

City of Medford Investment Policy

Section 1. Purpose:

The City of Medford, Oregon (the City) was incorporated in 1885 and operates under the council-manager form of government. Policy-making and legislative authority are vested in the City Council, which consists of a mayor and an eight-member council. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager. Medford has a population of approximately ~~777~~778,000 and is located roughly equidistant from Portland to the north and Sacramento to the south.

The average monthly balance of funds invested in the City's general portfolio, excluding proceeds from bond issues, is approximately \$80 million. The highest balances in the portfolio occur in December after the majority of property taxes are collected.

The purpose of this Investment Policy (the Policy) is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City.

The Policy dated July 3, 1986 was revised October 1, 1992, June 21, 2001, ~~and~~ February 18, 2010, and September 15, 2011. This Policy, adopted by the City Council of Medford, Oregon on ~~September 15, 2011~~ December 18, 2014, replaces all previous versions of the City's Investment Policy.

Section 2. Scope

The provisions of this Policy shall apply to all investable funds of the City of Medford and its component units, except for deferred compensation fund assets, pension fund assets, and assets of restricted trust and escrow funds to the extent not under the investment control of the City. Included under the provisions of this Policy are financial assets of general operating funds, enterprise funds, special revenue funds, and any other funds not specifically excluded which are recognized in the City's Comprehensive Annual Financial Report.

Except for restricted and excluded funds and special accounts, all excess cash shall be pooled into one account for investment purposes. The net investment income derived from the pooled investment account shall be allocated pro-rata to the contributing funds based upon their average balances and in accordance with generally accepted accounting principles, on a monthly basis.

Section 3. Objectives

The City's principal investment objectives are:

- 3.1 Preservation of capital and protection of investment principal.

- 3.2 Maintenance of sufficient liquidity to meet operating requirements that are reasonably anticipated.
- 3.3 Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.
- 3.4 Attainment of a market value rate of return throughout budgetary and economic cycles.
- 3.5 Conformance with federal, state, city and other legal requirements.

Section 4. Delegation of Authority

- 4.1 The ultimate responsibility and authority for the investment of City funds resides with the City Council. The City Manager hereby designates the Finance Director as the Custodial Officer for the City's funds. The Custodial Officer shall invest City funds in accordance with ORS Chapter 294, Public Financial Administration, and with this Investment Policy. This Policy shall constitute a "written order" from City Council per ORS 294.035. The Custodial Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional City Finance personnel.
- 4.2 In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.
- 4.3 Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its investment program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage or necessary financial protection of the City's resources. External service providers shall be subject to Oregon Revised ~~States~~ Statutes and the provisions of this Investment Policy.
 - 4.3.1 The investment advisory service firm will function in a non-discretionary role and provide technical market research to help in implementing investment strategies. Non-discretionary management requires that the City maintain control of investments by requiring the firm to obtain approval for all investment transactions.

Section 5. Prudence and Indemnification

- 5.1 The standard of prudence to be used in the context of managing the overall portfolio is the prudent investor rule which states: *Investments shall be made with judgment and care, under circumstances then prevailing, which*

persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

- 5.2 The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that within a diversified portfolio, losses sometimes occur, and such losses shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security before maturity is in the best long-term interest of the City.
- 5.3 The City's Custodial Officer (ORS 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and Oregon Revised Statutes 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with ORS 294.047, provided that these losses are reported as soon as practical to the City Manager and action is taken to control adverse developments. Losses that are sustained in the City's portfolio shall be charged against current investment earnings.

Section 6. Ethics and Conflicts of Interest

City investment staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or create the appearance of an impairment of their ability to make impartial investment decisions. City investment staff involved in the investment process and investment officials shall disclose in writing to the City Manager any financial interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City.

Employees shall comply with ORS 244.040 (Code of Ethics), ORS 244.120 (Methods of Handling Conflicts), GARS Article 3.15 (Standards of Conduct), any amendments to these provisions, and any Code of Ethics applicable to employees that the City may adopt in the future.

Section 7. Internal Controls

The Custodial Officer shall establish and maintain a system of written internal controls consistent with this Policy designed to prevent the loss of public funds due to fraud, error, misrepresentation or imprudent actions by third parties or by employees of the City. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Written internal controls shall be reviewed and tested at least annually by an independent auditor or upon any extraordinary event such as turnover of key personnel or the discovery of inappropriate activity.

The policies set forth in this document shall be adhered to and monitored on a quarterly basis. Any instance which is deemed to be out-of-compliance with this investment policy shall be brought back into compliance as soon as prudently feasible.

Section 8. Accounting Method

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies, including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

Section 9. Safekeeping and Custody

Except for the State of Oregon Local Government Investment Pool, time deposit open accounts, Certificates of Deposit and savings accounts, all investment securities purchased by the City, and all purchased securities under the terms of a City approved Master Repurchase Agreement, shall be delivered by ~~either book entry or physical delivery~~ and shall be held in third-party safekeeping by a City approved custodian bank, ~~its correspondent bank~~ or the Depository Trust Company (DTC).

Custodian banks shall be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services. The City shall execute a written Safekeeping Agreement with each custodian bank prior to utilizing that bank's safekeeping services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis in accordance with ORS 294.145 (4) and (5). It is the intent of the City that all purchased securities be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All fed-wireable book entry securities shall be held in the Federal Reserve System in a customer account or trust account at the custodian bank which names the City as the customer. ~~All physical delivery securities shall be held by the custodian bank's correspondent bank.~~ DTC eligible securities shall be held in the custodian bank's participant account at the DTC.

Section 10. Collateralization

All bank deposits, time deposits, certificates of deposit, and savings accounts held in bank depositories, which exceed the amounts insured by one or more agencies of the United States Government shall be collateralized in accordance with the provisions of ORS 295.

Collateral for repurchase agreements shall be limited in maturity and priced in compliance with ORS 294.035 (3)(k). See item 8 of the Suitable and Authorized Securities and Transactions section of this policy.

Section 11. Selection of Broker/Dealers

- 11.1 Broker/dealers and other financial institutions shall be selected by the Custodial Officer on the basis of their expertise in public cash management and their ability to provide service for the City's account. It shall be the policy of the City to purchase securities only from approved institutions and firms. Additions or deletions to the list shall be made at the Custodial Officer's discretion.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a Primary Dealer within its holding company structure; or
2. Report voluntarily to the Federal Reserve Bank of New York; or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule.)

Approved broker/dealers and the firms they represent shall be licensed to do business in the State of Oregon and, as such, are subject to the provisions of the Oregon Revised Statutes. Approved broker/dealers shall submit proof of registration in the State of Oregon, both for the firm and for the designated representative. Further, the broker/dealer representative shall submit evidence of holding the National Association of Security Dealers (NASD) Series 7 license, or the designation of Chartered Financial Analyst. Evidence of one of the following NASD licenses must also be submitted: Series 63, Series 65, or Series 66. License requirements are per the Oregon Division of Finance and Corporate Securities.

~~Approved broker/dealers and banks shall be required to submit and annually update a City approved Broker/Dealer Information Request form, including the firm's most recent financial statements, and which the Custodial Officer shall maintain on file.~~ In the event that an external investment advisor is not used in the process of recommending a particular transaction for the City's portfolio, authorized broker/dealers shall attest in writing that they have received a copy of this Policy and shall submit and annually update a City approved Broker/Dealer Information Request form, including the firm's most recent financial statements. The Custodial Officer shall maintain these documents on file.

The City may purchase Commercial Paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 12.1.3 of the Authorized Securities and Transactions section of this Policy.

Section 12. Authorized Securities and Transactions

- 12.1 All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294-145 (Prohibited conduct for Custodial Officer), ORS 294.805 to 294.895 (Local Government Investment Pool), ORS 294.052 (Investment of Bond Proceeds). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

The City will diversify investments across maturities, security types and institutions to avoid incurring unreasonable risks. The City has further defined the eligible types of securities and transactions as follows:

- 12.1.1 U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips with maturities not exceeding five years from the date of trade settlement.
- 12.1.2 Federal Instrumentality Securities: Debentures, discount notes, step-up securities, callable securities and stripped principal or coupons with final maturities not exceeding five years from the date of trade settlement issued by the following only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Resolution Funding Corporation (REFCORP), Financing Corporation (FICO), and Tennessee Valley Authority (TVA). Subordinated debt may not be purchased. The maximum ownership of Federal Instrumentality Securities is 75% with no more than 25% of the portfolio held in any one issuer.
- 12.1.3 Commercial Paper issued by a commercial, industrial or utility business or issued by or on behalf of a financial institution with maturities not exceeding 270 days from the date of trade settlement. Commercial paper must be rated at least A-1, or the equivalent, at the time of purchase by each service which rates the commercial paper. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated at least AA-A by Standard & Poor's ~~Corporation~~ or Aa-A2 by Moody's Investors Service or the equivalent. Ownership of commercial paper and corporate bonds shall be limited to a combined total of 35% of the portfolio, with no more than 5% of the portfolio held in any one issuer or its affiliates or subsidiaries.
- 12.1.4 Corporate Bonds subject to a valid registration statement on file with the Securities and Exchange Commission issued by a commercial, industrial or utility business or issued by or on behalf of a financial institution with final maturities not exceeding three years from the date of trade settlement. Authorized corporate bonds shall be limited to obligations of United States dollar denominated corporations organized and operating within the United States. At the time of purchase, the debt must be rated at least AA- by Standard and Poor's or Aa3 by Moody's or AA- by Fitch, as required by ORS 294.035. Furthermore, split ratings are acceptable to no less than A by Standard and Poor's or A2 by Moody's or A by Fitch.~~At the time of purchase, the debt must be rated at least AA or the equivalent.~~

Ownership of corporate bonds and commercial paper shall be limited to a combined total of 35% of the portfolio, with no more than 5% of the portfolio held in any one issuer or its affiliates or subsidiaries. ~~In addition, FDIC-guaranteed corporate bonds are herein authorized, the diversification and maturity requirements are 50% of the portfolio, with no more than 5% of the portfolio held in any one issuer or its affiliates or subsidiaries.~~

- 12.1.5 Bankers Acceptances which are (a) guaranteed by and carried on the books of a financial institution located and licensed to do banking business in the State of Oregon; or 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. (b) Banker's acceptances shall be eligible for discount by the Federal Reserve System; and (c) the institution issuing a letter of credit shall have a short-term rating that is the highest category by one or more nationally recognized statistical rating organizations at the time of purchase. Maturities shall be limited to 180 days from the date of trade settlement and ownership of bankers acceptances shall not exceed 25% of the portfolio, with no more than 10% of the portfolio held in any one issuer.
- 12.1.6 State of Oregon Local Government Investment Pool organized pursuant to ORS 294.805 through 294.895. Participation in the Pool shall not exceed the maximum limit annually set by ORS 294.810. This amount is indexed semi-annually to inflation (the Portland All-urban consumer CPI) pursuant to statute. The limit may temporarily be exceeded by local governments for 10 business days due to pass-through funds. As of ~~12/31/088/31/14~~, the maximum investment was ~~\$42,523,08246,801,588~~.
- 12.1.7 Time Deposit Open Accounts, Certificates of Deposit, and Savings Accounts in insured institutions as defined in ORS 706.008 that maintain an office in Oregon. Certificates of Deposit that are purchased by the City shall be FDIC insured or collateralized through the state collateral pool in accordance with ORS 295.015 and ORS 295.018. Ownership of time certificates of deposit shall be limited to 35% of the portfolio, with no more than 10% with any one financial institution at the time of purchase, and maturities shall not exceed ~~one~~ five years.
- 12.1.8 Repurchase Agreements with maturities of 90 days or less collateralized by U.S. Treasury securities with the maturity of the collateral not exceeding three years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City approved Master Repurchase Agreement. The purchased securities shall have an original minimum market value including accrued interest of 102% of the dollar value of the transaction, as prescribed by written policy of the Oregon Short Term Fund Board. Collateral shall be held delivery versus payment in the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily. Broker/dealers and Financial Institutions must have an executed

Master Repurchase Agreement with the City. Ownership of repurchase agreements shall be limited to 50% of the portfolio and 10% per issuer.

Repurchase Agreements shall be entered into only with City approved Primary Dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York or firms that have a Primary Dealer within their holding company structure.

12.1.9 Obligations of the States of Oregon, California, Idaho, and Washington: Lawfully issued debt obligations of these states and their political subdivisions that have a long-term rating of AA or an equivalent rating or better or are rated in the highest category for short-term municipal debt by a nationally recognized rating agency. Such obligations are authorized only if there has been no default in payment of either the principal or the interest of obligations of the issuing entity within five years preceding investment, ORS 294.040. Ownership of such obligations shall be limited to 25% of the portfolio, with no more than 10% of the portfolio held in any one issuer. Maturities for these obligations shall not exceed three years.

12.2 As of the date of this Policy, all of the above securities, deposits and transactions have been approved by the State Treasurer pursuant to ORS 294.046. Any amendments to ORS 294.046 or the State Treasurer's statement of permitted investments for governmental entities shall be assumed to be a part of this Investment Policy immediately upon being enacted. It is the intent of the City that the foregoing list of authorized securities is strictly interpreted. All diversification requirements shall be calculated based on the cost value of the holdings at the time of purchase. Specific diversification requirements shall be applied to the aggregate holdings of an institution as of the date of trade settlement. Any deviation from this list must be pre-approved in writing by the City Manager.

Section 13. Credit Quality Requirements

The minimum credit quality requirements of the portfolio shall be AA or the equivalent. Commercial Paper shall be rated no less than A-1 or the equivalent. The target weighted average credit quality of the portfolio shall not be greater than a value of three (3) using the table below.

Value	Moody's Ratings		S&P Ratings		Fitch Ratings	
	Long-Term	Short-Term	Long-Term	Short-Term	Long-Term	Short-Term
1	U.S. Treasury		U.S. Treasury		U.S. Treasury	
1	Federal Instrumentality		Federal Instrumentality		Federal Instrumentality	
1	Aaa	P-1	AAA	A-1	AAA	F1
2	Aa1		AA+		AA+	

3	Aa2		AA		AA	
4	Aa3		AA-		AA-	

Securities that have been downgraded to below the minimum ratings will be sold or held at the custodial officer's discretion. The custodial officer is responsible for bringing the portfolio back into compliance as soon as practicable.

Section 14. Portfolio Diversification Standards

The City will diversify the investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk, inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

<u>Instruments:</u>	<u>Maximum % of Portfolio</u>
U.S. Treasury Obligations	100%
Federal Instrumentality Securities	75%
Local Government Investment Pools (up to Statutory limit)	100%
Repurchase Agreements	50%
Commercial Paper/Corporate Indebtedness	35%
Banker's Acceptances	25%
Time Certificates of Deposit	35%
Obligations of the States of Oregon, California, Idaho, and Washington	25%

Section 15. Maturity Limits and Liquidity Requirements

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than five years from the date of settlement. The weighted average final maturity of the City's portfolio shall at no time exceed two-two and a half years.

At all times, the City shall maintain the following investment amounts with regard to maturities in the portfolio.

<u>Length of Maturity</u>	<u>Investment Amounts</u>
Under 30 days	10% minimum
Under 1 year	25% minimum
Over three years	25% maximum

Section 16. Competitive Transactions

Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the City. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded. A record shall be

maintained by the City of all bids and offerings for security transactions in order to ensure that the City receives competitive pricing.

If the City is offered a security for which there is no other readily available competitive offering, then the Custodial Officer shall document quotations for comparable or alternative securities.

Section 17. Prohibited Conduct

Oregon State Statutes have addressed several areas of prohibited conduct for the Custodial Officer when making investments, ORS 294.145. Specifically, the custodial officer shall not:

- 17.1 Make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of trade settlement of the purchase or sale transaction; or
- 17.2 Enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest; or
- 17.3 Lend securities to any person or institution, except on a fully collateralized basis, and except when such lending is specifically permitted under an investment policy adopted pursuant to ORS 294.135 (1)(a); or
- 17.4 Pay for any securities purchased by the custodial officer until the officer has received sufficient evidence of title thereof. Evidence of title shall be consistent with modern investment, banking and commercial practices and may include physical possession, book entry and automated recordation of such title. However, the Custodial Officer may instruct one or more custodian banks, as defined in ORS 295.001, to accept or release securities as the Custodial Officer considers advisable to be held in safekeeping for collection of principal and interest or other income; or
- 17.5 Deliver securities to the purchaser upon sale prior to receiving payment in full. However, the Custodial Officer may deliver the securities to any custodian bank, defined in ORS 295.001 upon instructions to hold the same pending receipt by the institution of full payment thereof.

Section 18. Investing Bond Proceeds

The City recognizes that bond proceeds may be subject to the provisions of the [Internal Revenue Code of 1986 and the applicable Federal Arbitrage Regulations, Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended.](#) Due to the legal complexities of arbitrage law and the necessary [immunization-restriction](#) of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Policy with written approval of the City Manager

Section 19. Reporting Requirements

On an annual basis, quarterly basis and as requested by the City Manager, the Custodial Officer shall provide an investment report to the City Manager listing the cost, current fair value, credit ratings and duration of investments held by the City, average interest rate and the interest rate earned by the Local Government Investment Pool, all in accordance with GASB Statements 31 and 40. The report shall include a summary of

investment earnings and performance results for the period and will be used to ensure adequate portfolio diversification, both by type and maturity dates, and certify that the portfolio is currently structured according to the terms of this policy.

Section 20. Performance Evaluation

The Custodial Officer shall periodically establish a benchmark yield for the City's investments. Considerations for establishing the benchmark yield shall include the current yield on the State of Oregon Local Government Investment Pool, ~~and~~ the average yield on the 1-year U. S. Treasury, and the average return on the 1-3 year U. S. Treasury Index. When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

Section 21. Policy Revisions

This Investment Policy shall be reviewed by the Custodial Officer and submitted to the City Council for adoption on an annual basis in accordance with ORS 294.135(a). If at anytime, significant changes are made to the policy it will be submitted to the Oregon Short-Term Fund Board prior to being submitted to the City Council for adoption.