

RESOLUTION NO. 2022-56

RESOLUTION ADOPTING THE INVESTMENT POLICY FOR THE CITY OF FOREST GROVE, DATED AUGUST 22, 2022, AND REPEALING RESOLUTION NO. 2009-30

WHEREAS, the City adopted its current Investment Policy in 2009 in Resolution No. 2009-30; and

WHEREAS, City staff and the City's external investment advisor have been working to update the 2009 policy, and

WHEREAS, the draft Investment Policy was sent to the Oregon Short-Term Fund Board (STFB) for review; and

WHEREAS, after incorporating some of STFB's staff suggested changes, the STFB met to review the revised policy and did not express concerns about the proposed policy; and

WHEREAS, City staff has finalized the Investment Policy for Council consideration.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF FOREST GROVE AS FOLLOWS:

Section 1. That the City Council hereby adopts the Investment Policy for the City of Forest Grove, attached hereto as Exhibit A, which is incorporated herein.

Section 2. Resolution No. 2009-30 is hereby repealed upon the effective date of this resolution.

Section 3. This resolution is effective immediately upon its enactment by the City Council.

PRESENTED AND PASSED this 22nd day of August, 2022.



Anna D. Ruggles, City Recorder

APPROVED by the Mayor this 22nd day of August, 2022.



Peter B. Truax, Mayor

INVESTMENT POLICY



A place where families and businesses thrive.

DATE ADOPTED:

August 22, 2022

CITY OF FOREST GROVE
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(503) 992-3200

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CITY OF FOREST GROVE INVESTMENT POLICY

1. Purpose

This Investment Policy defines the parameters within which funds are to be invested by the City of Forest Grove (hereafter, "City"). This policy also formalizes the framework, pursuant to ORS 294.135, for the City's investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets

2. Governing Authority

The City's investment program shall be operated in conformance with Oregon Revised Statutes and applicable federal law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to laws established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

3. Scope

This policy applies to all cash related assets included within the scope of the City of Forest Grove's audited financial statements and held directly by the City. The City pools funds to provide for a more efficient investment program. Funds held in trust for the pension portfolios and deferred compensation funds for the employees of the City, which have separate rules, are excluded from these policies. In addition, funds held by trustees or fiscal agents are excluded from these policies, however all funds are subject to Oregon Law. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$30 million and \$80 million.

4. General Objectives

The primary objectives, in order of priority, of the City's investment activities are as follows:

4.1 Preservation of Invested Capital: The City's investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk. In investing public funds, the City will not assume unreasonable investment risk to obtain current investment income.

4.2 Liquidity: The City's investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

4. General Objectives, continued

4.3 Return: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

5. Standards of Care

5.1 Prudence: The standard of prudence to be used by the investment officer in the context of managing financial resources shall be 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 probably safety of their capital as well as the probable income to be derived."

The investment officer and staff, acting in accordance with this policy and exercising due diligence, will not be held personally responsible for a specific security's credit risk, market price changes, or loss of principal if securities are liquidated prior to maturity provided that these deviations and losses are reported as soon as practical action is taken to control these adverse developments.

5.2 Ethics and Conflicts of Interest: Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to City Administrator any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

5. Standards of Care, continued

5.3 Delegation of Authority and Responsibilities:

- i. **Governing Body:** The City Council will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.
- ii. **Delegation of Authority:** Authority to manage investments within the scope of this policy and operate the investment program in accordance with written procedures and internal controls is granted to the Assistant City Manager/Finance Director under review of the City Manager, or his/her designee (herein after referred to as Investment Officer), and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

- iii. **Investment Committee:** The City Council may seek to establish an investment committee to provide guidance to the Investment Officer(s) and monitor investment policy compliance.
- iv. **Investment Advisor:** The Investment Officer may engage the services of one or more external investment managers to assist in the management of The City investment portfolio in a manner consistent with this investment policy. Investment advisors may be hired on a non-discretionary basis. If The City hires an investment advisor to provide investment management services, the advisor is authorized to transact with its direct dealer relationships on behalf of the City.

6. Transaction Counterparties

6.1 Broker/Dealers: The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

- i. Broker/Dealer firms must meet the following minimum criteria:
 - a. Be registered with the Securities and Exchange Commission (SEC)
 - b. Be registered with the Financial Industry Regulatory Authority (FINRA)
 - c. Provide most recent audited financials
 - d. Provide FINRA Focus Report filings
- ii. Approved broker/dealer employees who execute transactions with The City must meet the following minimum criteria:
 - a. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
 - b. Be licensed by the state of Oregon;
 - c. Provide certification (in writing) of having read, understood, and agreed to comply with the most current version of this investment policy.
- iii. The Investment Officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - a. Positive references from at least three other local government clients.
 - b. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.
 - c. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - d. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.

6. Transaction Counterparties, continued

6.1 Broker/Dealers: continued

- iv. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
 - a. Pending investigations by securities regulators
 - b. Significant changes in net capital
 - c. Pending customer arbitration cases
 - d. Regulatory enforcement actions
- v. The Investment Officer shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with The City for investment purposes.

The Investment Officer or designee may utilize the investment advisor's approved broker/dealer list in lieu of The City's own approved list. The advisor must submit the approved list to The City annually and provide updates throughout the year as they occur. The advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures should include:

- a. FINRA Certification check
 - Firm Profile
 - Firm History
 - Firm Operations
 - Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
 - State Registration Verification
- b. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisors must provide The City with any changes to the list prior to transacting on behalf of The City.

The advisor may be authorized through the contracted agreement to open accounts on behalf of The City with the broker/dealers on the approved list. The City will receive documentation directly from the brokers for account verification and regulatory requirements.

6. Transaction Counterparties, continued

6.2 Investment Advisors: A list will be maintained of approved advisors selected by conducting a process of due diligence.

- i. The following items are required for all approved Investment Advisors:
 - a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon).
 - b. All investment advisor firm representatives conducting investment transactions on behalf of The City must be registered representatives with FINRA.
 - c. All investment advisor firm representatives conducting investment transactions on behalf of The City must be licensed by the state of Oregon.
 - d. Certification, by all of the advisor representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.
- ii. A periodic (at least annual) review of all authorized investment advisors under contract will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. The investment Advisor must notify The City immediately if any of the following issues arise while serving under a The City contract:
 - a. Pending investigations by securities regulators.
 - b. Significant changes in net capital.
 - c. Pending customer arbitration cases.
 - d. Regulatory enforcement actions.

6.3 Depositories: All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

6. Transaction Counterparties, continued

6.4 Competitive Transactions:

- i. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- ii. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- iii. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- iv. If an investment advisor provides investment management services, the advisor must retain documentation of competitive pricing execution on each transaction and provide upon request.

7. Administration and Operations

7.1 Delivery vs. Payment: All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in The City safekeeping institution prior to the release of funds.

7.2 Third Party Safekeeping: Securities will be held by an independent third-party safekeeping institution selected by the City. All securities will be evidenced by safekeeping receipts in the City of Forest Grove's name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

7.3 Internal Controls: The Investment officer and City Council are jointly responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment policy and, protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Investment Officer.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- i. Compliance with Investment Policy
- ii. Control of collusion
- iii. Separation of transaction authority from accounting and record keeping
- iv. Custodial safekeeping
- v. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary
- vi. Clear delegation of authority to subordinate staff members
- vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form
- viii. Dual authorizations of wire and automated clearing house (ACH) transfers
- ix. Staff training
- x. Review, maintenance and monitoring of security procedures both manual and automated

7.4 External Auditor: An external auditor shall provide an annual independent review to assure compliance with Oregon state law and City of Forest Grove policies and procedures.

7.5 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 Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and the Securities and Exchange Commission (SEC).

8. Authorized and Suitable Investments

8.1 Permitted Investments: All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (*Investment of surplus funds of political subdivisions; approved investments*), ORS 294.040 (*Restriction on investments under ORS 294.035*), ORS 294.135 (*Investment maturity dates*), ORS 294.145 (*Prohibited conduct for custodial officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement*), and ORS 294.805 to 294.895 (*Local Government Investment Pool*). If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by the City Council. Minimum credit ratings and percentage limitations apply to the time of purchase.

8.2 Suitable Investments:

The following lists allowable investment types:

US Treasury Obligations: Direct obligations of the United States Treasury whose payment is guaranteed by the United States. [ORS Section 294.035(3)(a)]

US Agency Obligations: Federal agency and instrumentalities of the United States or enterprises sponsored by the United States Government (GSE) and whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. [ORS Section 294.035(3)(a)]

Municipal Debt: Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization, or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [ORS Section 294.035(3)(c)]

Corporate Indebtedness: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933. Corporate indebtedness must be rated on the settlement date AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization. [ORS Section 294.035(3)(i)]

Commercial Paper: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Commercial Paper must be rated A1 by Standard and Poor's or P1 by Moody's or equivalent rating by any nationally recognized statistical rating organization. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer. [ORS Section 294.035(3)(i)]

8. Authorized and Suitable Investments, continued

8.2 Suitable Investments:

Certificates of Deposit: Certificates of deposit in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

Bank Time Deposit/Savings Accounts: Time deposit open accounts or savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)(e)].

Bankers' Acceptances: A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose short-term letter of credit rating is rated in the highest category without any refinement or gradation by one or more nationally recognized statistical rating organization. For the purposes of this paragraph, "qualified financial 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 that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon. [ORS 294.035(3)(h)]

Local Government Investment Pool: State Treasurer's local short-term investment fund up to the statutory limit per ORS Section 294.810.

8.3 Collateralization: Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.018. All depositories must be on the State of Oregon's qualified list. Additional collateral requirements may be required if the Investment Officer deems increased collateral is beneficial to the protection of the monies under The City's management.

8.4 Approval of Permitted Investments: If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by the City.

8. Authorized and Suitable Investments, continued

8.5 Prohibited Investments:

- i. The City shall not invest in “144A” private placement securities, this includes commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.
- ii. The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
- iii. The City shall not purchase mortgage-backed securities.
- iv. The City shall not purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history.
- v. No commitment to buy or sell securities may be made more than 14 days prior to the anticipated settlement date.

9. Investment Parameters

9.1 Credit Risk

- i. Diversification: It is the policy of The City to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type. Allowed security types and Investment exposure limitations are detailed in the table below.
- ii. Credit Ratings: Investments must have a rating from at least one of the following nationally recognized statistical ratings organizations (NRSRO): Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.
- iii. The minimum weighted average credit rating of the portfolio's rated investments shall be AA-/Aa3/AA- by Standard & Poor's; Moody's Investors Service; and Fitch Ratings Service respectively.
- iv. Diversification and Credit Exposure Constraints: The following table limits exposures among investments permitted by this policy.

Total Portfolio Diversification Constraints

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	35%	N/A	5.25 years
Municipal Bonds (OR, CA, ID, WA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Notes	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings	20%	None	Oregon Public Depository	N/A
Certificates of Deposit	10%	5%	Oregon Public Depository	5.25 years
Banker's Acceptance	10%	5%	A1 / P1	180 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

*Short Term Ratings: Moody's - P1/MIG1/VMIG1. S&P - A-1/SP-1, Fitch F1

**35% maximum combined corporate and commercial paper per ORS.

***Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

9. Investment Parameters, continued

9.2 Investment Maturity: The City will not directly invest in securities maturing more than five and a quarter (5.25) years* from the date of purchase.

- i. The maximum weighted maturity of the total portfolio shall not exceed 2.5 years. This maximum is established to limit the portfolio to excessive price change exposure.
- ii. Liquidity funds will be held in the state pool or in bank money market instruments. Liquidity funds shall, at a minimum represent 2 months budgeted outflows.
- iii. Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5.25 years and will only be invested in high quality and liquid securities.

Total Portfolio Maturity Constraints

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5.25 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	2.5 years
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

*Exception to 5.25 year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five and a quarter (5.25) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

10. Investment of Proceeds from Debt Issuance

Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Liquidity for bond proceeds will be managed through the OSTF Pool or Bank deposit balances.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and maturity matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

11. Investment of Reserve or Capital Improvements

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities with a maturity of 5.25 years at the maximum when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used. Reserve or Capital Improvement Project monies may be invested in securities exceeding 5.25 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

12. Guideline Measurement and Adherence

12.1 Guideline Measurement: Guideline measurements will use market value of investments.

12.2 Guideline Compliance:

- i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the City Council.
- iii. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

13. Reporting and Disclosure

13.1 Compliance: The Investment Officer shall prepare a report at least quarterly that allows the City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- i. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- ii. Average maturity of the portfolio at period-end
- iii. Maturity distribution of the portfolio at period-end
- iv. Average portfolio credit quality of the portfolio at period-end
- v. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio
- vi. Distribution by type of investment
- vii. Transactions since last report
- viii. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

13. Reporting and Disclosure, continued

13.2 Performance Standards/Evaluation:

- i. The City yields will be compared to the OST Pool rates.
- ii. The portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum effective duration and will have the objective to achieve market rates of returns over long investment horizons. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core portfolio is expected to provide similar returns to the benchmark over interest rate cycles but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.
- iii. 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.
- iv. The mark to market pricing will be calculated monthly and be provided in a monthly report.

13.3 Audits: Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

14. Policy Maintenance and Considerations

14.1 Review: The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

The annual report should also serve as a venue to suggest policies and improvements to the investment program, and shall include an investment plan for the coming year.

14.2 Exemptions: Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

14.3 Policy Adoption and Amendments: This Investment Policy and any modifications to this policy must be formally approved in writing by the City Council. Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the City Council for approval.

15. Glossary of Terms

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Agency Securities: Government sponsored enterprises of the US Government.

Basis Point: One-hundredth of 1 percent. One hundred basis points equals 1 percent.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually. See Debenture.

Bond Discount: The difference between a bond's face value and a selling price, when the selling price is lower than the face value.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Call: An option to buy a specific asset at a certain price within a certain period of time.

Callable: A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by businesses.

Commission: Broker's or agent's fee for purchasing or selling securities for a client.

Core Fund: Core funds are defined as operating fund balance which exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Coupon Yield: The annual interest rate of a bond divided by the bond's face value and stated as a percentage. This usually is not equal to the bond's current yield or its yield to maturity.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

15. Glossary of Terms, continued

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called “free”). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The reduction in the price of a security; the difference between its selling price and its face value at maturity. A security may sell below face value in return of such things as prompt payment and quantity purchase. “At a discount” refers to a security selling at less than the face value, as opposed to “at a premium” when it sells for more than the face value.

Fannie Mae: Trade name for Federal National Mortgage Association (FNMA).

Freddie Mac: Trade name for Federal Home Loan Mortgage Corporation (FHLMC).

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer’s full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as “governments.”

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

Investment Portfolio: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Investor: A person who purchases securities with the intention of holding them to make a profit.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the CITY.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state or its agencies. The interest on “munis” is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

National Association of Securities Dealers (NASD): A self-regulatory organization that regulates the over-the-counter market.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Prudent Man Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

15. Glossary of Terms, continued

Quotation or Quote: The highest bid to buy or the lowest offer to sell a security in any market at a particular time. See Bid and Asked.

Spread: The difference between two figures or percentages. For example, the difference between the bid and asked prices of a quote or between the amount paid when a security is bought and the amount received when it is sold.

Trade Date: The date when a security transaction is executed.

Trader: Someone who buys and sells securities for a personal account or a firm's account for the purpose of short-term profit.

Trading Market: The secondary market for bonds that have already been issued. See Secondary Market.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

Ratings Table – Long-Term

Three Highest Rating Categories	S&P	Moody's	Fitch	Definition
	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

Ratings Table – Short-Term

Highest Rating Category	S&P	Moody's	Fitch	Definition
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	Municipal Commercial Paper			
A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality	



A place where families and businesses thrive.

CITY RECORDER USE ONLY:

AGENDA ITEM #: F. 6.

MEETING DATE: 08/22/2022

FINAL ACTION: RESO 2022-56

CITY COUNCIL STAFF REPORT

TO: *City Council*

FROM: *Jesse VanderZanden, City Manager*

MEETING DATE: *August 22, 2022*

PROJECT TEAM: *Paul Downey, Assistant City Manager/Finance Director
Melissa Henderson, Assistant Finance Director*

SUBJECT TITLE: *Resolutions Adopting Investment Policy and Repealing Resolution No. 2009-30*

ACTION REQUESTED:

<input type="checkbox"/>	Ordinance	<input type="checkbox"/>	Order	<input checked="" type="checkbox"/>	X	Resolution	<input type="checkbox"/>	Motion	<input type="checkbox"/>	Informational
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X all that apply

ISSUE STATEMENT: The City adopted its current Investment Policy in 2009. City staff has been working with the City’s outside investment advisor to update the policy to reflect changes in investments practices since 2009. These changes update the policies according to changes in the Law, and also allow the City additional opportunities for investments within its range of allowable investments. The policy has been reviewed by the State of Oregon Short Term Fund Board (OSTF). Staff is requesting that the City Council approve the attached Investment Policy.

BACKGROUND: The updates to the policy include language to better align to the OSTF sample policy and moving the maximum maturity for a single investment from 3.0 years allowed by the current policy to 5.25 years under the proposed policy. This investment policy is written in conformance with the applicable sections of ORS Chapter 294 as all funds invested within the scope of this policy are subject to laws established by the State of Oregon. This policy applies to all City funds within the scope of the City’s audited financial statements and held directly by the City. The funds held for trust in the pension portfolios are among the funds excluded by this policy.

The proposed investment policy discusses the scope and objectives of the investment activities. The primary objectives, in order of importance, are: 1) Preservation of Capital; 2) Liquidity; and 3) Return.

The revised Investment Policy is attached. The policy has been reviewed by the OSTF staff who provided comments on the proposed policy. Staff incorporated many of the OSTF staff’s comments and then that revised policy was reviewed by the OSTF Board. Overall, the Board thought it was a good, comprehensive policy.

This revised policy modifies the types of investments allowed to expand the allowed investments to include Municipal Debt Corporate Indebtedness, and Commercial Paper of a minimum investment grade which were not available under the current policy but fully allowable under Oregon statute. The City may not use these investments options but wanted to have them available to use.

The other significant change was to allow single investments out to 5.25 years with the maximum weighted average of the total portfolio not to exceed 2.5 years compared to the current policy of a single investment cannot exceed 3 years and the maximum weighted average of the portfolio cannot exceed 18 months. This change will give the City more flexibility to adjust to changing interest environments whether the interest rate is increasing or decreasing. The length of individual investments will also depend on the analysis of long-term cash flow needs to determine how long funds can be invested.

City staff have been working with the outside investment firm to ladder the City's investments outside the LGIP so eventually the City will have portions of investment portfolio maturing on an ongoing basis. The Assistant City Manager/Finance Director makes the final decision of all investment decisions.

FISCAL IMPACT: The fiscal impact of the changes is dependent on the interest environment at the time funds are available to invest.

STAFF RECOMMENDATION: Staff recommends that Council adopt the attached resolution adopting the investment policy.

ATTACHMENT(s): Resolutions Adopting the Investment Policy for the City of Forest Grove and Repealing Resolution No. 2009-30.