

BEFORE THE BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

In the Matter of Adopting the)
Columbia County Investment Policy) Order No. 74-2019

WHEREAS, it is in the best interest of the County to make appropriate investments consistent with Oregon and Federal law and best practice; and

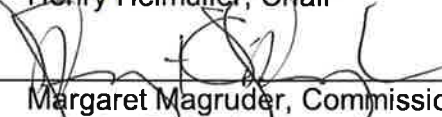
WHEREAS, it is in the best interest of the County to adopt parameters within which funds held by the County may be invested, to ensure effective and judicious management of funds; and

NOW, THEREFORE, IT IS HEREBY ORDERED, that all investments of funds held by Columbia County shall be made consistent with the Columbia County Investment Policy which is attached hereto as Attachment "1" and is incorporated herein by this reference.

Dated this 16 day of October, 2019.

BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

By: 
Henry Heimuller, Chair

By: 
Margaret Magruder, Commissioner

By: 
Alex Tardif, Commissioner

Approved as to form

By: 
Office of County Counsel

Attachment 1

COLUMBIA COUNTY INVESTMENT POLICY

2019

Table of Contents

| | |
|---|----|
| 1. Purpose | 1 |
| 2. Governing Authority | 1 |
| 3. Scope | 1 |
| 4. General Objectives | 1 |
| 5. Standards of Care..... | 2 |
| 6. Transaction Counterparties: Broker Dealers, Investment Advisors and Depositories | 3 |
| 7. Administration and Operations | 5 |
| 8. Suitable and Authorized Investments | 8 |
| 9. Investment Parameters | 10 |
| 10. Investment Strategy | 13 |
| 11. Investment of Proceeds from Debt Issuance | 13 |
| 12. Investment of Reserve or Capital Improvement Funds..... | 14 |
| 13. Guideline Measurement and Adherence | 14 |
| 14. Reporting and Disclosure..... | 14 |
| 15. Policy Maintenance and Considerations | 16 |
| Background and definitions | 17 |

1. PURPOSE

This Investment Policy defines the parameters within which funds held by Columbia County are to be invested. This policy formalizes the framework, pursuant to ORS 294.135, for Columbia County'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

Columbia County'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; 294.046; 294.047; 294.052; 294.080; 294.125; 294.135; 294.145; 294.155; and 294.810. All funds within the scope of this policy are subject to all applicable federal and State laws, rules, and regulations, as amended. 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 activities of Columbia County with regard to investing financial assets, except those specifically excluded. Investments of employees' retirement funds, deferred compensation plans, and other similar funds are not covered by this Policy. The amount of funds falling within the scope of this Policy over the next three years is expected to range between \$10 million and \$25 million.

4. GENERAL OBJECTIVES

The primary objectives of investment activities, in priority order, shall be:

4.1 Safety:

- Investments shall be undertaken in a manner that seeks to ensure preservation of capital and protection of investment principal of the overall portfolio.
- Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions and to mitigate credit risk and interest rate risk

4.2 Liquidity:

- The investment portfolio ("portfolio") shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.
- The portfolio should consist largely of securities with active secondary or resale markets.
- Liquidity investments will be primarily Oregon Short Term Fund or qualified bank deposits, which offers next-day liquidity.
- Where possible and prudent, the portfolio will be structured so that investments mature concurrent with anticipated demands.

4.3 Yield – 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.

5. Standards of Care

5.1 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 and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy. The "prudent person" standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The "prudent investor rule" will apply to the Investment Advisor's scope of service, which provides guidelines that requires a fiduciary to invest assets as if they were their own. The decision making process must follow certain guidelines, even if the final result does not satisfy the original intent.

5.2 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process ("investment officials") shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. Investment officials shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Columbia County. Investment officials shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, as well as the Columbia County Conflict of Interest Policy, as amended.

5.3 Delegation of Authority and Responsibilities:

a. Governing Body

The Columbia County Board of Commissioners ("BOCC") will retain ultimate fiduciary responsibility for invested funds for the County and its component units. The BOCC will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

b. Delegation of Authority

Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to the publically elected County Treasurer, hereinafter referred to as Investment Officer, and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. In the event of a vacancy at the County Treasurer position, the Finance Director is authorized to act with all authority of the Investment Officer.

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.

c. Investment Advisor

The Investment Officer may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with this investment policy. Investment Advisors may only be hired on a non-discretionary basis. As such, all transactions must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If Columbia County hires an Investment Advisor to provide investment management services, the Advisor is authorized to transact with its direct broker dealer relationships on behalf of Columbia County.

6. Transaction Counterparties: Broker Dealers, Investment Advisors and Depositories

6.1 Broker/Dealers:

Process if the County is directly transacting with 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 invested directly by the County. The Investment Officer may impose more stringent criteria.

Broker/Dealer firm 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

The approved broker/dealer employees who execute transactions with Columbia County must meet the following minimum criteria:

- a. Be a registered representative with 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.

Columbia County Investment Policy

The County will annually review the broker dealer list for the following items:

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

Process if the County is utilizing an Investment Advisor to transact with Broker Dealers: The Investment Officer may utilize the investment advisor's approved broker/dealer list and broker dealer criteria in lieu of the County's. The advisor must submit the approved list to the County annually and provide updates 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 include:

- a. FINRA Certification check
 - i. Firm Profile
 - ii. Firm History
 - iii. Firm Operations
 - iv. Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
 - v. State Registration Verification
 - vi. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.
- b. To be eligible, a financial institution must meet at least one of the following three criteria:
 - i. Be a primary dealer of the Federal Reserve Bank of New York; or
 - ii. Report voluntarily to the F.R.B. of New York; or
 - iii. Affirm that it has met the securities dealers' capital adequacy requirements of the SEC.

For each investment transaction, the Investment Advisor shall provide the County with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, par amount, purchase or sale price, transaction date, and other pertinent information.

6.2 Investment Advisors:

An Investment Advisor may be utilized to manage funds and will be selected through a competitive RFP process. The Advisor 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; (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 County must be registered representatives with FINRA;
- c. All Investment Advisor firm representatives conducting investment transactions on behalf of the County must be licensed by the State of Oregon;
- d. Contract terms will include that the Investment Advisor comply with the County's Investment Policy.

Columbia County Investment Policy

A periodic 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 County immediately if any of the following issues arise while serving under a County contract:

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

6.3 Depositories:

All bank financial institutions that provide deposits, certificates or any other deposit of the County must be either fully covered by the FDIC or the bank must be a participant of the State of Oregon – Public Funds Collateralization Program (PFCP). ORS Chapter 295 governs the collateralization program for banks at the State level. Bank depositories are required to pledge collateral against any public fund deposits in excess of the FDIC insurance amounts. This provides additional protection for public funds in the event of a bank failure. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS Chapter 295 creates a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

6.4 Competitive Transactions:

The Investment Officer shall ensure a competitive selection of investment purchases.

- a. 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.
- b. 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.
- c. 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.
- d. 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 Columbia County's safekeeping institution prior to the release of funds.

Columbia County Investment Policy

- a. The Investment Officer shall not pay for any security purchased until sufficient evidence of title to the securities has been received. Evidence of title must be consistent with modern investment, banking and commercial practices and may include physical possession, book entry and automated recordation of such title. However, the Investment Officer or Investment Advisor may instruct one or more custodial agents or banks to accept or release securities as that Investment Officer or Investment Advisor considers advisable to be held in safekeeping for collection of principal and interest or other income; or
- b. The Investment Officer shall not deliver securities to the purchaser of the securities upon sale prior to receiving payment in full for the securities. However, the Investment Officer or Investment Advisor may deliver the securities to any custodial agent or bank upon instructions to hold the securities pending receipt by the custodial agent or bank of full payment for the securities.

7.2 Third-Party Safekeeping or Bank Custody:

Securities will be held by an independent third-party safekeeping institution or bank custodian selected by Columbia County. All securities will be evidenced by confirmation receipts in Columbia County's account. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The County will have online access through the safekeeping bank for verification of the account holdings and transactions.

7.3 Internal Controls:

The Investment Officer and Board of Commissioners are 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:

- a. Compliance with Investment Policy
- b. Control of collusion.
- c. Separation of transaction authority from accounting and record keeping.
- d. Custodial safekeeping.
- e. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
- f. Clear delegation of authority to subordinate staff members.
- g. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.
- h. Dual authorizations of wire and automated clearing house (ACH) transfers
- i. Staff training
- j. Review, maintenance and monitoring of security procedures both manual and automated.

7.4 External Auditor:

An external auditor shall provide an annual independent audit to assure compliance with Oregon state law and Columbia County policies and procedures.

7.5 Accounting Method:

At the time of settlement of a purchase, an investment will be booked at cost. Any gain or loss resulting from an investment sold or called will be credited or charged to investment income as of the settlement date of the transaction. Premiums on securities will be amortized to the maturity date unless the security is a callable security then it will be amortized to the call date. Discounts on securities will be accreted to stated maturity date. In the event of a sale before maturity, any remaining premiums or discounts will be credited or charged to income as of the settlement date.

The County shall comply with all legal requirements and generally accepted accounting principles (GAAP). These and the Government Accounting Standards Board (GASB).

Most of the County's available cash will be pooled for investment purposes in the investment portfolio.

Cash not pooled will be restricted to:

- Deferred compensation deposits and investments;
- Cash held with fiscal agents;
- Cash designated for retention of construction payments;
- Petty cash and other funds (e.g. trusts).

These items will earn interest income, if applicable, from the financial institution holding the funds in a trust or fiduciary capacity.

Portfolio Earnings Allocation The amount of earnings allocated monthly will be calculated by the General Ledger section based on the following:

- The average monthly cash balance of each eligible fund will be calculated.
- The average monthly yield of the County's investment portfolio will be calculated on an Actual/365-day basis.

Sale of Securities: Investments may be sold at a *profit* or loss when the Investment Officer deems that such a decision is prudent to meet the objectives of this policy.

Securities shall generally be held until maturity with the following exceptions:

- i. A security with declining credit may be sold early to minimize loss of principal.*
- ii. A security exchange that would improve the quality, yield or target duration in the portfolio.*
- iii. Liquidity needs of the portfolio require that the security be sold.*

Indemnification Clause: The County shall indemnify County officials and staff from personal liability for losses that might occur pursuant to administering this investment policy, subject to ORS 294.100.

7.6 Investment of Funds for Other Entities:

Subject to ORS 294.040 and 294.135 to 294.155, the Investment Officer may, after having obtained a written order from the governing body (the Board of Commissioners), invest the surplus funds (as defined in ORS 294.004(6)) belonging to any other political subdivision on a pooled basis in the investments of Columbia County.

Political subdivisions with the Board of Commissioners serving as its governing body will have their funds invested on a pooled basis with County funds.

The Board of Commissioners has not provided a written order authorizing the investment of surplus funds for other political subdivisions in the investments of Columbia County. Therefore, this policy does not contemplate the investment of these funds.

8. Suitable and Authorized Investments

8.1 Permitted Investments:

The Oregon State Investment Officer maintains a list of agencies and instrumentalities of the United States with available obligations that any political subdivision of the State of Oregon may invest in under ORS 294.035 and 294.040. Investments shall be in compliance with this list.

This policy recognizes S&P and Moody's as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).

In the case of split ratings, where the major NRSROs issue different ratings, the lower rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.

The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810.

US Treasury Obligations: U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest. [ORS Section 294.035(3)(a)]

US Agency Obligations Primary Issuers: Government Sponsored Enterprises (GSEs) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB).

US Agency Obligations Secondary Issuers: Other US government sponsored enterprises that are less marketable are considered secondary GSEs. 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 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 Aa3 or better by Moody's Investors Service or AA- or better by S&P.

Corporate Indebtedness Corporate indebtedness must be rated on the settlement date Aa3 or better by Moody's Investors Service or AA- or better by S&P.

Commercial Paper: Commercial Paper that is rated A1+/P1 on settlement date and has long term bonds which have a minimum rating of AA- by Standard and Poor's or Aa3 by Moody's. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer.

Bank Time Deposits/Savings Accounts: Bank Time Deposits and 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)]. All financial institutions that provide deposits must be either fully covered by the FDIC or the bank must be a participant of the State of Oregon – Public Funds Collateralization Program (PFCP).

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)]. Certificates of deposit into financial institutions outside of Oregon are allowed if the Investment Officer deposits the funds into a depository in Oregon and the Oregon depository participates in a program pursuant to ORS Section 295.004

Banker's 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 is at least AA- by Standard and Poor's or Aa3 by Moody's at the time of purchase. (ORS 294.035(3)(h)(A))

Oregon Short Term Fund: The Local Government Investment Pool (LGIP) is a short-term, open-ended, no-load diversified portfolio offered to eligible participants. The LGIP is commingled with the State's short-term funds.

8.2 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 Columbia County.

8.3 Prohibited Investments:

The following investments are prohibited:

- **Private Placement or "144A" Securities** Private placement or "144A" securities are not allowed. "144A" securities include commercial paper issued under section 4(2)144A (also known as "4(2)A") of the Securities Act of 1933.

- **Securities Lending** Columbia County shall not lend securities nor directly participate in a securities lending program.
- **14 Day Settlement:** Columbia County shall not purchase securities with a delayed settlement in excess of 14 business days per ORS statute.
- **Equity Securities and Mutual Funds:** Columbia County is prohibited by statute from purchasing equity securities and mutual funds.
- **US Agency Mortgage-backed Securities** US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.

8.4 Collateralization of Bank Demand Deposits, Time Deposits and Certificates of Deposit:

All bank demand deposits, time deposits and Certificates of Deposits shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

9. Investment Parameters

9.1 Credit Risk:

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk will be mitigated by the following guidelines:

- Diversification** It is the policy of Columbia County 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.
- Investment Credit Ratings** Investments must have a rating from S&P of AA- or Moody's Aa3. In the case of a split rating the lower of the two ratings will be used. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings. The ratings apply to the types of securities identified in the table below.
- Restriction on Issuers With Prior Default History** Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal or the interest on the obligations of the issuing county, port, school district or city, for a period of five years preceding the date of the investment.
- Portfolio Credit Rating** The minimum weighted average credit rating of the portfolio's rated investments shall be AA-/Aa3 by Standard & Poor's and Moody's Investors Service respectively.
- Diversification and Credit Exposure Constraints** The following table limits exposures among investments permitted by this policy:

Diversification Constraints on Total Holdings:

| 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 FHLB, FNMA, FHLMC, FFCB | 100% | 35% | N/A | N/A |
| US Agency Secondary Securities FICO, FARMER MAC etc. | 10% | 10% | Security must be rated | Security must be rated |
| Municipal Bonds (OR, CA, ID, WA) | 20% | 5% | AA- | Aa3 |
| Corporate Bonds | | | AA- | Aa3 |
| Commercial Paper | 35%* | 5%** | A1+ | P1 |
| Bank Time Deposits/Savings Accounts | 25% | 25% | Oregon Public Depository | Oregon Public Depository |
| Certificates of Deposit | 20% | 10% | Oregon Public Depository | Oregon Public Depository |
| Banker's Acceptance | 10% | 5% | A1+ AA-Underlying | P1 Aa3 Underlying |
| Oregon Short Term Fund | Maximum allowed per ORS 294.810 | None | N/A | N/A |

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

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

9.2 Liquidity Risk:

Liquidity risk is the risk that an investment may not be easily marketable or redeemable. The following strategies will be employed to mitigate liquidity risks:

- i. The value of at least 10% of funds available for investing will be invested in the Oregon Short Term Fund, with a qualified depository institution, or investments maturing in less than 30 days to provide sufficient liquidity for expected disbursements.
- ii. Funds in excess of liquidity requirements are allowed for investments maturing at a maximum of 5 years. However, longer-term investments tend to be less liquid than shorter term investments. Maturity constraints are described in 9.3 Interest Rate Risk.
- iii. Reserve or Capital Improvement Project monies may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds. These fund will be held in dedicated managed accounts.

9.3 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 the 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 pay-downs 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:

- i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
- ii. 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.
- iii. The maximum percent of callable securities in the portfolio shall be 25%;
- iv. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy.
- v. The maximum portfolio average maturity (measured with stated final maturity) shall be 2.0- years.

| 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 | 2.00 |
| Security Structure Constrair | Maximum % of Total Portfolio |
| Callable Agency Securities | 25% |

10. Investment Strategy

10.1 Liquidity Component:

The liquidity component of the operating account will be allocated to LGIP, CD's, Bank Deposits, Bankers Acceptances, Commercial Paper and other securities that are specifically matched to known short term liabilities.

10.2 Core Investment:

The investment core fund is determined by analyzing historical and budgeted fund balances and allocating excess liquidity amounts to direct investments. The structure of the investment core fund will be targeted to a selected market benchmark based on the risk and return objectives of the County.

10.3 Monitoring and Portfolio Adjustment:

As a general practice securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- a. A security with a declining credit may be sold early to protect the principal value of the portfolio.
- b. The portfolio duration or maturity buckets should be adjusted to reflect better the structure of the underlying benchmark portfolio.
- c. A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- d. A sell of a security to provide for unforeseen liquidity needs.

11. 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. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.

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 are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).

12. Investment of Reserve or Capital Improvement Funds

Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding five years when the funds in question are being accumulated for an anticipated use that is longer than five years, 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.

13. Guideline Measurement and Adherence

13.1 Guideline Measurement:

Guideline measurements will use par value of investments. The yield of the total investment fund will be measured against the yield of the Oregon Local Government Investment Pool, using the monthly net yield of both portfolios. The fair market performance of the long term investment component will be measured to a market index that represents the 0-3 year treasury or 0-5 year treasury benchmark on a total return basis.

13.2 Guideline Compliance:

Guideline compliance shall consist of the following policies:

- a. 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.
- b. 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 Board of Commissioners.
- c. 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.

14. Reporting and Disclosure

14.1 Compliance:

The Investment Officer shall prepare a report at least quarterly that allows the Board of Commissioners to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include, at a minimum, the following:

- a. A listing of all investments held during the reporting period
- b. Average maturity of the portfolio at period-end.
- c. Distribution by type of investment.
- d. Transactions report on quarterly basis identifying transacting broker/dealer firm.

- e. 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.

14.2 Performance Standards/Evaluation:

At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the investment portion of the portfolio shall be compared to the performance of alternative investments with a similar risk profile (e.g. market indices such as the 0-3 year or 0-5 year Treasury index).

When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly.

14.3 External Reporting:

The Investment Officer shall establish an annual process of independent review by the external auditor to assure compliance with internal controls and laws surrounding the investment of public funds. Such audit will include tests deemed appropriate by the auditor.

In compliance with ORS 294.155, the Investment Officer that holds and invests funds on behalf of another governmental unit shall at least once a year submit an audited report to that government unit or units within 30 days after receipt of the audit report by the Investment Officer's governing body.

If requested by that body, the Investment Officer shall furnish to it details on the investment transactions for its fund. The Investment Officer shall also provide copies of any investment policy which has been adopted to the custodial officer's governing body upon request.

15. Policy Maintenance and Considerations

15.1 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 review 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.

15.2 Policy Adoption and Amendments

This investment policy and any modifications to this policy must be formally approved in writing by the Board of Commissioners of Columbia County. This policy will be re-adopted annually as may be required by ORS 294.135.

This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

- i. This policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the Board of Commissioners, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)), and either:
 - a. This policy has never been submitted to the OSTF Board for comment;
 - or
 - b. Material changes have been made since the last review by the OSTF Board.

Background and definitions

What follows is the rationale for the various elements of this investment policy. Every effort should be made by the users and beneficiaries of this policy to understand the philosophy and reasons behind each element of the policy.

Policy: The overall policy statement summarizes into a condensed format the entire investment policy.

Scope: The scope section explains what funds this policy applies to. It also explains what funds are excluded, and provides an explanation of guidance for investment of those funds.

Prudence: To burden a conscientious professional with personal responsibility for default on a single item within a diversified portfolio seems unduly severe. Accordingly, public entities with portfolios of sufficient size are urged to apply the prudence concept to the overall portfolio.

Objective: Every investment policy must contain a concise and clear statement of objectives regarding safety of capital, liquidity and return on investment. The effectiveness of the investment program is set by the caliber of the staff, the procedures used, the working environment and the policy guidance provided by governing officials. Through its statement of objectives, the governing body sets the tone and direction of the policy and the investment program.

Delegation of Authority: After the investment objectives have been identified, the next element of an investment policy is an explicit delegation of authority to specific investment officials responsible for conducting transactions and managing the entity's investment program.

Ethics and Conflicts of Interest: Some governments have adopted conflict of interest legislation that regulates the activities of certain officers and employees. In the investment area, some conflicts may be governed by general code provisions, making separate policies redundant. Some jurisdictions, however, may seek to adopt policies regarding ethical behavior and conflicts of interest.

Authorized Financial Dealers and Institutions: The investment policy requires that a set formal process be used to select depositories and brokers/dealers. Because the policy is intended to endure, it does not mention specific firms or depositories. Rather, it provides for a process that will screen out institutions that lack economic viability or whose past practices suggests that the safety of public capital would be impaired if transactions were directed to or through such firms.

Authorized and Suitable Investments: The selection of investment instruments to be allowed for investment purposes is a significant policy issue for many governments. Although day-to-day selection of specific instruments should be treated as a management function, the policy should define the general universe. Direction should be specifically given to funds that receive bond proceeds subject to arbitrage considerations.

From the approving authority's perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Citing of the appropriate statutes for the particular entity as attachments may be appropriate.

Columbia County Investment Policy

In selecting authorized investments, consideration should be given to credit ratings on bankers' acceptances and collateralization of applicable instruments.

If repurchase agreements are authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

Collateralization: Collateralization must be required on any repurchase agreement. This policy addresses such points as market valuation responsibility and timing, safekeeping by an independent third party and evidence of ownership.

Safekeeping and Custody: Like private investors, governing officials feel more secure about their entity's investments if they know that the securities are physically safe. The investment policy includes a clause regarding third-party safekeeping and custody of securities and collateral. The policy also addresses the delivery of securities, where Delivery Versus Payment (DVP) is a requirement (i.e. Delivery of securities with a subsequent exchange of money for the securities).

Diversification: The Investment Policy states the purpose of diversification --to reduce overall portfolio risks while attaining market average rates of return. Diversification is conceptualized in terms of maturity as well as instrument type and issuer. Thus, the diversification concept in a cash management fund includes prohibition against over concentration in a specific maturity sector, as well as constraining the reliance on specific risky instruments and issuers.

Maximum Maturities: To protect public funds from market price losses resulting from rising interest rates, the policy limits the maximum term to maturity on current operating funds' investment to 12 months - the operating budget cycle. While the maximum term to maturity for funds not anticipated to be needed for current operations have a longer term.

Internal Controls: The development of internal controls remains a management function. The specific internal control measures are beyond the scope of the investment policy and will be subject to the normal operating procedures of the Investment Officer. The investment policy merely requires that a system of internal controls be established. The policy does provide for the timing of periodic reviews and monitoring of controls. The review of internal controls is not left up to the periodic examination by the External Auditors but review of controls is an ongoing responsibility of the entity.

Performance Standards: Much of the investment policy focus is directed toward controls. Yield objectives are also quite important. The long-run interests of Columbia County go beyond simple prudence and safety of funds. The investment policy provides a formal evaluation of performance and operational audits. Market Yield (Benchmark): Columbia County's investment strategy is passive. The policy defines the basis used by the Investment Officer to determine whether average yields are being achieved by comparison to a benchmark.

Reporting: Investment reports provide a mechanism for monitoring by the governing body. Periodic flows of information are needed to consider the impact of economic conditions, portfolio changes and the results of investment operations. Reporting also provides written communication regarding investment performance, compliance, and a clear representation of the investment portfolio.

Investment Advisors: Columbia County has chosen to utilize an Investment Advisor for assistance in managing its investment practices and portfolio management. Policies surrounding the Investment Advisor are included in the policy.

Columbia County Investment Policy

Accounting Method: A public entity must comply with Generally Accepted Accounting Principles.

Investment Policy Adoption: The policy is annually adopted by the Board of Commissioners. In addition, the policy is reviewed by the Oregon Short Term Fund Board.