

INVESTMENTS

Resolution No. 05 - 36 (Rescinds Resolution Nos. 99-21, 94-34 and 2485)

Dated: August 8, 2005

Mission Statement

The mission of this Investment Policy is to provide guidance to the Investment Officer according to City Council guidelines and Oregon state law. This in turn lays the ground work for the pursuit of maximum yield, proper liquidity, local investment, and maturity flow of the City's investments, with complete safety deemed as a given. Prudent investment strategies protect tax dollars and other revenue sources vital to the operations of the City of Klamath Falls. Benchmarking will also be utilized to provide assurance that the investments are yielding appropriate returns. In addition, internal controls will be outlined to provide for safekeeping and collateralization.

Objectives

The objectives of this investment policy include:

- Maintaining sufficient liquidity to pay obligations when due while minimizing borrowing expenses and maximizing investment revenue;
- Investing surplus dollars locally whenever possible;
- Protecting tax dollars and other revenue sources by wise and prudent investing;
- Managing cash in an organized manner, creating a continuous flow of maturing investments to meet City objectives;
- Establishing benchmarks to evaluate the performance of the investment mix;
- Minimizing uninvested surplus cash;
- Avoiding service charges and penalties associated with early withdrawal of investment;
- Analyzing cash position daily;
- Reacting appropriately to market fluctuations; and
- Protecting investments with proper safekeeping measures.

Delegation of Authority

Main Designees

The Finance Director is designated as the Investment Officer of the City of Klamath Falls and is responsible for investing all excess cash and for maintaining cash available for day-to-day operations. In the absence of, or at the request of the Finance Director, the Assistant Finance Director will administer the investment of funds. If the Assistant Finance Director is unavailable to invest funds, another appropriate designee will be appointed by the Finance Director.

Guidelines

The Investment Officer shall follow the “prudent investor” rule. Investments shall be made with judgment and care, which persons of prudence and intelligence exercise in the management of their own affairs. Investments shall not be made for speculation, but for investment, considering the probable safety of City capital as well as the probable income to be derived.

Forecasting Financial Trends

The Investment Officer, who performs a variety of functions besides investing public funds, cannot be expected to have the expertise to forecast future financial trends. Instead, the Investment Officer should glean professional advice from various financial advisors, from both the public and private sector. It is anticipated that this advice will be beneficial for longer-term investing and for choosing among market instruments.

Personal Liability

The Investment Office shall not be held personally liable for changes in the market that affect the portfolio, so long as the Investment Officer follows the policies set forth in this investment policy. If fluctuations in the market arise, the Investment Officer should take corrective action immediately to mitigate any potential negative effects.

Program Support

To remain knowledgeable regarding investment strategies, continuing professional education courses such as Government Finance Officers Association seminars shall be attended by the Investment Officer. Therefore, appropriate resources shall be budgeted for investment training and publications.

Prohibited Conduct for Investment Officer

According to ORS 294.145, an Investment Officer shall not:

1. Make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transactions;
2. Enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest;
3. Lend securities to any person or institution, except on a fully collateralized basis, and except when such lending is specifically permitted under an investment policy adopted pursuant to ORS 294.135(1)(a);
4. Pay for any securities purchased by the Investment Officer until the officer has received physical possession, or other sufficient evidence, as determined under ORS 293.751(1), of title thereof. However, the Investment Office may instruct any custodian bank, as that term is defined in ORS 295.005(2), to accept securities on the investment officer’s behalf against payment therefore previously deposited with the institution by the investment officer; or

5. Deliver securities to the purchaser thereof upon sale prior to receiving payment in full therefor. However, the investment officer may deliver the securities to any custodian bank, defined in ORS 295.005(2) upon instructions to hold the same pending receipt by the institution of full payment therefor.

Investment Instruments

As a municipality, the City of Klamath Falls is restricted in the types of investments it may make according to ORS 294.035. The office of the State Treasurer provides a complete listing of investments available to municipalities under this statute.

Diversification

The primary purpose for diversification in an investment policy is to limit the overall portfolio risk while maintaining sufficient returns. This objective can be accomplished by limiting the percent invested in specific instruments or financial institutions. This can be difficult for entities the size of Klamath Falls, as the City has limited surplus dollars to invest. Therefore, to maximize the rate of return, diversification is considered to a certain degree, but is not essential.

Diversification by Instrument

The following diversification structure follows state statutes and allows for judgment to be exercised by the Investment Officer:

- General Obligations of the United States
- Agencies and Instrumentalities of the United States
- Enterprises sponsored by the United States
- Debt Obligation of the Agencies and Instrumentalities of the State of Oregon and its political subdivisions that have an A or equivalent rating or better
- Debt Obligations of the States of California, Idaho and Washington which have an AA rating or equivalent rating or better
- Time Deposits, Certificates or deposits and savings accounts in insured institutions
- Bankers acceptances guaranteed by a qualified financial institution (not to exceed 25% of moneys available for investment)
- Corporate indebtedness rated A or better (not to exceed 35% of moneys available for investment and not more than 5% invested in any single corporate entity)
- Security of an open-end or closed-end management investment company
- Repurchase agreements

The City of Klamath Falls considers safety the primary concern when investing public funds and then liquidity and return on investment.

Diversification by Financial Institution

The Local Government Investment Pool may retain 100 percent of the City's portfolio. As the City of Klamath Falls manages limited surplus dollars, it is sometimes difficult to spread the risk among many financial institutions. Therefore, there is no further requirement for diversification by the

number of financial institutions, so long as all investments are either insured, collateralized, or otherwise meeting the requirements of state statutes.

Maturity Scheduling

Maturities of investments are to be scheduled to closely coincide with the anticipated cash disbursements needs. Monthly expenditures, such as payroll and payables are to be balanced against the cyclical receipts of property taxes, franchise payments and state taxes. One hundred percent of all operating funds shall mature within 18 months.

Funds other than operating funds, may be invested for periods longer than 18 months. Maturity dates for these non-operating funds should correspond to the expected use of the funds (ORS 294.135b). However, the maximum length of time for any investment is ten (10) years.

Internal Control

An internal control structure is designed to prevent fraud, embezzlement, error, misrepresentation, and imprudent actions while at the same time protecting public funds. A system of internal controls can be established which will provide reasonable assurance that all investments are safe.

On such internal control that the City of Klamath Falls has established is a resolution declaring official signatories. According to City Council Resolution No. 02-45 dated November 18, 2002, the City of Klamath Falls authorizes the following persons to be official signatories on all banking and bonding activities:

<u>Name</u>	<u>Title</u>
Todd Kellstrom	Mayor
Jeff Ball	City Manager
Phyllis C. Shidler	Finance Director
Mary Hutchison	Assistant Finance Director

Signature cards for the above individuals are on file with all financial institutions with whom the City invests.

Safekeeping of investment documents is also a priority for the City. Should the City have actual possession of an investment, such as a Certificate of Deposit, the instrument is stored in the City's vault. For other investment purchases such as Treasury Bills and Agency Securities, the financial institution that acts as the mediator provides the safekeeping service. Otherwise, the City contracts out a safekeeping service for the investments purchased. Monthly, these financial institutions provide the City with a listing of City-owned investments in their possession. These listings are kept in an investment folder and are available for review at any time.

Other internal controls that are deemed necessary are to be implemented by the Investment Officer. To attempt to maintain a complete listing of controls would not be appropriate, as internal control is a management responsibility.

Benchmarking

Benchmarking provides a standard by which performance may be measured or judged. By establishing an investment benchmarking procedure, the City of Klamath Falls will be able to determine both its proficiencies along with its deficiencies in its investment strategies. To assure success in effectively benchmarking this process, the following steps must be observed:

1. Determine what to benchmark; benchmark things consistent with your mission. In other words, benchmark investment returns.
2. Organize the benchmarking process. Determine what information is available and what is required.
3. Realize your current achievements. Understand your current process and be able to measure this data.
4. Obtain pertinent information from other entities. Identify other entities that have been progressive in their investment strategies.
5. Analyze the data gathered from the other entities. Determine what pieces of information can be utilized by the City.
6. Apply the most beneficial information gathered which best fits the City's objectives.
7. Evaluate the results and make appropriate changes. Review and improve on the process.

An excellent benchmark for measuring investment performance of municipalities is the 3-month Treasury Bill. The 3-month Treasury Bill reflects the yield of a basically risk-free and liquid investment. Therefore, any investment made by the City of Klamath Falls should exceed the 3-month Treasury Bill.

Benchmarking, besides providing a standard, is motivating. The price of a 3-month Treasury Bill fluctuates weekly. By comparing the currently held investments against this minimum standard, the Investment Officer can determine the success of the current investment strategies.

Performance Evaluation

As with all major projects, evaluation of the results is a requirement. If the results were not evaluated, then it could not be determined if progress had been made. Appropriate intervals must be established in which reviews are discussed with the City Manager and City Council.

To balance time constraints against information overload, quarterly reports will be prepared that will include the following information:

1. Listing of individual securities held at the end of each reporting period
2. Local Investment Percentage
3. Schedule reflecting actual returns vs. 3-month Treasury Bill
4. Problems/Success

These reports will be distributed to the City Manager and City Council. If requested by the City Manager or City Council, the Investment Officer shall provide a complete listing of current investments with their corresponding rates of return and maturities.

Annually, the Investment Officer will meet with one appointed City Council Member to review the objectives set forth in this investment policy to determine compliance. At that time, investment objectives may be modified to meet the changing demands and current requirements. The Investment Policy may also be revised at any City Council meeting.