

COUNCIL POLICY NO. C-7

TITLE: INVESTMENT POLICY AND PORTFOLIO GUIDELINES

POLICY: See attachment.

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(Supplants Finance Department Staff Report dated 6/13/1994, Agenda
Item No. 9.2.g)

**CITY OF SALEM INVESTMENT POLICY
JUNE 2008**

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CITY OF SALEM
INVESTMENT POLICY AND PORTFOLIO GUIDELINES

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City of Salem and component units (the City).

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

This Policy has been adopted by Resolution No. 2008-89 of the City of Salem, Oregon, on August 4, 2008 and replaces the City's previous Investment Policy, Council Policy No. C-7, dated June 13, 1994.

I. Scope

This policy applies to the investment of short-term operating funds and capital funds, including bond proceeds and bond reserve funds held by the City. Investments of employees' retirement funds, deferred compensation plans, and funds held and invested by trustees, escrow agents or fiscal agents are not covered by this policy. This policy does not apply to the City's checking accounts.

The special purpose portfolio includes bond proceeds and other special purpose funds, such as debt service and performance reserves. The general purpose portfolio serves the common operating cash management requirements of the City. The general purpose portfolio balance has an annual cycle, driven by receipt of property taxes each November. The balance of the general purpose portfolio ranges from approximately \$110 million to \$145 million during the fiscal year, and has averaged \$129 million during the last three fiscal years.

Except where legally required to hold separate funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds at least quarterly based on their respective cash balances and in accordance with generally accepted accounting principles.

II. General Objectives

The priority of investment objectives shall be safety, liquidity, and yield:

1. **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.
 - a. **Credit Risk** is the risk of loss due to the financial failure of the security issuer or backer. The City will minimize credit risk by:
 - o Limiting exposure to poor credits and concentrating the investments in the safest types of securities.

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - Actively monitoring the investment portfolio holdings for ratings changes, changing economic/market conditions, etc.
- b. **Interest Rate Risk** The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
- 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.
 - Investing operating funds primarily in shorter-term securities or short-term investment pools.
2. **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 should be placed in the Oregon Local Government Investment Pool to provide next-day liquidity for short-term funds.
3. **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:
- A security with declining credit may be sold early to minimize loss of principal.
 - A security swap would improve the quality, yield, or target duration in the portfolio.
 - Liquidity needs of the portfolio require that the security be sold.
4. **Legality** The investment portfolio shall remain in conformance with Federal, State and other legal requirements.

III. Standards of Care

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. The City's Custodial Officer (Oregon Revised Statutes 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and ORS 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with

ORS 294.047, provided that these deviations and losses are reported in a timely fashion and the liquidity and the sale of securities taken to control adverse developments are carried out in accordance with the terms of this policy. Losses that are sustained in the City's portfolio shall be charged against current investment earnings.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence investment, considering the probable safety of their capital as well as the probable income to be derived.

2. **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 in writing to the Custodial Officer any material interests in financial institutions that conduct business with the City. They shall further disclose in writing annually to the Custodial Officer 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 Standards and Practices Code of Ethics set forth in ORS 244 and the City's gift policy.
3. **Delegation of Authority** The ultimate responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Administrative Services Department Director/Finance Director as the Custodial Officer for the City's funds. The Custodial Officer shall be responsible for the operation of the investment program and shall act in accordance with ORS Chapter 294, Public Financial Administration, and established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. This Policy shall constitute a "written order" from the City Council per ORS 294.035.

The Custodial Officer may further delegate, by position title, the authority to invest City funds to additional City Finance personnel. Persons authorized to transact investment business on behalf of the City are listed in **Appendix I** of this Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Custodial Officer. The Custodial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions:** A list (see **Appendix II**) 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 Custodial

Officer. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Regional brokers and dealers must have an office in Oregon in order to be considered for doing business with the City. The City will limit all security purchases to institutions on the approved lists. Additions or deletions from the list shall be made at the Custodial Officer's discretion.

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

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration.
- Completed broker/dealer questionnaire
- Certification of having read and understood the City's investment policy
- Certification of agreement to comply with the City's investment policy

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Custodial Officer, in accordance with the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers."

2. **Internal Controls** The Custodial Officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of the City 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 Custodial Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third-party custodian and implementation of the appropriate safeguards described in the GFOA Recommended Practice on "Electronic Transactions for State and Local Governments."
- Compliance and oversight with investment parameters including diversification and maximum maturities.

3. **Delivery vs. Payment** All trades where applicable will be executed by delivery vs. payment (DVP) in accordance with ORS 294.145 (4) and (5) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Sufficient

evidence to title in the name of the City shall be consistent with modern investment, banking, and commercial practices.

4. **Safekeeping** Securities will be held by a third-party custodian as evidenced by safekeeping receipts in the City's name.
5. **Pooling of Funds** Except where legally required to hold separate funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds at least quarterly based on their respective cash balances and in accordance with generally accepted accounting principles.

V. Suitable and Authorized Investments

1. **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:
 - a. US Treasury Issues: Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips.
 - b. Securities of US Government Agencies and US Government Sponsored Enterprises issued by the following only:
 - Federal Home Loan Banks (FHLB)
 - Federal Farm Credit Banks (FFCB)
 - Federal National Mortgage Association ("Fannie Mae" FNMA)
 - Federal Home Loan Mortgage Corporation ("Freddie Mac" FHLMC)
 - Government National Mortgage Association ("Ginnie Mae")
 - Financing Corporation ("FICO")
 - Resolution Funding Corporation ("REFCORP")
 - Tennessee Valley Authority ("TVA")
 - c. Oregon Short-Term Fund (OSTF) (also known as the Local Government Investment Pool – LGIP)
 - d. Repurchase Agreements
 - e. Bankers' Acceptances
 - f. Corporate Indebtedness
 - g. Municipal Debt Obligations of the states of Oregon, California, Idaho and Washington and their political subdivisions
 - h. Time Deposit Open Accounts, Certificates of Deposit, and Savings Accounts.

Required ratings by investment type are listed in **Appendix III: Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment.**

2. **Collateralization** Cash management tools, defined as bank deposits, time deposits, certificates of deposit, and savings accounts, shall be held in qualified Oregon depositories and collateralized in accordance with ORS Chapter 295. The Custodial

Officer is responsible for the quarterly review of the State's Approved Banking Institution list to ensure that existing banks are on the approved list. The State must be notified of changes in banking institutions.

ORS 294.035 (11) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board. On March 12, 1996, the OSTF Board adopted the following margins:

- US Treasury Securities: 102%
- US Agency Discount and Coupon Securities: 102%
- Mortgage Backed and Other*: 103%

*Limited to those securities described in ORS 294.035(1)

Broker/dealers and Financial Institutions must have an executed Master Repurchase Agreement with the City.

VI. Investment Parameters

1. **Diversification** The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have high credit risks,
- Limiting investment with high interest rate risk, such as variable rate securities,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as the Oregon Short-Term Fund (or LGIP).

2. **Liquidity Requirements and Maturity Limits** To the extent possible, the City shall attempt to match its investments with anticipated future cash flow requirements and known future liabilities.

Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than three years from the date of settlement. The weighted average maturity of the City's general purpose portfolio shall at no time exceed eighteen months.

- This investment policy has been submitted to the OSTF Board for comment prior to being approved by the City Council and complies with the requirements of ORS 294.135.
- The maximum maturity is measured from the settlement date of the investment transaction.

To ensure liquidity, the minimum portfolio percentages for maturities of investments of surplus funds are as follows:

Length of Maturity	Minimum % of General Purpose Portfolio	Cumulative Minimum % of General Portfolio
Under 30 days	10 %	10 %
31 – 90 days	15 %	25 %
91 – 270 days	25 %	50 %
271 – 365 days	20 %	70 %
1 – 3 years	30 % Maximum	100 %

If these maturity limits are inadvertently exceeded at the time of a specific investment, the purchase does not need to be liquidated. Future investments must not be made to longer maturity dates until the limits will be met, however.

- 3. Percentage of Investments and Maximum Maturity by Type:** 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. Any investments that the City makes in these types of securities through deposits to the LGIP do not count against these limits.

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

Security	% of Total Portfolio	Maximum Maturity
US Treasury Obligations (Bills, Strips, Notes)	Up to 100 %	3 years
US Government Agency Securities & Instrumentalities of Government Sponsored Corporations	Up to 100 % and 33 % per issuer	3 years
OSTF – Local Government Investment Pool	Statutory Limit (ORS 294.810)	N/A
Repurchase Agreements	Up to 10 % and 5 % per issuer Per collateral securing repo and margin requirements	90 days

Bankers' Acceptances	Up to 20 % and 10 % per issuer	6 months
Corporate Indebtedness (Commercial Paper and bonds)	Up to 25 % and 5% per issuer	18 months (bonds)
State and Local Government Securities	Up to 10 % and 10% per issuer	2 years
Time Deposit Accounts (CDs) and Savings Accounts	Up to 25 % and 10 % per issuer	2 years

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, consideration should be given to this matter when future liquidations are made.

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 overnight repurchase agreements, or held in bank balances to ensure that appropriate liquidity is maintained to meet ongoing obligations.

4. **Credit Ratings** The minimum credit rating levels for the permissible investments are set out in ORS 295.035. These credit rating levels apply to the security at the transactions settlement date.

A “credit profile” shall be obtained from the broker for any corporate investment purchases under consideration. If the corporation has a negative outlook, the investment will not be purchased, regardless of credit rating.

If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Custodial Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Custodial Officer will apply the general objectives of Safety, Liquidity, Yield, and Legality to such determination. That determination shall be documented in writing. Required ratings by investment type are listed in **Appendix III: Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment**.

5. **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.
6. **Securities Lending and Reverse Repurchase Agreements** The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
7. **Bids and Offers** Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the City. Before any security transaction is

initiated, the Custodial Officer shall gather information about current market interest rate levels from various sources, including investment dealers, internet financial web sites, and/or financial publications. A record shall be maintained by the City of all bids and offerings for security transactions in order to ensure that the City receives competitive pricing. 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.

8. **Compliance Maintenance and Monitoring** Compliance with this policy shall be maintained and be integral to each investment decision. Compliance status shall be reported monthly and quarterly, as described in Section VII. Compliance shall be measured as follows:

- Measured at Security Level
 - a) type allowed by policy at purchase date
 - b) quality rating at time of purchase and during term held
- Measured at Portfolio Level
 - a) percentage composition by issuer
 - b) percentage composition by security type
 - c) percentage composition by financial institution (broker)
 - d) percentage composition by term to maturity
 - e) weighted average maturity

Out of compliance instances shall be reported to the Custodial Officer in a timely manner. The Custodial Officer will determine the cure for non-compliance that is in the best interest of the City. Such action may include holding the investment to maturity, liquidating the investment, reversing the purchase, or adjusting future allowable investments until compliance status is achieved. Investment procedures and controls shall be reviewed and revised as deemed necessary.

VII. Reporting

1. **Methods** The designated City Finance personnel shall prepare a monthly investment report for internal management. This monthly summary will be prepared in a manner which will allow the City's internal management to ascertain whether investment activities made over the reporting period have conformed to the investment policy. The report shall be provided to the City's internal management within a timely period after the period end. The report will include the following:

- Listing of transactions occurring during the reporting period.
- Listing of individual securities held at the end of the reporting period, by type, maturity date and call date.
- Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.
- Weighted average maturity of the portfolio.
- Status of compliance with each policy requirement.

The Custodial Officer shall prepare a quarterly investment report including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Finance Committee of the City Council within a timely period after the quarter end. The report will include the following:

- Listing of transactions occurring during the reporting period.
 - Listing of individual securities held at the end of the reporting period, by type, maturity date and call date.
 - Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.
 - Weighted average maturity of the portfolio.
 - Status of compliance with each policy requirement.
 - Book yield during the period.
 - Mark to market report of holdings at the end of the reporting period.
 - Performance of the portfolio relative to benchmark(s).
2. **Performance Standards** The investment portfolio will be managed in accordance with the parameters specified within this policy. An appropriate benchmark(s) reflective of investment parameters shall be established that is reflective of the types and maturities of investment allowed under this policy. Portfolio performance shall be compared to the benchmark(s) on a regular basis. It is anticipated the portfolio should attain a benchmark average rate of return over time. Factors influencing performance deviations will be described by the Custodial Officer in quarterly reports to the City Council. Appropriate benchmarks for short-term liquidity include the Oregon Short Term Fund (LGIP) quarterly average yield. Appropriate benchmarks for longer maturities include US Treasury issues of comparable duration.
3. **Marking to Market** The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at fiscal year end. 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.

VIII. Policy Adoption and Re-adoption

This policy shall be reviewed annually by the City's Finance Committee with any changes reviewed and adopted by the City Council. The data contained in the appendices to this policy may be updated by the Custodial Officer as necessary, provided the changes in no way affect the substance or intent of this Policy. OSTF Board review shall be requested if any material changes are made.

APPENDIX I: Authorized Finance Staff by Title

Administrative Services Director / Finance Director

Assistant Finance Director

Financial Operations Supervisor

Treasury Officer

Treasury Analyst

Accountant II

APPENDIX II: Approved Broker/Dealers, Safekeepers, and Financial Institutions

Approved Broker/Dealers

Banc of America Securities, LLC
Bank of America N.A.
Piper Jaffray
RBC Wealth Management
Wells Fargo Brokerage Services, LLC

Approved Safekeepers/Custodians

Bank of America N.A.
US Bank N.A.
Wells Fargo Brokerage Services, LLC

Approved Financial Institutions *

Bank of America N.A.
US Bank N.A.
Wells Fargo Bank N.A.
Umpqua Bank

- Financial Institutions may be added or deleted to maintain compliance with Oregon State Treasury Qualified Depositories for Public Funds list at <http://www.ost.state.or.us/divisions/finance/qualifieddepositoriespublicfunds.htm>

APPENDIX III: Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment

January 11, 2005

US Treasury Issues

Please see Bureau of the Public Debt Internet Web site for current information.

www.publicdebt.treas.gov

Securities of US Government Agencies and US Government Sponsored Enterprises

(GSE's): Considered the next most secure investment after Treasury securities, most are not US Government guaranteed, but are chartered and supervised by the US Government. Typically, they are available in minimum denominations of \$1,000 to \$1,000,000 depending on the issuer; with maturity ranges from one day (for discount notes) out to 40 years for notes and bonds; and with fixed, floating rate, and zero coupon features [ORS 294.035 (1)].

The above securities are allowable subject to ORS 294.040 (1). For a complete listing of the above securities, see **Appendix IV**.

Local Government Investment Pool: No minimum investment deposits are limited to the amount prescribed on: "[Memo Regarding Limitation in ORS 294.810.](#)" These limits can be temporarily exceeded for 20 business days by county governments and 10 days by other local governments as a result of pass-through funds (ORS 294.810).

Repurchase Agreements: Typically these are investment arrangements involving the purchase of US Government and agency securities with a simultaneous agreement to resell them back to the same seller for the same dollar investment plus a fee. Amounts invested, rate, and terms are negotiable but such repurchase transactions are limited to 90 days maximum term. Maximum percentages for prices paid for the collateral securities are prescribed by the Oregon Investment Council or the Oregon Short-Term Fund Board [ORS 294.035 (11); ORS 294.135 (2)]. On March 12, 1996, the Board prescribed the following minimum pricing margins for repurchase collateral:

US Treasury Securities	102%
US Agency Discount and Coupon Securities	102%
Mortgage Backed and Other	103%*

Bankers' Acceptances: Appropriate if: guaranteed by, and carried on the books of, a qualified financial institution; eligible for discount by the Federal Reserve System; and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations. Acceptances are available in various denominations. They are limited to a 25% maximum of the moneys of a local government available for investment on the settlement date per qualified financial institution [ORS 294.035 (8) (a), (b), and (c)].

Corporate Indebtedness (secured and unsecured) These securities are corporate commercial paper and promissory notes that have minimum commercial paper ratings of A1 or P1 or long-

term minimum ratings of Aa (Moody's) or AA (S & P) or equivalent by any nationally recognized statistical rating organization. The minimum credit quality may be lowered to A2, P2 for commercial paper and A for long-term if the issuer meets the criteria of paragraphs (A) and (B) of ORS 294.035 (9) (c). Commercial paper is typically not very liquid though paper directly issued may be sold back to the issuer. For others, the secondary market is extremely limited. More active markets may be available for long-term notes and bonds. They are available in various denominations, maturities and payment features (floating rate, fixed, zeros, etc.) but are limited to 35% of the moneys of a local government available for investment [ORS 294.035 (9), (a), (b), (c), (d)]

Municipal Debt Obligations Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term debt rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization [ORS 294.035 (2)]. Also, lawfully issued debt obligations of the States of California, Idaho and Washington and their political subdivisions if such obligations have a long-term rating of AA or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization [ORS 294.035 (3)]. For these latter obligations, they are allowable subject to ORS 294.040.

Certificates of Deposits These are not a security but a deposit in a qualified financial institution. They should be FDIC insured to \$100,000 and further collateralized at 25% above the FDIC insurance. Available in various deposit amounts and maturities (flexibility subject to the amount), they have penalties for early withdrawal [ORS 295.035 (4)].

The Oregon State Treasury provides this list as a courtesy. Its purpose is to summarize investments that are available to local governments pursuant to the Oregon Revised Statutes for short-term funds. The treasury neither recommends nor advises against the above instruments and transactions. Local governments must assess the appropriateness of each investment based on maturity, credit quality, diversity and other considerations.

Oregon statutes also permit certain other investments and transactions for special purpose funds in limited circumstances. For example: fixed or variable life insurance or annuity contracts, guaranteed investment contracts, and for deferred compensation funds, share and savings accounts in credit unions and trusts [ORS 294.033 and ORS 294.035 (5), (6), (7)]. The Treasury recommends seeking the advice of legal counsel if investments under ORS 294.035 (10) are contemplated. Reverse repurchase agreements are not listed above since they are not technically "investment securities or investment transactions" in the strictest sense. These are financing arrangements with a counterpart. This type of agreement is typically used as part of interest rate arbitrage and to that extent, the same credit standards; delivery Vs payment; market pricing; etc. for repurchase agreements (which is an investment vehicle) should apply to the transaction.

*Limited to those securities described in ORS 294.035(1).

APPENDIX IV: U.S. Government and Agency Securities for Local Government Investment under ORS 294.035 and 294.040 Provided Pursuant to ORS 294.046 1/11/05

U.S. Treasury Issues

1. U.S. Treasury Bills
2. U.S. Treasury Notes
3. U.S. Treasury Bonds
4. U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities)
5. BECCS (Bearer Corpora Conversions)
6. CUBES (Coupons Under Book-Entry Safekeeping)
7. U.S. Treasury Inflation-Indexed Bonds

All Treasury notes and bonds are strippable. STRIPS are created by separating the interest (coupon) and principal (the note or bond itself), thereby creating zero coupon securities that are sold at a deep discount and payment is received at maturity. STRIPS are direct obligations of the U.S. Treasury and are backed by the full faith and credit of the United States. Strips are not to be confused with CAT's, TIGR's, etc., which are proprietary products that represent a security interest in an underlying U.S. Treasury security. These latter investments ARE NOT permissible investments for local governments.

Previously, when U.S. Treasury Bonds were in physical form, they were literally separated into serial coupons from their respective bonds. This was before book entry; before proprietary products created by dealers that were security interests in some underlying note or bond; and, before the U.S. Treasury itself allowed stripping of its longer debt issues. These old physically separated instruments (basically bearer securities) were converted by the Federal Reserve into wireable book entry form to make the STRIPS market more uniform. These former physical securities that have been so converted are called Coupons Under Book Entry safekeeping (hence the acronym CUBES). These CUBES are very rare, trade at a higher rate than on-the-run comparable U.S. Treasury STRIPS, and are extremely illiquid. Being old U.S. Treasury securities, CUBES carry the same full faith and credit of the United States Government.

In January, 1997, the United States Treasury started issuing Treasury Inflation Protected Securities (TIPS). Inflation indexed note auctions are usually announced on the first Wednesday of January and July, with the auction process occurring the second week of January and July. Issuance is the 15th of the same month. These bonds will be fully strippable. Like other bonds, they will be offered in denominations of \$1,000.00. More detailed information beyond this cursory description is available from the Internet (www.publicdebt.treas.gov), The Bond Market Association (www.bondmarkets.com), and research data from brokers/dealers.

Agencies and Instrumentalities of the United States

1. Federal Home Loan Banks (FHLB) - Discount Notes, Consolidated bonds, Floating Rate Notes, and MTNs. www.fhlb-of.com
2. Federal Farm Credit Banks (FFCB) - Consolidated systemwide notes and bonds, Discount notes, Floating Rate Notes, MTNs, and Master notes. www.farmcredit-ffcb.com

3. Federal National Mortgage Association ("Fannie Mae") - Discount Notes, MTNs, Senior and Subordinated Benchmark Notes (fixed and floating), strips, zero-coupon securities, and mortgage-backed securities.
www.fanniemae.com
4. Federal Home Loan Mortgage Corporation ("Freddie Mac") - Discount Notes, MTNs, Senior and Subordinated Reference Notes (fixed and floating), Mortgage Participation Certificates (PC's), Collateralized Mortgage Obligations (CMO's), and Strips.
www.freddiemac.com
5. Government National Mortgage Association ("Ginnie Mae") - Mortgage-Backed Securities in 15- and 30-year maturities - guaranteed by the full faith and credit of the U.S. Government. Collateralized by FHA, VA, and FMHA insured mortgage loans.
www.ginniemae.gov
6. Financing Corporation (FICO) —Long-term bonds (none issued since 9/89) - Principal repayment defeased by zero coupon Treasuries.
7. Resolution Funding Corporation (REFCORP) - Strips and Bonds — 30&40-year issues - Principal collateralized by U.S. Treasuries, interest payments backed by the U.S. Treasury and FIRREA.
8. Tennessee Valley Authority (TVA) - Discount Notes, Strips, Notes, and Bonds - Issues available in maturities 5 to 50 years. www.tva.gov
9. Financial Assistance Corporation (FAC) - 15 year bonds, guaranteed by the Treasury, first issued in 7/88. This entity provides capital to Farm Credit System Institutions.
10. Federal Land Banks (FLB) - Bonds - Currently issued through FFCB. (Banks for Cooperatives and Federal Intermediate Credit Bank also issue through FFCB and have no direct issues outstanding.)
11. Federal Housing Administration (FHA) - Debentures - Backed by the full faith and credit of the U.S. Government.
12. Farmers Home Administration (FMHA) - Certificates of Beneficial Ownership (CBO's). Backed by the full faith and credit of the U.S. Government. Discontinued in 1975, small amount remains outstanding.
13. General Services Administration (GSA) - Participation Certificates - Secured by the full faith and credit of the U.S. Government. No new issues since 1974. www.gsa.gov
14. Maritime Administration - Bonds - Collateralized by ship mortgages, further backed by the full faith and credit of the U.S. Government in the event of default.
15. Washington Metropolitan Area Transit Authority - Bonds - Backed by the full faith and credit of the U.S. Government. Small amount remains outstanding.
16. Small Business Administration (SBA) - Debentures - Backed by the full faith and credit of the U.S. Government. Small amount remains outstanding. www.sba.gov
17. Department of Housing and Urban Development (HUD) - Notes, New Housing Authority Bonds - 40-year issues with 15-year calls. Backed by the full faith and credit of the U.S. Government. No new issues since 1974. Small amount remains outstanding.
18. United States Postal Service - Bonds - May be backed by the full faith and credit of the U. S. Government. Issues with maturities of 20 years or longer. www.usps.com
19. United States Department of Veterans' Affairs Guaranteed REMIC Pass-Through Certificates Vendee Mortgage Trust 1992-1 (VINNIE MAE). The full and timely payment of principal and interest of these certificates is guaranteed by the Department of Veterans' Affairs and this guarantee is further backed by the full faith and credit of the United States of America.

20. Private Export Funding Corporation (PEFCO) — Secured Notes with maturities of 5 years or longer.-Interest is guaranteed by the Export-Import Bank of the United States (Eximbank, a federal agency) and whose principal is secured by either cash, securities backed by the full faith and credit of the United States, or Guaranteed Importer Notes which are guaranteed by the Eximbank. The Secured Notes, which are rated AAA.
www.pefco.com
21. Federal Agricultural Mortgage Corporation (Farmer Mac), a federally chartered instrumentality of the United States was created to provide capital for agricultural real estate and rural housing. Instruments include discount notes, medium-term notes, and mortgage backed securities. www.farmermac.com

Pursuant to ORS 294.046, this list contains all "agencies and instrumentalities of the United States with available obligations that any county, municipality, political subdivision or school district may invest in..." Generally, all U.S. Treasuries, and Agencies listed in 1 through 8 are appropriate investments for excess cash funds (if the maturities of such instruments are within the local government's investment guidelines). However, attention should be paid to any peculiar characteristics of some of the instruments. For example, mortgage-backed securities like GNMA's may have volatile prepayment characteristics which may make their final maturities unknown. In falling interest rate cycles, borrowers' whose underlying mortgages are the security for the GNMA bonds may refinance their loans accelerating the principal return to the investor. Therefore, the term for a GNMA cannot be relied upon to perform, for example, a debt defeasance. Agencies listed in 9 through 21 are viewed as less appropriate for local government investments, may be infrequently traded, and can be characterized by thin, illiquid markets.

International institutions in which the United States Government owns capital stock (paid-in or callable) are not eligible investments for local governments and are not listed here (World Bank, Asian Development Bank, Inter-American Development Bank, etc.).