

CHAPTER 7.03

INVESTMENT POLICY**

SECTIONS	TITLE
7.03.010	Scope
7.03.020	General Objectives
7.03.030	Standards of Care
7.03.040	Safekeeping and Custody
7.03.050	Suitable and Authorized Investments
7.03.060	Investment Parameters
7.03.070	Reporting
7.03.080	Policy Adoption and Re-Adoption
7.03.090	List of Documents Used in Conjunction with this Policy

**Former Chapter 2.06 (readopted April 9, 1998; amended December 10, 1998; readopted April 15, 1999; readopted April 27, 2000; readopted December 11, 2001; readopted October 3, 2002; renumbered by Ordinance No. 02-976, Sec. 1; readopted June 12, 2003; amended and readopted April 7, 2005, by Ordinance No. 05-1075; readopted April 20, 2006; readopted June 21, 2007; amended and readopted June 26, 2008, by Ordinance No. 08-1190; amended and readopted June 25, 2009, by Ordinance No. 09-1216; amended and readopted June 17, 2010, by Ordinance No. 10-1243; readopted June 23, 2011, by Resolution No. 11-4272; amended and readopted June 21, 2012 by Ordinance No. 12-1280; and amended and readopted May 9, 2013 by Ordinance No. 13-1303).

7.03.010 Scope

These investment policies apply to all cash-related assets included within the scope of Metro's audited financial statements and held directly by Metro.

Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to the regulations established by the state of Oregon.

Funds of Metro will be invested in compliance with the provisions of ORS 294.035 to 294.048; ORS 294.125 to 294.145; ORS 294.810; and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the 1986 Tax Reform Act provisions and any subsequent amendments thereto.

(Ordinance No. 90-365. Amended by Ordinance No. 97-684, Sec. 1; Ordinance No. 02-976, Sec. 1; Ordinance No. 05-1075; and Ordinance No. 09-1216, Sec. 1.)

7.03.020 General Objectives

Due to Metro's fiduciary responsibility, safety of capital and availability of funds to meet payment requirements are the

overriding objectives of the investment program. Investment yield targets are secondary.

(a) Safety. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio and security of funds and investments. The objective will be to mitigate credit risk and interest rate risk.

(1) Credit Risk. Metro will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:

- Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
- Pre-qualifying the financial institutions, broker/dealers, and advisers with which Metro will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized. For securities not backed by the full faith and credit of the federal government, diversification is required in order that potential losses on individual securities would not exceed the income generated from the remainder of the portfolio.
- Actively monitoring the investment portfolio holdings for ratings changes, changing economic/market conditions, etc.

(2) Interest Rate Risk. Metro will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities or short-term investment pools.

(b) Liquidity. The investment officer shall assure that funds are constantly available to meet immediate payment requirements, including payroll, accounts payable and debt service.

(c) Yield. The investment portfolio shall be designed with the objective of regularly exceeding the average return on 90-day U.S. Treasury Bills. The investment program shall seek to augment returns above this level, consistent with risk limitations described in this policy and prudent investment principles.

This policy shall not preclude the sale of securities prior to their maturity in order to improve the quality, net yield, or maturity characteristic of the portfolio.

(d) Legality. Funds will be deposited and invested in accordance with statutes, ordinances and policies governing Metro.

(Ordinance No. 87-228, Sec. 3. Amended by Ordinance No. 90-365; Ordinance No. 02-976, Sec. 1; Ordinance No. 05-1075.)

7.03.030 Standards of Care

(a) Prudence. The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule: "Investments shall 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 prudent investor rule shall be applied in the context of managing the overall portfolio.

(b) Delegation of Authority. The Chief Operating Officer is the investment officer of Metro. The authority for investing Metro funds is vested with the investment officer, who, in turn, designates the investment manager to manage the day-to-day operations of Metro's investment portfolio, place purchase orders and sell orders with dealers and financial institutions, and prepare reports as required.

(c) Investment Advisory Board (IAB). There shall be an investment advisory board composed of five (5) members.

- (1) Terms of Service. The term of service for citizens appointed to the IAB shall be three (3) calendar years. The term of appointment shall be staggered so that not more than two (2) members' terms expire in any calendar year.
- (2) Appointment. The investment officer shall recommend to the Council for confirmation the names of persons for appointment to the IAB.
- (3) Duties. The IAB shall meet quarterly. The IAB will serve as a forum for discussion and act in an advisory capacity for investment strategies,

banking relationships, the legality and probity of investment activities and the establishment of written procedures for the investment operations.

(d) Quarterly Reports. At each quarterly meeting, a report reflecting the status of the portfolio will be submitted for review and comment by at least three (3) members of the IAB. Discussion and comment on the report will be noted in minutes of the meeting. If concurrence is not obtained, notification will be given to the investment officer, including comments by the IAB.

(e) Monitoring the Portfolio. The investment manager will routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality, and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.

(f) Indemnity Clause. Metro shall indemnify the investment officer, chief financial officer, investment manager, staff and the IAB members from personal liability for losses that might occur pursuant to administering this investment policy.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported to the council as soon as practicable.

(g) Accounting Method. Metro 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 American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).

(Ordinance No. 05-1075.)

7.03.040 Safekeeping and Custody

(a) Authorized Financial Dealers and Institutions. The investment officer shall maintain a listing of all authorized dealers and financial institutions that are approved for investment purposes. Financial institutions must have a branch in Oregon. Any firm is eligible to apply to provide investment services to Metro and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made by the investment officer and reviewed by the IAB. At the request of the investment officer, the firms performing investment services for Metro shall provide their most recent

financial statements or Consolidated Report of Condition (call report) for review. Further, there should be in place proof as to all the necessary credentials and licenses held by employees of the broker/dealers who will have contact with Metro, as specified by but not necessarily limited to the National Association of Securities Dealers (NASD), Securities and Exchange Commission (SEC), etc. At minimum, the investment officer and the IAB shall conduct an annual evaluation of each firm's qualifications to determine whether it should be on the authorized list.

Securities dealers not affiliated with a Qualified Financial Institution, as defined in ORS 294.035, will be required to have headquarters located in the states of Oregon, Washington or Idaho and, if not headquartered in the state of Oregon, to have an office located in Oregon. Notwithstanding the above, securities dealers who are classified as primary dealers with the New York Federal Reserve Bank are also eligible.

(b) Internal Controls. The investment officer shall maintain a system of written internal controls, which shall be reviewed annually by the IAB and the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

Metro's independent auditor at least annually shall audit investments according to generally accepted auditing standards and this ordinance.

(c) Delivery vs. Payment. All securities purchased pursuant to this investment policy will be delivered by either book entry or physical delivery to a third party for safekeeping by a bank designated as custodian. Purchase and sale of all securities will be on a payment versus delivery basis. Delivery versus payment will also be required for all repurchase transactions and with the collateral priced and limited in maturity in compliance with ORS 294.035(2)(j).

(d) Safekeeping. The trust department of the bank designated as custodian will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The custodian shall issue a safekeeping receipt to Metro listing the specific instrument, rate, maturity and other pertinent information.

Notwithstanding the preceding, an exception to the delivery versus payment policy is made when purchasing State and Local Government Series Securities (SLGS) from the United States Treasury's Bureau of Public Debt to satisfy arbitrage yield restriction requirements of the Internal Revenue Code for tax-exempt bond issues.

7.03.050 Suitable and Authorized Investments

(Definitions of terms and applicable authorizing statutes are listed in the "Summary of Investments Available to Municipalities" provided by the State Treasurer).

(a) Investment Types. The following investments are permitted by this policy and ORS 294.035 and 294.810.

- (1) U.S. Treasury Bills, Notes, Bonds, Strips (Separate Trading of Registered Interest and Principal of Securities) and/or State and Local Government Series Securities (SLGS)
- (2) Securities of U.S. Government Agencies and U.S. Government Sponsored Enterprises
- (3) Certificates of Deposit (CD) from commercial banks in Oregon and insured by the Federal Deposit Insurance Corporation (FDIC)
- (4) Repurchase Agreements (Repo's)
- (5) Banker's Acceptances (BA)
- (6) Commercial Paper (CP) issued by a financial institution, commercial, industrial or utility business enterprise. Also Corporate promissory notes with long term minimum ratings of Aa (Moody's) or AA (S&P) or equivalent by any nationally recognized statistical rating organization. If a corporation has a split rating the most recent rating would be used for decision-making purposes.
- (7) State of Oregon and Local Government Securities with A ratings or better; also debt obligations of the States of California, Idaho and Washington and their political subdivisions with a long-term rating of AA or better or the highest category for short term municipal debt.
- (8) State of Oregon Investment Pool
- (9) Market Interest Accounts and Checking Accounts

(b) Collateralization. Deposit-type securities (i.e., Certificates of Deposit) and all bank deposits for any amount exceeding FDIC coverage shall be collateralized through the Public Funds Collateralization Program as required by ORS Chapter 295. 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. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.

(Ordinance No. 05-1075. Amended by Ordinance No. 09-1216, Sec. 1; Ordinance No. 12-1280, Sec. 1.; and by Ordinance No. 13-1303).

7.03.060 Investment Parameters

(a) Diversification by Maturity. Only investments which can be held to maturity shall be purchased. Investments shall not be planned or made predicated upon selling the security prior to maturity. This restriction does not prohibit the use of repurchase agreements under ORS 294.135(2).

Maturity limitations shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term, except those reserved for capital projects (e.g., bond sale proceeds).

(1) Short-Term Funds.

(A) Investment maturities for operating funds and bond reserves shall be scheduled to meet projected cash flow needs. Funds considered short-term will be invested to coincide with projected cash needs or with the following serial maturity:

25% minimum to mature under three months
75% minimum to mature under 18 months
100% minimum to mature under five years

(B) Investments may not exceed five (5) years. Investment maturities beyond 18 months may be made when supported by cash flow projections which reasonably demonstrate that liquidity requirements will be met.

(2) Long-Term Funds.

(A) Maturity scheduling shall be timed according to anticipated need. ORS 294.135 permits investment beyond 18 months for any bond proceeds or funds accumulated for any purpose that the district is permitted by state law to accumulate and hold funds for a period exceeding one (1) year. The maturities should be made to coincide as nearly as practicable with the expected use of the funds.

Security	Maximum Percent of Portfolio	Maximum Maturity
Government Securities with A ratings or better; also States of California, Idaho and Washington and political subdivisions with a long term AA or better and short-term in the highest category for short term debt.		
State of Oregon Investment Pool	100%	
Market Interest Accounts and Checking Accounts	Minimum necessary for daily cash management efficiency	

(c) Diversification by Financial Institution.

- (1) Qualified Institutions. The investment officer shall maintain a listing of financial institutions and securities dealers recommended by the IAB. Any financial institution and/or securities dealer is eligible to make an application to the investment officer and upon due consideration and approval hold available funds.

A listing of the eligible institutions shall be held by the investment officer and provided any fiduciary agent or trustee.

- (2) Diversification Requirements. The combination of investments in Certificates of Deposit and Banker's Acceptances invested with any one institution shall not exceed 25 percent of the total available funds or 15 percent of the equity of the institution.

The following limitations avoid over-concentration in securities from a specific issuer or business sector:

Type of Security	Limitation
U.S. Government Treasuries	No limitations
U.S. Government Agencies	Securities of U.S. Government Agencies and U.S. Government Sponsored Enterprises as defined under ORS 294.035 and/or 294.040. No more than 40 percent of the portfolio in any one agency.
Certificates of	No more than the lesser of 25 percent of the total

Type of Security	Limitation
Deposit - Commercial Banks	available funds or 15 percent of the equity of the financial institution may be invested with any one institution.
Repurchase Agreements	<p>May be purchased from any qualified institution provided the master repurchase agreement is effective and the safekeeping requirements are met. All repurchase agreements will be fully collateralized by general obligations of the U.S. Government, the agencies and instrumentalities of the United States or enterprises sponsored by the United States government, marked to market.</p> <p>The investment officer shall not enter into any reverse repurchase agreements.</p>
Banker's Acceptances	<p>Must be guaranteed by, and carried on the books of, 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.</p> <p>Qualified institution means: A financial institution that is located and licensed to do banking business in the state of Oregon; or A financial institution located in the states of California, Idaho, or Washington that is wholly owned by a bank holding company that owns a financial institution that is located and licensed to do banking business in the state of Oregon.</p> <p>No more than the lesser of 25 percent of the total available funds or 15 percent of the equity of the financial institution may be invested with any one institution.</p>
Commercial Paper, Corporate Promissory notes	No more than 5 percent of the total portfolio with any one corporate entity.
State and Local Government Securities; also California, Idaho and Washington	No more than 15 percent of the total portfolio in any one local entity.
State of Oregon Investment Pool	Not to exceed the maximum amount established in accordance with ORS 294.810, with the exception of pass-through funds (in and out within 10 days).

(d) Total Prohibitions. The investment officer may not make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transaction and may not agree to invest funds or sell securities for a fee other than interest. Purchase of standby or forward commitments of any sort are specifically prohibited.

(e) Adherence to Investment Diversification. Diversification requirements must be met on the day an investment transaction is executed. If due to unanticipated cash needs, investment maturities or marking the portfolio to market, the investment in any security type, financial issuer or maturity spectrum later exceeds the limitations in the policy, the investment officer is responsible for bringing the investment portfolio back into compliance as soon as is practical.

(f) Competitive Selection of Investment Instruments. Before the investment officer invests any surplus funds, a competitive offering solicitation shall be conducted orally, or alternatively through an electronic competitive bidding platform that compares several offers of the same security class like commercial paper, new issue GSE's and treasury issues. Offerings will be requested from financial institutions for various options with regards to term and instrument. The investment officer will accept the offering, which provides the highest rate of return within the maturity required and within the prudent investor rule. Records will be kept of offerings and the basis for making the investment decision.

(Ordinance No. 05-1075. Amended by Ordinance No. 08-1190 and by Ordinance No. 13-1303).

7.03.070 Reporting

(a) Methods. A transaction report shall be prepared by the investment manager not later than one business day after the transaction, unless a trustee, operating under a trust agreement, has executed the transaction. The trustee agreement shall provide for a report of transactions to be submitted by the trustee on a monthly basis.

Quarterly reports shall be prepared for each regular meeting of the IAB to present historical information for the past 12-month period. Copies shall be provided to the Chief Operating Officer and the Metro Council.

(b) Performance Standards. The overall performance of Metro's investment program is evaluated quarterly by the IAB using the objectives outlined in this policy. The quarterly report which confirms adherence to this policy shall be provided to the Metro Council as soon as practicable.

The performance of Metro's portfolio shall be measured by comparing the average yield of the portfolio at month-end against the performance of the 90-day U.S. Treasury Bill issue maturing closest to 90 days from month-end and the Local Government Investment Pool's monthly average yield.

(Ordinance No. 05-1075.)

7.03.080 Policy Adoption and Re-adoption

(a) The investment policy must be reviewed by the IAB and the Oregon Short-Term Fund Board prior to adoption by the Metro Council. Adoption of this policy supersedes any other previous Council action or policy regarding Metro's investment management practices.

(b) This policy shall be subject to review and re-adoption annually by the Metro Council in accordance with ORS 294.135.

(Ordinance No. 05-1075.)

7.03.090 List of Documents Used in Conjunction with this Policy

The following documents are used in conjunction with this policy and are available from the investment manager upon request:

- List of Authorized Brokers and Dealers
- List of Primary Dealers
- Calendar of Federal Reserve System Holidays
- Calendar of Local Government Investment Pool Holidays
- Broker/Dealer Request for Information
- Oregon State Treasury's Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment
- Oregon State Treasury's U.S. Government and Agency Securities for Local Government Investment Under ORS 294.035 and 294.040
- Oregon State Treasury's List of Qualified Depositories for Public Funds
- Attorney General's letter of advice: Certificates of Deposit, ORS 294.035 and ORS 295
- Oregon Revised Statute Chapter 294 - County and Municipal Financial Administration
- Oregon Revised Statute Chapter 295 - Depositories of Public Funds and Securities
- Government Finance Officers Association Glossary of Cash Management Terms

(Ordinance No. 05-1075.)
