

Council Business Meeting

January 16, 2018

Title: City of Ashland's Investment Policy
From: Mark Welch Administrative Services Director
Mark.Welch@ashland.or.us

Summary:

Annual review of the City's Investment Policy. The Policy has been updated to reflect the recent code changes.

Actions, Options, or Potential Motions:

I move to approve the resolution titled: "A resolution authorizing the Investment Policy of the City of Ashland and Repealing Resolution No. 2009-33"

Staff Recommendation:

Staff recommends approval of the Investment Policy.

Policies, Plans and Goals Supported:

N/A

Background and Additional Information:

The Investment Policy presented includes updated to reflect changes to the City Recorder and Finance Department Functions. The Policy has been reviewed, and approved, by the State of Oregon Short Term Board.

Under current market conditions, the most advantageous investment is through the State of Oregon Local Government Investment Pool (LGIP). The pool is currently providing 1.75% interest, with full liquidity. In order to match the interest rate, in allowable investments, the City would need to purchase two year bonds. The Finance Department will continue to monitor the investment market and bring recommendations if buying short term federally backed bonds becomes more attractive.

Any investment changes will be brought to the City Council for approval.

Attachments:

1. Resolution authorizing the Investment Policy of the City of Ashland and Repealing Resolution No. 2009-33
2. City of Ashland Investment Policy

RESOLUTION NO. 2018-

A RESOLUTION AUTHORIZING THE INVESTMENT POLICY OF THE CITY OF ASHLAND AND REPEALING RESOLUTION NO. 2009-33

RECITALS:

- A. ORS Chapter 294.035 prohibits local governments from investing money unless the governing body of the local government has authorized the investments.
- B. The Mayor and City Council resolved: The investment of City monies in accordance with the attached policy is authorized.
- C. This resolution superseded Resolution No 2009-33 authorizing the investment of City monies.

THE CITY OF ASHLAND RESOLVES AS FOLLOWS:

SECTION 1.

This resolution was duly PASSED and ADOPTED this _____ day of _____, 2018, and takes effect upon signing by the Mayor.

Melissa Huhtala, City Recorder

SIGNED and APPROVED this ____ day of _____, 2017.

John Stromberg, Mayor

Reviewed as to form:

David H. Lohman, City Attorney

CITY OF ASHLAND, OREGON INVESTMENT POLICY

I. POLICY STATEMENT

It is the policy of the City of Ashland to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to activities of the City of Ashland regarding investing the financial assets of all funds except for funds held in trust for deferred compensation funds for the employees of the City of Ashland. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon. Other than bond proceeds or other unusual situations, the estimated portfolio size ranges from \$15,000,000 to \$50,000,000.

These funds are accounted for in the City of Ashland's Comprehensive Annual Financial Report and include:

- General Fund
- Reserve Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Trust & Agency Funds

Funds of the City will be invested in compliance with the provisions of all applicable Oregon Revised Statutes. Investments of any tax-exempt borrowing proceeds and any related Debt Service funds will comply with the arbitrage restrictions in all applicable Internal Revenue Codes.

III. OBJECTIVES AND STRATEGY

The primary objectives, in priority order, of the City of Ashland's investment activities shall be:

1. **Legality.** This Investment Policy will be in conformance with federal laws, state statutes, local ordinances, and internal policies and procedures.
2. **Liquidity.** The City of Ashland's investment portfolio will remain sufficiently liquid to enable the City of Ashland to meet all operating requirements which might be reasonably anticipated.
3. **Diversification.** Diversification of the portfolio will include diversification by maturity and market sector and will include the use of multiple broker/dealers for diversification and market coverage.
4. **Yield.** The City of Ashland's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the City of Ashland's investment risk constraints and the cash flow characteristics of the portfolio. "Market rate of return" may be defined as the average yield of the current three-

month U.S. Treasury bill or any other index that most closely matches the average maturity of the portfolio.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies to ensure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, and the management of banking services.

Large and small financial institutions in the Ashland area are a vital part of our economic, philanthropic, and civic infrastructure, and many bank leaders in this region strive together with government to create a more vibrant community. When financial institutions tailor their decision making, lending policies, and practices to the needs of the local community, they are better positioned to help sustain the local economy and local employment.

IV. STANDARDS OF CARE

1. **Delegation of Authority.** Authority to manage the City of Ashland's investment program is delegated to the Administrative Services Director who is the designated Investment Officer of the City and are responsible for investment decisions and activities, under the review of City Council and City Administrator. The Administrative Services Director is responsible for the day to day administration of the cash management program. In the absence of the Administrative Services Director, the Administrative Services Manager will oversee the day to day cash management program. In both of their absences the Deputy Finance Director will be delegated the authority to day to day cash management.

Management responsibility for the investment program is hereby delegated to the Administrative Services Director, in collaboration with the City Administrator, who shall establish written procedures for the operation of the investment program consistent with this investment policy and subject to review and adoption by City Council. Procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Administrative Services Director and City Council. The Administrative Services Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the investment program.

2. **Prudence.** The standard of prudence to be used by the Investment Officer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. These standards states: "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."
3. **Limitation of Personal Liability.** The Investment Officer acting in accordance with written procedures, the investment policy and in accord with the Prudent Person Rule shall not be held personally liable in the management of the portfolio.
4. **Ethics and Conflict of Interest.** Investment Officer involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment Officer shall disclose any material fiscal interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the

investment portfolio. Investment Officer and their family shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City, Investment Officer shall, always, comply with the State of Oregon, Government Standards and Practices Commission, code of ethics set forth in ORS Chapter 244.

V. AUTHORIZED AND SUITABLE INVESTMENTS.

1. **Authorized Investments.** All investments of the City shall be diversified by type, maturity and issuer. Before any transaction is concluded, to the extent practicable, the Investment Officer shall solicit and document competitive and offers on comparable securities. When not practicable, the reasons should be similarly documented. At all times, the Investment Officer will strive for best execution of all transactions. Additionally, if reasonably unanticipated events cause the portfolio limits to be exceeded, the Investment Officer will take the steps necessary to correct the situation as soon as practicable. Investments may be sold at a loss when the Investment Officer deems that such a decision is prudent.
2. **Suitable Investments.**
 - a. U.S. Treasuries
 - b. Agencies and Instrumentalities of the United States.
 - c. Savings and Demand Accounts (Oregon depositories only)
 - d. Time Certificates of Deposit (Oregon depositories only)
 - f. Banker’s Acceptances (Oregon issued)
 - g. Corporate Debt
 - h. Municipal Debt (States of Oregon, California, Idaho and Washington only)
 - i. Oregon Local Government Investment Pool (LGIP)

The specific permitted securities are defined under Oregon Revised Statutes Chapters 294.035, 294.040, 294.046 and 294.810. (See Addendum A) Collateral requirements are bank deposits, time deposits, certificates of deposit and savings accounts are defined in ORS Chapter 295. (See Addendum B)

VI. INVESTMENT PARAMETERS

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.

Diversification Constraints on Total Holdings:

<u>ISSUER TYPE</u>	<u>% of portfolio</u>
U.S. Treasury Obligations	Up to 100%
U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corp.	Up to 75% and 50% per issuer
Bankers' Acceptances (BA's)	Up to 25% and 15% per issuer
Certificates of Deposit (CD)	Up to 35% and 5% of deposits per institution
Municipal Debt	Up to 35% and 10% per issuer
Corporate Debt (AA, A1, P1)	Up to 25% and 5% per issuer
State of Oregon Investment Pool Securities	ORS Limit 294.810

The Investment Officer 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, but not to exceed percentage as stated.

2. **Investment Maturities.** The City will not directly invest in securities maturing more than three (3) years from the date of purchase.
 - a. The maximum weighted maturity of the total portfolio shall not exceed 2 years. This maximum is established to limit the portfolio to excessive price change exposure.
 - b. Liquidity funds will be held in the State Pool or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent six-month budgeted outflow.
 - c. 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 3 years and will be only invested in high quality and liquid securities.

Total Portfolio Maturity Constraints:

Under 30 days	10% minimum
Under 90 days	25% minimum
Under 270 days	50% minimum
Under 1 year	75% minimum
Under 18 months	80% minimum
Under 3 years	100% minimum

Exception to 3-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding three (3) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type may be exceeded. Securities do not need to be liquidated to realign the portfolio; however, consideration will be given to this matter when future reinvestments occur.

VII. SAFEKEEPING, CUSTODY AND AUTHORIZED DEALERS

1. **Safekeeping and Custody of Securities.** The laws of the state and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by the City, or the City's designated depository.

All safekeeping arrangements shall be designated by the Investment Officer and shall list each specific security, rate, description, maturity, and cusip number (financial market identification). Each safekeeping receipt will clearly state that the security is held for the City or pledged to the City. In addition, repurchase requirements including Master Repurchase Agreements shall be in place prior to any business being conducted.

2. **Authorized Financial Dealers.** The Investment Officer shall maintain a list of all Qualified Depositories for Public Funds per ORS 295.002. An Oregon public official may deposit public funds up to the amount insured by the Federal Deposit Insurance Corporation (FDIC) or the national Credit Union share Insurance Fund (NCUA) in any insured financial institution with a head office or branch in Oregon. Public funds deposits that exceed these

insurance limits, currently set at \$250,000, may only be held in a depository qualified by the Oregon Public Funds Collateralization Program (PFCP).

At the request of the City of Ashland, the firms performing investment services shall provide their most recent financial statements or Consolidated Report of Conditions for review.

All dealers with whom the City transacts business will be provided a copy of this Investment Policy to ensure that they are familiar with the goals and objectives of the investment program.

If the City hires an investment advisor to provide investment management services, the advisor will follow the same procedure as outlined in VII Section 2.

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

The investment advisor must provide documentation of competitive pricing execution on each transaction. The advisor will retain documentation and provide upon request.

VIII. CONTROLS

- 1. 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).

Pooling of Funds: Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

- 2. Internal Controls.** The City will maintain a structure of internal controls sufficient to assure the safekeeping and security of all investments.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, wire transfers; banking services contracts, and other investment related activities.

The Investment Officer shall be responsible for all transactions undertaken.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the Council.

- 3. External Controls.** The City of Ashland may enter into contracts with external investment management firms on a non-discretionary basis. These services will apply to the investment of the City's short-term operating funds and capital funds including bond proceeds and bond reserve funds.

If an investment advisor is hired, the advisor will comply with all requirements of this Investment Policy. The investment advisor will provide return comparisons of the portfolio to the benchmark monthly. Exceptions to the Investment Policy must be disclosed and agreed upon in writing by both parties. The Investment Officer remains the person ultimately responsible for the prudent management of the portfolio.

Factors to be considered when hiring an investment advisory firm may include, but are not limited to:

- a. The firm's major business
- b. Ownership and organization of the firm
- c. The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the City's account
- d. The size of the firm's assets base, and the portion of that base which would be made up by the City's portfolio if the firm were hired
- e. Management Fees
- f. Cost Analysis of advisor
- g. Performance of the investment advisory firm, net of all fees, versus the Local Government Investment Pool or other benchmarks over a given period

IX. PERFORMANCE EVALUATION AND REPORTING

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City's investment strategy is active. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. A market benchmark will be determined that is appropriate for longer term investments based on the City's risk and return profile. 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 total rate of return. This would include any outside management and identifiable in-house management.

The Investment Officer shall prepare quarterly compliance summary reports that provide details of the investment portfolio, as well as transaction details for the reporting period. Details shall be sufficient to document conformity with the provisions of the statutes and this investment policy and shall include a listing of individual securities held at the end of the period. All investments owned will be marked-to-market monthly by the City's third-party custodian.

The performance (total return) of the City's portfolio will be measured against the performance of the Local Government Investment Pool (LGIP) and the yield of the 91-day U.S. Treasury Bill.

X. INVESTMENT POLICY ADOPTION BY GOVERNING BODY

This investment policy will be formally adopted by the City Council. The policy shall be reviewed on an annual basis by the Investment Officer and the City Council. Material revisions to this policy will require a review by the Oregon Short Term Fund Board, pursuant to current Oregon Revised Statutes.