

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF AMENDING METRO) Ordinance No. 90-365
CODE SECTION 2.06 TO UPDATE THE)
INVESTMENT POLICY) Introduced by Rena Cusma,
) Executive Officer

WHEREAS, The Metropolitan Service District's "Investment Procedures" have been established by ordinance in Metro Code 2.06; and

WHEREAS, it is desirable to include additional policy elements such as scope, objectives, controls, and performance evaluation; and

WHEREAS, it is desirable to modify the Investment Limitations to provide an opportunity for increased portfolio yield while staying within the Local Government Investment Policy Guidelines; now therefore,

THE COUNCIL OF THE METROPOLITAN SERVICE DISTRICT HEREBY ORDAINS:

Metro Code Section 2.06 is amended to read as follows:

CHAPTER 2.06

INVESTMENT PROCEDURES POLICY

SECTIONS

~~2.06.020 Investment Officer~~
~~2.06.030 Investment Advisory Board~~
~~2.06.040 Investment Diversification~~
~~2.06.045 Investment Maturity~~
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~~2.06.080 Collateralization~~
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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. 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 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.

~~2.06.020 Investment Officer:~~

~~(a) Investment Officer: The Executive Officer is the Investment Officer of the District.~~

~~(b) Responsibilities of the Investment Officer:~~

~~(1) The Investment Officer is responsible for investment decisions and activities of the District. This Officer shall comply with ORS 294.035 through 294.048 and ORS 294.125 through 294.155 and other applicable provisions of law as mandated by the State of Oregon in meeting this responsibility.~~

~~(2) The Investment Officer shall comply with all applicable federal and state tax law requirements for the investment of any tax exempt borrowing proceeds and of any debt service funds or accounts.~~

~~(3) The Investment Officer shall comply with ordinances adopted by the Council for the investment of surplus cash.~~

~~(4) The Investment Officer shall recommend to the Council for confirmation, the names of persons for appointment to an Investment Advisory Board.~~

~~(5) 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.~~

~~(c) Prudence:~~

~~(1) 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. (Moved to 2.06.040.)~~

~~(2) 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. (Moved to 2.06.100(b).)~~

~~(Ordinance No. 87-228, Sec. 1)~~

2.06.030 ~~Investment Advisory Board~~ 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 designate 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 three members ~~who will propose, review, discuss and advise, at least quarterly, the Investment Officer on investment policy and procedures.~~

~~(a) (1) Terms of Service:~~ The term of service for citizens appointed to the ~~Investment Advisory Board~~ IAB shall be three calendar years. The term of appointment shall be staggered so that only one members' term expires in any calendar year.

~~(b) (2) Appointment:~~ The Executive Officer shall appoint the members of the IAB subject to confirmation by the Council.

(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, 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.

~~{Ordinance No. 87-228, Sec. 1}~~

2.06.040 ~~Investment Diversification~~ Prudence:

~~{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	100%
(3) Certificates of Deposit Commercial Banks	100%
(4) Certificates of Deposit Savings and Loan Associations	30%
(5) Repurchase Agreements	25%
(6) Banker's Acceptances	100%
(7) Commercial Paper	0%
(8) State and Municipal Bonds	100%

~~(9) State of Oregon Investment Pool Varies~~

~~Note: The Investment Officer shall comply with the requirements of ORS 294.810 and limit the investment in the State of Oregon Investment Pool at any time to a maximum of \$20,000,000, \$10,000,000 in each of two accounts. (Moved to 2.06.050 (a) with changes.)~~

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.

~~(Ordinance No. 87-228, Sec. 1)~~

~~2.06.045 Investment 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.~~

~~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).~~

~~(a) Short Term Funds:~~

~~(1) Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs.~~

~~(2) 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.~~

~~(3) Bond reserve funds shall be limited to investment in securities up to 18 months. The maturity of the investment may extend to 18 months 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. If these conditions are not met, the investment maturity must match the expected draws upon the reserve funds.~~

~~(b) Long Term Funds:~~

~~(1) 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 may be made to coincide as nearly as practicable with the expected use of the funds.~~

~~(2) 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 and the Manager of Accounting. (Moved to 2.06.050(c) with changes.)~~

~~(Ordinance No. 87-228, Sec. 1)~~

2.06.050 ~~Investment Limitations~~ 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

	<u>Percent of Portfolio (Maximum)</u>
<u>(1) U.S. Treasury Bills, Notes, Bonds, Strips and/or State and Local Government Series (SLGS)</u>	<u>100%</u>
<u>(2) U.S. Government Agencies Securities and Instrumentalities of Government Sponsored Corporations</u>	<u>100%</u>
<u>(3) Certificates of Deposit (CD) Commercial Banks in Oregon insured by FDIC</u>	<u>100%</u>
<u>(4) Certificates of Deposit</u>	<u>25%</u>

Savings and Loan Associations in Oregon which meet Federal capital requirements and are insured by the FDIC

- | | | |
|------|---|-------------|
| (5) | <u>Repurchase Agreements (Repo's)</u> | <u>50%</u> |
| (6) | <u>Banker's Acceptances (BA)</u> | <u>100%</u> |
| (7) | <u>Commercial Paper (CP)</u>
<u>Financial institution, holding company or business enterprise headquartered in Oregon; A-1 and P-1 only; maximum 60-day maturity</u> | <u>25%</u> |
| | <u>Corporate, publicly held U.S. corporations outside Oregon; A-1 and P-1 only; maximum 60-day maturity</u> | <u>10%</u> |
| (8) | <u>State of Oregon and Local Government Securities with A ratings or better</u> | <u>100%</u> |
| (9) | <u>State of Oregon Investment Pool</u> | <u>100%</u> |
| (10) | <u>State of Oregon Arbitrage Pool</u>
<u>Bond Proceeds Subject to Arbitrage</u> | |
| (10) | <u>Market Interest Accounts and Checking Accounts Minimum necessary for daily cash management efficiency</u> | |

(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.

~~The Investment Officer shall comply with the following limitations:~~

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

~~(b) Limitations by Type of Security:~~

~~(1) U.S. Government and U.S. Agency Securities
Authorized for Purchase~~

- ~~(a) U.S. Treasury Bills~~
- ~~(b) U.S. Treasury Notes~~
- ~~(c) U.S. Treasury Bonds~~
- ~~(d) U.S. Treasury Strips~~
- ~~(e) U.S. Treasury State and Local Government Series~~
- ~~(f) Federal National Mortgage Association Notes, Debentures and Discount Notes~~

~~(2) U.S. Government Securities not Authorized for Purchase~~

- ~~(a) Banks for Cooperatives~~
- ~~(b) Sallie Mae Discount Notes~~
- ~~(c) Sallie Mae Floating Rate Notes~~
- ~~(d) Federal Intermediate Credit Banks~~
- ~~(e) Federal Farm Credit Banks Bonds and Discounts Notes~~
- ~~(f) Federal Home Loan Mortgage Corporation Mortgage Certificates~~
- ~~(g) Federal Land Banks~~
- ~~(h) Farm Credit Consolidated System-wide Discount Notes~~
- ~~(i) Federal Housing Administration Debentures~~
- ~~(j) Department of Housing and Urban Development:
New Communities Debentures
Project Notes
Local Authority Bonds~~
- ~~(k) Export-Import Bank of United States Debentures~~
- ~~(l) Farmers Home Administration Certificates of Beneficial Ownership~~
- ~~(m) General Services Administration Participation Certificates~~
- ~~(n) Government National Mortgage Association:
Participation Certificates
Pass-Through Securities
Mortgage Backed Bonds~~
- ~~(o) Small Business Administration Debentures~~
- ~~(p) Tennessee Valley Authority Bonds~~

~~(3) Certificates of Deposit: As required by ORS chapter 295, the Manager of Accounting will be responsible to ensure that a Certificate of Collateral Participation has been issued by the institution to cover outstanding time Certificates of Deposit. Under ORS 294.035(7), the financial institutions may be~~

~~"banks, mutual savings banks and savings and loan associations which maintain a head office or a branch in this state in a capacity of a bank, mutual savings bank or savings and loan association."~~

~~(4) Repurchase Agreements: 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.~~

~~(5) Banker's Acceptances: Under ORS 294.035 the Banker's Acceptance must be guaranteed by a "qualified Oregon financial institution" and must be eligible for discount by the Federal Reserve System. ORS 294.035(11) provides:~~

~~"'a qualified financial institution' means a financial institution that is located in the State of Oregon, licensed to do a banking business and not required under ORS chapter 295.018 to maintain a reserved deposit of collateral having a value not less than 110 percent of its public fund deposits. When an issuing financial institution becomes unqualified, all of its outstanding bankers' acceptances held by political subdivisions must be collateralized at 110 percent through the pool manager as required under ORS chapter 295.018."~~

~~(6) States and Municipalities: In addition to the requirements stated ORS 294.035, (1) through (6), the Investment Officer will further limit purchases of securities to municipalities which have obtained an A rating or better on Revenue Bonds and a Baa-1 rating or better on General Obligation bonds. The rating may be from either Moodys' Investors Service or Standard & Poor's Corporation. If the rating is split, the lower rating will prevail. The Investment Officer may purchase securities from unrated Oregon municipalities~~

upon recommendation from the Investment Advisory Board.

~~(Ordinance No. 87-228, Sec. 1)~~

~~2.06.055 Politico/Socio Limitations:~~

~~(a) South Africa: 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. (Moved to 2.06.050(d) changed.)~~

~~(Ordinance No. 87-228, Sec. 1).~~

~~2.06.060 Section of Securities Competitive Selection of Investment Instruments: Before the Investment Officer invests any surplus funds, a competitive bid process offering solicitation shall be conducted orally. Bids Offerings will be requested from financial institutions for various options with regards to term and instrument. The Investment Officer will accept the bid offering which provides the highest rate of return within the maturity required and within the prudent investor rule. Records will be kept of the bids offered, the bids offerings which are accepted and a brief explanation of the decision made regarding the investment.~~

~~(Ordinance No. 87-228, Sec. 1)~~

~~2.06.070 Delivery of Securities: 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 primary agent. Purchase and sale of all securities will be on a payment versus delivery basis. The trust department of the bank designated as primary agent will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The primary agent shall issue a safekeeping receipt to 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 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. (Moved to 2.06.090 with changes.)~~

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. 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.

~~(Ordinance No. 87-228, Sec. 1)~~

~~2.06.080 Collateralization: Deposit type securities (i.e., Certificates of Deposit) shall be collateralized through the State collateral pool as required by Oregon Revised Statutes for any amount exceeding FDIC or FSLIC coverage. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent. (Moved to 2.06.090 with changes).~~

~~(a) Diversification by Financial Institution~~

~~(1) Qualified Institutions: The Investment Officer shall maintain a listing of financial institutions and securities dealers recommended by the Investment Advisory Board. 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 Manager of Accounting 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 2.06.080(a) (2) A, B and D shall not exceed the 30 percent limitation in any one financial 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 30 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.~~

~~(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 a qualified Oregon financial institution. Under ORS chapter 294.035(11).~~

~~"'a qualified financial institution' means a financial institution that is located in the State of Oregon, licensed to do a banking business and not required under ORS chapter 295.018 to maintain a reserved deposit of collateral having a value not less than 110 percent of its public fund deposits. When an issuing financial institution becomes unqualified, all of its outstanding banker's acceptances held by political subdivisions must be collateralized at 110 percent through the pool manager as required under ORS chapter 295.018." (Moved to 2.06.050(b) with changes.)~~

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.

~~(Ordinance No. 87-228, Sec. 1)~~

2.06.090 ~~Reporting Requirements~~

~~(a) A transaction report shall be prepared by the 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) Monthly reports prepared by the District's Department of Finance & Administration shall report on the entire portfolio and be submitted to the Investment Officer, Investment Advisory Board and the Council in a timely manner.~~

~~(c) Quarterly Reports will be prepared for each regular meeting of the Investment Advisory Board to present historical investment information for the past 12 month period. Copies shall be provided to the Executive Officer and the Metro Council. (Moved to 2.06.130 with changes.)~~

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 primary agent. Purchase and sale of all securities will be on a payment versus delivery basis. The trust department of the bank designated as primary agent will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The primary agent shall issue a safekeeping receipt to 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.

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% collateralization and

ORS 295.018 requires 110% collateralization when the institution is notified by the State Treasurer.

~~(Ordinance No. 87-228, Sec. 1)~~

2.06.100 Indemnity Clause: Metro shall indemnify the Investment Officer, staff and the Investment Advisory Board members from personal liability for losses that might occur pursuant to administering this investment policy.
(Ordinance No. 87-228, Sec. 1)

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: 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 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 Investment Advisory Board to present historical investment information for the past 12-month period. Copies shall be provided to the Executive Officer and the Metro Council.

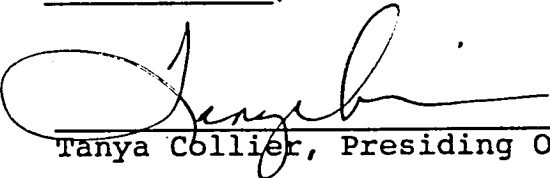
2.06.140 Performance Evaluation: The overall performance of Metro's investment program shall be evaluated annually by the IAB using the objectives outlined in this policy. A written copy of the evaluation shall be provided to the Metro Council as soon as practicable. The performance of Metro's portfolio 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 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).

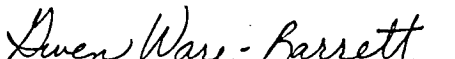
ADOPTED by the Council of the Metropolitan Service

District this _____ 8th _____ day of _____ November _____, 1990.



Tanya Collier, Presiding Officer

ATTEST:



Gwen Ware-Bassett
Clerk of the Council

RSR
\DOC\INVEST\ORDMOD
10/02/90

CLEAN COPY OF MODIFIED POLICY

CHAPTER 2.06

INVESTMENT POLICY

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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. 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 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 designate 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 three 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 only one members' term expires in any calendar year.

(2) Appointment: The Executive Officer shall appoint the members of the IAB subject to confirmation by the Council.

(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, 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) 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-day maturity | 25% |
| | Corporate, publicly held U.S.
corporations outside Oregon; A-1 and
P-1 only; maximum 60-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 | |
| (10) | 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.

2.06.060 Competitive Selection of Investment Instruments: Before the Investment Officer invests any surplus funds, a competitive process 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 the offerings which are accepted.

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. 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 primary agent. Purchase and sale of all securities will be on a payment versus delivery basis. The trust department of the bank designated as primary agent will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The primary agent shall issue a safekeeping receipt to 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.

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% collateralization and ORS 295.018 requires 110% collateralization when the institution is notified by the State Treasurer.

2.06.100 Indemnity Clause: Metro shall indemnify the Investment Officer, staff and the Investment Advisory Board members from personal liability for losses that might occur pursuant to administering this investment policy.
(Ordinance No. 87-228, Sec. 1)

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: 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 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 Investment Advisory Board 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 shall be evaluated annually by the IAB using the objectives outlined in this policy.

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 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).



METRO

2000 S.W. First Avenue
Portland, OR 97201-5398
503/221-1646

Memorandum

Date: November 13, 1990
To: Rena Cusma, Executive Officer
From: Gwen Ware-Barrett, Clerk of the Council
Regarding: TRANSMITTAL OF ORDINANCE NOS. 90-365 and 367

Attached for your consideration is a true copy of Ordinance Nos. 90-365 and 367 adopted by the Council on November 8, 1990.

If you wish to veto either of these ordinances, I must receive a signed and dated written veto message from you no later than 5:00 p.m., Friday, November 16, 1990. 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, these ordinances will be considered finally adopted.

I, *Robert S. Smith*, received this memo and a true copy of Ordinance Nos. 90-365 and 367 from the Council Clerk on November 13, 1990.

Dated: *11/13/90*

GWPB:lc
\MEM.ORD

attachment