

## Investment of Funds

Under Board policy DFA - Investment of Funds, the Board authorizes the director of administrative services (DAS) to establish procedures for the investment of funds. These administrative regulations further define expectations for investment of district funds.

### 1. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

- a. Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
  - (1) Credit Risk - The district will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:
    - (a) Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
    - (b) Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers, with which the district will do business.
    - (c) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
    - (d) Actively monitoring the investment portfolio holdings for rating changes, changing economic/market conditions, etc.
  - (2) Interest Rate Risk - The district will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
    - (a) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
    - (b) Investing operating funds primarily in shorter term securities or the Oregon Short Term Fund.
- b. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, 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 for short-term funds.

- c. Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of the portfolio is limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
  - (1) A security with declining credit may be sold early to minimize loss of principal.
  - (2) Liquidity needs of the portfolio require that the security be sold.

## 2. Standards of Care

- a. Prudence - The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

- b. Ethics and Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees, officers and their families shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the district. Officers and employees shall, at all times, comply with the state of Oregon Government Ethics Commission code of ethics set forth in Oregon Revised Statute (ORS) Chapter 244.

## 3. Safekeeping and Custody

- a. Authorized Financial Dealers and Institutions - A list will be maintained of financial institutions authorized to provide investment and safekeeping services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness and other factors considered relevant by the district. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Qualified dealers and brokers will be required to maintain an office in the

states of Oregon or Washington. The district will limit all security purchases to institutions on these approved lists.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following, as appropriate:

- (1) Audited financial statements;
- (2) Proof of Financial Industry Regulatory Authority (FINRA) certification;
- (3) Proof of state registration;
- (4) Certification of having read and understood the district's investment policy;
- (5) Certification of agreement to comply with district's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

- b. Internal Controls - The investment officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of the district from loss, theft or misuse. The concept of reasonable assurance recognizes that:

- (1) The cost of a control should not exceed the benefits likely to be derived; and
- (2) The valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

- c. Delivery vs. Payment - All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- d. Safekeeping - Securities will be held by a third-party custodian as evidenced by safekeeping receipts.
- e. Pooling of Funds - Except for cash in certain restricted and special funds, the district will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

#### 4. Suitable and Authorized Investments

- a. Investment types consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and ORS 294.035 and 294.810:
- (1) U.S. Treasury Bills, Notes and Bonds;
  - (2) U.S. Government Agency Securities;
  - (3) Bankers Acceptances;
  - (4) Commercial Paper;
  - (5) Oregon Short Term Fund (OSTF); and
  - (6) Municipal Bonds.

- b. Collateralization. All bank deposits, time deposits, certificates of deposit and savings accounts, shall be held in qualified Oregon depositories in accordance with ORS 295. Such deposits are designated cash management tools and not investments under this policy or otherwise.

5. Investment Parameters

- a. Diversification - The investments shall be diversified by:
  - (1) Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
  - (2) Limiting investment in securities that have high credit risks;
  - (3) Investing in securities with varying maturities; and
  - (4) Continuously investing a portion of the portfolio in readily available funds such as the Oregon Short-Term Fund.

- b. Maximum Maturities - To the extent possible, the district shall attempt to match its investments with anticipated future cash flow requirements. The maximum maturity shall be the anticipated use of the cash or 18 months, whichever is shorter, unless:

The funds are being accumulated for a specific purpose, including future construction projects and upon approval of the district Board, the maximum maturity date matches the anticipated use of the funds but does not exceed 36 months (ORS 294.135(1)(b) and 294.135(3)).

To ensure funds are available for cash flow requirements, the investment officer shall limit the maturities of securities owned, based on market value, in order to manage the weighted average maturity of the portfolio to current market conditions and economic expectations.

The following guidelines shall apply:

- (1) Operating Funds: no more than 20 percent of the portfolio may be invested beyond 12 months and the weighted average maturity of the portfolio shall not exceed one year.
  - (2) Capital Projects Funds: maturities cannot exceed 18 months. Under ORS 294.135 a maturities extension of up to 36 months is available upon authorization by the District Board and approval by the Oregon Short-Term Fund Board. The approval must be filed annually via the Oregon State Treasury (OST). The timing of investment maturities shall be based on a comprehensive estimate of the capital projects cash flow requirements.
- c. Maximum Percentages of Investments - Surplus funds available for investment are those funds not required for immediate expenditure and include: investments, savings accounts, CDs and OSTF deposits. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts and demand deposit accounts are not considered surplus funds.

The maximum percentages for investments of surplus funds are as follows:

<b>Security</b>	<b>Limitation</b>
U.S. Treasury Bills, Notes and Bonds	None
U.S. Government Agency Securities	75 percent of invested funds not to exceed 20 percent per issuer
Certificates of Deposit	25 percent of invested funds not to exceed 10 percent with any single institution
Bankers Acceptances	25 percent of investment funds not to exceed 10 percent with any single institution
Commercial Paper	10 percent of invested funds not to exceed 5 percent per issuer
Municipal Bonds	25 percent of invested funds not to exceed 10 percent with any single issuer
OSTF Balances	None, except the maximum balance imposed by statute

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 subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio, however, this realignment should be done when feasible.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as the OSTF or held in bank balances to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- d. Bond Funds - The investment of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the most restrictive parameters of this policy and the applicable bond covenants and tax laws.
- e. Securities Lending and Reverse Repurchase Agreements - The district shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
- f. Bids and Offers - Before any security purchase or sale is initiated, the investment officer shall first determine the appropriateness of seeking competitive bids or offers. Such factors to consider include where the securities are held, the size of the transaction and the term to maturity. In the event competitive bids or offers are not sought, the decision to do so shall be documented. Competitive bids and offers shall always be sought for security purchases and sales of bond funds, when tax laws or bond covenants require such action.

## 6. Reporting

- a. Performance Standards - The performance of the district's investment portfolio will be measured against the performance of the Oregon Short Term Fund yield on a quarterly basis.
- b. Marking to Market - When market value becomes a significant factor in determining the value of the investment portfolio, the market value of the portfolio shall be calculated monthly and a statement of the market value of the portfolio shall be issued. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.<sup>1</sup>

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<sup>1</sup>When market value is not a significant factor in determining the value of the investment portfolio, the market value of the portfolio shall be calculated annually, as required, for financial reporting.