



City of Florence, Oregon Investment Policy

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City of Florence

Investment Policy

Effective Date: April 20, 2020

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INTRODUCTION

The City of Florence, (herein after referred to as “Florence” or “City”) was incorporated in 1893. Florence is located at the confluence of the Siuslaw River and Pacific Ocean. The City is located along the Pacific Coast Scenic Byway (Highway 101), only one-hour west of Eugene. Florence operates under a Council-Manager form of government where the full-time appointed City Manager administers the day-to-day operations.

The average monthly balance of funds invested in the City’s general portfolio and project funds is between \$6,000,000 and \$9,000,000. The highest balances occur when property taxes are collected.

GOVERNING BODY

It is the policy of the City of Florence that the administration of its funds and the investment of those funds shall be handled with the highest public trust. Investments shall be made in a manner that will assure security of principal. Parameters will be set to limit maturities and increase diversification of the portfolio while meeting the daily cash flow needs of the City and conforming to all applicable state and City requirements governing the investment of public funds. The receipt of a market rate of return will be secondary to safety and liquidity requirements. It is the intent of the City to be in complete compliance with local, state, and federal law. The earnings from investments will be used in a manner that best serves the public trust and interests of the City.

SCOPE

This policy applies to activities of the City of Florence with regard to investing the financial assets of all funds. Funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon.

The City commingles its daily cash into one pooled investment fund for investment purposes of efficiency and maximum investment opportunity. The following funds, and any new funds created by the City, unless specifically exempted by the City Council and this policy, are defined in the City’s Comprehensive Annual Financial Report:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Permanent Funds

Those funds will be invested in compliance with the provisions of all applicable Oregon Revised Statutes (ORS). Investments of any tax-exempt borrowing proceeds and any related Debt Service funds will comply with the arbitrage restrictions in all applicable Internal Revenue Codes.

OBJECTIVES AND STRATEGY

It is the policy of the City that all funds shall be managed with three primary objectives, listed in the order of priority:

1. Safety of Principal

- Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- Diversification of the portfolio will include diversification by maturity and market sector and will include the use of multiple broker/dealers for diversification and market coverage.

2. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements that might be reasonably anticipated.

3. Yield Return

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow of the portfolio. "Market rate of return" may be defined as the average yield of the current three-month U.S. Treasury bill or any other index that most closely matches the average maturity of the portfolio.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms, and the management of banking services.

STANDARDS OF CARE

1. Delegation of Investment Activity

- a. Investment Officer. The Administrative Services Director, acting on behalf of the City Council, is designated as the Investment Officer of the City and is responsible for investment management, decisions, and activities. The Council is responsible for considering the quality and capability of investment advisors and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy, and in accord with the

Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio.

- b. Investment Advisor. The City may enter into contracts with external investment management firms on a non-discretionary basis.

If an investment advisor is hired, the advisor will serve as a fiduciary for the City and comply with all requirements of this Investment Policy. Exceptions to the Investment Policy must be disclosed and agreed upon in writing by both parties. The Investment Officer remains the person ultimately responsible for the prudent management of the portfolio.

Annual review of all authorized investment advisors will be conducted by the Investment Officer. Factors to consider are:

- Pending investigations by securities regulators
- Significant changes in net capital
- Pending customer arbitration cases
- Regulatory enforcement actions

- c. Staff Designation. The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

2. Prudence

The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. The standard states:

“Investments shall be made with judgement 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 expected income to be delivered.”

3. Ethics and Conflict 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 City. Officers and employees shall, at all times, comply with the State of Oregon Government Ethics as set forth in ORS 244.

AUTHORIZED FINANCIAL INSTITUTIONS

1. Broker/Dealer Approval Process

The Investment Officer shall maintain a list of all authorized brokers/dealers and financial institutions that are approved for investment purposes or investment dealings. Any firm is eligible to make an application to the City of Florence and upon due consideration and approval will be added to the list. Additions and deletions to the list will be made at the discretion of the Investment Officer.

At the request of the City of Florence, the firms performing investment services shall provide their most recent financial statements or Consolidated Report of Condition for review. Further, there should be in place, proof as to all the necessary credentials and licenses held by employees of the brokers/dealers who will have contact with the City of Florence as specified by, but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc. The Investment Officer shall conduct an annual evaluation of each firm's credit worthiness to determine if it should remain on the list.

All dealers with whom the City transacts business will be provided a copy of this Investment Policy to ensure that they are familiar with the goals and objectives of the investment program.

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. A list of approved dealers must be submitted to the Investment Officer prior to transacting business. The Investment Officer can assign the responsibility of broker/dealer due diligence process to the Advisor, and all licensing information on the counterparties will be maintained by the Advisor and available upon request.

The Investment Officer, or investment advisor if hired, shall conduct annual reviews of all authorized broker/dealers and their respective authorized registered representatives. Factors to be considered are:

- a. Pending investigations by securities regulators
- b. Significant changes in net capital
- c. Pending customer arbitration cases
- d. Regulatory enforcement actions

2. Investment Advisor

An Investment Advisor may be selected through a competitive RFP process and must meet the following criteria:

- a. The Investment Advisor Firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the State of Oregon if assets under management are less than \$100 million.
- b. All Firm representatives conducting investment transactions on behalf of the City must be registered representatives with FINRA.

- c. All Firm representatives conducting investment transactions on behalf of the City must be licensed by the State of Oregon. Factors to be considered when hiring an investment advisory firm may include, but are not limited to:
 - i. The firm's major business
 - ii. Ownership and organization of the firm
 - iii. The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the City's account
 - iv. The size of the firm's asset base, and the portion of that base which would be made up by the City's portfolio if the firm were hired
 - v. Management fees
 - vi. Cost analysis of the advisor
 - vii. Performance of the investment advisory firm, net of all fees, versus the Local Government Investment Pool over a given period of time

3. Financial Bank Institutions

All financial banks that provide bank deposits, certificates of deposit, or any other deposit of the bank to the City must either be fully covered by the FDIC or the bank must be a participant of the Public Funds Collateralization Program (PFCP). ORS Chapter 295 governs the collateralization of Oregon public funds and provides statutory requirements for the PFCP. Bank depositories are required to pledge collateral against any public fund deposits in excess of deposit insurance amounts. The PFCP provides additional protection for public funds in the event of a bank loss.

4. Competitive Transactions

The Investment Officer will obtain telephone, fax, or email quotes before purchasing or selling an investment. The Investment Officer will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Investment Officer will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

The Investment Advisor must provide documentation of competitive pricing execution on each transaction. The Advisor will retain documentation and provide upon request.

SAFEKEEPING AND CUSTODY, CONTROLS

1. Safekeeping and Custody Securities

The laws of the state and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by the City, and independent third-party financial institution, or the City's designated depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The approved broker/dealer or investment advisor shall provide the City with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, Committee on Uniform Securities Identification Procedures (CUSIP) number, purchase or sale price, transaction date,

and other pertinent information. The broker/dealer which executes the transaction on the City's behalf shall deliver all securities on a delivery versus payment method to the designated third-party trustee at the direction of the Investment Officer.

2. Safekeeping of Funds at Bank Depositories

The City may hold bank deposits or certificates of deposits at banks qualified under ORS 295.

3. Accounting Methods

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

4. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment opportunities. Investment income will be allocated to the various funds based on their respective participation and in accordance with GAAP.

5. Internal Controls

The City will maintain a structure of internal controls sufficient to assure the safekeeping and security of all investments. All out-of-compliance situations under this policy will be corrected and brought into compliance as soon as prudently possible.

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

AUTHORIZED AND SUITABLE INVESTMENTS

1. Authorized 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 294.052 (Definitions; Investment by municipality of proceeds of bonds), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for custodial officer), and ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

2. Suitable Investments

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:

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

U.S. Agency Obligations – Primary: Senior debenture obligations of U.S. federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE) that have actively traded markets and provide a higher level of liquidity. These include Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB).

U.S. Agency Obligations – Secondary: Other U.S. government sponsored enterprises that are less marketable are considered secondary GSE's. They include, but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO), and Federal Agricultural Mortgage Corporation (Farmer Mac).

Municipal Bonds: Lawfully insured 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 Standard and Poors (S&P), or Aa3 or better by Moody's Investors Service (Moody's). In the case of a split rating, the lowest rating of these two rating agencies will be used.

Corporate Bonds: Corporate indebtedness must be rated on the settlement date Aa3 or better by Moody's or AA- or better by S&P [ORS Section 294.035(3)(b)]. In the case of a split rating the lowest rating will be used.

Commercial Paper: Commercial Paper* that is rated A1+/P1 and has long-term bonds which have a minimum rating of AA- by S&P and Aa3 by Moody's. In the case where both rating agencies provide ratings on the corporation, the lowest rating will be used.

Bank Time Deposit/Savings Account: Time deposit open accounts or savings accounts in the 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)]

Certificates of Deposit: Certificates of deposit 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)]

Bankers' Acceptance: A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution* whose long-term letter of credit rating in at least AA- by S&P or Aa3 by Moody's at the time of purchase. [ORS 294.035(3)(h)(A)]

Oregon Intermediate Fund: The Oregon Local Government Intermediate Fund (OLGIF) is a commingled investment pool for local governments offered by the Oregon State Treasury due to Legislation HB2140 and pursuant to ORS Chapter 294. OLGIF provides qualified local government participants with a vehicle to invest assets over an intermediate time horizon (three to five years).

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

*For the purpose 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 Section 294.035(3)(h)]

3. Collateralization

Time deposit open accounts, Certificates of Deposit, and savings accounts shall be collateralized through the Public Funds Collateralization program in accordance with ORS Section 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.

INVESTMENT PARAMETERS

1. Diversification

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.

**DIVERSIFICATION CONSTRAINTS ON TOTAL HOLDINGS:
LIQUIDITY AND CORE FUNDS**

Issue Type	Maximum % Holdings	Maximum % Per Issuer	Ratings S&P	Ratings Moody's
Us Treasury Obligations	100%	None	N/A	N/A
US Agency Primary Securities (FNMA, FHLMC, FFCB)	100%	33%	N/A	N/A
US Agency Primary Securities (FICO, Farmer Mac, etc.)	10%	10%	Must be rated	Must be rated
Municipal Bonds	10%	5%	AA-	Aa3
Corporate Bonds	20%	5%	AA-	Aa3
Commercial Paper	10%	5%	A1+	P1
Bank Time Deposits/Savings Accounts	20%	10%	Oregon Public Depository	Oregon Public Depository
Certificates of Deposit	10%	5%	Oregon Public Depository	Oregon Public Depository
Banker's Acceptance	10%	5%	A1+ AA- Underlying	P1 Aa3 Underlying
Oregon Intermediate Fund	10%	None	N/A	N/A
Oregon Short-Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

The minimum rated average credit rating of the portfolio's rated investments shall be Aa/AA by Moody's Investors Service and Standard & Poor's respectively.

2. Investment Maturity

The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

- a. 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.
- b. Liquidity funds will be held in the State Pool or in money market instruments maturing six (6) months and shorter. The liquidity portfolio shall, at a minimum, represent three (3) months budgeted outflows.
- c. 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 one (1) day and five (5) 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 Years	100%

Maturity Constraints	Maximum of Total Portfolio In Years
Weighted Average Maturity	2.50

Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	30%

Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

3. Interest Rate Risk

Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable-rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

- a. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk
- b. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk
- c. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries
- d. The maximum percent of callable securities in the portfolio shall be 60%

4. Prohibited Investments

The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program. The purchase of derivatives and use of reverse repurchase agreements are specifically prohibited by this policy. The City shall not purchase mortgage-backed securities.

POLICY COMPLIANCE AND PERFORMANCE EVALUATION

1. Compliance Report

A compliance report shall be maintained quarterly to document the portfolio versus the investment policy.

2. Compliance Measurement and Adherence

- a. Compliance Measurement: Guideline measurements will use par value of investments.
- b. Compliance Procedures: 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 possible.
- c. 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.
- d. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for particular issuer or investment type may be exceeded in 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.
- e. As determined on any date that the security is held within the portfolio, if the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of Safety, Liquidity, Yield, and Legality to make the decision. If the City has hired the services of an Investment Advisor, the Investment Officer will act on the recommendation of the Advisor.

3. Performance Measurement

The performance of the City of Florence will be measured against the performance of the Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. Given these considerations, the City's portfolio should provide a net yield that is equal or better to that attained by the Local Government Investment Pool over interest-rate cycles.

Additionally, a market benchmark will be determined that is appropriate for longer-term investments based on the City's risk and return profile. The Investment Advisor will provide return comparisons of the portfolio to the benchmark on a monthly basis. 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. This would include any in-house management of the funds, as well as outside management.

REPORTING REQUIREMENTS

The Investment Officer shall submit quarterly and annual reports to City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. More frequent reports may be provided when market conditions merit or if requested by Council.

Minimum quarterly reporting requirements for total portfolio:

- Earnings Yield
- Holdings Report (including mark to market)
- Transactions Report
- Weighted Average Maturity or Duration
- Compliance Report

INVESTMENT POLICY ADOPTION BY GOVERNING BOARD

This investment policy will be formally adopted by the Florence City Council. This policy shall be reviewed on an annual basis by the Investment Officer and the Florence City Council. Material revisions to this policy will require a review by the Oregon Short Term Fund Board, pursuant to ORS.

Supersedes:	Created/Amended by/Date: February 2020	Effective Date: May 4, 2020	Reviewed by Council: May 4, 2020
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