

BEFORE THE CITY OF CANNON BEACH

FOR THE PURPOSE OF APPROVING AN ) RESOLUTION NO. 04-03  
INVESTMENT POLICY AND DESIGNATING )  
AN INVESTMENT MANAGER )

WHEREAS, municipal governments have a responsibility to invest public funds in a manner which provides timely availability of cash for intended expenditures; safety of principal invested; and optimum yield; and

WHEREAS, investments of public funds should be regulated through a formal policy in keeping with standards established by the State of Oregon to ensure that the objectives of safety, liquidity, and yield are met; and

WHEREAS, proof of an established investment policy and designation by resolution of authorized investment personnel are often required by custodians of government funds; now therefore

BE IT RESOLVED that the Common Council of the City of Cannon Beach approves the attached Investment Policy, which designates the City Manager as the City's Investment Officer, who is authorized on behalf of the City of Cannon Beach to manage and control investments in compliance with this policy, until such authorization is amended and/or revoked:

PASSED by the Common Council of the City of Cannon Beach this 6th day of January, 2004, by the following roll call vote:

YEAS: Councilors: Dooley, Ayres, Vetter; Mayor Rouse  
NAYS: None  
EXCUSED: Councilor Swigart



David Rouse, Mayor

Attest:



Peggy Coats, City Manager

**City of Cannon Beach  
Investment Policy**

**I. Scope**

This policy applies to the investment of short-term operating funds and capital funds including bond proceeds and bond reserve funds, and is in compliance with requirements specified by the State of Oregon for local government investments.

**II. General Objectives**

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

**1. Safety** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

**a. Credit Risk** The City of Cannon Beach will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:

- 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 of Cannon Beach 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 of Cannon Beach 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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in the Oregon Short-Term Fund which offers 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.

### 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. Investment Officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
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 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 of Cannon Beach. 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.
3. **Delegation of Authority** Authority to manage the investment program is granted to the City Manager, 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. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer who shall act in accordance with 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. 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.

#### IV. Safekeeping and Custody

1. **Internal Controls** The Investment Officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of the City of Cannon Beach from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. 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
  - Compliance and oversight with investment parameters including diversification and maximum maturities.
2. **Safekeeping** Securities will be held by a third-party custodian as evidenced by safekeeping receipts.
  3. **Pooling of Funds** Except for cash in certain restricted and special funds, the City of Cannon Beach will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

#### 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:
  - US Treasury securities and other lawfully issued general obligations of the United States
  - Oregon Short-Term Fund (Oregon Local Government Investment Pool)
  - Other investments permitted by law for municipal governments under ORS 294.035 and 294.810
2. **Collateralization** All bank deposits, time deposits, certificates of deposit, and savings accounts, shall be held in qualified Oregon depositories in accordance with ORS Chapter 295. Such deposits are designated cash management tools and not investments under this policy or otherwise. 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)

## 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,
  - 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.
2. **Maximum Maturities** To the extent possible, the City of Cannon Beach shall attempt to match its investments with anticipated future cash flow requirements. The maximum maturity shall be the anticipated use of the cash or 18 months, whichever is shorter, unless:
  - This investment policy has been submitted to the OSTF Board for comment prior to being approved by [governing body] and complies with the requirements of ORS 294.135. In this case, the maximum maturity shall be defined in policy.
  - The funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the [governing body], the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)).
3. **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.
4. **Securities Lending and Reverse Repurchase Agreements** The City of Cannon Beach shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
5. **Bids and Offers** Before any security purchase or sale is initiated, the Investment Officer shall first determine the appropriateness of seeking competitive bids or offers. Such factors to consider include where the securities are held, the size of the transaction, and the term to maturity. In the event competitive bids or offers are not sought, the decision to do so shall be documented. Competitive bids and offers shall always be sought for security purchases and sales of bond funds, when tax laws or bond covenants require such action.

## VII. Reporting

1. **Methods** The Investment Officer shall prepare an investment report periodically, including a management summary that provides an analysis of the status of the current investment portfolio

and transactions made over the reporting period. This management summary will be prepared in a manner which will allow the City of Cannon Beach to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the City Council, and will include the following:

- Listing of transactions occurring during the reporting period.
  - Listing of individual securities held at the end of the reporting period.
  - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmark(s).
  - Listing of investments by maturity date and call date.
  - Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.
  - 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. Factors influencing performance deviations will be described by the Investment Officer in periodic reports to the City Council.
  3. **Marking to Market** 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.

#### **VIII. Policy Adoption and Re-adoption**

This policy shall be reviewed on an annual basis.