

RESOLUTION NO. 5852

A RESOLUTION ADOPTING AN UPDATED INVESTMENT POLICY AND REPEALING RESOLUTION NO. 5677.

WHEREAS, ORS 294.135 requires cities to periodically review and revise their written investment policies; and

WHEREAS, ORS 294.135 (a) requires the Oregon Short Term Fund Board (OSTFB) to review and comment on major policy revisions; and

WHEREAS, the OSTFB has reviewed and commented on the City of Albany Investment Policy; and

WHEREAS, the OSTFB has found that the statutory policy review requirement for the City of Albany has been satisfied; and

WHEREAS, the City desires to make minor changes to the policy as reviewed by the OSTFB to update suitable investment options and to reduce the minimum investment in the Local Government Investment Pool and money market instruments.

NOW, THEREFORE, BE IT RESOLVED that the City of Albany City Council adopts Exhibit A as the Investment Policy for the City of Albany.


BE IT FURTHER RESOLVED that Resolution No. 5677 is hereby repealed.

DATED AND EFFECTIVE THIS 14<sup>TH</sup> DAY OF OCTOBER, 2009.

  
Mayor

ATTEST:

  
City Clerk  


	<b>City of Albany</b> Finance Policy Policy #: F-06-08-002 Title: Investment Policy	
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## I. POLICY STATEMENT

It is the policy of the City of Albany (“City”) that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner that will provide the maximum security of principal invested, employing limitations on maturities and diversification of the portfolio while meeting the daily cash flow needs of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to safety and liquidity requirements. It is the intent of the City to be in complete compliance with local, state, and federal law. The earnings from investment will be used in a manner that best serves the public trust and interests of the local government.

## II. SCOPE

This policy applies to activities of the City of Albany with regard to investing the financial assets of all funds. 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 total of all funds ranges from \$50 million to \$100 million.

The City commingles its daily cash into one pooled investment fund for investment purposes of efficiency and maximum investment opportunity. The following funds, and any new funds created by the City, unless specifically exempted by the City Council and this policy, are defined in the City’s Comprehensive Annual Financial Report:

- General Fund
- Special Revenue Funds
- Debt Service Fund
- Capital Projects Fund
- Enterprise Funds
- Internal Service Funds
- Permanent Funds

These funds 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

It is the policy of the City that all funds shall be managed and invested with five primary objectives, listed in the following order of priority:

1. **Legality.** This Investment Policy will be in conformance with federal laws, state statutes, local ordinances, and internal policies and procedures.
2. **Safety of Principal.** Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
3. **Liquidity.** The City's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements that might be reasonably anticipated.
4. **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.
5. **Yield.** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow 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 in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms, and the management of banking services.

#### IV. STANDARDS OF CARE

1. **Delegation of Investment Authority.** The Finance Director, acting on behalf of the City Council, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Council is responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

2. **Prudence.** The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard 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 expected income to be derived."

3. **Limitation of Personal Liability.** The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written

procedures and this policy, and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio.

4. **Ethics and Conflict of Interest.** Officers and employees involved in the investment process shall refrain from personal business 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. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees, officers, and their families 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 Commission, code of ethics set forth in ORS 244.

Specific investment parameters for the investment of public funds in Oregon are found in the Oregon Revised Statutes (ORS 294.035) with the exception of ORS 294.035 (10) which the City does not consider a legal investment.

## V. AUTHORIZED AND SUITABLE INVESTMENTS

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 Investment Officer 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 shall be assumed to be part of this Investment Policy immediately upon being enacted.
2. **Suitable Investments.**

### Specific Types

- a. U.S. Treasury Obligations **ORS 294.035 (1)**
- b. Government Sponsored Enterprises (GSEs) **ORS 294.035 (1)\*** - Federal Instrumentality Securities which include, but is not limited to the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB) and the Federal Farm Credit Bureau (FFCB). Federal Land Bank (FLB) , Tennessee Valley Authority (TVA)
- c. Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation under the Temporary Liquidity Guarantee Program (TLGP)
- d. Commercial Paper **ORS 294.035 (9) (b)** that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor's and Aa3 by Moody's.
- e. Bankers Acceptances (Oregon Issued) (1) **ORS 294.035 (8) (a)**
- f. Corporate Indebtedness\* **ORS 294.035 (9) (c)** that has a minimum long term debt rating of AA- by Standard and Poor's and a Aa3 rating by Moody's.

- g. Local Government Investment Pool **ORS 294.810 (1)**
- h. Certificate of Deposits/ Bank Deposits and savings accounts, shall be held in qualified Oregon Depositories in accordance with ORS Chapter 295. Collateralization shall be met through Oregon Depository standards.
- i. Obligations of the States of Oregon, California, Idaho, and Washington with a minimum rating of AA- by Standard and Poor's and Aa3 by Moody's. **ORS 294.035 (2) ORS 294.035 (3)**

\*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.

- 3. **Collateralization.** Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.018, as revised on 7/1/08. All depositories must be on the State of Oregon's qualified list. Additional collateral requirements may be required if the Finance Officer deems increased collateral is beneficial to the protection of the monies under the City's management.
- 4. **Restricted Securities.** The purchase of derivatives and use of reverse repurchase agreements are specifically prohibited by this policy.

**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 TOTAL PORTFOLIO</u>
US Treasury Obligations	100%
GSE-Agency Securities	100%
Per Issuer	33%
FDIC – Temporary Liquidity Guarantee Securities	30%
Commercial Paper*	10%
Bankers Acceptance*	10%
Corporate Indebtedness *	10%
Local Government Investment Pool	ORS Limit 294:810

Certificates of Deposit/Bank Deposits/Savings *	10%
Obligations of the States (municipal securities) *	10%

\* Shall be limited to 5% per issuer.

2. **Investment Maturity.** The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

a. The maximum weighted maturity of the total portfolio shall not exceed 1.5 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 three months budgeted outflows.

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 5 years and will be only invested in high quality and liquid securities.

Total Portfolio Maturity Constraints:

Under 30 days	10% minimum
Under 1 year	25% minimum
Five years	Maximum
1.5 Years	Maximum Weighted Average Maturity on total portfolio

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

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 need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future reinvestments occur.

3. **Prohibited Investments.** The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

**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, an independent third-party financial institution, or the City's designated depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third-party custodian shall be required to issue original safekeeping receipts to the City listing each specific security, rate, description, maturity, and cusip number. Each safekeeping receipt will clearly state that the security is held for the City or pledged to the City.

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third-party bank. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

2. **Authorized Financial Dealers.** The Investment Officer shall maintain a list of all authorized brokers/dealers and financial institutions that are approved for investment purposes or investment dealings. Any firm is eligible to make an application to the City of Albany and upon due consideration and approval will be added to the list. Additions and deletions to the list will be made at the discretion of the Finance Director. At the request of the City of Albany, the firms performing investment services shall provide their most recent financial statements or Consolidated Report of Condition for review. Further, 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 Albany as specified by, but not necessarily limited to the National Association of Securities Dealers (NASD), Securities and Exchange Commission (SEC), etc. The Investment Officer shall conduct an annual evaluation of each firm's credit worthiness to determine if it should remain on the list.

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 is authorized to transact with its direct dealer relationships on behalf of the City. A list of approved dealers must be submitted to the Finance Director prior to transacting business.

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. All out of compliance situations under this policy will be corrected and brought into compliance as soon as prudently possible.

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 and shall establish a system of controls to regulate the activities of subordinate officials and staff.

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 Albany 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 serve as a fiduciary for the City and comply with all requirements of this Investment Policy. 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 over a given period of time.



**IX. PERFORMANCE EVALUATION AND REPORTING**

The performance of the City of Albany will be measured against the performance of the Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. Given these considerations, the City’s portfolio should provide a net yield that is equal or better to that attained by the Local Government Investment Pool over interest rate cycles. Additionally, a market benchmark will be determined that is appropriate for longer term investments based on the City’s risk and return profile. The investment advisor will provide return comparisons of the portfolio to the benchmark on a monthly basis. 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. This would include any in-house management of the funds, as well as outside management.

The Investment Officer shall submit quarterly and annual reports to the local governing board containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. More frequent reports may be provided when market conditions merit or if requested by the governing board.

At minimum, this report shall contain:

- Beginning and ending market value of the portfolio by market sector and total portfolio
- Beginning and ending book value of the portfolio by market sector and total portfolio
- Detailed reporting on each asset (book, market, and maturity dates at a minimum)
- Overall current yield to maturity of the portfolio
- Overall weighted average maturity of the portfolio
- Maximum maturities in the portfolio
- Compliance of the portfolio relative to the policy

**X. INVESTMENT POLICY ADOPTION BY GOVERNING BOARD**

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

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 American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Governmental Accounting Standards Board (GASB).

Supersedes: Res No. 5677	Created/Amended by/date: 10/08/08; 10/12/09	Effective Date: 10/12/09
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