

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF READOPTING METRO) ORDINANCE NO. 93-501
CODE 2.06 AND AMENDING SECTION)
2.06.050(a)(7).) Introduced by Rena Cusma
) Executive Officer

WHEREAS, The Metro Code, Section 2.06, contains the investment policy which applies to all cash-related assets held directly by Metro; and

WHEREAS, The investment policy is to be reviewed and readopted annually by the Metro Council; and


WHEREAS, Quarterly Reports have been made to, and discussions held with the Investment Advisory Board; and

WHEREAS, Evaluation by the Investment Advisory Board results in the attached amendment to the existing policy; now, therefore,

THE METRO COUNCIL HEREBY ORDAINS:

That Investment Code Chapter 2.06 is hereby readopted and amended as shown in Exhibit A.

ADOPTED by the Metro Council this 10th day of
June, 1993.



Judy Wyers, Presiding Officer

Attest



Clerk of the Council

Exhibit A

Metro Code 2.06.050(a) (7) amendment

2.06.050 Investment Diversification: (Definitions of terms and applicable authorizing Statutes are listed in the "summary of Investments Available to Municipalities" provided by the State Treasurer.) The Investment Officer will diversify the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

(a) Diversification by Investment:

	Percent of Portfolio (Maximum)
(1) U.S. Treasury Bills, Notes, Bonds, Strips and/or State and Local Government Series (SLGS)	100%
(2) U.S. Government Agencies Securities and Instrumentalities of Government Sponsored Corporations	100%
(3) Certificates of Deposit (CD) Commercial Banks in Oregon insured by FDIC	100%
(4) Certificates of Deposit Savings and Loan Associations in Oregon which meet Federal capital requirements and are insured by the FDIC	25%
(5) Repurchase Agreements (Repo's)	50%
(6) Banker's Acceptances (BA)	100%
(7) Commercial Paper (CP) Financial institution, holding company or business enterprise headquartered in Oregon: A-1 and P-1 only, maximum [60] 90-day maturity; <u>A-2 and P-2, A-1/P-2,</u> <u>or A-2/P-1 only, maximum 60-day maturity.</u>	25%
[Corporate], Publicly held U.S. corporation, <u>financial institution, holding company or business enterprise</u> outside Oregon; A-1 and P-1 only; maximum [60] 90-day maturity.	10%

- (8) State of Oregon and Local Government Securities with A ratings or better 100%
- (9) State of Oregon Investment Pool 100%
- (10) State of Oregon Arbitrage Pool Bond Proceeds Subject to Arbitrage
- (11) Market Interest Accounts and Checking Accounts Minimum necessary for daily cash management efficiency

(b) 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 dealers 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 as outlined individually at 2.06.050(b)(2)(A), (B) and (D) invested with any one institution shall not exceed 30 percent of the total available funds or 15 percent of the equity of the institution.

(A) Certificates of Deposit - Commercial Banks

No more than the lesser of 30 percent of the total available funds or 15 percent of the equity of the financial institution may be invested with any one institution.

(B) Certificates of Deposit - Savings and Loan Association

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.

(C) Repurchase Agreements

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 U.S. Government and U.S. Agency obligations marked to market.

The Investment Officer shall not enter into any reverse repurchase agreements.

(D) Banker's Acceptances

No more than the lesser of 30 percent of the total available funds or 15 percent of the equity of the financial institution may be invested with any one institution. All banker's acceptances will be purchased from an ORS Chapter 294.035(11) qualified Oregon financial institution.

(E) Commercial Paper

Business in Oregon - No more than 10 percent of the total portfolio with any one corporate entity.

Publicly Held Corporation not in Oregon - No more than 5 percent of the total portfolio with any one corporate entity.

(F) State and Local Government Securities

No more than 15 percent of the total portfolio in any one local entity.

(G) State of Oregon Investment Pool

Not to exceed \$20 million in accordance with ORS 294.810 (\$10 million maximum per account) with the exception of pass-through funds (in and out within 10 days).

(H) State of Oregon Arbitrage Pool

Any bond proceeds subject to arbitrage.

(I) U.S. Government Agencies

Limited to obligations of government-sponsored corporations which are eligible as collateral for Treasury Tax and Loan as determined by the Board of Governors of the Federal Reserve System and also appear on the Oregon State Treasury list of U.S. Government and Agency Securities for Local Government Investment under ORS 294.035 and/or 294.040. No more

than 40 percent of the total portfolio in any one agency.

(J) U.S. Government Treasuries

No limitations

(c) 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). 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.

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 shall be scheduled to coincide with projected cash flow needs.
- (B) Except for special situations, as identified by the Investment Advisory Board and directed by the Investment Officer, investments shall be limited to maturities not exceeding 18 months.
- (C) Generally, bond reserve funds shall be limited to investment in securities up to 18 months. The maturity of the investment may extend to 18 months, or more, only if the debt service account is properly funded and provision has been made in amount and maturity for the first possible draw upon the reserve account. In any event, the investment maturity must not exceed the expected draws upon the reserve funds.

(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 which the District is permitted by State law to accumulate and hold funds for a period exceeding one year. The maturities should be made to coincide as nearly as practicable with

the expected use of the funds.

- (B) Investment of capital project funds shall be timed to meet projected contractor payments. The drawdown schedule used to guide the investment of the funds shall evidence the approval of the Investment Officer and review of the Director of Finance & Administration.

(d) Politico/Socio Limitations: The Investment Officer may not purchase any Banker's Acceptances which involve goods which derive from South Africa. A certificate warranting this shall be obtained from the financial institution from which the Banker's Acceptance was purchased.

(e) Total Prohibitions: Purchase of standby or forward commitments of any sort are specifically prohibited.

(Ordinance No. 87-228, Sec. 1; amended by Ordinance No. 90-365)

FINANCE COMMITTEE REPORT

ORDINANCE NO. 93-501 READOPTING THE METRO INVESTMENT POLICY,
CHAPTER 2.06 OF THE METRO CODE, AND AMENDING 2.06.050 (a)(7)

Date: June 10, 1993

Presented By: Councilor Van Bergen

COMMITTEE RECOMMENDATION: At its June 9, 1993 meeting the Committee voted unanimously to recommend Council adoption of Ordinance No. 93-501. All Committee members were present and voting.

COMMITTEE DISCUSSION/ISSUES: Howard Hansen presented the Staff Report. He stated that the ordinance does two things: 1) it readopts the Metro Investment Policy which is included in the Code as Chapter 2.06; and 2) it amends Code Section 2.06,050 (a)(7) to broaden the scope of commercial paper products in which the District may invest.

In regard to the first purpose, Mr. Hansen pointed out that annual readoption of the Investment Policy is required by state statute, ORS 294.135, because Metro's policy allows investment maturities to exceed 18 months. In regard to the amendment to broaden the scope of commercial paper investments, it is Mr. Hansens estimate that investment yields could be increased by approximately \$50,000 on the present portfolio.

Council Staff asked if the terms shown in the amendment (A-2, P-2, etc.) were defined anywhere in the Code and if not should they be defined either directly or by reference to another document in the Code. Mr. Hansen stated that these terms are commonly known in the investment community so their specific definition need not be included in the Code.

STAFF REPORT

CONSIDERATION OF ORDINANCE NO. 93-501 CONFIRMING THE
READOPTION OF METRO CODE CHAPTER 2.06 (INVESTMENT POLICY)
AS AMENDED

Date: May 21, 1993 Presented by: Howard Hansen

FACTUAL BACKGROUND AND ANALYSIS

Metro Code, Section 2.06, contains investment policies which apply to all cash-related assets held directly by Metro.

Major objectives of the policy are safety, liquidity, yield, and legality, with safety of capital and availability of funds as the overriding objectives.

The Executive Officer is the Investment Officer, who designates staff to manage the day-to-day operations of the portfolio.

A three member Investment Advisory Board (IAB) is recommended by the Investment Officer for confirmation by the Council. They meet at least quarterly to serve as a forum for discussion and act in an advisory capacity.

The last major amendments were adopted November 8, 1990 as Ordinance 90-365. This ordinance was modeled after the Experienced Investor option provided by the State of Oregon Short Term Investment Board. Allowable investment options were expanded, and sections were added for Scope, Objectives, Controls, Accounting Method, Performance Evaluation, and Policy Readoption.

Operations since that time have followed policy with quarterly reports made to, and discussions held with, the IAB. Copies of the quarterly report have been provided to the Executive Officer and the Metro Council.

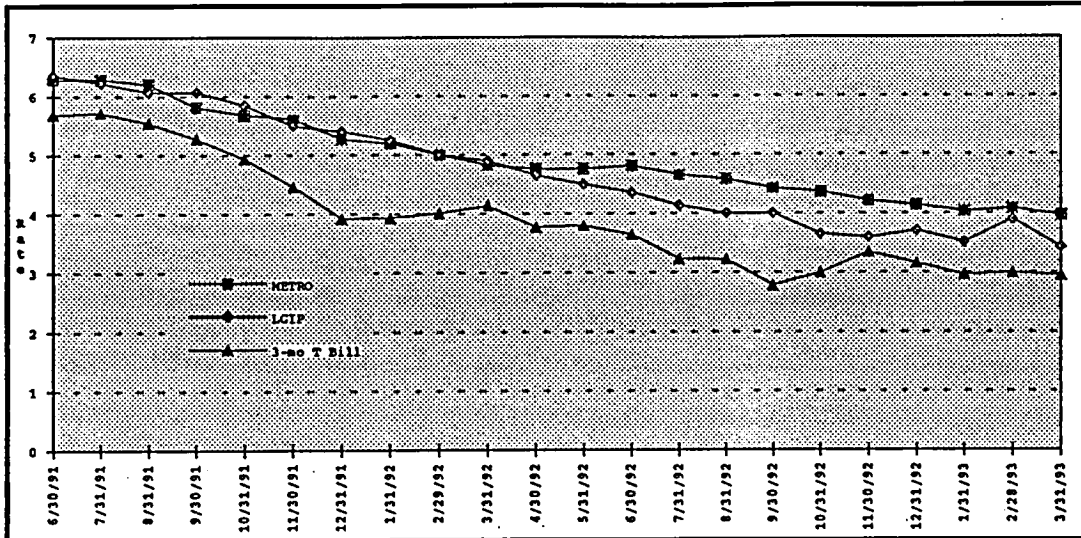
The portfolio has experienced no loss of principal or interest. Performance of the portfolio compared to 90-day Treasury Bills and the Local Government Investment Pool is displayed as Attachment 1.

Based on the evaluation above, review with and recommendation by the Investment Advisory Board, and in consideration of the existing economy, staff recommends readoption of Metro Code 2.06 as amended by Attachment 2. Attachment 3 provides additional justification for the recommendation.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends readoption of Metro Code 2.06, as amended, by Ordinance No. 93-501.

**Attachment 1
Performance of the Portfolio**



**Attachment 2
Metro Code 2.06.050(a)(7) amendment**

(a)	Diversification by Investment	Percent of Portfolio (Maximum)
(7)	<p>Commercial Paper (CP)</p> <p>Financial institution, holding company or business enterprise headquartered in Oregon; A-1 and P-1 only; maximum [60] <u>90</u>-day maturity; <u>A-2 and P-2, A-1/P-2, or A-2/P-1 only; maximum 60-day maturity</u></p> <p>Corporate, Publicly held U. S. corporation, financial institution, holding company or business enterprise outside Oregon; A-1 and P-1 only; maximum [60] 90-day maturity</p>	<p>25%</p> <p>10%</p>

The effect of the amendment is to broaden the scope of commercial paper products, enhancing the yield by 20/30 basis point which will approximate \$50,000 on the present portfolio.

A comparison of existing code, amended code and Oregon law¹ is provided below.

	Existing Code	Amended Code	Oregon Law
Oregon Issuers			
Rating of A-1, P-1 - Term	60 days	90 days	270 days
Rating of A-2, P-2 or better - Term	N/A	60 days	270 days
Issuers outside of Oregon			
Rating of A-1, P-1 - Term	60 days	90 days	270 days

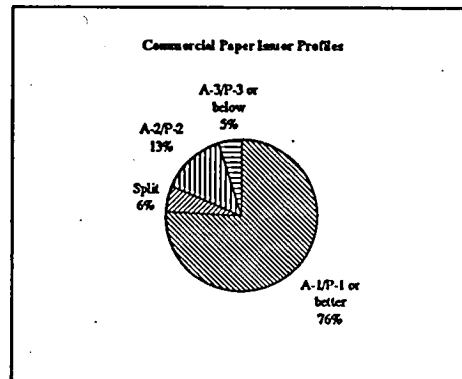
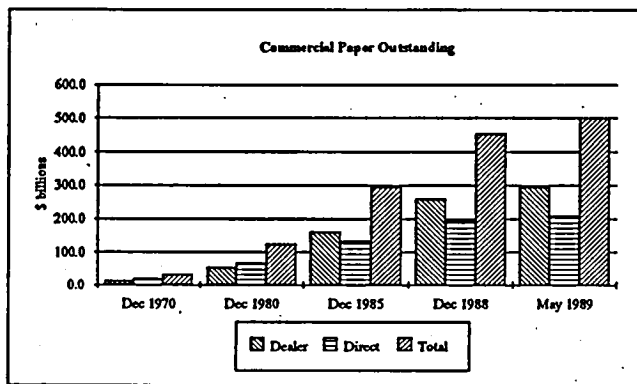
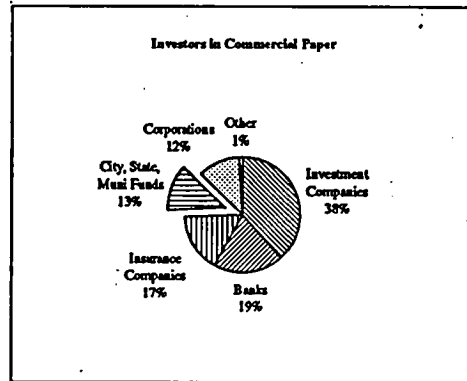
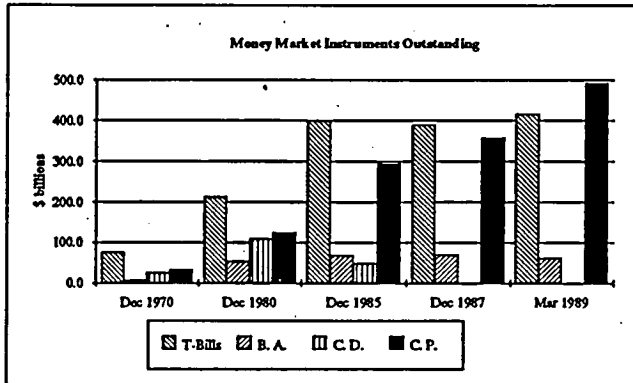
Specific Oregon issuers affected by this amendment are:

Issuer Name	Rating
Jeldwin	A-1, P-1
Northwest Natural Gas Co.	A-1, P-2
U. S. Bancorp	A-1, P-2
Nike, Inc.	A-1, P-2
Portland General Electric Co.	A-2, P-2
PacifiCorp	A-2, P-2

All of the above have 100 percent backup from bank lines or letters of credit except U. S. Bancorp, which has 60 percent backup.

Attachment 3
Comments relative to Commercial Paper

The graphs displayed below report the growth of commercial paper as a money market instrument relative to other instruments, the variety of investor groups, and the rating profiles of issuers. ²



The Oregon Short Term Fund investment portfolio reports the importance of commercial paper as follows:

OSTF Portfolio as of December 31, 1992		
Category	Amount (000)	Per Cent
Certificates of Deposit	\$30,150	0.6%
Commercial Paper	\$1,824,157	35.9%
Bankers Acceptances	\$220,963	4.3%
U. S. Treasury	\$2,835,000	55.8%
U. S. Agency	\$138,900	2.7%
Other	\$31,214	0.6%
Total	\$5,080,384	100.0%

The primary objective of Metro's portfolio is safety, and it is important to consider the history of commercial paper losses. Since 1965, the number of firms issuing significant quantities of paper have increased from 450 to over 1600. Only five issuers of commercial paper have failed over the last fifteen years. Three were small finance companies with losses of less

than \$4 million each. The fourth firm was a Canadian finance company with losses of \$35 million. The fifth, and most noteworthy, was Penn Central with \$82 million of paper outstanding at the time of its failure. The amount of actual losses is not reported. ³

Results of the Penn Central loss were that the rating of paper has become more widespread, and rating standards were tightened.

Additional safety for the investor is that all issuers back their outstanding paper with bank lines or letters of credit. In fact, commercial paper with a rating of A-2/P-2 or better may be carried by thrift institutions as part of their liquidity reserves. ⁴

A review of the rating categories follows: ⁵

- A-1 This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.
- A-2 Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated "A-1".
- A-3 Issues carrying this designation have adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.
- B Issues rated "B" are regarded as having only speculative capacity for timely payment.
- C This rating is assigned to short-term debt obligations with a doubtful capacity for payment.
- D Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period.

¹ ORS 294.035(12) & (13)

² The Money Market, Marcia L. Stigum, 1990

³ *ibid.*

⁴ *ibid.*

⁵ Standard & Poor's Commercial Paper Guide, December 1992.



METRO

DATE: June 15, 1993

TO: Rena Cusma, Executive Officer

FROM: Paulette Allen, Clerk of the Council *PA*

RE: TRANSMITTAL OF ORDINANCE NO. 93-501

Attached for your consideration is a true copy of the ordinance referenced above adopted by the Council on June 10, 1993.

If you wish to veto the ordinance referenced above, I must receive a signed and dated written veto message from you no later than 5:00 p.m., Thursday, June 17, 1993. The veto message, if submitted, will become part of the permanent record. If no veto message is received by the time and date stated above, this ordinance will be considered finally adopted.

I, *Walter Harley*, received this memo and a true copy of Ordinance No. 93-501 from the Clerk of the Council on *6-15-93*.