT POLICY ADOPTION**

This Investment Policy shall be adopted by City Council annually in accordance with ORS 294.135(a). Any significant changes to the policy must be reviewed by the Oregon Short Term-Fund Board prior to submitting to City Council for adoption.

## 15. GLOSSARY

**Accrued Interest:** The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

**Agency Securities:** See “Federal Agency Securities.”

**Bankers’ Acceptance (BA’s):** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers’ acceptances are traded at a discount from face value as a month market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Point:** A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100<sup>th</sup> of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

**Benchmark:** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio’s investments.

**Bond:** An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and in general, pay interest semiannually.

**Broker/Dealer:** A person or firm transacting securities business with customers. A “broker” acts as an agent between buyers and sellers, and receives a commission for these services. A “dealer” buys and sells financial assets from its own portfolio. A dealer takes risk by owning an inventory of securities, whereas a broker merely matches up buyers and sellers.

**Call:** An option to buy a specific asset at a certain price within a certain period of time.

**Callable:** A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

**Call Date:** The date before maturity on which a bond may be redeemed at the option of the issuer.

**Certificate of Deposit (CD):** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity).

**Collateral:** Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by a company or financial institution. Issued at a discount and matures at par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Core Fund:** Core funds are defined as operating fund balance which exceeds the City’s daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the

overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

**Corporate Note:** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Coupon Rate:** The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

**Current Maturity:** The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

**Current Yield:** The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

**CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

**Delivery Versus Payment (DVP):** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC):** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

**Discount Notes:** Short term debt obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Discount Notes typically have very large primary (new issue) and secondary markets.

**Federal Agency Security:** A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency:** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets.

**Federal Farm Credit Bank (FFCB):** A Government Sponsored Enterprise (GSE) system that is a network of cooperatively owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance

to the U.S. Financial system and agricultural industry. Also issues notes under its “designated note” program.

**Federal Home Loan Bank System (FHLB).** A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its “global note” and “TAP” programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “reference note” program.

**Federal National Mortgage Association (FNMA or "Fannie Mae").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “benchmark note” program.

**Federal Reserve Bank.** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed).** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the “Federal Reserve Board” and headed by its Chairman.

**General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

**Government Bonds:** Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as “governmentals.”

**Government Sponsored Enterprise (GSE):** Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing

sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and FFCB.

**Interest:** Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

**Interest Rate:** The interest payable each year on borrowed funds, expressed as a percentage of the principal.

**Investment Advisor:** A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

**Investment Portfolio:** A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

**Investment Securities:** Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

**Liquidity:** The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

**Liquidity Component:** A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

**Mark to Market:** Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

**Municipals:** Securities, usually bonds, issued by a state or its agencies. The interest on “munis” is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

**NRSRO:** A “Nationally Recognized Statistical Rating Organization.” A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating such as Moody’s, S&P, Fitch and Duff & Phelps.

**Par Value:** The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

**Prudent Person Standard:** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee will act with care, skill, prudence, and diligence under the circumstances the prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the entity.

**Rate of Return:** Amount of income received from an investment, expressed as a percentage of the amount invested.

**State of Oregon Local Government Investment Pool (OSTF – Oregon Short Term Fund):** The OSTF is organized pursuant to ORS 294.805 through 294.895. Participation in the Pool will not exceed the maximum limit annually set by ORS 294.810.

**Total Return:** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

**Treasury Bill (T-Bill):** An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

**Treasury Bonds and Notes:** Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

**Yield:** The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Yield to Maturity:** The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.