FIN-3.01 - Investment Policy (Printable Version)

INVESTMENT POLICY
Binding City Policy
BCP-FIN-3.01

SECTION 1 - PURPOSE

This Policy sets forth current criteria for the operation of the investment portfolio. As economic conditions change, the Policy may need to be amended to reflect new trends and opportunities within the framework of this Policy. It will be recognized that the primary objective of the Investment Policy is to establish a conservative set of investment criteria that will prudently protect the City's principal sums and enable the City to generate a fair rate of return from its investment activities.

This Policy applies to the investment of all funds on deposit at the City of Portland Treasurer's OFfice, as well as all trust funds for which the City has investment responsibility. Funds held by Trustee or Fiscal Agents are excluded, if the City does not have explicit investment authority. Deferred compensation funds have separate rules and are not covered within this Policy. The estimated investments covered herein range from $350 million to $750 million.

SECTION 2 - RESPONSIBILITY

The City Treasurer will be responsible for the implementation of this Policy. In the absence of the City Treasurer, the Chief Financial Officer (or designee) shall perform the investment duties. Any amendments to this Policy must be approved by the City Council after seeking the advice of the Chief Administrative Officer of the Office of Management and Finance, the City Treasurer, and the City's Investment Advisory Committee. The Chief Administrative Officer of the Office of Management and Finance (or designee) will establish the maximum investment level with each Oregon financial institution after consulting with the Investment Advisory Committee. The City Council will adopt a City Investment Policy annually.

SECTION 3 - TYPES OF INVESTMENT AND DIVERSIFICATION

The following types of investments will be permitted in the City's investment portfolio:

- **United States Treasury Debt Obligations**
  - Maximum % of Portfolio -- 100 %
  - Maximum Maturity -- 7 Years
    (US Treasury Inflation Indexed Securities) -- 10 Years

- Securities held for safekeeping at the City's custodian Bank or successor

- **United States Agency Debt Obligations**
  - Maximum % of Portfolio -- 100 %
  - Maximum Maturity -- 2 Years
  - Maximum % of Portfolio Per Issuer -- 100 %
  - Securities held for safekeeping at the City's custodian Bank or successor

- **Repurchase Agreements Secured by United States Treasury Debt Obligations**
  - Maximum % of Portfolio - 30%
  - Maximum Maturity -- 30 Days
  - Repurchase agreements with brokerage firms will only be executed with dealers from the list of Government Security Dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York
  - Repurchase agreements cannot exceed 2% of brokerage firm's liabilities
  - A signed repurchase agreement will be obtained in advance of the initial execution of an investment
  - Securities which serve as collateral for repurchase agreements must be delivered to the City's Trust Account at the City's custodian bank or successor on a delivery versus payment basis
  - Only United States Treasury Securities shall be used in conjunction with the repurchase agreement and such securities shall have a maturity of not longer than three years
  - The price paid by the Treasurer for United States Treasury Securities in the repurchase agreement shall not exceed amounts or percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board created by ORS 294.885

- **Time Deposits in State of Oregon Financial Institutions Collateralized 25 % by Securities as Required by Oregon Revised Statutes**
  - Maximum % of Portfolio - 50 %
  - Maximum Maturity - 1 Year
  - Maximum % of Portfolio Per Issuer - 25 %
  - Securities held in vault at the City's Treasury

- **Bankers' Acceptance Issued by Financial Institutions in Compliance With the Provisions of ORS 294.035**
  - Maximum % of Portfolio - 50 %
  - Maximum Maturity - 6 Months
  - Maximum % of Portfolio Per Issuer - 25%
  - Securities held for safekeeping at the City's custodian Bank or successor Bank

- **State of Oregon Local Government Investment Pool**
  - The legal maximum as provided under ORS 294.810

- **Commercial Paper Issued by United States Corporations in Compliance With the Provisions of ORS 294.035**
  - Investment Rating -- A-1, P-1
  - Maximum % of Portfolio -- 25%
  - Maximum Maturity -- 270 Days
  - Maximum % of Portfolio Per Issuer - 5%

- Securities held for safekeeping through the City's custodian Bank or successor Bank

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SECTION 4 - INVESTMENT DIVERSIFICATION

Diversification requirements must be met on the settlement date of an investment transaction. If due to unanticipated cash needs, the investment in any security type or financial issuer later exceeds the limitations in this policy, the Treasurer is responsible for bringing the investment portfolio back into compliance as soon as is practical.

SECTION 5 - DISTRIBUTION OF PORTFOLIO MATURITIES

Distribution, by maturity, of the investments is illustrated below:

Maturity	Percentage of Funds
0-2 Years	50 - 100 %
2-7 Years	0 - 50 %

This maturity structure applies to the Treasury's estimate of the lowest cash balance that the portfolio will reach during the next seven years. If, for example, the projected lowest cash balance is $200 million, then up to $100 million may be invested in the two to seven year maturity range. All other funds must be invested in less than two-year maturities and must meet the City's cash flow requirements. The City's Investment Advisory Committee will be consulted prior to implementing a strategy of purchasing securities with maturities beyond two years. The portfolio's weighted average maturity shall not exceed eighteen (18) months.

SECTION 6 - BROKERAGE ALLOCATION

The Treasury will maintain a current list of all brokerage firms that have been approved by the Chief Administrative Officer of the Office of Management and Finance (or designee) to conduct investment business with the City. The Treasury will obtain a minimum of three quotes from different brokers before it executes a government securities transaction, or purchases commercial paper issued by a corporation outside of Oregon on the national market. The allocation of brokerage business will be based upon which brokerage firm offers the best price to the City on each particular transaction. Where two or more brokers have offered the same best price, allocation will go to the investment firm that has provided the best service to the City.

When purchasing bankers' acceptances or commercial paper, the Treasury will compare interest rates on similar investments from other investment dealers. The Treasury will also determine that the rates being offered the city are rates comparable to those available for similar investments in the national market.

When purchasing time deposits, the Treasury will obtain interest rate offers from all Oregon financial institutions approved to do business with the City. The time deposits will be allocated to the highest interest rate offered the City, consistent with the maximum deposit levels set for each financial institution by the Chief Administrative Officer of the Office of Management and Finance (or designee).

SECTION 7 - METHOD OF ACCOUNTING

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 American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).

SECTION 8 - REPORTING REQUIREMENTS

The City Treasurer will provide the following reports on a monthly basis to the City's Investment Advisory Committee and the Chief Administrative Officer of the Office of Management and Finance (or designee):

- A list of securities owned, with all maturities over one year priced at both cost and market value.
- A list of all investment transactions showing the net gain or loss on each investment.

SECTION 9 - INTERNAL CONTROLS

The internal controls of the City of Portland's Treasury are reviewed and tested by the City's internal and external auditors.

SECTION 10 - PERFORMANCE EVALUATION

The City's investment performance shall be reviewed monthly by the Chief Financial Officer. The City's portfolio yield will be compared monthly to the yield of U.S. Treasury Securities with a maturity similar to the average maturity of the City's portfolio.

SECTION 11 - ANALYSIS OF INVESTMENT RISKS

In analyzing the City's Investment Portfolio, there are three major risks that the City incurs through its investment activities. The first risk that the City faces is the interest rate risk. This risk is the uncertainty of the size of future incomes from securities cause by fluctuations in the general level of interest rates in the capital markets.

Interest rates have fluctuated dramatically over the last ten years and, therefore, the City's Investment Policy is designed to minimize the interest rate risk. This is accomplished by limiting investments to a maximum maturity of seven years, and by investing to meet the City's cash flow requirements.

The second risk that the City faces can be termed the purchasing power risk. This risk can be defined as the uncertainty of the purchasing power of interest and principal to be received in the future. It can be easily recognized that if the amount of income from a security in current dollars remains unchanged over a period of time while the price index is rising, then the amount of income in constant dollars declines and the constant value of the principal to be received also declines.

The final risk is the financial risk of not receiving principal and interest when due from an issuer. The design of the types of investments permitted by the Investment Policy seeks to minimize this risk by the conservative nature of the permissible investments and by establishing safe limits on the level of investments with Oregon financial institutions and issuers of commercial paper. A portfolio policy stressing a relatively short maturity serves to additionally minimize the financial risk.

Thus, it is the conclusion that the shorter the portfolio is in maturity, the less risk the City is incurring with regard to the three major risks that it faces. The policy of keeping 100% of the funds in seven year or less maturities leaves open the flexibility to earn capital gains on the City's investments by shifting funds out to longer maturity when interest rates are falling, yet avoids the extreme amount of exposure to the interest rate risk and purchasing power risk that we would incur in an even longer-term portfolio.

HISTORY
Resolution No. 36097
Adopted by Council September 25, 2002