

BEFORE THE METRO COUNCIL

AN ORDINANCE AMENDING AND)
READOPTING METRO CODE 2.06)
(INVESTMENT POLICY); AND DECLARING)
AN EMERGENCY)

ORDINANCE NO. 97-684
Introduced by Mike Burton,
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

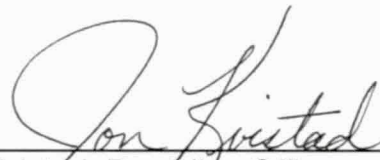
WHEREAS, The Oregon Revised Statutes relating to the investment of public funds have been amended, therefore it is appropriate to amend Metro Code for conformity; and

WHEREAS, The Investment Advisory Board has recommended additional changes to the investment policy; now, therefore,

THE METRO COUNCIL HEREBY ORDAINS:

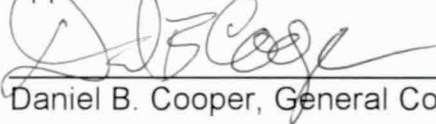
1. That Metro Code Chapter 2.06 is amended and readopted as written in Exhibit A.
2. This Ordinance being necessary for the immediate preservation of the public health, safety and welfare, in order to meet obligations and comply with Oregon Revised Statutes, an emergency is declared to exist, and this Ordinance takes effect upon passage.

ADOPTED by the Metro Council this 17th day of April, 1997.



Jon Kvistad, Presiding Officer

Approved as to Form:



Daniel B. Cooper, General Counsel

ATTEST:


Recording Secretary

Exhibit A

(Inserted text - bold, deleted text - strikethrough, revised lines - | on left border)

CHAPTER 2.06

INVESTMENT POLICY

SECTIONS	TITLE
2.06.010	Scope
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2.06.030	Responsibility
2.06.040	Prudence
2.06.050	Investment Diversification
2.06.060	Competitive Selection of Investment Instruments
2.06.065	Monitoring the Portfolio
2.06.070	Qualifying Institutions
2.06.080	Banking Services
2.06.090	Safekeeping and Collateralization
2.06.100	Indemnity Clause
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2.06.150	Policy Adoption
2.06.160	Policy Readoption

2.06.010 Scope

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

Other than bond proceeds or other segregated revenues, the total of funds pooled for investments ranges from \$60 million to \$100 million with an average of \$80 million. 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 through 294.048; ORS 294.125 through 294.155; 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 Bill provisions and any subsequent amendments thereto.

2.06.020 Objectives

(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. 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.

(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.

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.

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

2.06.030 Responsibility

(a) Investment Officer. The executive officer is the investment officer of the district. The authority for investing Metro funds is vested with the investment officer, who, in turn, may designates the investment manager staff 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.

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

- (1) Terms of Service. The term of service for citizens appointed to the IAB shall be three calendar years. The term of appointment shall be staggered so that not more than two 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 at least 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.

(c) Quarterly Reports. At each quarterly meeting, a report reflecting the status of the portfolio will be submitted for review and comment by at least 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. ~~shall review investment reports submitted by the investment officer reflecting investment activity for each of the immediately preceding three months. Acceptance of the report must be by at least two members of the IAB. Should the reports not be accepted, the reports shall be revised accordingly by the investment officer and resubmitted to the IAB at its next regularly scheduled meeting or sooner if requested.~~

2.06.040 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.

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) Securities of U.S. Government Agencies and U.S. Government Sponsored Enterprises 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%
(45) Repurchase Agreements (Repo's) Maximum 90-day maturity	50%
(56) Banker's Acceptances (BA)	100%
(67) Commercial Paper (CP) Issued by a financial institution, commercial, industrial or utility business enterprise. holding company or business enterprise	3525%

For a corporation headquartered in
Oregon; A-1 and P-1 only, maximum 90-day

maturity; A-2 and P-2, A-1/P-2, or A-2/P-1 only, maximum 60-day maturity.

~~For a corporation Publicly held U.S. corporation, financial institution, holding company or business enterprise headquartered outside Oregon; A-1 and P-1 only; maximum 90-day maturity~~ -10%

(78) State of Oregon and Local Government Securities with A ratings or better 10025%

(89) State of Oregon Investment Pool 100%

~~(10) State of Oregon Arbitrage Pool Bond Proceeds Subject to Arbitrage~~

(91) 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 (C) invested with any one institution shall not exceed 2530 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 2530 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.~~

(BE) 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 general obligations of the U.S. Government, the agencies and instrumentalities of the United States or enterprises sponsored by the United States government, and U.S. Agency obligations marked to market.

The investment officer shall not enter into any reverse repurchase agreements.

(CD) Banker's Acceptances

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.

Qualified 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 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.

No more than the lesser of 2530 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 294.035(11) qualified Oregon financial institution.~~

(DE) Commercial Paper

~~Business in Oregon~~—No more than 510 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.

(EF) State and Local Government Securities

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

(FG) State of Oregon Investment Pool

Not to exceed the maximum amount established \$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.~~

(GI) U.S. Government Agencies

Securities of U.S. Government Agencies and U.S. Government Sponsored Enterprises 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~~ as defined under ORS 294.035 and/or 294.040. No more than 40 percent of the total portfolio in any one agency.

(HJ) 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 and bond reserves shall be scheduled to meet ~~coincide with~~ 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) ~~Except for special situations, as identified by the IAB and directed by the investment officer, investments shall be limited to maturities not exceeding 18 months.~~ Investments may not exceed five years. Investment maturities beyond 18 months may be made when supported by cash flow projections which reasonably demonstrate that liquidity requirements will be met. Maturities beyond 18 months will be limited to direct U.S. Treasury obligations.

~~(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 ~~Chief Financial Officer~~ director of finance and 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.~~

(de) 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.

2.06.060 Competitive Selection of Investment Instruments

Before the investment officer invests any surplus funds, a competitive offering solicitation shall be conducted orally. 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—the offerings which are accepted.

2.06.065 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.

2.06.070 Qualifying Institutions

The investment officer shall maintain a listing of all authorized dealers and financial institutions which are approved for investment purposes. Written procedures and criteria for selection of financial institutions will be established by the investment officer. 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 bank shall be required to have an office located in Oregon and be classified as reporting dealers affiliated with the New York Federal Reserve

Bank as primary dealers, or meet the criteria for financial institutions.

2.06.080 Banking Services

~~Every three years the investment officer will solicit competitive bids from commercial banks operating in the district to provide Metro's banking services. The investment officer may select a trustee bank to perform activities related to investments. In this case, the activities of the trustee shall be set forth in a trustee agreement consistent with this Code. Trustee services for a bond issue need not be rebid during the life of the issue.~~

2.06.090 Safekeeping and Collateralization

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 primary agent~~. Purchase and sale of all securities will be on a payment versus delivery basis. The trust department of the bank designated as ~~custodian primary agent~~ will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The ~~custodian primary agent~~ shall issue a safekeeping receipt to Metro ~~the district~~ listing the specific instrument, rate, maturity and other pertinent information.

~~Repurchase agreements will not be subject to the safekeeping requirements if purchased from First Interstate Bank of Oregon, The Bank of California or from U.S. National Bank of Oregon; repurchase agreements from all other financial institutions shall require safekeeping. In all cases, a master repurchase agreement is required.~~

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(11).

Deposit-type securities (i.e., Certificates of Deposit) shall be collateralized through the state collateral pool as required by ORS 295.015 and ORS 295.018 for any amount exceeding FDIC coverage, recognizing that ORS 295.015 requires only 25 percent collateralization and ORS 295.018 requires 110 percent collateralization when the institution is notified by the state treasurer.

2.06.100 Indemnity Clause

(a) 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.

(b) 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.

2.06.110 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.

2.06.120 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 ~~Investments will be carried at cost. Gains or losses from investments will be credited or charged to investment income at the time of sale or maturity. Metro shall comply with Government Accounting Standards Board (GASB) requirements.~~

2.06.130 Reporting Requirements

(a) A transaction report shall be prepared by the investment manager ~~district's department of finance & administration~~ 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.

(b) Quarterly reports shall be prepared for each regular meeting of the IAB to present historical investment information for the past 12-month period. Copies shall be provided to the executive officer and the Metro council.

2.06.140 Performance Evaluation

The overall performance of Metro's investment program is ~~shall be~~ evaluated ~~quarterly~~ ~~annually~~ by the IAB using the objectives outlined in this policy. The quarterly report which confirms adherence to this policy ~~A written copy of the evaluation~~ 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. ~~The IAB will periodically determine the target rate of return for the investment portfolio.~~

2.06.150 Policy Adoption

This investment policy ~~must~~ ~~may~~ 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.

2.06.160 Policy Readoption

This policy shall be subject to review and readoption annually by the Metro council in accordance with ORS 294.135(b).

Attachment 1

Metro

Summary - Investment policy revision

- 2.06.050(a)(7) Commercial paper as a total portion of the portfolio changed to 35%, from 25% for corporations in Oregon and 10% for corporations outside of Oregon. This conforms to recent changes in ORS 294. See also 2.06.050(b)(2)(E).
- 2.06.050(b)(2)(D) Expands Bankers Acceptances to include financial institutions located in California, Idaho, or Washington as long as there is an affiliation with a bank in Oregon. This conforms to recent changes in ORS 294.
- 2.06.050(b)(2)(E) Adjusts maximum percentage of Commercial Paper to 5% of the total portfolio with any one issuer, from 10% for Oregon issuers and 5% for issuers outside of Oregon. This conforms to recent changes in ORS 294.
- 2.06.050(b)(2)(G) Increases state investment pool maximum investment to \$30 million plus a CPI adjustment, from \$20 million. This conforms to recent changes in ORS 294. As of September 1, 1996, the adjustment increased the maximum amount to \$30,630,000.
- 2.06.050(c)(1)(B) Allows for investment maturities up to five years, when supported by cash flow projections. This element is encouraged by the Investment Advisory Board and recommended by Metro's Auditor.
- 2.06.070 Eliminates requirement that primary dealers have an office in Oregon. The requirement severely limits the number of dealers available to Metro. Of the thirty-seven primary dealers, only five have offices in Oregon. The requirement becomes irrelevant since:
1. Metro does not deal through the local offices anyway, and,
 2. Metro maintains a delivery versus payment requirement so the office location doesn't matter.

STAFF REPORT

CONSIDERATION OF ORDINANCE NO. 97-684 AMENDING AND READOPTING METRO CODE 2.06 (INVESTMENT POLICY); AND DECLARING AN EMERGENCY

Date: March 10, 1997

Presented by: Howard Hansen

FACTUAL BACKGROUND AND ANALYSIS

Metro Code, Section 2.06, contains the investment policy which applies to all cash-related assets held directly by Metro. The major objectives of the policy are safety, liquidity, and yield, with safety of capital and availability of funds as the overriding objectives.

Based on changes in the related sections of the Oregon Revised Statutes, suggestions from Metro's Investment Manager and Investment Advisory Board, and a review of the program by Metro's Internal Auditor, a major revision in the investment policy is being proposed.

Many of the amendments are housekeeping in nature, aligning Metro's policy with changes in state law. There are also significant amendments to be acknowledged. Those changes are summarized in Attachment 1.

The goal of these revisions is to increase the flexibility of investment decisions while preserving the two major objectives of safety and liquidity.

The revised policy has been reviewed with and endorsed by the Investment Advisory Board. These revisions have also been presented to the Oregon Short Term Fund Board, a state committee which acts through the authority of the State Treasurer. They review and comment on all public agency investment policies. Their comments have been incorporated in this proposed policy, and they have endorsed the policy with the comment "A very good policy".

Oregon Revised Statutes require that the policy be readopted annually by Metro Council.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends amendment and readoption of Metro Code 2.06 by Ordinance No. 97-684.