

**CITY OF SALEM  
CITY MANAGER'S OFFICE  
FINANCE DIVISION**

Si necesita ayuda para comprender esta información, por favor llame 503-588-6274

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**CITY OF SALEM  
FINANCE COMMITTEE**

Committee Members

Councilor Brad Nanke, Chair  
Mayor Chuck Bennett  
Councilor Matthew Ausec  
Councilor Steve McCoid

City Staff

Steve Powers, City Manager  
Kacey Duncan, Deputy City Manager  
Dan Atchison, City Attorney  
Kelley Jacobs, Budget Officer  
David Lacy, Financial Operations Manager  
Tony Turley, Financial Reporting Manager  
Samantha Naluai, Management Analyst  
Kelli Blechschmidt, Administrative Analyst

Next Meeting: May 21, 2018

It is the City of Salem's policy to assure that no person shall be discriminated against on the grounds of race, religion, color, sex, marital status, familial status, national origin, age, mental or physical disability, sexual orientation, gender identity, and source of income, as provided by Salem Revised Code 97. The City also fully complies with Title VI of the Civil Rights Act of 1964, and related statutes and regulations, in all programs and activities.

**MEETING AGENDA**

Monday, March 19, 2018

12:00 PM- 1:00 PM

City Manager's Conference Room  
555 Liberty Street SE, Room 220

1. Call to Order
2. Approval of Minutes
  - a. December 11, 2017
  - b. February 26, 2018
3. Public Comment  
(Appearance of persons wishing to address the Committee on any matter other than those which appear on this Agenda.)
4. Action Items
  - a. Minor Revisions to Council Policy C-7
5. Management Update/Information Items
  - a. CIP Update
  - b. Transient Occupancy Tax (TOT) Update
  - c. Quarterly Investment Report
  - d. Moody's Report on State Capital Cities
6. Continued Business
7. New Business
8. Adjournment

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## City of Salem Finance Committee Minutes

**DATE:** December 11, 2017

**CHAIRPERSON:** Brad Nanke

**PLACE:** CMO Conference Room

**STAFF LIAISON:**

David Lacy

503-588-6174

[dlacy@cityofsalem.net](mailto:dlacy@cityofsalem.net)

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**Members Present:**

Chair Nanke

Mayor Bennett

Member Ausec

Member McCoid

**Members Absent:**

**Guests Present:**

Charles Swank & Katherine Wilson-Grove, Mueller and Swank, P.C.

**Staff Present:**

Steve Powers, City Manager

Kacey Duncan, Deputy City Manager

Dan Atchison, City Attorney

Kelley Jacobs, Budget Officer

David Lacy, Financial Operations Manager

Tony Turley, Financial Reporting Manager

Jeremy Morgan, Accounting Supervisor

Anja Straw, Treasury Supervisor

Samantha Naluai, Management Analyst

Kelli Blechschmidt, Administrative Analyst

1. CALL TO ORDER: 12:01 PM/ Quorum
2. APPROVAL OF FINANCE COMMITTEE MINUTES
  - a. September 25, 2017
3. MANAGEMENT UPDATE / INFORMATION ITEMS
  - a. FY 2016-2017 Audit Reports: Committee received and discussed City CAFR, URA CAFR and the Federal Grant Compliance Report; presented by Grove, Mueller and Swank, P.C.
  - b. PERS updates and projections.
  - c. Quarterly Investment Report as of September 30, 2017 presented.
4. ADJOURNMENT: 12:52 PM

The next meeting is Monday February 26, 2018 at noon.

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## City of Salem Finance Committee Minutes

**DATE:** February 26, 2018

**CHAIRPERSON:** Brad Nanke

**PLACE:** CMO Conference Room

**STAFF LIAISON:**

David Lacy

503-588-6174

[dlacy@cityofsalem.net](mailto:dlacy@cityofsalem.net)

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**Members Present:**

Chair Nanke

Member McCoid

**Members Absent:**

Mayor Bennett

Member Ausec

**Guests Present:**

**Staff Present:**

Dan Atchison, City Attorney

Peter Fernandez P.E., Public Works Director

Kelley Jacobs, Budget Officer

David Lacy, Financial Operations Manager

Tony Turley, Financial Reporting Manager

Samantha Naluai, Management Analyst

Kelli Blechschmidt, Administrative Analyst

1. CALL TO ORDER: 12:02 PM- No quorum
2. APPROVAL OF FINANCE COMMITTEE MINUTES
  - a. Chair Nanke noted an error in December 11, 2017 minutes. Staff to correct and resubmit for approval at March meeting.
3. MANAGEMENT UPDATE / INFORMATION ITEMS
  - a. Staff presented an update on current financing activity including Moody's Aa2 rating of the City's GO Bonds.
  - b. Committee heard an update on the PERS side account and a staff analysis of options toward paying down the City's unfunded liability.
4. ADJOURNMENT: 12:56 PM

The next meeting is Monday, March 19, 2018 at noon.

**FOR COMMITTEE MEETING OF: March 19, 2018  
AGENDA ITEM NO.: 4a**

**TO: SALEM CITY COUNCIL FINANCE COMMITTEE**

**FROM: KACEY DUNCAN, DEPUTY CITY MANAGER**

**SUBJECT: UPDATE TO COUNCIL POLICY C-7 INVESTMENT POLICY AND PORTFOLIO GUIDELINES**

**ISSUE:**

Shall the Salem City Council Finance Committee approve revisions to Council Policy C-7 relating to the Investment Policy and Portfolio Guidelines, and recommend forwarding to City Council for consideration and adoption?

**RECOMMENDATION:**

Approve revisions to Council Policy C-7 relating to the Investment Policy and Portfolio Guidelines, and recommend forwarding to City Council for consideration and adoption.

**SUMMARY AND BACKGROUND:**

The City's investment portfolio is governed by Oregon Revised Statutes (ORS) Chapter 294 and Council Policy C-7. The policy was last updated by adoption of Resolution No. 2016-6 on February 8, 2016 (Attachment 1). The purpose of the policy is to establish investment objectives, provide guidelines, and set forth responsibilities and reporting procedures necessary for the prudent management and investment of funds of the City and Urban Renewal Agency.

**FACTS AND FINDINGS:**

Since Policy C-7 was last adopted in 2016, the Administrative Services Department and Finance Division have been reorganized, and titles for the Custodial Officer and Authorized Finance Staff listed in Appendix II of the Policy have changed. Per ORS 294.135(a), any material changes to the policy need to be reviewed and approved by the Oregon Short Term Fund Board (OSTF) prior to adoption of the policy change. The proposed changes have been reviewed by the City's investment advisor, PFM Asset Management, and by staff at the Oregon Treasurer's Office to confirm that the changes proposed are not material in nature, and do not require OSTF Board review. Proposed revisions to the Policy (Attachment 2) include:

1. Title change for Custodial Officer: Under section *II. Delegation of Authority*, the Custodial Officer is currently designated as the Financial Services Administrator. The proposed change designates the Financial Operations Manager as the Custodial Officer as defined in ORS 294.004(2).
2. Definition revision for Standard of Care: The policy currently refers to the “prudent person” standard when managing the investment portfolio. The proposed change to section *IV. Standards of Care; Ethics; Internal Controls*, references the “prudent investor” standard, which aligns the Council Policy language to the language contained in ORS 293.726 (Administration of Public Funds).
3. Clarification of Performance Standards: The term “as appropriate” has been added to section *IX. Reporting and Performance Standards*. This clarification allows for flexibility when determining the appropriate investment benchmark based on the structure of the portfolio. For example, bond proceeds are invested to meet a targeted cash flow and maturity schedule, and it is not necessarily appropriate to establish a performance benchmark.
4. Updates to Authorized Finance Personnel: Policy Appendix II, *Authorized Finance Staff by Title*, lists the Finance personnel who are authorized by the Custodial Officer, with the City Manager’s consent, to invest City funds. The proposed changes to titles for Appendix II include: Financial Operations Manager, Deputy City Manager, Financial Reporting Manager, Treasury Supervisor, and Accounting Supervisor.

David Lacy  
Financial Operations Manager

Attachments:

1. Staff Report and Resolution 2016-6 Adopted February 8, 2016
2. Council Policy C-7 with Revisions

## COUNCIL POLICY NO. C-7

**TITLE:** INVESTMENT POLICY AND PORTFOLIO GUIDELINES

**POLICY:** See attached.

**REFERENCE:** City Council Finance Committee Report dated ~~11/16/15~~3/19/18, Agenda Item No. ~~34~~a  
Finance  
(Supplants Amendment adopted ~~5/28/13~~2/8/16 by Resolution No. 201~~36-316~~,  
Division Staff Report ~~5/28/13~~11/16/15 (Item ~~53~~a))

**CITY OF SALEM INVESTMENT POLICY**  
**NOVEMBER 2015**~~MARCH 2018~~

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# CITY OF SALEM

## INVESTMENT POLICY AND PORTFOLIO GUIDELINES

The purpose of this Investment Policy (Policy) is to establish investment objectives, provide guidelines, and set forth responsibilities and reporting procedures necessary for the prudent management and investment of the funds of the City of Salem and its component units (the City). Financial terms can be found in **Appendix I –Glossary**.

### I. Scope

This Policy applies to the activities of the City of Salem with regard to the consolidated investment of short-term operating funds, reserves, and capital funds, including bond proceeds and bond reserve funds held by the City. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts, investments of employees' retirement funds, and deferred compensation plans are not covered by this Policy.

### II. Delegation of Authority

The fiduciary responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Financial ~~Services Administrator~~ Operations Manager 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 written procedures and internal controls for the operation of the investment program that are consistent with this Policy. This Policy shall constitute a "written order" from the City Council per ORS 294.035.

The Custodial Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional City Finance personnel listed in **Appendix II** of this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and 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 delegees and other subordinate officials with access to the funds subject to this Policy.

### III. General Objectives

The investment objectives of this Policy and their priority are: (1) safety; (2) liquidity; and (3) 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 shall be to remain compliant with applicable laws and to mitigate Credit Risk, Interest Rate Risk, and Custodial Risk.
  - a. **Legality.** All funds within the scope of this Policy are subject to regulations established by the State of Oregon; specifically ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810.
  - b. **Credit Risk.** The City will minimize the risk of loss by:
    - Limiting exposure to poor credits.
    - 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.
- c. **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 prior to maturity.
    - Investing the City's funds primarily in 0 to 5 year securities and overnight funds.
  - d. **Custodial Risk.** The City will minimize Custodial Risk by placing its securities with a third-party custodian, who will hold the securities in the City's name, as evidenced by the safekeeping contract and monthly statements.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by:
    - Maintaining appropriate balances in investment vehicles that provide overnight liquidity; and
    - Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands where possible and prudent.
  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. 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 trade will improve the quality, yield, or target Duration in the portfolio.
    - Liquidity needs of the portfolio require that the security be sold.

#### IV. Standards of Care; Ethics; Internal Controls

1. **Prudence.** The standard of care to be used by the Custodial Officer and Custodial Officer's designees shall be the "prudent person-investor" standard and shall be applied in the context of managing all aspects of the portfolio.

The "prudent-person-investor" standard requires investments to be made with judgment and care, under circumstances, then prevailing, . The standard requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of each investment fund's investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund, 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 probable return to be derived.

The Custodial Officer (Oregon Revised Statutes 294.004 (2)) and the Custodial Officer's designees acting in accordance with the prudent person-investor standard, this Policy, written policies and procedures 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 these deviations and losses are reported in a timely fashion and actions are taken to control adverse developments in accordance with this Policy.

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 ORS Chapter 244, Salem Revised Code, Chapter 12, and Human Resource Rule Section 8.2 (m).
3. **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 protection" recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by the Custodial Officer. Accordingly, the Custodial Officer shall establish a process for an annual independent review by an external auditor to assure compliance with this Policy and the internal controls established by the Custodial Officer. The internal controls should address the following points:
  - Control of collusion
  - Separation of transaction authority from accounting and record keeping
  - Confirmation of transactions for investments and wire transfers
  - Custodial safekeeping
  - Avoidance of physical delivery of securities whenever possible
  - Address control requirements for physical delivery where necessary
  - Clear delegation of authority to subordinate staff members
  - 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
  - Staff training
  - List of approved Brokers-Dealers, safekeeping and financial institutions

## **V. Authorized Financial Institutions, Brokers-Dealers, Investment Advisers, and Depositories**

1. **Authorized Financial Institutions and Brokers-Dealers.** The Custodial Officer shall maintain a list of financial institutions and brokers/dealers authorized to provide investment services. The list of approved financial institutions and brokers/dealers shall be selected through a process that ensures due diligence in the selection process. Financial institutions and brokers/dealers 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 financial institutions and brokers/dealers on the approved list. Additions or deletions from the list shall be made at the Custodial Officer's discretion.

All financial institutions and Brokers-Dealers who desire to be considered for investment transactions, must supply the following, in writing (electronic delivery is acceptable):

- Audited financial statements
- Proof of Financial Industry Regulatory Authority, Inc (FINRA) registration
- Proof of state licensing
- Completed Broker-Dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City's investment Policy
- Evidence of adequate insurance coverage

An annual review of the financial condition and registration of financial institutions and brokers/dealers on the list shall be conducted by the Custodial Officer.

If the City utilizes an external investment adviser, the adviser is authorized to transact with its own approved Broker-Dealer list on behalf of the City. The adviser will perform all due diligence for the Brokers-Dealers on its approved list. The adviser will annually provide the City their approved Broker-Dealer list so that the Custodial Officer may conduct its own review.

2. **Investment Adviser.** The Custodial Officer may engage the services of an external investment adviser to assist in the management of the City's investment portfolio. All investment transactions executed by the external investment adviser on behalf of the City must be consistent with this Policy and be pre-approved in writing by the Custodial Officer.

A list will be maintained of approved external investment advisers selected by the Custodial Officer using a fair selection process. An annual review of all external investment advisers shall be conducted by the Custodial Officer to determine their continued eligibility with the requirements below. All investment advisers shall:

- a. Be registered with the Securities and Exchange Commission (SEC) or licensed by the State of Oregon; (Note: Investment adviser 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. Have certified that all of the representatives of the investment adviser who conduct investment transactions on behalf of this entity have read, understood and agreed to comply with this Policy.

If the City uses an external investment adviser, the adviser is authorized to enter into transactions with its own approved Broker-Dealer list on behalf of the City. The adviser shall perform all due diligence for all brokers/dealers on its approved list. The external investment adviser shall annually provide the City its approved Broker-Dealer list so that the Custodial Officer may conduct his or her own review.

3. **Delivery vs. Payment (DVP).** The Custodial Officer shall not pay for/deliver any securities until the Custodial Officer has received sufficient evidence of title/funding to the securities. Evidence of title must be consistent with modern investment, banking and commercial practices as specified in ORS 294.145 (4) and (5).
4. **Safekeeping.** Securities shall be held by an independent third-party safekeeping institution selected by the Custodial Officer. The Custodial Officer shall maintain a list of safekeeping institutions eligible to conduct business with the City. The safekeeping institution shall, upon request, provide a copy of its most recent report on internal controls – Statement on Standards for Attestation Engagements (SSAE) No. 16.

## VI. Authorized Investments

1. *Investment Types.* The following securities are permitted under this Policy as allowed by ORS 294.035 and 294.810. If additional types of securities become eligible for investment under Oregon law, investment in such securities shall not be permitted until this Policy has been amended.
  - a. **U.S. Treasury and Government Agency Obligations.** Lawfully issued general obligations of the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government and obligations whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government.
  - b. **Oregon Short-Term Fund (OSTF)/Local Government Investment Pool (LGIP).** Oregon managed portfolio offered to governmental entities for the investment of public funds.
  - c. **Repurchase Agreements.** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date. As provided in ORS 294.035(3)(j), only U.S. treasury obligations and government agency issues described in paragraph (a) of this subsection that are 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 may be used in conjunction with a Repurchase Agreement.
  - d. **Bankers' Acceptances.** A draft or bill of exchange drawn upon and accepted by a bank. Used as a short-term credit instrument, Bankers' Acceptances are traded at a Discount from face value as a money market instrument on the basis of the credit quality of the guaranteeing bank. Bankers acceptances must be: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) 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.
  - e. **Corporate Indebtedness.** Commercial Paper and Medium Term Corporate Notes subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Corporate indebtedness described in this paragraph does not include bankers acceptances. The corporate indebtedness must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution, including a holding company owning a majority interest in a qualified financial institution.
  - g. **Municipal Debt.**
    - i. Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term 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.
    - ii. Lawfully issued debt obligations of the States of California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating of AA 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.
  - h. **Time Deposit Accounts, Certificates of Deposit, and Deposit Accounts.**

- i. Deposits in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the insured institution or credit union maintains a head office or a branch in Oregon.
- ii. Certificates of Deposit placed through deposit placement services, such as the Certificate of Deposit Account Registry Service (CDARS), are allowable so long as they comply with the requirements under ORS 295.004.

**2. Percentage of Investments, Maximum Maturity, and Credit Ratings by Type.**

Portfolio percentages shall be based on the Market Value of the investments at time of purchase. The maximum portfolio percentages for investments of surplus funds are as follows:

Security	Maximum % of Total Portfolio	Maximum Maturity	Credit Requirements
US Treasury Obligations	Up to 100 %	5 years	-
US Government Agency Issues	Up to 100 % and 33 % per issuer	5 years	-
U.S. Instrumentality Debt	Up to 10% and 3% per issuer	5 years	AAA or A-1+ or equivalent
OSTF/LGIP	Statutory Limit (ORS 294.810)	-	-
Repurchase Agreements	Up to 10 % and 5 % per issuer	90 days	Collateral securing repo and margin requirements
Bankers' Acceptances	Up to 20 % and 10 % per issuer	6 months	A-1/P-1
Medium Term Corporate Notes	Up to 35% and 5% per issuer	5 years	"AA" or equivalent, or "A" or equivalent if the issuer is meets the requirements of ORS 294.035(3)(i)(C)(i)
Commercial Paper		270 days	A-1/P-1
Municipal Debt	Up to 10 % and 10% per issuer	5 years	Oregon: "A" CA, WA, ID: "AA"
Time Deposit Accounts (CDs)	Up to 25 % and 10 % per issuer	2 years	Collateral requirements per ORS Chapter 295
Deposit Accounts	Up to 100%	-	Collateral requirements per ORS Chapter 295

The maximum percent of Callable Securities in the portfolio shall be 25%.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular investment type may be exceeded at a point in time subsequent to the purchase of a specific security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to liquidation of that security when future liquidations are made.

3. **Credit Ratings.** Investments must have a rating from at least one Nationally Recognized Statistical Ratings Organizations, including, but not limited to, Moody's, Standard & Poor's, or Fitch Ratings Service.
  - a. The minimum weighted average credit rating of the portfolio's rated investments shall be "Aa" by Moody's Investors Service; "AA" by Standard & Poor's; and "AA" by Fitch Ratings Service. Credit rating levels apply to the security on the transaction's settlement date.
  - b. 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 and determine whether the security should be held or sold. The Custodial Officer shall apply the general objectives of safety, liquidity, and yield in making such determination. That determination shall be documented in the quarterly report.
4. **Collateralization.** Cash management tools, defined as bank deposits, time deposits, Certificates of Deposit, and savings accounts, shall be held in qualified Oregon depositories which have met Oregon's Collateralization requirements per ORS Chapter 295. The Custodial Officer is responsible for the quarterly review of the State or Oregon's Approved Banking Institution list to ensure that banks in which such deposits and accounts are being held are on the approved list. The State of Oregon must be notified of changes in banking institutions.

## VII. Investment Parameters

1. **Diversification.** Investments shall be diversified by:
  - o Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding government securities).
  - o Limiting investment in securities that have high credit or interest risks.
  - o Investing in securities with varying maturities.
  - o Continuously investing a portion of the portfolio in readily available funds such as the OSTF/LGIP.
2. **Liquidity Requirements and Maturity Limits.** At all times, the City will maintain a minimum amount of funds to meet liquidity needs for the next three months. Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than five years from the date of settlement. The Weighted Average Maturity of the City's portfolio shall at no time exceed 2.5 years.
3. **Bond Covenant Restrictions.** The investment of bond proceeds are restricted under bond covenants and tax laws that may be more limiting than 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. **Bids and Offers.** Each investment transaction shall be competitively transacted with financial institutions or Brokers-Dealers on the approved list. The Custodial Officer shall maintain a transaction record of each investment transaction. Competitive bids or offers should be obtained, when possible, from at least three financial institutions or Brokers-Dealers. In the event competitive bids or offers are not sought, the decision to do so shall be documented by the Custodial Officer. If the Custodial Officer uses an investment adviser, the investment adviser must retain documentation of competitive pricing execution on each transaction and provide such documentation to the Custodial Officer upon request.

5. **Settlement Restrictions.** Pursuant to ORS 294.145, the Custodial Officer is prohibited from making 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 transaction.
6. **Compliance Maintenance and Monitoring.** Compliance with this Policy shall be maintained and be integral to each investment decision. Compliance status shall be reported to the Finance Committee at least quarterly, as described in Section IX. Out of compliance instances shall be reported to the Custodial Officer in a timely manner. The Custodial Officer shall 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 is achieved.

### **VIII. Prohibited Investments**

Investment in the following securities is prohibited:

1. Private placement of "144A" securities. "144A" securities include Commercial Paper issued under Section 4(2)144A (also known as "4(2)A" of the Securities Act of 1933).
2. The City shall not lend securities nor directly participate in a securities lending program.
3. Reverse Repurchase Agreements.
4. Mortgage-backed securities.
5. Stock in any joint company, corporation or association.

### **IX. Reporting and Performance Standards**

1. **Methods.** Except where legally required to hold separate funds, the City will consolidate cash balances from all funds to maximize investment earnings. Net 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.

The Custodial Officer shall review a monthly investment management report that provides an analysis of the status of the current investment portfolio and transactions made over the last month. The report shall be provided to the Custodial Officer within a reasonable time after the previous reporting period end and shall include the following:

- List of transactions occurring during the reporting period
- List of individual securities held at the end of the reporting period, including security type, maturity date and call date
- Percentage of the total portfolio that each type of investment represents
- Weighted Average Maturity of the portfolio

The Custodial Officer shall provide a quarterly investment report to the Finance Committee, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. The report shall be provided within a reasonable time after the quarter end and shall include everything contained in the monthly report and the following:

- Status of compliance with this Policy
- Book yield during the reporting period
- Market value of portfolio holdings at the end of the reporting period

- Performance of the portfolio relative to benchmark(s), as appropriate
2. **Performance Standards.** The investment portfolio shall be managed in accordance with this Policy. The Custodial Officer shall establish an appropriate benchmark or benchmarks, as appropriate, for investment parameters that reflects the types and maturities of investment allowed under this Policy. The Custodial Officer shall compare portfolio performance to the benchmark or benchmarks on a quarterly basis. It is anticipated the portfolio should attain a benchmark average rate of return over time. Factors influencing performance deviations shall be described by the Custodial Officer in the quarterly reports to the Finance Committee.

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

1. This Policy may be reviewed by the vote of a majority of the Finance Committee. Changes shall be adopted by the City Council as amendments to this Policy. 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.
2. OSTF Board review shall be requested for any material changes (e.g. changes in investment parameters, portfolio Duration, compliance issues, etc.) to this Policy.



## Appendix I – Glossary

**Bankers Acceptances:** A draft or bill of exchange drawn upon and accepted by a bank. 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 (NRSRO).

**Brokers-Dealers:** A bank or securities Broker-Dealer that is permitted to trade directly with the Federal Reserve System. Such firms are required to make bids or offers when the Federal Reserve System conducts open market operations, provide information to the Federal Reserve System's open market trading desk, and to participate actively in Treasury auctions.

**Bullet Notes/Bonds:** Notes or Bonds that have a single maturity date and are non-callable.

**Callable Securities:** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Certificates of Deposits (CD):** A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC up to \$250,000. The term of a CD generally ranges from one month to five years.

**Certificate of Deposit Account Registry Service (CDARS):** A private service that breaks up large deposits (from individuals, companies, nonprofits, public funds, etc.) and places them across a network of banks and savings associations around the United States. Allows depositors to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

**Collateralization:** Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper:** Short term unsecured promissory note issued by a company or financial institution. Issued at a Discount and matures for Par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Coupon Rate:** Annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

**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.

**Custodial Officer:** The City has designated the Financial ~~Services Administrator~~ Operations Manager as the Custodial Officer for the City's funds.

**Custodial Risk:** Custodial Risk, or Custodial Credit Risk, is the risk of loss associated with the counter-party's (any entity that obtained the investment on a public entity's behalf) failure.

**Discount:** The amount by which the Par Value of a security exceeds the price paid for the security.

**Duration:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. The Duration of a security is a useful indicator of its price volatility for a given change in interest rates.

**Government-Sponsored Enterprise:** A privately owned entity subject to federal regulation and supervision that was created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S.

Government. For this reason, these securities typically offer a yield premium over Treasuries. Examples of GSEs include: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal Farm Credit Bank (FFCB), and Federal National Mortgage Association ("FNMA").

**Interest Rate Risk:** The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity Risk:** Liquidity Risk is the risk that an investment may not be easily marketable or redeemable.

**Local Government Investment Pool (LGIP):** The state or Local Government Investment Pool offered to public entities for the investment of public funds.

**Market Value:** Current market price of a security.

**Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Designated NRSROs include, but are not limited to, Standard & Poor's, Fitch, and Moody's.

**Oregon Short-Term Fund (OSTF):** A Local Government Investment Pool organized pursuant to ORS 294.805 through 294.895. Participation in the pool will not exceed the maximum limit annually set by ORS 294.810.

**Par Value:** Face value, stated value or maturity value of a security.

**Repurchase Agreements:** An agreement whereby the Custodial Officer purchases securities from a financial institution or securities dealer subject to an agreement by the seller to repurchase the securities. The Repurchase Agreement must be in writing and executed in advance of the initial purchase of the securities that are the subject of the Repurchase Agreement.

**Secondary Market:** Markets for the purchase and sale of any previously issued financial instrument.

**Treasury Bills (T-Bills):** Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury Bills are sold at a Discount from face value and do not pay interest before maturity.

**Treasury Bonds (T-Bonds):** Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes (T-Notes):** Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury.

**Weighted Average Maturity (WAM):** The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

**Yield to Maturity (YTM at Cost):** The percentage rate of return paid if the security is held to its maturity date at the original time of purchase. The calculation is based on the Coupon Rate, length of time to maturity and original price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Cost on a security remains the same while held as an investment.

## Appendix II: Authorized Finance Staff by Title

Financial ~~Services Administrator~~ Operations Manager

Deputy City Manager

~~Chief Accountant~~ Financial Reporting Manager

Treasury Supervisor

~~Accountant II~~ Accounting Supervisor

FOR CITY COUNCIL MEETING OF: February 8, 2016  
AGENDA ITEM NO.: 3.2(b)

TO: MAYOR AND CITY COUNCIL

THROUGH: SALEM CITY COUNCIL FINANCE COMMITTEE

FROM: BRAD NANKE, COMMITTEE CHAIR 

SUBJECT: RESOLUTION NO. 2016-6 RESCINDING COUNCIL POLICY NO. C-7,  
INVESTMENT POLICY AND PORTFOLIO GUIDELINES, AND  
ADOPTING A REPLACEMENT POLICY

**ISSUE:**

Shall the City Council adopt Resolution No. 2016-6 rescinding Council Policy No. C-7, Investment Policy and Portfolio Guidelines, and adopting a replacement Council Policy No. C-7?

**RECOMMENDATION:**

Adopt Resolution No. 2016-6 rescinding Council Policy No. C-7, Investment Policy and Portfolio Guidelines, and adopting a replacement Council Policy No. C-7.

**SUMMARY AND BACKGROUND:**

PFM Asset Management, LLC (PFMAM), the City's investment advisory firm, is recommending an update to Council Policy No. C-7, the City's investment policy.

**FACTS AND FINDINGS:**

On November 16, 2015, PFMAM proposed the following revisions to the City's investment policy before a joint meeting of the Salem City Council Finance Committee and the Salem Urban Renewal Agency Finance Committee:

- Delete Appendix III. Approved Broker Dealer List: Due to the City's use of PFMAM's approved broker dealers, it is no longer necessary for the City to maintain a separate list.
- Amend Section VI. Authorized Investments: Update the language to match Oregon Revised Statutes Chapter 294.

The committees subsequently authorized staff to seek approval of the proposed revisions from the Oregon Short Term Fund (OSTF) Board as required by ORS 294.135(1)(a), which is staffed by the Oregon State Treasury's Investment Division. A December 23, 2015 email from Garrett Cudahey of the Oregon State Treasury's Investment Division, notified the City that the policy "does not need to be reviewed by the OSTF Board, as the policy is in great shape and the changes were minor in nature

and did not fundamentally alter the potential risk profile." Staff is therefore proceeding with the proposed revisions.

Attached for the Council's consideration is PFMAM's memo summarizing the recommended changes (Attachment A), and a blue-lined version of Council Policy No. C-7 with all proposed revisions tracked (Attachment B). A final revised version of Council Policy No. C-7 is provided with Resolution No. 2016-6 as Exhibit 1. Additional changes were made for grammatical corrections and to update staff titles due to a subsequent reorganization within the City.

  
Sandra Montoya  
Financial Services Administrator

Attachments: A. PFMAM's Memo Summarizing the Recommended Policy Changes  
B. Blue-lined Version of Current Council Policy No. C-7

Ward: All  
January 27, 2016



50 California Street  
Suite 2300  
San Francisco, CA 94111

Attachment A

415 982-5544  
415 982-4513 fax  
www.pfm.com

November 13, 2015

## Memorandum

**To:** Sandra Montoya, Acting Administrative Services Director  
Marne Anderson, Treasury Supervisor  
*City of Salem, OR*

**From:** Lauren Brant, Managing Director  
Allison Kaune, Senior Managing Consultant  
*PFM Asset Management, LLC (PFMAM)*

**Re:** City of Salem Investment Policy Review 2015

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We have reviewed the City of Salem's (the "City") Investment Policy (the "Policy") dated April 15, 2013. The Policy is comprehensive and well written, and is in compliance with all applicable Oregon Revised Statutes ("ORS") sections regulating the investment of public funds.

While no changes are required at this time, we are proposing some changes to the Policy to better align it with ORS language and the City practices. Our specific comments are listed below. In addition, we have included a blue-lined copy of the Policy to illustrate our suggestions.

**Appendix III Approved Broker Dealer List.** The Policy requires the City to maintain a list brokers/dealers authorized to provide investment services to the City. The Policy also states that if the City utilizes an external investment adviser, the adviser is authorized to transact with its own approved Broker-Dealer list on behalf of the City. Because the City does utilize the services of an investment adviser, the City no longer needs to maintain their own list of approved brokers/dealers. For that reason, we recommend deleting from the Policy any language that references Appendix III Approved Broker Dealer List. However, the Policy still contains language that requires the adviser to annually provide the City their approved Broker-Dealer list so that the City may conduct its own review.

**Section VI. Authorized Investments.** In the Authorized Investments section we suggest edits be made so that the language in the Policy matches the language in ORS. The purpose of this is twofold, 1) it will minimize any possible confusion that could occur by the language being different, and 2) it will allow for investment in the debt of U.S. Instrumentalities.

### **Instrumentalities of the United States**

Instrumentalities of the United States are international or multi-lateral financial agencies in which the United States is a participant. U.S. Instrumentalities, also called Supranationals, include: the International Bank for Reconstruction and Development (aka World Bank), the International Finance Corporation, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the African



Development Bank. U.S. Instrumentality debt is rated AAA by Nationally Recognized Statistical Rating Organizations (NRSRO) and is highly liquid—characteristics most investors desire. In addition, it is issued and available in a wide range of maturities.

#### *Portfolio Strategy*

One of the primary reasons we recommend permitting this sector is to open up a new asset class for Salem's portfolio. Having a broader opportunity set is important as the mandated winding down of Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) will result in reduced Agency supply going forward. In contrast, supranational debt is expected to grow over the same time period.

#### *Policy Language*

Debt of U.S. Instrumentalities are permitted under ORS 294.035 (3)(a) and in paragraph 1.a. of the accompanying blue-lined version of the City's Policy. PFMAM recommends that Salem incorporate the following restrictions of the sector into their Policy in the summary table, as shown in the blue-lined version.

Debt of U.S. Instrumentalities.

- Credit rating of AAA or A-1+ or its equivalent by a NRSRO
- Maximum allocation to the sector of 10%
- Maximum exposure per issuer of 3%

#### **Medium Term Corporate Notes**

In addition to permitting investment in the debt of U.S. Instrumentalities, changes to the Authorized Investment section include an edit to the maximum allocation of corporate notes and commercial paper. In the current version of the Policy, up to 15% of the portfolio may be invested in corporate notes and up to 20% may be invested in commercial paper. ORS, however, states that "A custodial officer may not permit more than 35 percent of the moneys of a local government that are available for investment, as determined on the settlement date, to be invested in corporate indebtedness." In ORS "corporate indebtedness" comprises corporate notes and commercial paper. We recommend the City's Policy be edited to conform to ORS.

No other changes recommended in the accompanying blue-lined version of the Policy materially change the Policy.

Please let us know if you have any questions or if you would like to schedule a time to discuss the Policy.

Thank you.

**COUNCIL POLICY NO. C-7**

**TITLE:** INVESTMENT POLICY AND PORTFOLIO GUIDELINES

**POLICY:** See attached.

**REFERENCE:** City Council Finance Committee Report dated 4/15/1311/16/15, Agenda Item No. 4b-3a  
(Supplants Amendment adopted 8/04/085/28/13 by Resolution No. ~~2008-~~892013-31, Finance  
Department Division Staff Report 6/13/045/28/13 (Item 9.2.g5(a))



**CITY OF SALEM INVESTMENT POLICY**  
**MAY 2013 NOVEMBER 2015**

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## CITY OF SALEM INVESTMENT POLICY AND PORTFOLIO GUIDELINES

The purpose of this Investment Policy (Policy) is to establish investment objectives, provide guidelines, and set forth responsibilities and reporting procedures necessary for the prudent management and investment of the funds of the City of Salem and its component units (the City). Financial terms can be found in **Appendix I –Glossary**.

### I. Scope

This Policy applies to the activities of the City of Salem with regard to the consolidated investment of short-term operating funds, reserves, and capital funds, including bond proceeds and bond reserve funds held by the City. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts, investments of employees' retirement funds, and deferred compensation plans are not covered by this Policy.

### II. Delegation of Authority

The fiduciary responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the ~~Administrative Services Director/Finance Director~~ Financial Services Administrator 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 written procedures and internal controls for the operation of the investment program that are consistent with this Policy. This Policy shall constitute a "written order" from the City Council per ORS 294.035.

The Custodial Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional City Finance personnel listed in **Appendix II** of this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and 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 delegees and other subordinate officials with access to the funds subject to this Policy.

### III. General Objectives

The investment objectives of this Policy and their priority are: (1) safety; (2) liquidity; and (3) 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 shall be to remain compliant with applicable laws and to mitigate Credit Risk, Interest Rate Risk, and Custodial Risk.
  - a. **Legality.** All funds within the scope of this Policy are subject to regulations established by the State of Oregon; specifically ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810.
  - b. **Credit Risk.** The City will minimize the risk of loss by:
    - Limiting exposure to poor credits.
    - 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.
- c. **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 prior to maturity.
    - Investing the City's funds primarily in 0 to 5 year securities and overnight funds.
  - d. **Custodial Risk.** The City will minimize Custodial Risk by placing its securities with a third-party custodian, who will hold the securities in the City's name, as evidenced by the safekeeping contract and monthly statements.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by:
    - Maintaining appropriate balances in investment vehicles that provide overnight liquidity; and
    - Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands where possible and prudent.
  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. 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 trade will improve the quality, yield, or target Duration in the portfolio.
    - Liquidity needs of the portfolio require that the security be sold.

#### IV. Standards of Care; Ethics; Internal Controls

1. **Prudence.** The standard of care to be used by the Custodial Officer and Custodial Officer's designees shall be the "prudent person" standard and shall be applied in the context of managing all aspects of the portfolio.

The "prudent person" standard requires investments to 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 probable return to be derived.

The Custodial Officer (Oregon Revised Statutes 294.004 (2)) and the Custodial Officer's designees acting in accordance with the prudent person standard, this Policy, written policies and procedures 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 these deviations and losses are reported in a timely fashion and actions are taken to control adverse developments in accordance with this Policy.

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 ORS Chapter 244, Salem Revised Code, Chapter 12, and Human Resource Rule Section 8.2 (m).

3. **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 protection" recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by the Custodial Officer. Accordingly, the Custodial Officer shall establish a process for an annual independent review by an external auditor to assure compliance with this Policy and the internal controls established by the Custodial Officer. The internal controls should address the following points:

- o Control of collusion
- o Separation of transaction authority from accounting and record keeping
- o Confirmation of transactions for investments and wire transfers
- o Custodial safekeeping
- o Avoidance of physical delivery of securities whenever possible
- o Address control requirements for physical delivery where necessary
- o Clear delegation of authority to subordinate staff members
- o Development of a wire transfer agreement with the lead bank and third-party custodian and implementation of the appropriate safeguards
- o Compliance and oversight with investment parameters including diversification and maximum maturities
- o Staff training
- o List of approved Brokers-Dealers, safekeeping and financial institutions

## V. Authorized Financial Institutions, Brokers-Dealers, Investment Advisers, and Depositories

1. **Authorized Financial Institutions and Brokers-Dealers.** The Custodial Officer shall maintain a list (~~see Appendix III~~) of financial institutions and brokers/dealers authorized to provide investment services. The list of approved financial institutions and brokers/dealers shall be selected through a process that ensures due diligence in the selection process. Financial institutions and brokers/dealers 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 financial institutions and brokers/dealers on the approved list. Additions or deletions from the list shall be made at the Custodial Officer's discretion.

All financial institutions and Brokers-Dealers who desire to be considered for investment transactions, must supply the following, in writing (electronic delivery is acceptable):

- Audited financial statements
- Proof of Financial Industry Regulatory Authority, Inc (FINRA) registration

- Proof of state licensing
- Completed Broker-Dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City's investment Policy
- Evidence of adequate insurance coverage

An annual review of the financial condition and registration of financial institutions and brokers/dealers on the list shall be conducted by the Custodial Officer.

If the City utilizes an external investment adviser, the adviser is authorized to transact with its own approved Broker-Dealer list on behalf of the City. The adviser will perform all due diligence for the Brokers-Dealers on its approved list. The adviser will annually provide the City their approved Broker-Dealer list so that the Custodial Officer may conduct its own review.

2. **Investment Adviser.** The Custodial Officer may engage the services of an external investment adviser to assist in the management of the City's investment portfolio. All investment transactions executed by the external investment adviser on behalf of the City must consistent with this Policy and be pre-approved in writing by the Custodial Officer.

A list will be maintained of approved external investment advisers selected by the Custodial Officer using a fair selection process. An annual review of all external investment advisers shall be conducted by the Custodial Officer to determine their continued eligibility with the requirements below. All investment advisers shall:

- a. Be registered with the Securities and Exchange Commission (SEC) or licensed by the State of Oregon; (Note: Investment adviser 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. Have certified that all of the representatives of the investment adviser who conduct investment transactions on behalf of this entity have read, understood and agreed to comply with this Policy.

If the City uses an external investment adviser, the adviser is authorized to enter into transactions with its own approved Broker-Dealer list on behalf of the City. The adviser shall perform all due diligence for all brokers/dealers on its approved list. The external investment adviser shall annually provide the City its approved Broker-Dealer list so that the Custodial Officer may conduct his or her own review.

3. **Delivery vs. Payment (DVP).** The Custodial Officer shall not pay for/deliver any securities until the Custodial Officer has received sufficient evidence of title/funding to the securities. Evidence of title must be consistent with modern investment, banking and commercial practices as specified in ORS 294.145 (4) and (5).
4. **Safekeeping.** Securities shall be held by an independent third-party safekeeping institution selected by the Custodial Officer. The Custodial Officer shall maintain a list of safekeeping institutions eligible to conduct business with the City. The safekeeping institution shall, upon request, provide a copy of its most recent report on internal controls – Statement on Standards for Attestation Engagements (SSAE) No. 16.

## VI. Authorized Investments

1. *Investment Types.* The following securities are permitted under this Policy as allowed by ORS 294.035 and 294.810. If additional types of securities become eligible for investment under Oregon law, investment in such securities shall not be permitted until this Policy has been amended.

a. **U.S. Treasury and Government Agency Obligations.** Lawfully issued general obligations of the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government and obligations whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. United States Treasury Notes, Bonds, Bills, certificates of indebtedness, or other obligations of the U.S. Treasury for which the full faith and credit of the United States are pledged for the payment of principal and interest.

b. ~~**Government Agency Issues.** Federal agency or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States Government-Sponsored Enterprises. See Appendix I: Glossary for definition and investment examples.~~

e.b. **Oregon Short-Term Fund (OSTF)/Local Government Investment Pool (LGIP).** Oregon managed portfolio offered to governmental entities for the investment of public funds.

d.c. **Repurchase Agreements.** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date. As provided in ORS 294.035(3)(j), only U.S. treasury obligations and government agency issues described in paragraph (a) and (b) of this subsection that are 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 may be used in conjunction with a Repurchase Agreement.

e.d. **Bankers' Acceptances.** A draft or bill of exchange drawn upon and accepted by a bank. Used as a short-term credit instrument, Bankers' Acceptances are traded at a Discount from face value as a money market instrument on the basis of the credit quality of the guaranteeing bank. Bankers acceptances must be: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) 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.

f.e. ~~**Corporate Indebtedness. Medium Term Corporate Notes (Corporate Indebtedness).** Commercial Paper and Medium Term Corporate Notes subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Corporate indebtedness described in this paragraph does not include bankers acceptances. The corporate indebtedness must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution, including a holding company owning a majority interest in a qualified financial institution.~~

g. **Municipal Debt.**

i. Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term 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.

- ii. Lawfully issued debt obligations of the States of California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating of AA 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.
- h. **Time Deposit Accounts, Certificates of Deposit, and Deposit Accounts.**
  - i. Deposits in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the insured institution or credit union maintains a head office or a branch in Oregon.
  - ii. Certificates of Deposit placed through deposit placement services, such as the Certificate of Deposit Account Registry Service (CDARS), are allowable so long as they comply with the requirements under ORS 295.004.

**2. Percentage of Investments, Maximum Maturity, and Credit Ratings by Type.**

Portfolio percentages shall be based on the Market Value of the investments at time of purchase. The maximum portfolio percentages for investments of surplus funds are as follows:

Security	Maximum % of Total Portfolio	Maximum Maturity	Credit Requirements
US Treasury Obligations	Up to 100 %	5 years	-
US Government Agency Issues	Up to 100 % and 33 % per issuer	5 years	-
<u>U.S. Instrumentality Debt</u>	<u>Up to 10% and 3% per issuer</u>	<u>5 years</u>	<u>AAA or A-1+ or equivalent</u>
OSTF/LGIP	Statutory Limit (ORS 294.810)	-	-
Repurchase Agreements	Up to 10 % and 5 % per issuer	90 days	Collateral securing repo and margin requirements
Bankers' Acceptances	Up to 20 % and 10 % per issuer	6 months	A-1/P-1
Medium Term Corporate Notes	Up to 15 to 35% and 5% per issuer Up to 20% and 5% per issuer	5 years	"AA" or equivalent, or "A" or equivalent if the issuer is meets the requirements of ORS 294.035(3)(i)(C)(i)
Commercial Paper		270 days	A-1/P-1
Municipal Debt	Up to 10 % and 10% per issuer	5 years	Oregon: "A" CA, WA, ID: "AA"
Time Deposit Accounts (CDs)	Up to 25 % and 10 % per issuer	2 years	Collateral requirements per ORS Chapter 295
Deposit Accounts	Up to 100%	-	Collateral requirements per ORS Chapter 295

The maximum percent of Callable Securities in the portfolio shall be 25%.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular investment type may be exceeded at a point in time subsequent to the purchase of a specific security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to liquidation of that security when future liquidations are made.

3. **Credit Ratings.** Investments must have a rating from at least one Nationally Recognized Statistical Ratings Organizations, including, but not limited to, Moody's, Standard & Poor's, or Fitch Ratings Service.
  - a. The minimum weighted average credit rating of the portfolio's rated investments shall be "Aa" by Moody's Investors Service; "AA" by Standard & Poor's; and "AA" by Fitch Ratings Service. Credit rating levels apply to the security on the transaction's settlement date.
  - b. 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 and determine whether the security should be held or sold. The Custodial Officer shall apply the general objectives of safety, liquidity, and yield in making such determination. That determination shall be documented in the quarterly report.
4. **Collateralization.** Cash management tools, defined as bank deposits, time deposits, Certificates of Deposit, and savings accounts, shall be held in qualified Oregon depositories which have met Oregon's Collateralization requirements per ORS Chapter 295. The Custodial Officer is responsible for the quarterly review of the State or Oregon's Approved Banking Institution list to ensure that banks in which such deposits and accounts are being held are on the approved list. The State of Oregon must be notified of changes in banking institutions.

## VII. Investment Parameters

1. **Diversification.** Investments shall be diversified by:
  - o Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding government securities).
  - o Limiting investment in securities that have high credit or interest risks.
  - o Investing in securities with varying maturities.
  - o Continuously investing a portion of the portfolio in readily available funds such as the OSTF/LGIP.
2. **Liquidity Requirements and Maturity Limits.** At all times, the City will maintain a minimum amount of funds to meet liquidity needs for the next three months. Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than five years from the date of settlement. The Weighted Average Maturity of the City's portfolio shall at no time exceed 2.5 years.
3. **Bond Covenant Restrictions.** The investment of bond proceeds are restricted under bond covenants and tax laws that may be more limiting than 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. **Bids and Offers.** Each investment transaction shall be competitively transacted with financial institutions or Brokers-Dealers on the approved list. The Custodial Officer shall maintain a transaction record of each investment transaction. Competitive bids or offers should be obtained, when possible, from at least three financial institutions or Brokers-Dealers. In the event competitive bids or offers are not sought, the decision to do so shall be documented by the Custodial Officer. If the Custodial Officer uses an investment



adviser, the investment adviser must retain documentation of competitive pricing execution on each transaction and provide such documentation to the Custodial Officer upon request.

5. **Settlement Restrictions.** Pursuant to ORS 294.145, the Custodial Officer is prohibited from making 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 transaction.
6. **Compliance Maintenance and Monitoring.** Compliance with this Policy shall be maintained and be integral to each investment decision. Compliance status shall be reported to the Finance Committee at least quarterly, as described in Section IX. Out of compliance instances shall be reported to the Custodial Officer in a timely manner. The Custodial Officer shall 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 is achieved.

### VIII. Prohibited Investments

Investment in the following securities is prohibited:

1. Private placement of "144A" securities. "144A" securities include Commercial Paper issued under Section 4(2)144A (also known as "4(2)A" of the Securities Act of 1933).
2. The City shall not lend securities nor directly participate in a securities lending program.
3. Reverse Repurchase Agreements.
4. Mortgage-backed securities.
5. Stock in any joint company, corporation or association.

### IX. Reporting and Performance Standards

1. **Methods.** Except where legally required to hold separate funds, the City will consolidate cash balances from all funds to maximize investment earnings. Net 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.

The Custodial Officer shall review a monthly investment management report that provides an analysis of the status of the current investment portfolio and transactions made over the last month. The report shall be provided to the Custodial Officer within a reasonable time after the previous reporting period end and shall include the following:

- o List of transactions occurring during the reporting period
- o List of individual securities held at the end of the reporting period, including security type, maturity date and call date
- o Percentage of the total portfolio that each type of investment represents
- o Weighted Average Maturity of the portfolio

The Custodial Officer shall provide a quarterly investment report to the Finance Committee, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. The report

shall be provided within a reasonable time after the quarter end and shall include everything contained in the monthly report and the following:

- Status of compliance with this Policy
  - Book yield during the reporting period
  - Market value of portfolio holdings at the end of the reporting period
  - Performance of the portfolio relative to benchmark(s)
2. **Performance Standards.** The investment portfolio shall be managed in accordance with this Policy. The Custodial Officer shall establish an appropriate benchmark or benchmarks for investment parameters that reflects the types and maturities of investment allowed under this Policy. The Custodial Officer shall compare portfolio performance to the benchmark or benchmarks on a quarterly basis. It is anticipated the portfolio should attain a benchmark average rate of return over time. Factors influencing performance deviations shall be described by the Custodial Officer in the quarterly reports to the Finance Committee.

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

1. This Policy may be reviewed by the vote of a majority of the Finance Committee. Changes shall be adopted by the City Council as amendments to this Policy. 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.
2. OSTF Board review shall be requested for any material changes (e.g. changes in investment parameters, portfolio Duration, compliance issues, etc.) to this Policy.

## Appendix I – Glossary

**Bankers Acceptances:** A draft or bill of exchange drawn upon and accepted by a bank. 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 (NRSRO).

**Brokers-Dealers:** A bank or securities Broker-Dealer that is permitted to trade directly with the Federal Reserve System. Such firms are required to make bids or offers when the Federal Reserve System conducts open market operations, provide information to the Federal Reserve System's open market trading desk, and to participate actively in Treasury auctions.

**Bullet Notes/Bonds:** Notes or Bonds that have a single maturity date and are non-callable.

**Callable Securities:** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Certificates of Deposits (CD):** A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC up to \$250,000. The term of a CD generally ranges from one month to five years.

**Certificate of Deposit Account Registry Service (CDARS):** A private service that breaks up large deposits (from individuals, companies, nonprofits, public funds, etc.) and places them across a network of banks and savings associations around the United States. Allows depositors to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

**Collateralization:** Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper:** Short term unsecured promissory note issued by a company or financial institution. Issued at a Discount and matures for Par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Coupon Rate:** Annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

**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.

**Custodial Officer:** The City has designated the ~~Administrative Services Director/Finance Director~~Financial Services Director Administrator as the Custodial Officer for the City's funds.

**Custodial Risk:** Custodial Risk, or Custodial Credit Risk, is the risk of loss associated with the counter-party's (any entity that obtained the investment on a public entity's behalf) failure.

**Discount:** The amount by which the Par Value of a security exceeds the price paid for the security.

**Duration:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. The Duration of a security is a useful indicator of its price volatility for a given change in interest rates.

**Government-Sponsored Enterprise:** A privately owned entity subject to federal regulation and supervision that was created by the U.S. Congress to reduce the cost of capital for certain

borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities typically offer a yield premium over Treasuries. Examples of GSEs include: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal Farm Credit Bank (FFCB), and Federal National Mortgage Association ("FNMA").

**Interest Rate Risk:** The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity Risk:** Liquidity Risk is the risk that an investment may not be easily marketable or redeemable.

**Local Government Investment Pool (LGIP):** The state or Local Government Investment Pool offered to public entities for the investment of public funds.

**Market Value:** Current market price of a security.

**Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Designated NRSROs include, but are not limited to, Standard & Poor's, Fitch, and Moody's.

**Oregon Short-Term Fund (OSTF):** A Local Government Investment Pool organized pursuant to ORS 294.805 through 294.895. Participation in the pool will not exceed the maximum limit annually set by ORS 294.810.

**Par Value:** Face value, stated value or maturity value of a security.

**Repurchase Agreements:** An agreement whereby the Custodial Officer purchases securities from a financial institution or securities dealer subject to an agreement by the seller to repurchase the securities. The Repurchase Agreement must be in writing and executed in advance of the initial purchase of the securities that are the subject of the Repurchase Agreement.

**Secondary Market:** Markets for the purchase and sale of any previously issued financial instrument.

**Treasury Bills (T-Bills):** Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury Bills are sold at a Discount from face value and do not pay interest before maturity.

**Treasury Bonds (T-Bonds):** Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes (T-Notes):** Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury.

**Weighted Average Maturity (WAM):** The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

**Yield to Maturity (YTM at Cost):** The percentage rate of return paid if the security is held to its maturity date at the original time of purchase. The calculation is based on the Coupon Rate, length of time to maturity and original price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Cost on a security remains the same while held as an investment.

**Appendix II: Authorized Finance Staff by Title**

Administrative Services Director / Finance Director

Assistant Finance Director Financial Services Administrator

Chief Accountant

Treasury Supervisor

Accountant II

Appendix III: ~~Approved Brokers-Dealers, Safekeepers, and Financial Institutions~~

**Approved Brokers-Dealers**

~~Bank of America Securities, LLC  
Bank of America N.A.  
Piper Jaffray~~

~~RBC Wealth Management  
Wells Fargo Brokerage Services, LLC~~

~~PFM Asset Management LLC Brokers (First Quarter 2013):~~

<del>* Barclays Capital, Inc.</del>	<del>† Loop Capital Markets-LLC</del>
<del>-BB&amp;T Capital Markets</del>	<del>* Merrill Lynch, Pierce, Fenner &amp; Smith Inc.</del>
<del>* BNP Paribas Securities Corp.</del>	<del>-Mesirow Financial, Inc.</del>
<del>-BNY Capital Markets, LLC</del>	<del>* Mizuho Securities USA, Inc</del>
<del>† Cabrera Capital Markets, LLC</del>	<del>-Morgan Keegan &amp; Co.</del>
<del>* Cantor Fitzgerald &amp; Co.</del>	<del>* Morgan Stanley &amp; Co., Inc.</del>
<del>† CastleOak Securities</del>	<del>† Muriel Siebert &amp; Co., Inc.</del>
<del>* Citigroup Global Markets, Inc.</del>	<del>* Nomura Securities USA, Inc.</del>
<del>† C.L. King &amp; Associates, Inc.</del>	<del>† Siebert Branford Shank &amp; Co., LLC</del>
<del>* Credit Suisse Securities (USA) LLC</del>	<del>* SG Americas Securities, LLC</del>
<del>* Deutsche Bank Securities, Inc.</del>	<del>-Southwest Securities Inc</del>
<del>-Fifth Third Securities, Inc.</del>	<del>* RBC Capital Markets, LLC.</del>
<del>-FTN Financial</del>	<del>* RBS Securities, Inc.</del>
<del>-G.X. Clarke &amp; Co.</del>	<del>-Stifel, Nicolaus &amp; Company, Incorporated</del>
<del>* Goldman, Sachs &amp; Co.</del>	<del>-Susquehanna Financial Group, LP</del>
<del>* HSBC Securities (USA) Inc.</del>	<del>-TD Securities (USA) LLC</del>
<del>* Jefferies &amp; Company, Inc.</del>	<del>† The Williams Capital Group, LP</del>
<del>* J.P. Morgan Securities LLC</del>	<del>* UBS Securities, LLC</del>
<del>-Keybank Capital Markets</del>	<del>-USB Bancorp Investments, Inc.</del>
	<del>-Wells Fargo Securities, LLC</del>

~~\* Primary government Securities Dealer~~

~~† Minority or women-owned business enterprise~~

~~Note: Direct issuers of CP are considered to be approved counterparties if approved as an issuer. This list is current as of the effective date only and is subject to change without notice.~~

**Approved Safekeepers/Custodians/Financial Institutions**

~~Bank of America N.A.  
US Bank N.A.~~

~~Bank of the West  
Wells Fargo N.A.~~

~~This list is subject to change without notice and parties listed may be added or deleted. As of the effective date, approved Financial Institutions that are banks are on the Oregon State Treasury Qualified Depositories for Public Funds list.~~

February 8, 2016  
3.2(b)

**RESOLUTION NO. 2016-6**

A RESOLUTION RESCINDING COUNCIL POLICY NO. C-7, ADOPTED MAY 28, 2013,  
AND ADOPTING A REPLACEMENT POLICY NO. C-7

**Whereas**, the City Council has the authority and responsibility for developing and approving policies specific to the conduct of the City Council's business; and

**Whereas**, on May 28, 2013, the City Council adopted Resolution No. 2013-31 approving Council Policy No. C-7, "Investment Policy and Portfolio Guidelines,"; and

**Whereas**, the City Council finds it necessary and proper to supplant Council Policy No. C-7 by the adoption of a new Council Policy No. C-7, based upon the recommendations of the Salem City Council Finance Committee.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SALEM RESOLVES AS FOLLOWS:

**Section 1.** City Council Policy No. C-7, "Investment Policy and Portfolio Guidelines," adopted on May 28, 2013, via Resolution No. 2013-31 is hereby rescinded and replaced with Council Policy No. C-7, "Investment Policy and Portfolio Guidelines," as set forth in Exhibit 1, which is attached hereto and incorporated herein by this reference.

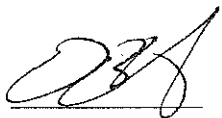
**Section 2.** Notwithstanding the Introduction to the Council Policy Manual, Council Policy No. C-7 shall be binding until rescinded, amended, or supplanted by another applicable policy.

**Section 3.** This resolution is effective upon adoption.

ADOPTED by the City Council this 8th day of February, 2016.

ATTEST:

City Recorder

Approved by City Attorney: 

Checked by: S. Montoya

**COUNCIL POLICY NO. C-7**

**TITLE:** INVESTMENT POLICY AND PORTFOLIO GUIDELINES

**POLICY:** See attached.

**REFERENCE:** City Council Finance Committee Report dated 11/16/15, Agenda Item No. 3a  
(Supplants Amendment adopted 5/28/13 by Resolution No. 2013-31, Finance  
Division Staff Report 5/28/13 (Item 5(a))



**CITY OF SALEM INVESTMENT POLICY  
NOVEMBER 2015**

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## CITY OF SALEM INVESTMENT POLICY AND PORTFOLIO GUIDELINES

The purpose of this Investment Policy (Policy) is to establish investment objectives, provide guidelines, and set forth responsibilities and reporting procedures necessary for the prudent management and investment of the funds of the City of Salem and its component units (the City). Financial terms can be found in **Appendix I –Glossary**.

### I. Scope

This Policy applies to the activities of the City of Salem with regard to the consolidated investment of short-term operating funds, reserves, and capital funds, including bond proceeds and bond reserve funds held by the City. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts, investments of employees' retirement funds, and deferred compensation plans are not covered by this Policy.

### II. Delegation of Authority

The fiduciary responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Financial Services Administrator 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 written procedures and internal controls for the operation of the investment program that are consistent with this Policy. This Policy shall constitute a "written order" from the City Council per ORS 294.035.

The Custodial Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional City Finance personnel listed in **Appendix II** of this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and 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 delegees and other subordinate officials with access to the funds subject to this Policy.

### III. General Objectives

The investment objectives of this Policy and their priority are: (1) safety; (2) liquidity; and (3) 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 shall be to remain compliant with applicable laws and to mitigate Credit Risk, Interest Rate Risk, and Custodial Risk.
  - a. **Legality.** All funds within the scope of this Policy are subject to regulations established by the State of Oregon; specifically ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810.
  - b. **Credit Risk.** The City will minimize the risk of loss by:
    - Limiting exposure to poor credits.
    - 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.
- c. **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 prior to maturity.
  - Investing the City's funds primarily in 0 to 5 year securities and overnight funds.
- d. **Custodial Risk.** The City will minimize Custodial Risk by placing its securities with a third-party custodian, who will hold the securities in the City's name, as evidenced by the safekeeping contract and monthly statements.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by:
- Maintaining appropriate balances in investment vehicles that provide overnight liquidity; and
  - Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands where possible and prudent.
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. 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 trade will improve the quality, yield, or target Duration in the portfolio.
  - Liquidity needs of the portfolio require that the security be sold.

#### IV. Standards of Care; Ethics; Internal Controls

1. **Prudence.** The standard of care to be used by the Custodial Officer and Custodial Officer's designees shall be the "prudent person" standard and shall be applied in the context of managing all aspects of the portfolio.

The "prudent person" standard requires investments to 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 probable return to be derived.

The Custodial Officer (Oregon Revised Statutes 294.004 (2)) and the Custodial Officer's designees acting in accordance with the prudent person standard, this Policy, written policies and procedures 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 these deviations and losses are reported in a timely fashion and actions are taken to control adverse developments in accordance with this Policy.

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 ORS Chapter 244, Salem Revised Code, Chapter 12, and Human Resource Rule Section 8.2 (m).

3. **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 protection" recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by the Custodial Officer. Accordingly, the Custodial Officer shall establish a process for an annual independent review by an external auditor to assure compliance with this Policy and the internal controls established by the Custodial Officer. The internal controls should address the following points:

- o Control of collusion
- o Separation of transaction authority from accounting and record keeping
- o Confirmation of transactions for investments and wire transfers
- o Custodial safekeeping
- o Avoidance of physical delivery of securities whenever possible
- o Address control requirements for physical delivery where necessary
- o Clear delegation of authority to subordinate staff members
- o Development of a wire transfer agreement with the lead bank and third-party custodian and implementation of the appropriate safeguards
- o Compliance and oversight with investment parameters including diversification and maximum maturities
- o Staff training
- o List of approved Brokers-Dealers, safekeeping and financial institutions

#### **V. Authorized Financial Institutions, Brokers-Dealers, Investment Advisers, and Depositories**

1. **Authorized Financial Institutions and Brokers-Dealers.** The Custodial Officer shall maintain a list of financial institutions and brokers/dealers authorized to provide investment services. The list of approved financial institutions and brokers/dealers shall be selected through a process that ensures due diligence in the selection process. Financial institutions and brokers/dealers 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 financial institutions and brokers/dealers on the approved list. Additions or deletions from the list shall be made at the Custodial Officer's discretion.

All financial institutions and Brokers-Dealers who desire to be considered for investment transactions, must supply the following, in writing (electronic delivery is acceptable):

- Audited financial statements
- Proof of Financial Industry Regulatory Authority, Inc (FINRA) registration
- Proof of state licensing

- Completed Broker-Dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City's investment Policy
- Evidence of adequate insurance coverage

An annual review of the financial condition and registration of financial institutions and brokers/dealers on the list shall be conducted by the Custodial Officer.

If the City utilizes an external investment adviser, the adviser is authorized to transact with its own approved Broker-Dealer list on behalf of the City. The adviser will perform all due diligence for the Brokers-Dealers on its approved list. The adviser will annually provide the City their approved Broker-Dealer list so that the Custodial Officer may conduct its own review.

2. **Investment Adviser.** The Custodial Officer may engage the services of an external investment adviser to assist in the management of the City's investment portfolio. All investment transactions executed by the external investment adviser on behalf of the City must consistent with this Policy and be pre-approved in writing by the Custodial Officer.

A list will be maintained of approved external investment advisers selected by the Custodial Officer using a fair selection process. An annual review of all external investment advisers shall be conducted by the Custodial Officer to determine their continued eligibility with the requirements below. All investment advisers shall:

- a. Be registered with the Securities and Exchange Commission (SEC) or licensed by the State of Oregon; (Note: Investment adviser 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. Have certified that all of the representatives of the investment adviser who conduct investment transactions on behalf of this entity have read, understood and agreed to comply with this Policy.

If the City uses an external investment adviser, the adviser is authorized to enter into transactions with its own approved Broker-Dealer list on behalf of the City. The adviser shall perform all due diligence for all brokers/dealers on its approved list. The external investment adviser shall annually provide the City its approved Broker-Dealer list so that the Custodial Officer may conduct his or her own review.

3. **Delivery vs. Payment (DVP).** The Custodial Officer shall not pay for/deliver any securities until the Custodial Officer has received sufficient evidence of title/funding to the securities. Evidence of title must be consistent with modern investment, banking and commercial practices as specified in ORS 294.145 (4) and (5).
4. **Safekeeping.** Securities shall be held by an independent third-party safekeeping institution selected by the Custodial Officer. The Custodial Officer shall maintain a list of safekeeping institutions eligible to conduct business with the City. The safekeeping institution shall, upon request, provide a copy of its most recent report on internal controls – Statement on Standards for Attestation Engagements (SSAE) No. 16.

## VI. Authorized Investments

1. **Investment Types.** The following securities are permitted under this Policy as allowed by ORS 294.035 and 294.810. If additional types of securities become eligible for

investment under Oregon law, investment in such securities shall not be permitted until this Policy has been amended.

- a. **U.S. Treasury and Government Agency Obligations.** Lawfully issued general obligations of the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government and obligations whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government.
- b. **Oregon Short-Term Fund (OSTF)/Local Government Investment Pool (LGIP).** Oregon managed portfolio offered to governmental entities for the investment of public funds.
- c. **Repurchase Agreements.** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date. As provided in ORS 294.035(3)(j), only U.S. treasury obligations and government agency issues described in paragraph (a) of this subsection that are 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 may be used in conjunction with a Repurchase Agreement.
- d. **Bankers' Acceptances.** A draft or bill of exchange drawn upon and accepted by a bank. Used as a short-term credit instrument, Bankers' Acceptances are traded at a Discount from face value as a money market instrument on the basis of the credit quality of the guaranteeing bank. Bankers acceptances must be: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) 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.
- e. **Corporate Indebtedness.** Commercial Paper and Medium Term Corporate Notes subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Corporate indebtedness described in this paragraph does not include bankers acceptances. The corporate indebtedness must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution, including a holding company owning a majority interest in a qualified financial institution.
- g. **Municipal Debt.**
  - i. Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term 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.
  - ii. Lawfully issued debt obligations of the States of California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating of AA 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.
- h. **Time Deposit Accounts, Certificates of Deposit, and Deposit Accounts.**
  - i. Deposits in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the insured institution or credit union maintains a head office or a branch in Oregon.

- ii. Certificates of Deposit placed through deposit placement services, such as the Certificate of Deposit Account Registry Service (CDARS), are allowable so long as they comply with the requirements under ORS 295.004.

**2. Percentage of Investments, Maximum Maturity, and Credit Ratings by Type.**

Portfolio percentages shall be based on the Market Value of the investments at time of purchase. The maximum portfolio percentages for investments of surplus funds are as follows:

Security	Maximum % of Total Portfolio	Maximum Maturity	Credit Requirements
US Treasury Obligations	Up to 100 %	5 years	-
US Government Agency Issues	Up to 100 % and 33 % per issuer	5 years	-
U.S. Instrumentality Debt	Up to 10% and 3% per issuer	5 years	AAA or A-1+ or equivalent
OSTF/LGIP	Statutory Limit (ORS 294.810)	-	-
Repurchase Agreements	Up to 10 % and 5 % per issuer	90 days	Collateral securing repo and margin requirements
Bankers' Acceptances	Up to 20 % and 10 % per issuer	6 months	A-1/P-1
Medium Term Corporate Notes	Up to 35% and 5% per issuer	5 years	"AA" or equivalent, or "A" or equivalent if the issuer is meets the requirements of ORS 294.035(3)(f)(C)(i)
Commercial Paper		270 days	A-1/P-1
Municipal Debt	Up to 10 % and 10% per issuer	5 years	Oregon: "A" CA, WA, ID: "AA"
Time Deposit Accounts (CDs)	Up to 25 % and 10 % per issuer	2 years	Collateral requirements per ORS Chapter 295
Deposit Accounts	Up to 100%	-	Collateral requirements per ORS Chapter 295

The maximum percent of Callable Securities in the portfolio shall be 25%.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular investment type may be exceeded at a point in time subsequent to the purchase of a specific security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to liquidation of that security when future liquidations are made.

- 3. Credit Ratings.** Investments must have a rating from at least one Nationally Recognized Statistical Ratings Organizations, including, but not limited to, Moody's, Standard & Poor's, or Fitch Ratings Service.

- a. The minimum weighted average credit rating of the portfolio's rated investments shall be "Aa" by Moody's Investors Service; "AA" by Standard & Poor's; and "AA" by Fitch Ratings Service. Credit rating levels apply to the security on the transaction's settlement date.
  - b. 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 and determine whether the security should be held or sold. The Custodial Officer shall apply the general objectives of safety, liquidity, and yield in making such determination. That determination shall be documented in the quarterly report.
4. **Collateralization.** Cash management tools, defined as bank deposits, time deposits, Certificates of Deposit, and savings accounts, shall be held in qualified Oregon depositories which have met Oregon's Collateralization requirements per ORS Chapter 295. The Custodial Officer is responsible for the quarterly review of the State or Oregon's Approved Banking Institution list to ensure that banks in which such deposits and accounts are being held are on the approved list. The State of Oregon must be notified of changes in banking institutions.

## VII. Investment Parameters

1. **Diversification.** Investments shall be diversified by:
  - o Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding government securities).
  - o Limiting investment in securities that have high credit or interest risks.
  - o Investing in securities with varying maturities.
  - o Continuously investing a portion of the portfolio in readily available funds such as the OSTF/LGIP.
2. **Liquidity Requirements and Maturity Limits.** At all times, the City will maintain a minimum amount of funds to meet liquidity needs for the next three months. Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than five years from the date of settlement. The Weighted Average Maturity of the City's portfolio shall at no time exceed 2.5 years.
3. **Bond Covenant Restrictions.** The investment of bond proceeds are restricted under bond covenants and tax laws that may be more limiting than 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. **Bids and Offers.** Each investment transaction shall be competitively transacted with financial institutions or Brokers-Dealers on the approved list. The Custodial Officer shall maintain a transaction record of each investment transaction. Competitive bids or offers should be obtained, when possible, from at least three financial institutions or Brokers-Dealers. In the event competitive bids or offers are not sought, the decision to do so shall be documented by the Custodial Officer. If the Custodial Officer uses an investment adviser, the investment adviser must retain documentation of competitive pricing execution on each transaction and provide such documentation to the Custodial Officer upon request.
5. **Settlement Restrictions.** Pursuant to ORS 294.145, the Custodial Officer is prohibited from making 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 transaction.



6. **Compliance Maintenance and Monitoring.** Compliance with this Policy shall be maintained and be integral to each investment decision. Compliance status shall be reported to the Finance Committee at least quarterly, as described in Section IX. Out of compliance instances shall be reported to the Custodial Officer in a timely manner. The Custodial Officer shall 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 is achieved.

### VIII. Prohibited Investments

Investment in the following securities is prohibited:

1. Private placement of "144A" securities. "144A" securities include Commercial Paper issued under Section 4(2)144A (also known as "4(2)A" of the Securities Act of 1933).
2. The City shall not lend securities nor directly participate in a securities lending program.
3. Reverse Repurchase Agreements.
4. Mortgage-backed securities.
5. Stock in any joint company, corporation or association.

### IX. Reporting and Performance Standards

1. **Methods.** Except where legally required to hold separate funds, the City will consolidate cash balances from all funds to maximize investment earnings. Net 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.

The Custodial Officer shall review a monthly investment management report that provides an analysis of the status of the current investment portfolio and transactions made over the last month. The report shall be provided to the Custodial Officer within a reasonable time after the previous reporting period end and shall include the following:

- o List of transactions occurring during the reporting period
- o List of individual securities held at the end of the reporting period, including security type, maturity date and call date
- o Percentage of the total portfolio that each type of investment represents
- o Weighted Average Maturity of the portfolio

The Custodial Officer shall provide a quarterly investment report to the Finance Committee, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. The report shall be provided within a reasonable time after the quarter end and shall include everything contained in the monthly report and the following:

- o Status of compliance with this Policy
- o Book yield during the reporting period
- o Market value of portfolio holdings at the end of the reporting period
- o Performance of the portfolio relative to benchmark(s)

2. **Performance Standards.** The investment portfolio shall be managed in accordance with this Policy. The Custodial Officer shall establish an appropriate benchmark or

benchmarks for investment parameters that reflects the types and maturities of investment allowed under this Policy. The Custodial Officer shall compare portfolio performance to the benchmark or benchmarks on a quarterly basis. It is anticipated the portfolio should attain a benchmark average rate of return over time. Factors influencing performance deviations shall be described by the Custodial Officer in the quarterly reports to the Finance Committee.

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

1. This Policy may be reviewed by the vote of a majority of the Finance Committee. Changes shall be adopted by the City Council as amendments to this Policy. 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.
2. OSTF Board review shall be requested for any material changes (e.g. changes in investment parameters, portfolio Duration, compliance issues, etc.) to this Policy.

## Appendix I – Glossary

**Bankers Acceptances:** A draft or bill of exchange drawn upon and accepted by a bank. 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 (NRSRO).

**Brokers-Dealers:** A bank or securities Broker-Dealer that is permitted to trade directly with the Federal Reserve System. Such firms are required to make bids or offers when the Federal Reserve System conducts open market operations, provide information to the Federal Reserve System's open market trading desk, and to participate actively in Treasury auctions.

**Bullet Notes/Bonds:** Notes or Bonds that have a single maturity date and are non-callable.

**Callable Securities:** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Certificates of Deposits (CD):** A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC up to \$250,000. The term of a CD generally ranges from one month to five years.

**Certificate of Deposit Account Registry Service (CDARS):** A private service that breaks up large deposits (from individuals, companies, nonprofits, public funds, etc.) and places them across a network of banks and savings associations around the United States. Allows depositors to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

**Collateralization:** Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper:** Short term unsecured promissory note issued by a company or financial institution. Issued at a Discount and matures for Par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Coupon Rate:** Annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

**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.

**Custodial Officer:** The City has designated the Financial Services Director as the Custodial Officer for the City's funds.

**Custodial Risk:** Custodial Risk, or Custodial Credit Risk, is the risk of loss associated with the counter-party's (any entity that obtained the investment on a public entity's behalf) failure.

**Discount:** The amount by which the Par Value of a security exceeds the price paid for the security.

**Duration:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. The Duration of a security is a useful indicator of its price volatility for a given change in interest rates.

**Government-Sponsored Enterprise:** A privately owned entity subject to federal regulation and supervision that was created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the

implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities typically offer a yield premium over Treasuries. Examples of GSEs include: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal Farm Credit Bank (FFCB), and Federal National Mortgage Association ("FNMA").

**Interest Rate Risk:** The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity Risk:** Liquidity Risk is the risk that an investment may not be easily marketable or redeemable.

**Local Government Investment Pool (LGIP):** The state or Local Government Investment Pool offered to public entities for the investment of public funds.

**Market Value:** Current market price of a security.

**Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Designated NRSROs include, but are not limited to, Standard & Poor's, Fitch, and Moody's.

**Oregon Short-Term Fund (OSTF):** A Local Government Investment Pool organized pursuant to ORS 294.805 through 294.895. Participation in the pool will not exceed the maximum limit annually set by ORS 294.810.

**Par Value:** Face value, stated value or maturity value of a security.

**Repurchase Agreements:** An agreement whereby the Custodial Officer purchases securities from a financial institution or securities dealer subject to an agreement by the seller to repurchase the securities. The Repurchase Agreement must be in writing and executed in advance of the initial purchase of the securities that are the subject of the Repurchase Agreement.

**Secondary Market:** Markets for the purchase and sale of any previously issued financial instrument.

**Treasury Bills (T-Bills):** Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury Bills are sold at a Discount from face value and do not pay interest before maturity.

**Treasury Bonds (T-Bonds):** Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes (T-Notes):** Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury.

**Weighted Average Maturity (WAM):** The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

**Yield to Maturity (YTM at Cost):** The percentage rate of return paid if the security is held to its maturity date at the original time of purchase. The calculation is based on the Coupon Rate, length of time to maturity and original price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Cost on a security remains the same while held as an investment.

**Appendix II: Authorized Finance Staff by Title**

Financial Services Administrator

Chief Accountant

Treasury Superv

# City of Salem, Oregon



## Five-Year Capital Improvement Plan

FY 2019 – FY 2023 / Preliminary

Preparing for the Future

## Purpose of a Capital Improvement Plan (CIP)

- Five-year financial planning tool
- Multi-year timeframe
- Governed by Council policy C-9 and ORS 223.309

## Ways CIP Projects Are Identified

- Assessment of current infrastructure
- Resident involvement
- Strategic plan / policy agenda
- Comprehensive and Master Plan processes
- Urban Renewal Agency action plans



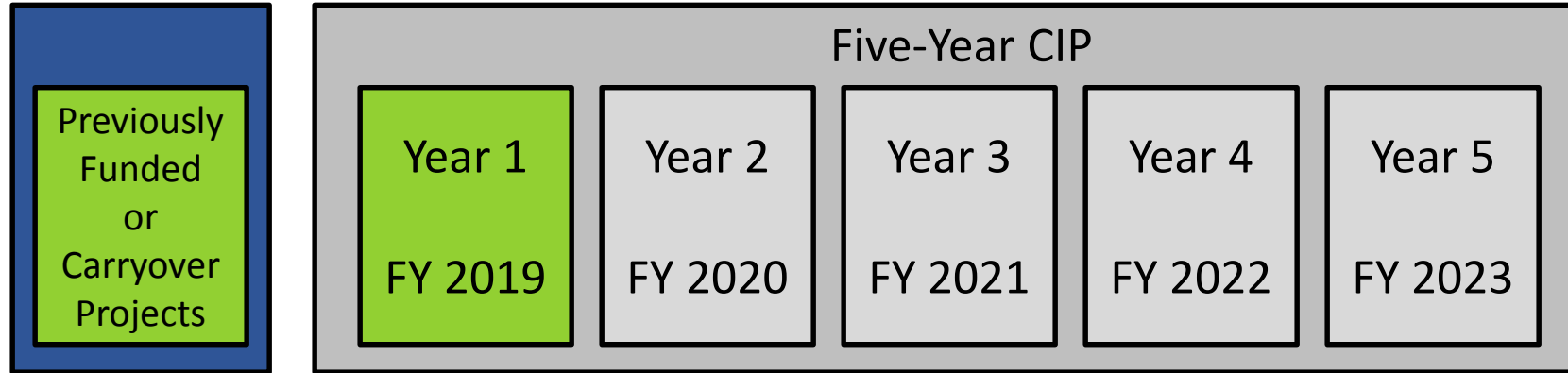


**CIP Includes:**

- Identified funding
- \$50K or more
- New funding

**Budget Includes:**

- Carryover projects and mid-year adoptions
- Reappropriations
- All projects (no \$50k limit)
- Administrative costs



Recommended FY 2019  
Budget

Adopted FY 2019  
Budget

**CIP Includes:**

- Identified funding
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- New funding

**Budget Includes:**

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Recommended FY 2019  
Budget

Adopted FY 2019  
Budget

**CIP Includes:**

- Identified funding
- \$50K or more
- New funding

**Budget Includes:**

- Carryover projects and mid-year adoptions
- Reappropriations
- All projects (no \$50k limit)
- Administrative costs

## CIP Project Details

Project Number:	0000177	Score:	56.5
Category:	Wastewater	Ward:	All
Neighborhood:	Citywide		

**Title: Willow Lake WPCF - Cogeneration Facility Upgrade**

Funding Source	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
Oregon Energy Trust	3,025,000	-	-	-	-	3,025,000
Portland General Electric	3,000,000	-	-	-	-	3,000,000
Utility Rates	1,445,000	755,000	-	-	-	2,200,000

Current CIP Total: \$ 7,470,000 \$ 755,000 \$ - \$ - \$ - \$ 8,225,000

Amount Funded in Prior Years: 1,414,286

Total Estimated Project Cost: \$ 9,639,286

Final design and construction of the proposed upgrade for cogeneration of power using methane gas generated from the City's wastewater treatment process. The design and construction of this project will be funded in part by grant funding from Energy Trust of Oregon, PGE Renewable Energy Funds, and possibly other sources based on the potential energy savings that may be realized from this project.

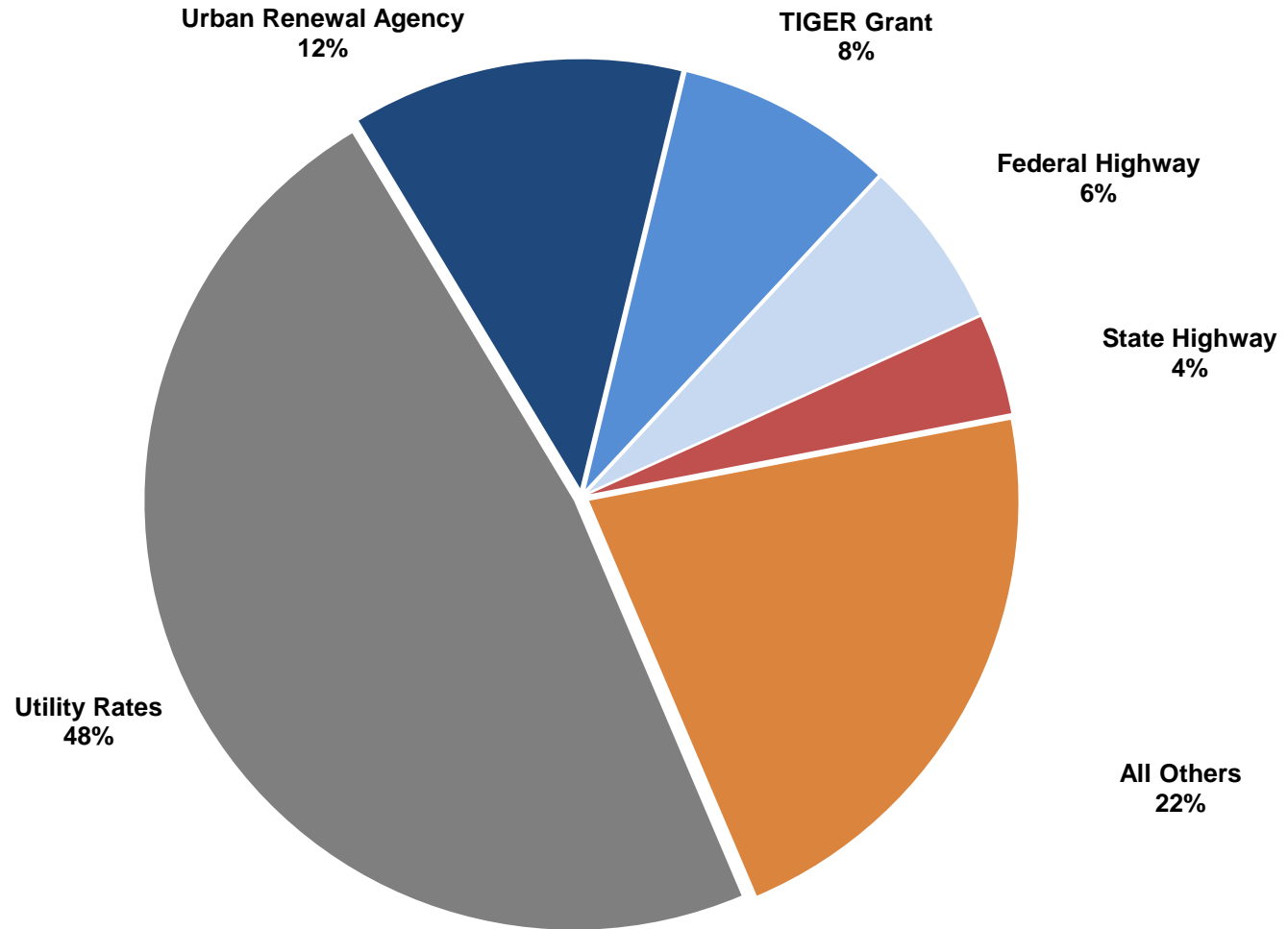
## Scoring Criteria

- Asset criticality and condition
- Council goals and adopted plans
- Economic / tourism development
- Level of service
- Leverages outside funding
- Operation and maintenance effectiveness / efficiency
- Public interest
- Safety / regulatory mandates
- Relationship to other projects / coordination
- Social / geographic equity

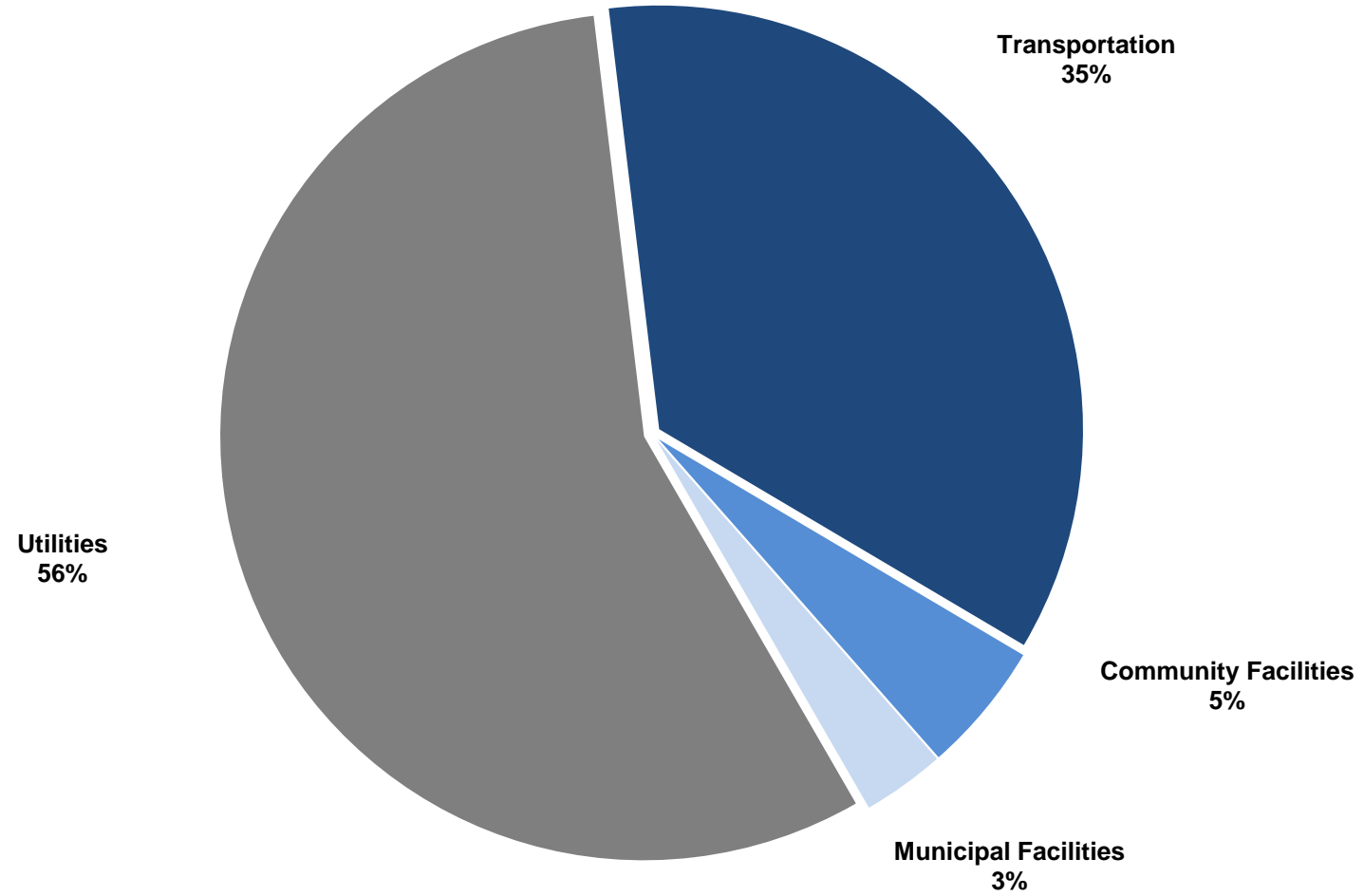
## **FY 2019 through FY 2023 CIP Highlights**

- \$185,499,230 over the five years
- 157 individual CIP projects
- 21 separate funding sources
- 11 separate categories of infrastructure

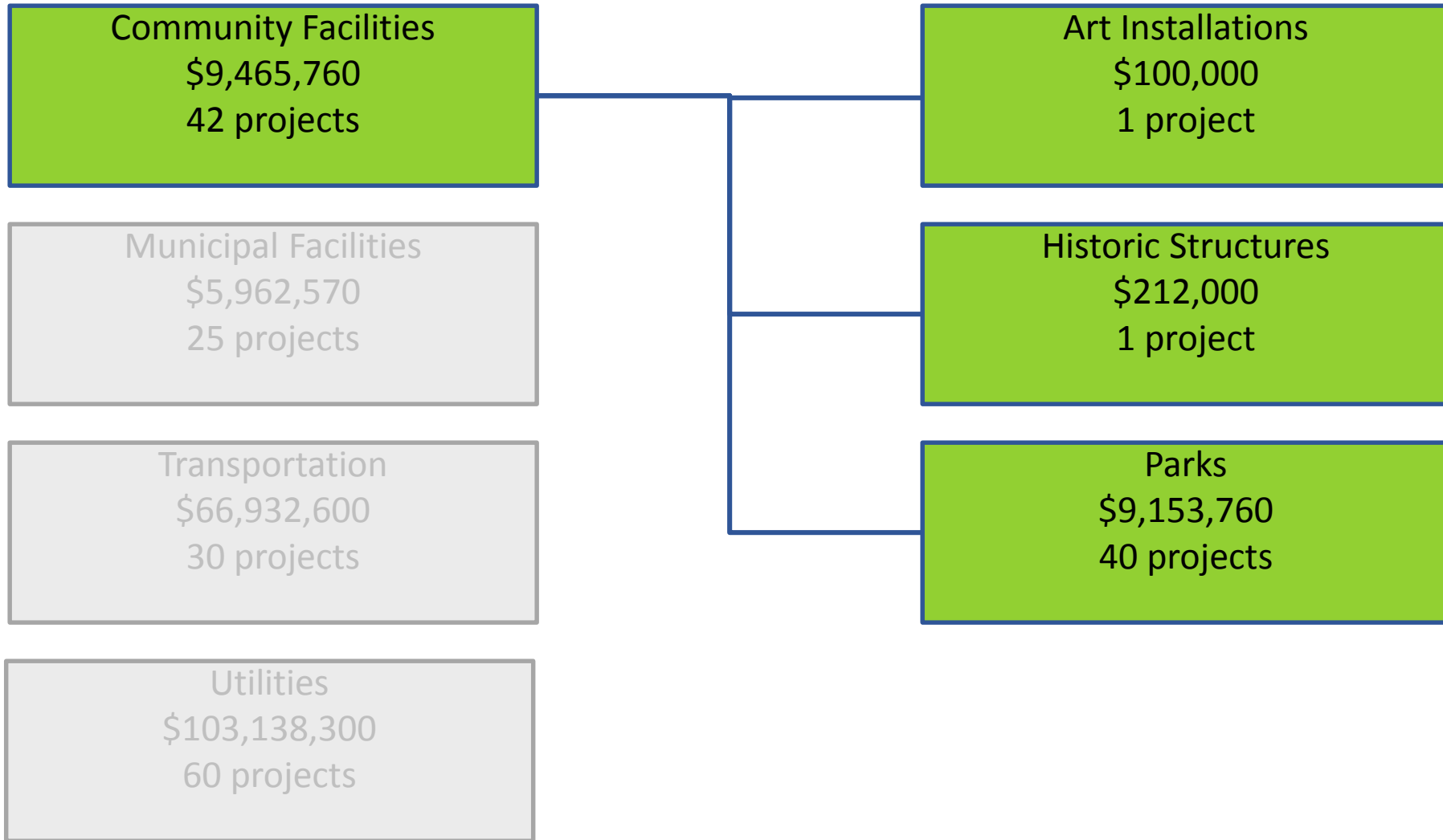
## CIP Projects by Funding Source

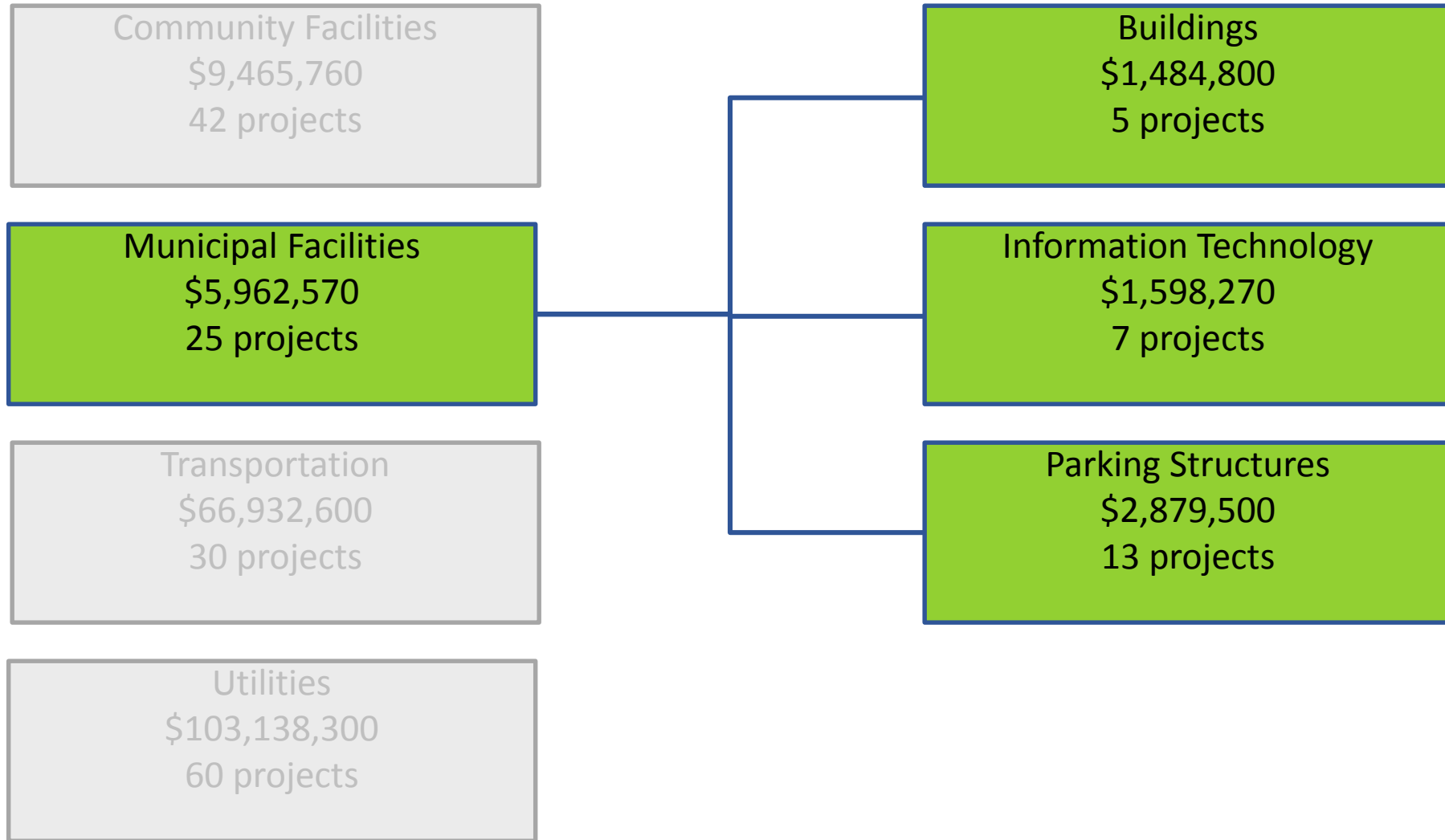


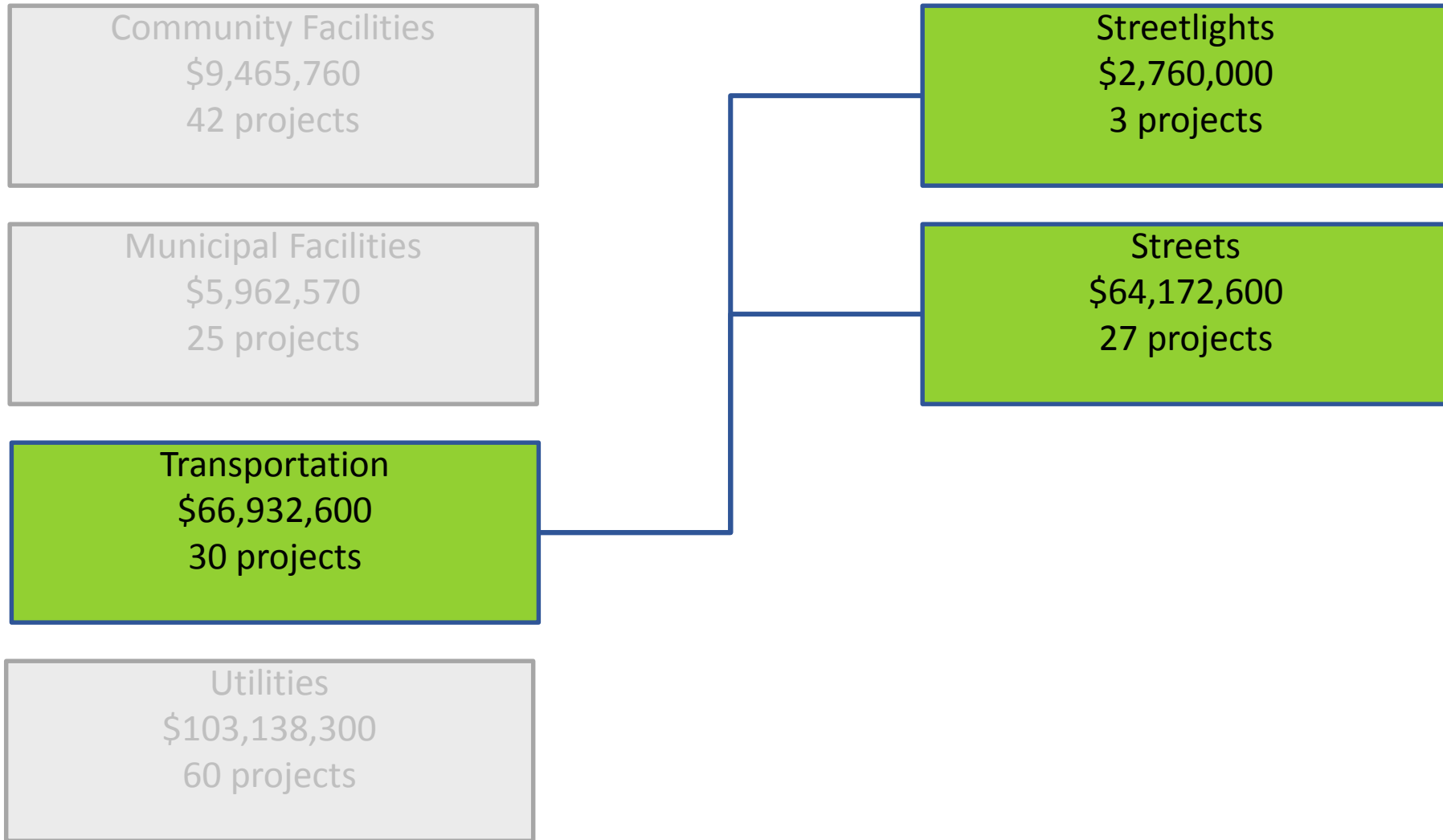
## CIP Projects by Group

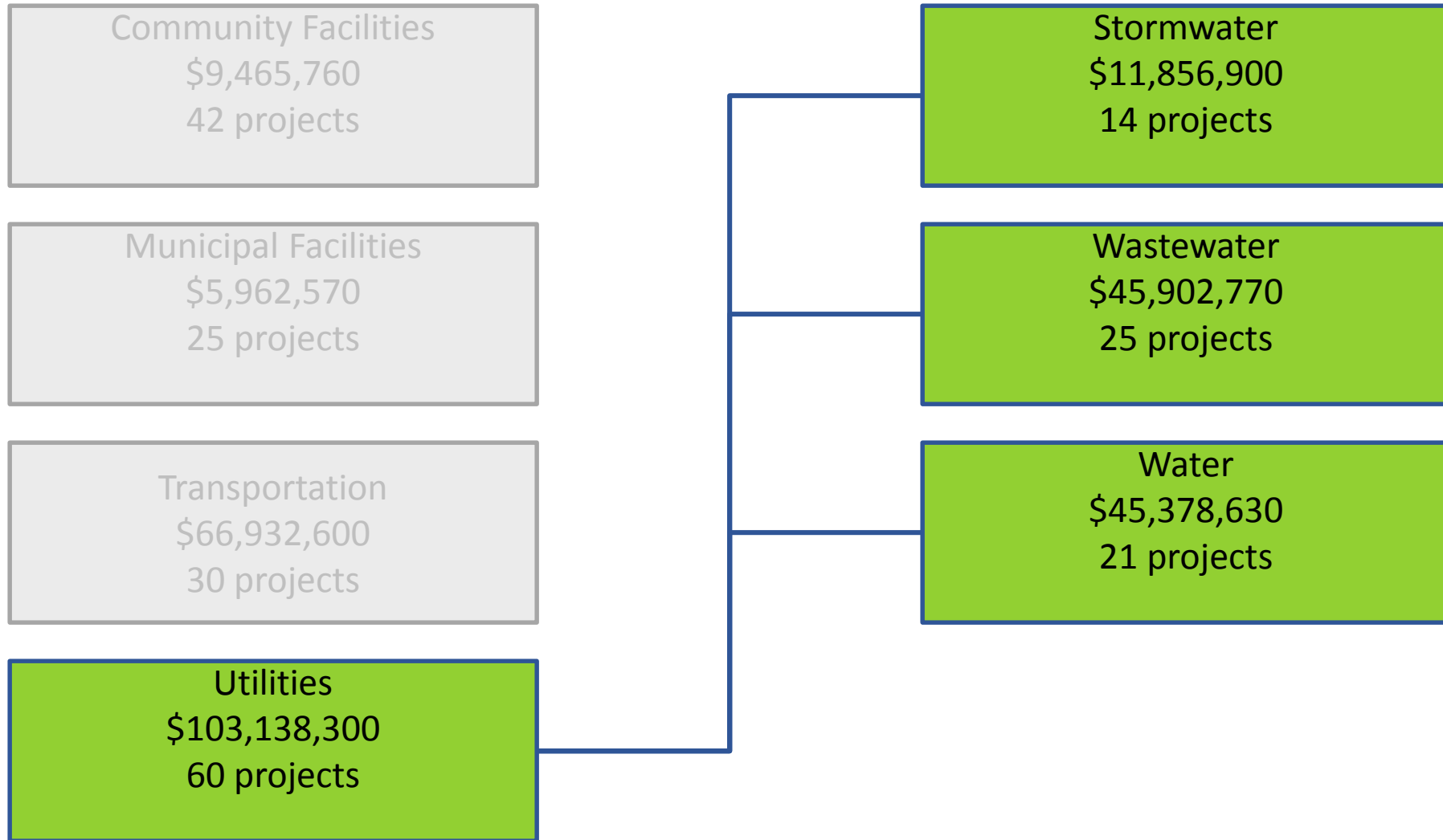














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## Capital Improvement Plan

The Capital Improvement Plan (CIP) is a five-year forecast which identifies major (capital) projects requiring the use of public funds over and above routine annual operating expenses.

A capital project creates, improves, replaces, repairs, or permanently adds to City assets including: land, site improvements, parks, buildings, streets, bike paths, bridges, utility improvements, major equipment, computer hardware, and communication systems purchases.

### Policy

The CIP is governed by [Council Policy C-9](#).

Policy C-9 supports the following goals:


- Create a transparent CIP process
- Establish a risk-based priority list
- Match the priority list to limited resources in a thoughtful and responsible matter
- Establish an internal CIP review committee to oversee the process


### Process


The City holds a public hearing each year to consider adoption of the proposed CIP. Staff provides notice to the community and all neighborhood associations, and provides a presentation designed to educate both the City Council and the public about capital planning and the anticipated projects at the public meeting. The City Council votes to either adopt the CIP as presented or make any changes to the proposed CIP deemed appropriate. Staff completes the annual cycle by publishing the CIP as adopted by the City Council.

You can participate in the capital planning process by reviewing the proposed CIP, providing testimony at the public hearing, and alerting staff to new issues that may require a capital project.

### Contact us

 Budget Office

 Monday–Friday  
8:00 a.m.–5:00 p.m.

 555 Liberty ST SE RM 230  
Salem OR 97301

 Email: [budgetoffice@cityofsalem.net](mailto:budgetoffice@cityofsalem.net)

 Phone: [503-588-6231](tel:503-588-6231)



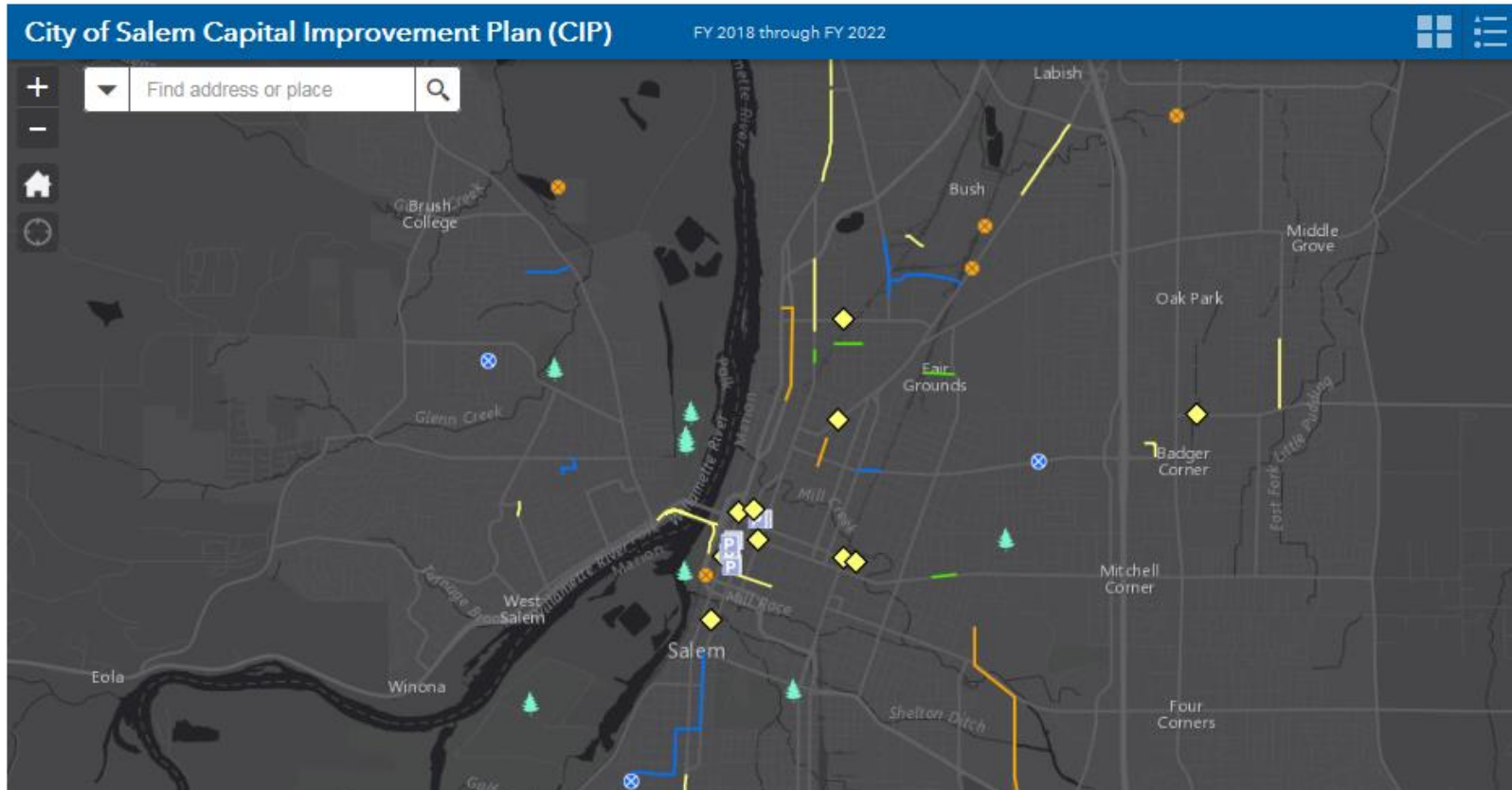
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## Capital Improvement Project Map

Capital Improvement Projects are prioritized based on the assessment of need and available funding.



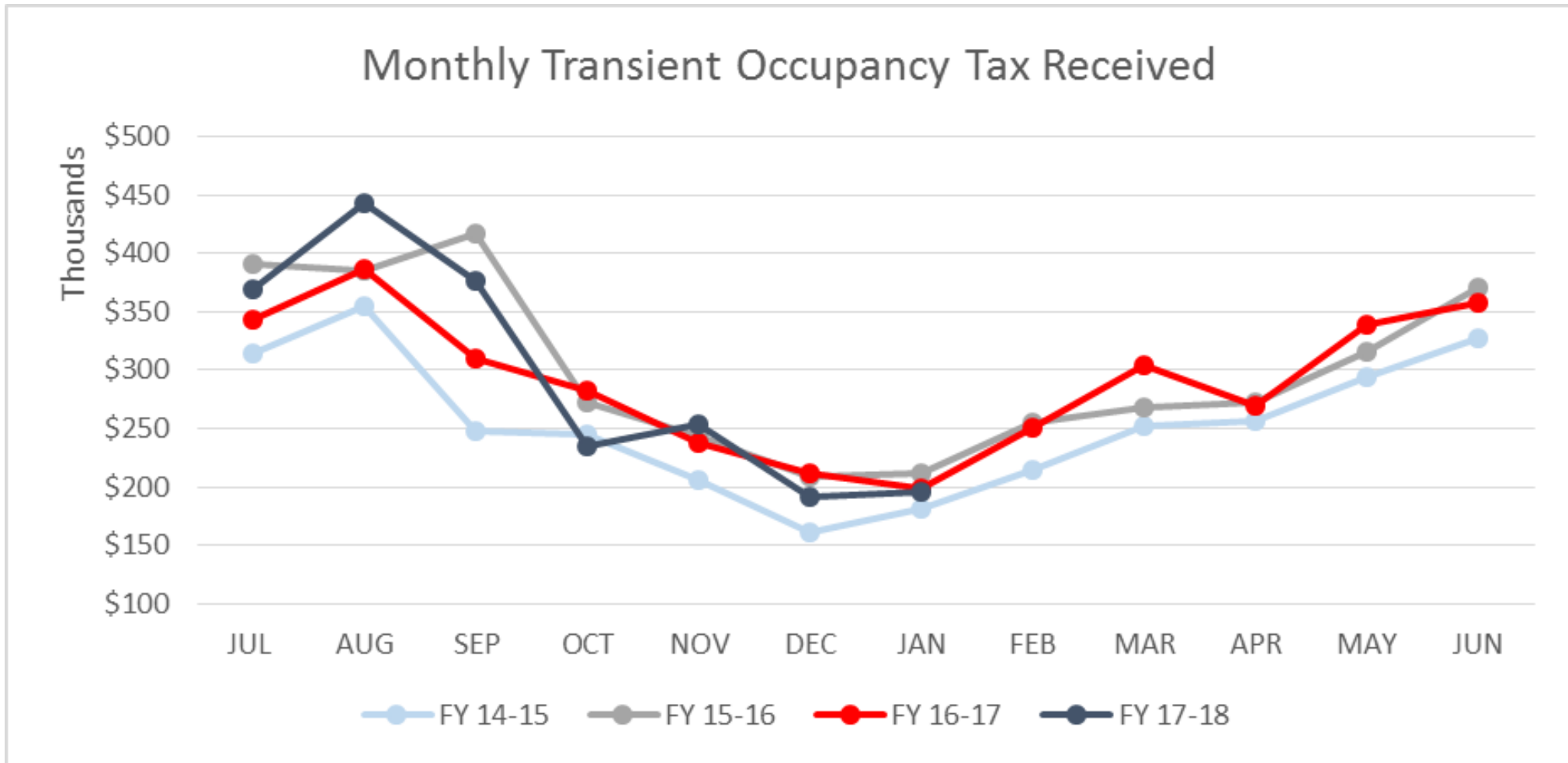
Questions?

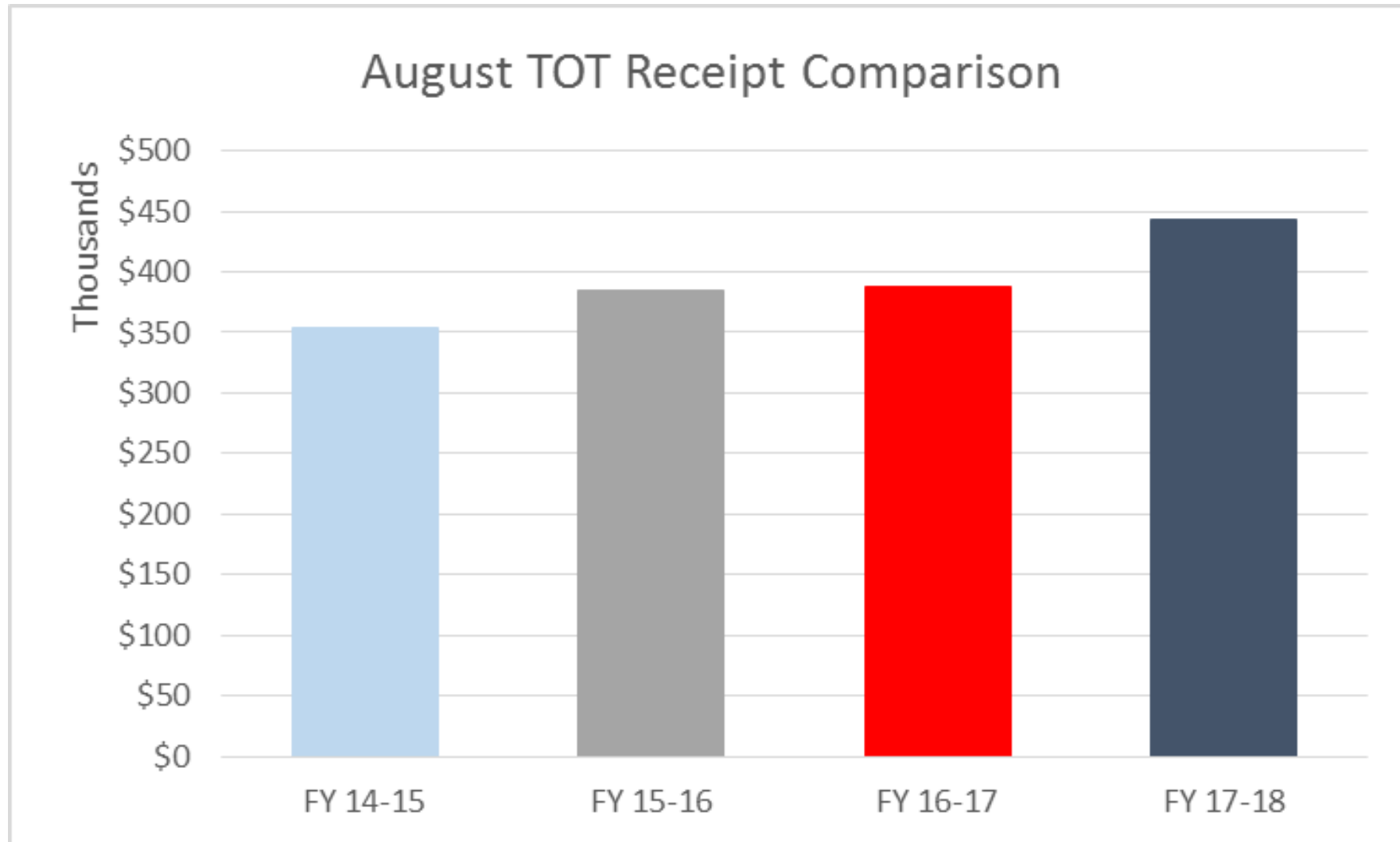
# City of Salem Finance Committee

Transient Occupancy Tax Update

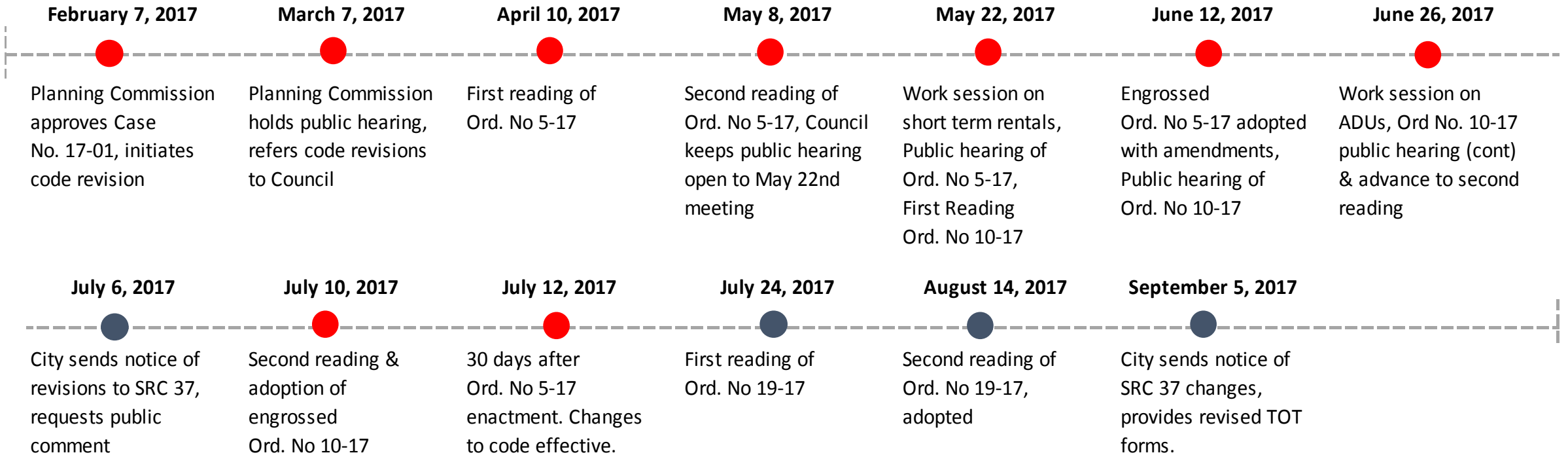
March 19, 2018







# Short Term Rentals Timeline



- Code Compliance changes
- Finance / TOT changes

**Salem Revised Code (SRC):**

- 30** - Licenses
- 37** - Transient Occupancy Tax
- 700** - Special Use Provisions
- 806** - Off-Street Parking, Loading and Driveways

**Ordinances:**

- 5-17** Amends SRC to establish standards and licensing for short term rentals in specified zones.
- 10-17** Amends SRC to allow and establish standards for accessory dwelling units in specified zones.
- 19-17** Amends SRC relating to transient occupancy tax.

# Revisions to SRC Chapter 37

## Original Language

(c) "Operator" means the person who is proprietor of the hotel in any capacity. Where the operator functions through a managing agent of any type or character other than an employee, the managing agent shall also be deemed an operator for the purposes of this ordinance and shall have the same duties and liabilities as the operator. Compliance with the provisions of this ordinance by either the operator or the managing agent shall be considered to be compliance by both.

## Added Definitions

- Booking Agent
- Hosting Platform
- Transient lodging or transient lodging facility

## Revised Language

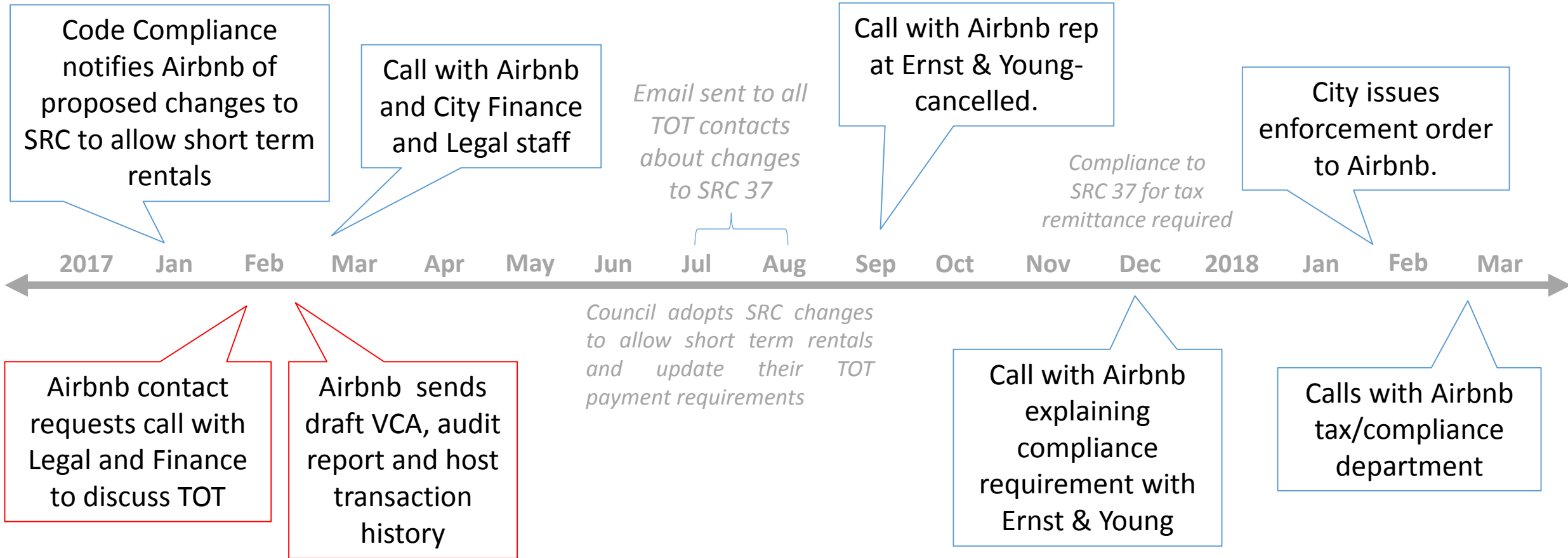
*Operator* means:

- (1) Any person who is a proprietor of transient lodging in any capacity;
- (2) Any person who provides transient lodging for occupancy to the public for compensation. The provision of transient lodging can be done through employees, contractors, agents, or any other person allowed to process reservations and accept payment for the transient lodging on behalf of the transient lodging provider;
- (3) Any person who facilitates the reservation of transient lodging and collects payment for the transient lodging reservation;
- (4) A host as defined in this chapter;
- (5) A hosting platform as defined in this chapter;
- (6) A booking agent as defined in this chapter; or
- (7) A transient lodging intermediary as defined in ORS 320.300.

# HB 4120

- Clarifies and changes the definition of *intermediary* to clearly cover short-term rental online platforms
- Establishes joint responsibility of providers and intermediaries to collect and report Transient Lodging Taxes, and liability for tax delinquency
- Aligns definition of base price for local tax with state definition
- Airbnb requested a delayed effective date of one year to allow time for computer programming- committee rejected the request
- The bill takes effect on July 1, 2018

# Correspondence with Airbnb



# Airbnb's Voluntary Collection Agreement

- February 2017 - Airbnb provided example copies of their VCA, audit reports and transaction history to the City
- City not willing to sign agreement due to concerns with the terms
- Finance, with the assistance of Legal, have been in active discussions with Airbnb to bring them into compliance with City Code.
- March 16th, 2018 – Finalized agreement for Airbnb to begin collecting and remitting TOT on bookings effective April 1st



# City of Salem

## Quarterly Investment Report

Quarter Ended December 31, 2017

Lauren Brant, Managing Director

Allison Kaune, Senior Managing Consultant

Colin Donahue, Senior Analyst

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PFM Asset  
Management LLC

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650 NE Holladay St.  
Ste. 1600  
Portland, OR 97232

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503-837-8445  
503-837-8446 fax  
[www.pfm.com](http://www.pfm.com)





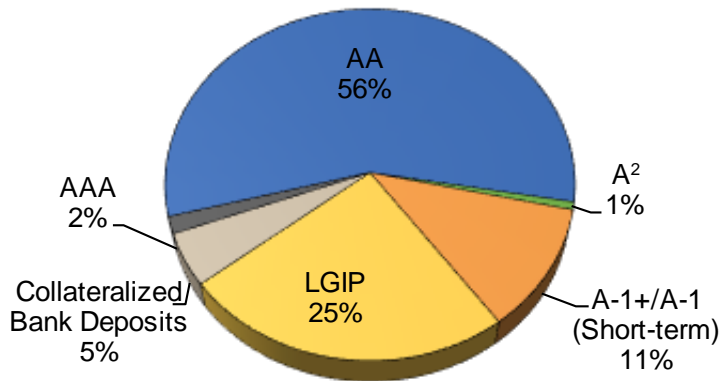
## City of Salem

Summary by Sector	Amortized Cost	Market <sup>1</sup> Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	\$97,357,023	\$96,970,474	27%	100%
Federal Agencies	84,083,351	83,178,143	23%	100%
U.S. Instrumentalities	2,727,466	2,693,256	1%	10%
Commercial Paper	38,098,157	38,071,519	11%	35%
Corporate Notes	28,472,682	28,289,690	8%	
LGIP	87,414,091	87,414,091	25%	ORS limit
Collateralized Deposit Accounts	17,277,429	17,277,429	5%	100%
<b>Total</b>	<b>\$355,430,199</b>	<b>\$353,894,603</b>	<b>100%</b>	

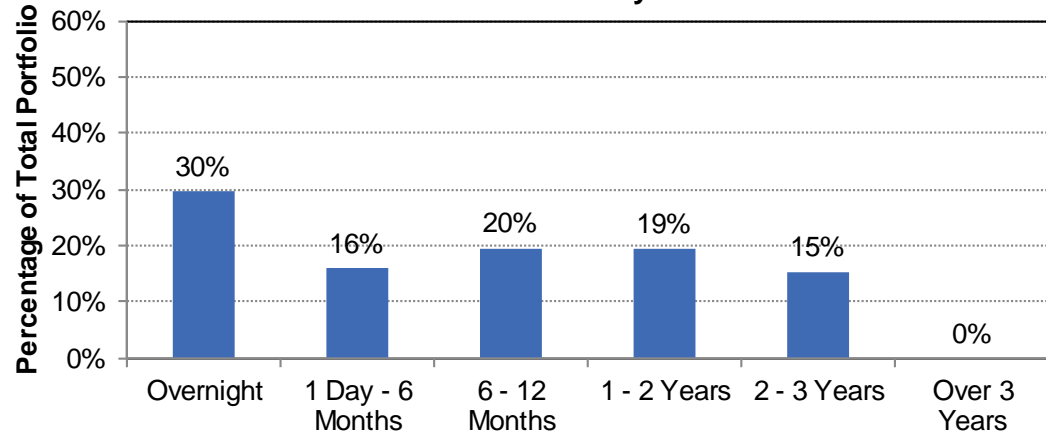
Combined Portfolio Statistics	
Combined Portfolio Yield on Cost (12/31/17)	1.40%
Weighted Average Maturity (12/31/17)	0.85 years

Combined Portfolio Earnings (excludes earnings on LGIP and deposit accounts)	
Cash Basis Earnings for Quarter	\$560,464
Accrual Basis Earnings for Quarter	\$698,171

Credit Quality Distribution



Combined Portfolio Maturity Distribution<sup>3</sup>



1. Values as of December 31, 2017 including accrued interest. Market value includes the Long Term, Short-Term, Streets & Bridges, and Police Facility Portfolios.
2. Ratings by Standard & Poor's (S&P). Securities rated A by S&P are rated AA- or the equivalent or better by at least one nationally recognized statistical rating organization and in compliance with the City's investment policy and Oregon Revised Statutes.
3. Callable securities are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.



## Interest Rate Environment

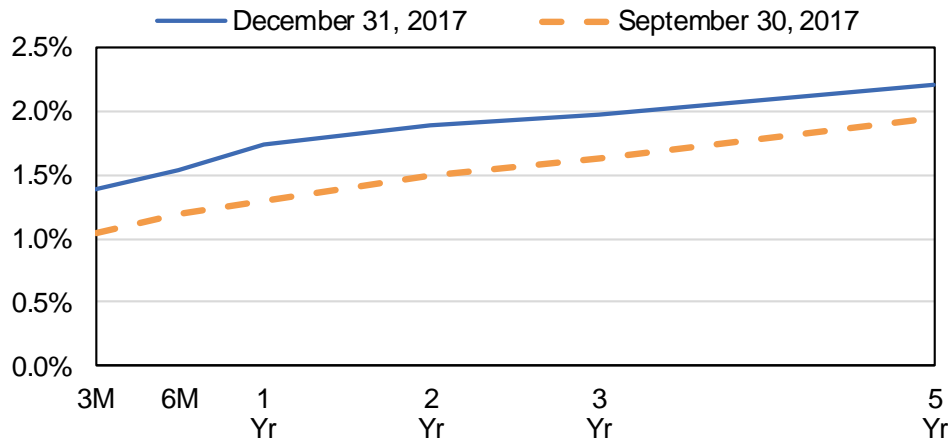
### Graph 1: 2-Year Treasury Yield



● **Graph 1:** Graph 1 plots the 2-year U.S. Treasury Yield from December 31, 2016, to December 31, 2017.

- The 2-year Treasury note yield ended the most recent quarter at 1.89%, moving 40 basis points (0.40%) higher over the quarter.
- Yields increased in anticipation of and in response to another rate hike by the Federal Reserve and the passage of the largest overhaul of the U.S. tax system in more than 30 years.

### Graph 2: U.S. Treasury Yield Curves 9/30/17 vs 12/31/17



● **Graph 2:** Graph 2 plots the yields of U.S. Treasuries at different maturities on September 30, 2017 and December 31, 2017.

- Short-term yields (three years and under) moved notably higher over the quarter in response to the Federal Reserve's December rate hike and the expectation of further rate hikes in 2018.
- Longer-term yields remained depressed as expectations of future growth and inflation prospects have remained muted.

Source: Bloomberg



## City of Salem

### Combined Portfolio Summary<sup>1</sup>

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
<b>Market Value (MV)</b>	<b>\$353,894,603</b>	\$290,074,561	\$231,755,023	\$274,416,157
<b>Amortized Cost</b>	<b>\$355,430,199</b>	\$290,771,327	\$232,312,932	\$274,948,149

Quarterly Summary	Quarter Ending December 31, 2017
<b>Beginning MV</b>	\$290,074,561
<b>Change in Cash</b>	\$64,517,103
<b>Change in MV</b>	(\$697,062)
<b>Ending MV</b>	<b>\$353,894,603</b>

### PORTFOLIO RECAP

- The portfolio is in compliance with applicable state statutes and the City's Investment Policy C-7.
- The portfolio has sufficient liquidity to cover upcoming needs, is diversified among high-quality fixed income sectors, and is of high credit quality.
- Bolstered by positive economic data in the U.S., increases in the stock market, and optimism over the future path of rate hikes by the Federal Reserve, short- and intermediate-term U.S. Treasury yields increased significantly. Rising interest rates resulted in negative total returns for many fixed-income sectors; however, on a positive note, reinvestment opportunities became more attractive.
- Federal agency yield spreads remained very narrow relative to similar-maturity Treasuries throughout the quarter. PFM generally favored U.S. Treasuries for government security allocations.
- Short-term commercial paper (CP) continued to provide attractive incremental yield benefits relative to comparable Treasuries.
- For the quarter ended December 31, 2017, the City's Long-Term portfolio and its benchmark, the Bank of America/Merrill Lynch 1-3 Year Treasury index, had negative total return performance, as unrealized market value losses overwhelmed realized earnings. However, the portfolio had strong relative performance, outperforming its benchmark by 0.15%; a significant margin. Outperformance is the result of the portfolio's diversification and PFM's active management.

<sup>1</sup> Values as of quarter end, including accrued interest. Values include Long-Term, Short-Term, Streets & Bridges, and Police Facility portfolios.

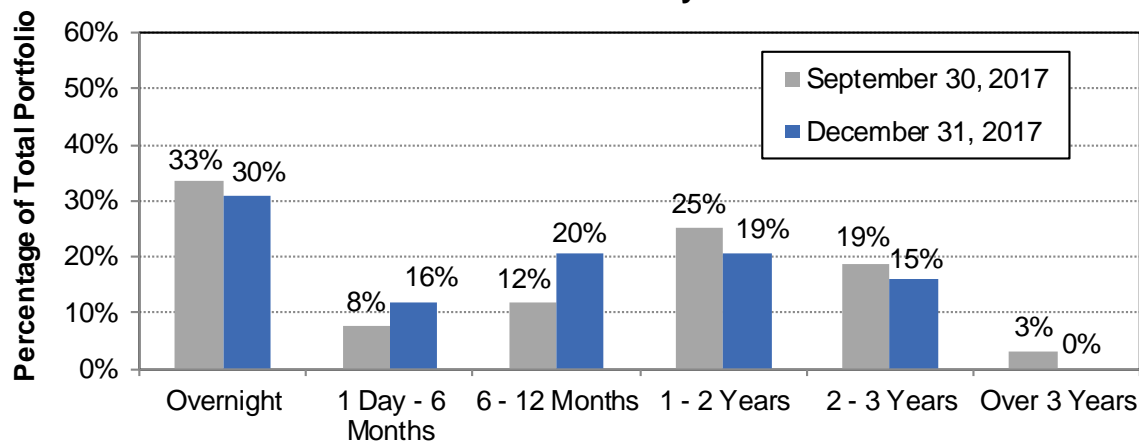


## City of Salem

### Combined Portfolio Change Over Quarter

Security Type	Change in Allocation
U.S. Treasuries	+9%
Federal Agencies	-6%
U.S. Instrumentalities	-
Commercial Paper	+2%
Corporate Notes	-2%
LGIP	-1%
Collateralized Deposit Accounts	-2%

### Combined Portfolio Maturity Distribution



### Portfolio and Benchmark Performance

Total Return <sup>1,2,3,4,5</sup>	Total Return for Quarter Ended December 31, 2017	Total Return for Past 1 Year	Total Return for Past 3 Years	Total Return Since Inception
<b>City of Salem Long-Term Portfolio</b>	<b>-0.10%</b>	<b>0.80%</b>	<b>0.72%</b>	<b>0.62%</b>
BofA/ML U.S. Treasury Index	-0.25%	0.42%	0.46%	0.43%

### Yield Comparison<sup>6</sup>

<b>City of Salem Short-Term Portfolio</b>	<b>1.60%</b>	<b>City of Salem Police Facility Bonds Portfolio</b>	<b>1.43%</b>	<b>City of Salem Streets &amp; Bridges Portfolio</b>	<b>1.41%</b>
Oregon LGIP	1.70%	Oregon LGIP	1.70%	Oregon LGIP	1.70%

- Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets. Long-Term Portfolio benchmark was the BAML 0-3 Year U.S. Treasury index from inception through 6/30/2016 and the BAML 1-3 Year Treasury index beginning 6/30/16.
- Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis.
- Inception date is December 31, 2012.
- Excludes Streets & Bridges, Police Facility, and Short-Term Portfolio as well as LGIP and bank balances in the performance and duration calculations.
- Yield at Cost for the City's Short-Term, Police Facility, Streets and Bridges portfolios as of quarter end and Oregon LGIP rate as of quarter end.



## City of Salem

### Combined Portfolio Transactions<sup>1</sup>

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
10/2/17	Maturity	BNP Paribas NY Branch Commercial Paper	10/2/2017	Maturity	1,000,000	-	A-1
10/3/17	Buy	BNP Paribas NY Branch Commercial Paper	3/30/2018	BNP Paribas	1,000,000	1.42%	A-1
10/31/17	Maturity	U.S. Treasury Notes	10/31/2017	Maturity	1,070,000	-	AA+
11/7/17	Buy	Toyota Motor Credit Corp Commercial Paper	2/5/2018	Toyota Motor Corp	1,070,000	1.32%	A-1+
11/16/17	Buy	Bank of Tokyo Mitsubishi UFJ Commercial Paper	5/21/2018	Bank of Toyota Mitsubishi (Direct)	3,500,000	1.62%	A-1
11/16/17	Buy	BNP Paribas NY Branch Commercial Paper	5/21/2018	BNP Paribas	3,500,000	1.65%	A-1
11/16/17	Buy	Toyota Motor Credit Corp Commercial Paper	5/14/2018	Toyota Motor Corp	4,000,000	1.56%	A-1+
11/22/17	Buy	U.S. Treasury Notes	9/15/2018	Merrill Lynch (Bank of America)	5,500,000	1.61%	AA+
11/22/17	Buy	U.S. Treasury Notes	10/15/2018	Merrill Lynch (Bank of America)	5,500,000	1.62%	AA+
11/30/17	Buy	U.S. Treasury Notes	9/15/2018	JP Morgan Securities, Inc.	18,000,000	1.61%	AA+
11/30/17	Buy	U.S. Treasury Notes	10/31/2018	Merrill Lynch (Bank of America)	18,000,000	1.65%	AA+

1. Does not include transactions in the LGIP and bank accounts

Continued on next page



## City of Salem

### Combined Portfolio Transactions<sup>1</sup>

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
11/30/17	Buy	U.S. Treasury Bill	2/15/2018	Citigroup	2,630,000	1.19%	A-1+
11/30/17	Maturity	U.S. Treasury Notes	11/30/2017	Maturity	2,630,000	-	AA+
12/4/17	Maturity	Credit Agricole CIB NY Commercial Paper	12/4/2017	Maturity	2,500,000	-	A-1
12/4/17	Maturity	Credit Agricole CIB NY Commercial Paper	12/4/2017	Maturity	2,500,000	-	A-1
12/5/17	Buy	Credit Agricole CIB NY Commercial Paper	6/4/2018	Credit Agricole	2,500,000	1.71%	A-1
12/5/17	Buy	Credit Agricole CIB NY Commercial Paper	5/25/2018	Credit Agricole	2,500,000	1.65%	A-1
12/5/17	Buy	GE Capital Treasury LLC Commercial Paper	5/25/2018	GE Capital	2,000,000	1.61%	A-1
12/5/17	Maturity	American Honda Finance Commercial Paper	12/5/2017	Maturity	2,000,000	0.00%	A-1
12/20/17	Maturity	Fannie Mae Notes	12/20/2017	Maturity	255,000	0.00%	AA+

1. Does not include transactions in the LGIP and bank accounts



# City of Salem

## Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value <sup>1</sup>	Maturity Date	Call Date	S&P Rating	Market Value <sup>2</sup>	Yield to Maturity <sup>3</sup>
LGIP - City	-	45,267,050	-			45,267,050	1.70%
LGIP - URA	-	42,147,042	-			42,147,042	1.70%
U.S. Bank	-	17,277,429	-			17,277,429	0.50%
Bank of Tokyo Mitsubishi NY	06538CAA9	675,000	1/10/2018		A-1	674,652	1.42%
Credit Agricole NY	22533UAS2	1,950,000	1/26/2018		A-1	1,947,775	1.31%
Toyota Motor Corp	89233HB52	1,070,000	2/5/2018		A-1+	1,068,330	1.30%
U.S Treasury Bill	912796NS4	2,630,000	2/15/2018		A-1+	2,626,021	1.17%
Exxon Mobil Corp	30231GAL6	2,500,000	3/6/2018		AA+	2,508,109	1.31%
JP Morgan Securities LLC	46640QCC3	4,750,000	3/12/2018		A-1	4,734,368	1.44%
BNP Paribals NY	09659CCW6	1,000,000	3/30/2018		A-1	995,900	1.40%
U.S. Treasury	912828UZ1	5,500,000	4/30/2018		AA+	5,491,675	1.02%
U.S. Treasury	912828UZ1	4,750,000	4/30/2018		AA+	4,742,811	1.11%
JP Morgan Securities LLC	46640QE15	1,950,000	5/1/2018		A-1	1,938,914	1.51%
Toyota Motor Corp	89233HEE0	4,000,000	5/14/2018		A-1+	3,974,824	1.54%
Berkshire Hathaway Inc	084664BW0	3,000,000	5/15/2018		AA	2,998,128	1.07%
Bank of Tokyo Mitsubishi NY	06538CEM9	3,500,000	5/21/2018		A-1	3,475,658	1.59%
BNP Paribals NY	09659CEM6	3,500,000	5/21/2018		A-1	3,476,074	1.62%
Bank of Tokyo Mitsubishi NY	06538CER8	2,500,000	5/25/2018		A-1	2,482,075	1.55%
Bank of Tokyo Mitsubishi NY	06538CER8	1,950,000	5/25/2018		A-1	1,936,019	1.57%
BNP Paribals NY	09659CER5	1,950,000	5/25/2018		A-1	1,936,256	1.52%
Credit Agricole NY	22533UER0	2,500,000	5/25/2018		A-1	2,481,983	1.62%
GE Capital Treasury CP	36164KER8	2,000,000	5/25/2018		A-1	1,986,402	1.59%
BNP Paribals NY	09659CEW4	2,500,000	5/30/2018		A-1	2,481,685	1.51%
Credit Agricole NY	22533UF40	2,500,000	6/4/2018		A-1	2,480,605	1.68%
Federal Home Loan Bank	3130A8PK3	4,125,000	8/7/2018		AA+	4,109,824	0.73%

1. End of quarter trade-data par values of portfolio holdings; rounded to nearest dollar.

2. End of quarter trade-data market values of portfolio holdings including accrued interest; rounded to nearest dollar.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

Continued on next page



# City of Salem

## Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value <sup>1</sup>	Maturity Date	Call Date	S&P Rating <sup>4</sup>	Market Value <sup>2</sup>	Yield to Maturity <sup>3</sup>
Federal Home Loan Bank	3130A8PK3	750,000	8/7/2018		AA+	747,241	0.81%
Berkshire Hathaway Inc	084664BY6	1,050,000	8/15/2018		AA	1,058,611	1.43%
U.S. Treasury	912828L40	5,500,000	9/15/2018		AA+	5,489,767	1.61%
U.S. Treasury	912828L40	18,000,000	9/15/2018		AA+	17,966,510	1.61%
Federal Home Loan Bank	3130A9AE1	5,000,000	10/1/2018		AA+	4,977,668	0.91%
U.S. Treasury	912828L81	5,500,000	10/15/2018		AA+	5,474,651	1.62%
U.S. Treasury	912828T83	18,000,000	10/31/2018		AA+	17,874,766	1.65%
U.S. Treasury	912828WD8	3,700,000	10/31/2018		AA+	3,693,180	0.79%
Microsoft Corp	594918BF0	1,845,000	11/3/2018		AAA	1,842,289	1.33%
U.S. Treasury	912828A34	5,250,000	11/30/2018		AA+	5,230,133	0.85%
Wal-Mart Stores Inc	931142D9	1,050,000	12/15/2018		AA	1,051,129	1.31%
U.S. Treasury	912828N63	2,195,000	1/15/2019		AA+	2,190,459	1.04%
Wells Fargo & Co	94974BFQ8	2,500,000	1/15/2019		A	2,528,797	1.31%
Federal National Mortgage Association	3135G0J53	5,000,000	2/26/2019		AA+	4,970,096	0.97%
Exxon Mobil Corp	30231GAP7	1,050,000	3/1/2019		AA+	1,053,523	1.47%
Federal Home Loan Mortgage Corporation	3137EADZ9	5,000,000	4/15/2019		AA+	4,966,110	0.96%
U.S. Treasury	912828D23	5,000,000	4/30/2019		AA+	4,998,486	0.91%
Inter-American Development Bank	458182DX7	1,750,000	5/13/2019		AAA	1,730,168	1.10%
Chevron Corp	166764BH2	2,000,000	5/16/2019		AA-	1,992,475	1.56%
Toyota Motor Credit Corp	89236TDE2	2,750,000	5/20/2019		AA-	2,729,549	1.45%
Federal Home Loan Bank	3130ABF92	2,390,000	5/28/2019		AA+	2,376,756	1.31%
Coca-Cola Co	191216BV1	1,335,000	5/30/2019		AA-	1,325,393	1.40%
Federal Home Loan Bank	3130A8DB6	5,000,000	6/21/2019		AA+	4,947,883	0.79%

1. End of quarter trade-data par values of portfolio holdings; rounded to nearest dollar.

2. End of quarter trade-data market values of portfolio holdings including accrued interest; rounded to nearest dollar.

Continued on next page

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

4. Securities rated A by S&P are rated AA- or the equivalent or better by at least one nationally recognized statistical rating organization and in compliance with the City's investment policy and Oregon Revised Statutes.





## City of Salem

### Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value <sup>1</sup>	Maturity Date	Call Date	S&P Rating	Market Value <sup>2</sup>	Yield to Maturity <sup>3</sup>
Federal Home Loan Bank	3130A8DB6	2,365,000	6/21/2019		AA+	2,340,348	1.31%
Federal Home Loan Mortgage Corporation	3137EAEB1	5,000,000	7/19/2019		AA+	4,941,508	0.97%
Federal Home Loan Mortgage Corporation	3137EAEB1	2,525,000	7/19/2019		AA+	2,495,461	1.34%
Federal National Mortgage Association	3135G0N33	3,200,000	8/2/2019		AA+	3,160,302	0.90%
Federal Home Loan Bank	3130A8Y72	3,200,000	8/5/2019		AA+	3,159,320	0.91%
Federal Home Loan Mortgage Corporation	3137EAEH8	1,940,000	8/15/2019		AA+	1,935,357	1.36%
Federal National Mortgage Association	3135G0P49	625,000	8/28/2019		AA+	617,916	1.37%
African Development Bank	00828EBQ1	975,000	9/20/2019		AAA	963,088	1.16%
Cisco Systems Inc	17275RBG6	1,050,000	9/20/2019		AA-	1,043,171	1.61%
Federal Home Loan Bank	3130A9EP2	3,450,000	9/26/2019		AA+	3,406,250	1.02%
Federal Home Loan Bank	3130A9EP2	1,525,000	9/26/2019		AA+	1,505,661	1.41%
Federal Home Loan Mortgage Corporation	3137EADM8	2,570,000	10/2/2019		AA+	2,547,336	1.43%
Chevron Corp	166764AN0	1,050,000	11/15/2019		AA-	1,055,178	1.64%
Federal Home Loan Bank	3130AA3R7	1,515,000	11/15/2019		AA+	1,502,469	1.43%
U.S. Treasury	912828G95	2,550,000	12/31/2019		AA+	2,536,768	1.38%
Federal Home Loan Mortgage Corporation	3137EAAE5	7,500,000	1/17/2020		AA+	7,480,285	1.48%
Federal Home Loan Mortgage Corporation	3137EAAE5	6,270,000	1/17/2020		AA+	6,253,518	1.45%
Apple Inc Global Notes	037833AX8	1,050,000	2/7/2020		AA+	1,044,902	1.65%
Microsoft Corp	594918AY0	1,050,000	2/12/2020		AAA	1,053,431	1.61%
Federal National Mortgage Association	3135G0T29	6,000,000	2/28/2020		AA+	5,968,488	1.55%
U.S. Treasury	912828UV0	2,930,000	3/31/2020		AA+	2,888,407	1.71%
Federal Home Loan Mortgage Corporation	3137EAEF2	2,500,000	4/20/2020		AA+	2,471,442	1.47%
U.S. Treasury	912828VA5	2,500,000	4/30/2020		AA+	2,460,187	1.49%

1. End of quarter trade-data par values of portfolio holdings; rounded to nearest dollar.

2. End of quarter trade-data market values of portfolio holdings including accrued interest; rounded to nearest dollar.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

Continued on next page



## City of Salem

### Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value <sup>1</sup>	Maturity Date	Call Date	S&P Rating	Market Value <sup>2</sup>	Yield to Maturity <sup>3</sup>
Apple Inc Global Notes	037833BD1	2,500,000	5/6/2020		AA+	2,495,509	1.78%
U.S. Treasury	912828XE5	2,500,000	5/31/2020		AA+	2,478,687	1.43%
Federal National Mortgage Association	3135G0D75	2,480,000	6/22/2020		AA+	2,451,505	1.45%
U.S. Treasury	912828XH8	1,100,000	6/30/2020		AA+	1,091,928	1.53%
Federal National Mortgage Association	3135G0T60	2,480,000	7/30/2020		AA+	2,464,822	1.50%
3M Company	88579YAQ4	2,500,000	8/7/2020		AA-	2,509,495	1.69%
Federal Home Loan Bank	3130ACE26	1,400,000	9/28/2020		AA+	1,380,577	1.48%
U.S. Treasury	912828L65	1,295,000	9/30/2020		AA+	1,279,821	1.48%
U.S. Treasury	912828L99	6,500,000	10/31/2020		AA+	6,410,443	1.73%
U.S. Treasury	912828N48	2,060,000	12/31/2020		AA+	2,045,776	1.53%
<b>Total Value PFM Managed Funds</b>		<b>\$250,570,000</b>				<b>\$249,203,082</b>	<b>1.36%</b>
<b>LGIP</b>		<b>\$87,414,091</b>				<b>\$87,414,091</b>	<b>1.70%</b>
<b>Bank Balances</b>		<b>\$17,277,429</b>				<b>\$17,277,429</b>	<b>0.50%</b>
<b>Total Value All Funds</b>		<b>\$355,261,520</b>				<b>\$353,894,603</b>	<b>1.40%</b>

1. End of quarter trade-data par values of portfolio holdings; rounded to nearest dollar.
2. End of quarter trade-data market values of portfolio holdings including accrued interest; rounded to nearest dollar.
3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

## SECTOR IN-DEPTH

28 February 2018

Rate this Research &gt;&gt;

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## Cities - US

## State capitals not immune from fiscal trouble, though 'next Hartford' unlikely

The recent financial struggles of [Hartford, Connecticut](#) (Caa3 developing), as well as [Harrisburg, Pennsylvania](#)'s default nearly a decade ago, show that a city's status as a state capital is not a buffer against credit distress. A sizable government sector provides stability, but it is not a reliable growth driver. Like other cities that may fall into fiscal distress, state capitals cannot depend on state governments for emergency support. State capitals run the gamut from economically vibrant [Austin, Texas](#) (Aaa stable) and [Boston, Massachusetts](#) (Aaa stable) to troubled Hartford and a group of five other Moody's-rated state capitals that share some aspects of Hartford's credit challenges. Those five cities, however, have mitigants to avoid becoming the "next Hartford."

- » **State capitals' government employment is not enough to drive economic growth.** State and local government employment will continue to be a stabilizing credit factor, but there are fewer government jobs today, relative to population, than at any time since the late 1980s. Wages have also failed to keep pace with other sectors. State capitals with the fastest-growing economies over the long run have a lower share of government employment while benefiting from other industries that drive growth. Capitals that overly rely on the government sector are susceptible to a lackluster economy.
- » **Capitals experiencing credit challenges have sufficient mitigants to avoid Hartford's distress.** Hartford struggles with a declining tax base, weak revenue structure, ongoing structural imbalance and high leverage. Like other state capitals, the city also grapples with significant amounts of tax-exempt property that limits its revenue-raising ability. The five rated state capitals that share some of Hartford's challenges — [Jackson, Mississippi](#) (Baa2 negative), [Providence, Rhode Island](#) (Baa1 negative), [Trenton, New Jersey](#) (Baa1 stable), [Springfield, Illinois](#) (A3 negative) and [Lansing, Michigan](#) (A2) — all have offsetting strengths that will help them maintain much stronger credit profiles than Hartford. The cities' cushions include growing tax bases and adequate financial flexibility.
- » **Like other cities, struggling state capitals cannot rely on the state to bail them out.** When financially distressed capitals request extraordinary support, the results are mixed. [Connecticut](#)'s (A1 stable) recent budget provides crucial assistance for Hartford, but the state only stepped in after the city reached the brink of default. Harrisburg, however, first defaulted on general obligation (GO) guaranteed debt almost a decade ago and negotiated a restructuring where creditors did not receive full recovery. Among financially challenged capitals, states have not provided outsized amounts of aid. Also, budget woes in some states will make financial support more difficult and less likely for cities with weakening credit profiles.

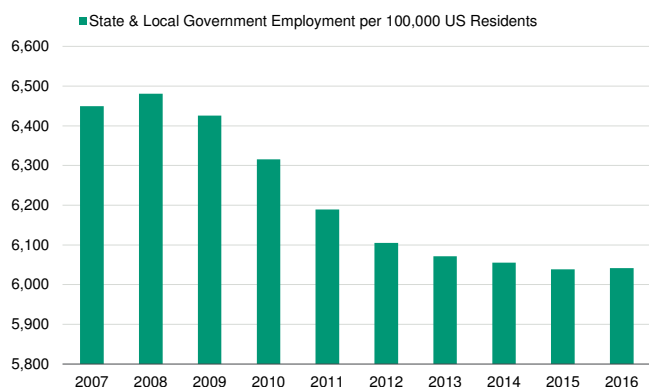
## State capitals' government employment not enough to drive economic growth

Hartford and Harrisburg offer evidence that a state capital's large state and local government sectors are no panacea for stagnant economies or weak fiscal positions. State capitals clearly benefit from government workforces and the resulting stability of the employment base. Not only is government employment historically less volatile than other industries, but employment in this sector is also somewhat countercyclical, with job losses lagging the losses seen in other sectors. This was evident during the Great Recession when states were still hiring new workers in the summer of 2008, well into the recession.

While government employment may be a stabilizing factor, it is not a growth industry. State capitals therefore need to rely on other engines for economic expansion. Moody's Analytics reports that on a per-capita basis, there are fewer state and local government employees today than at any time since the late 1980s and employment levels have dropped considerably since 2008 (see Exhibit 1).<sup>1</sup> Additionally, state and local government personal income growth across the US (up 24.1% in the last 10 years) trails total personal income growth (32.1%) (see Exhibit 2). The weak growth in state and local government employment and income is likely to continue given budgetary pressures at the state level and continued technological efficiencies within administrative functions of governments.

Exhibit 1

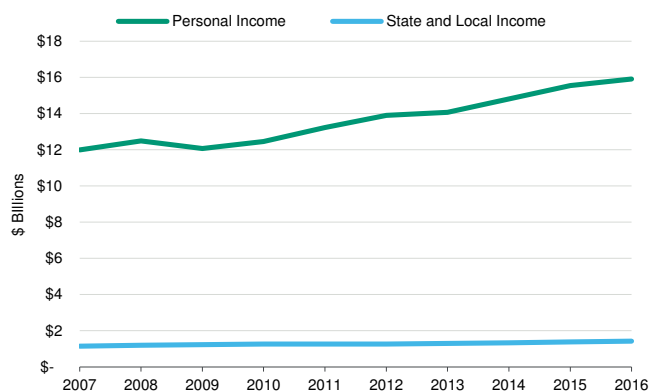
### State and local government employment has been declining relative to population



Sources: US Bureau of Economic Analysis, US Census

Exhibit 2

### State and local government income growth trails other sectors



Source: US Bureau of Economic Analysis

For state capitals that lack other significant industries, an outsized reliance on government employment can be a long-term economic drag. Slow growth limits the cities' revenue-raising capacity and related tax revenue growth, requires more painful spending choices, and prevents accumulation of reserves — all of which plague Hartford.

Using metropolitan statistical area (MSA) data as a proxy, the state capitals with the fastest-growing economies in the last decade (2007-16) have smaller shares of state and local government employment (see Exhibit 3). Capital regions with 15% or more of their employment in state and local government averaged 2.3% GDP growth. In contrast, those with less than 15% fared much better with an average GDP growth of 13.5%. That growth is well above the national GDP growth of 10.1%. In total, 10 state capital regions saw a GDP decline from 2007-16, and nine had state and local government employment greater than 15% of the workforce.

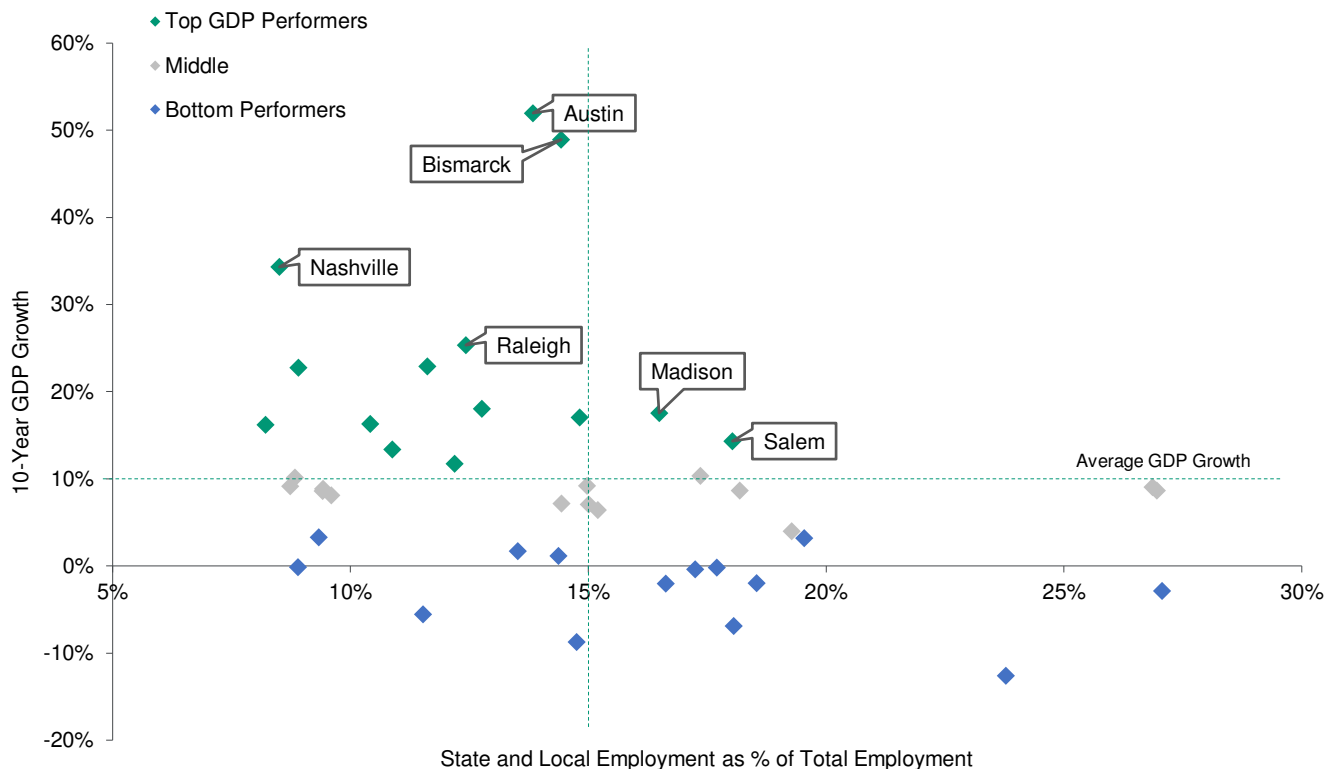
The state capital MSAs with the fastest-growing GDP from 2007-16 are Austin at 51.9%, [Bismarck, North Dakota](#) (Aa1) at 48.9%, [Nashville, Tennessee](#) (Aa2 stable) at 34.3% and [Raleigh, North Carolina](#) (Aaa stable) at 25.3%. All have state and local government employment below 15%, with Nashville the lowest among all capital regions at 7.7%.

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Exhibit 3

**GDP growth is generally fastest among state capitals with lower levels of state and local government employment**

Madison, WI and Salem, OR were the only two capital regions to achieve above-average economic growth despite large state and local government employment



Data based on state capitals' metropolitan statistical area (MSA).  
Source: US Bureau of Economic Analysis

Austin has experienced economic growth in nearly every sector over the last decade including professional and business services and finance. Its booming population has also contributed to strong performance in real estate development and housing rentals. Austin's diverse and balanced economy contrasts with Bismarck. North Dakota's capital city has benefitted from the knock-on effects of oil extraction from the Bakken formation, leaving it vulnerable to swings in this volatile commodity. Nashville's growth has been focused in financial, health and technical services with major employers like [HCA Holdings, Inc.](#) (Ba2 positive), [Asurion, LLC](#) (B1 stable) and Community Health Systems, Inc. expanding in the relatively low-cost city with a well-educated workforce. While Raleigh benefited from some of the same sectors as Nashville, a quarter of its growth came from computer and electronics product manufacturing, driven by household names like [Cisco Systems, Inc.](#) (A1 stable) and Lenovo.

Only two capitals, [Salem, Oregon](#) (Aa2) and [Madison, Wisconsin](#) (Aaa stable), bucked the trend by posting above-average GDP growth despite a heavy presence of state and local government employment. Madison has benefited as the home of the University of Wisconsin's largest campus and its affiliated hospitals. Additionally, the city has growing software development, biomedical research, and technology enterprises. In Salem, growth has been driven by gains in healthcare and social assistance, which added more than three times the number of jobs than that of state and local government.

Conversely, Hartford has below-average state and local government employment but a contracting regional economy as it lacks other growing industries. The city's economy is heavily concentrated in insurance, leaving it exposed to the turbulence in that industry. Three insurers, [The Hartford](#) (Baa2 ratings under review), [Aetna Inc.](#) (Baa2 stable) and [Travelers](#) (A2 stable), are estimated to account for

around 37.0% of the city's workforce. Hartford's GDP shrunk by 5.6% in the last decade as its finance and insurance sector has not recovered since the recession. Gains in the information, healthcare and education sectors have fallen short of closing the gap.

**Economic growth is important but not always a credit driver**

Ten state capitals' regional economies have shrunk since 2007 (see Exhibit 4), though only Hartford, Lansing and Springfield face financial challenges. Carson City, Nevada (A1 stable) and Charleston, West Virginia (Aa2), for example, had the largest GDP declines at 12.6% and 8.8%, respectively, but remain healthy.

The economic decline in the Carson City region has roots in losses related to real estate declines as well as some of the deepest cuts to state and local government jobs among capital cities. Charleston's contracting economy is almost wholly explained by the collapsing coal industry with the production of natural resources and mining having fallen 36.2% over 10 years.

Carson City's credit position has remained stable as the city's relatively strong tax base allowed tax receipts to bounce back with relative speed in spite of the economic decline. Further, the city made significant budgetary cuts that helped support its financial position. Charleston's financial position was also stabilized by budgetary cuts, while the city was able to secure new revenue streams.

Exhibit 4

**Carson City, Charleston and five other capital cities suffered GDP declines in the last decade but maintain sound credit quality  
Hartford, Lansing and Springfield, in contrast, endured GDP declines and are grappling with financial hurdles**

Real GDP from 2007 to 2016



GDP data is not available for eight capital regions: Augusta, Maine; Concord, New Hampshire; Montpelier, Vermont; Annapolis, Maryland; Frankfort, Kentucky; Pierre, South Dakota; Helena, Montana; and Juneau, Alaska.

Source: US Bureau of Economic Analysis

## Capitals that are experiencing some credit challenges have sufficient mitigants to avoid Hartford's distress

Hartford's credit profile is constrained by elevated exposure to state aid, high levels of poverty, steep unemployment, significant pension liabilities, a concentrated tax base and ongoing structural imbalance. State capitals facing similar challenges to varying degrees include Jackson, Trenton, Providence, Springfield and Lansing. Unlike Hartford, however, all have sufficient mitigants — such as a growing tax base and/or strong economy — to manage disruption.

Like Hartford, Lansing's and Springfield's regional economies contracted from 2007-16, albeit to a lesser degree (see Exhibit 5). Trenton and Providence share Hartford's elevated leverage position (debt and pensions). Also, Hartford and the five other capitals are challenged by high poverty.

State capitals can suffer from a large amount of tax-exempt property given the presence of state-owned buildings and facilities. While data on the amount of tax-exempt property is not readily available for all cities, nearly half of Hartford's and Trenton's real property is registered as tax-exempt. Hartford relies heavily on state support (54.6% of operating revenues) to help offset the lost revenue, though that increases its reliance on the state. Places like Springfield and Lansing mitigate this exposure by assessing a sales tax and income tax, respectively.

Exhibit 5

### Challenged state capitals share some of Hartford's difficulties, but various mitigants help maintain sound credit profiles

City	Rating and Outlook	Socioeconomic Indices		Economy	Finances			Debt & Pensions	
		Poverty Level	MFI as % of US		10-Year Change in GDP	State Support as % of Operating Revenue	5-Year Change in Fund Balance as % of Revenues	Fund Balance as % of Revenues	Net Direct Debt as % of Full Value
Hartford, CT	Caa3 developing	34%	52.5%	-5.6%	54.6%	6.2%	11.9%	8.9%	15.5%
Jackson, MS	Baa2 negative	30%	59.4%	7.1%	31.0%	-15.0%	12.2%	2.0%	5.3%
Providence, RI	Baa1 negative	30%	67.2%	3.3%	36.7%	1.8%	0.3%	3.6%	18.2%
Trenton, NJ	Baa1 stable	28%	62.2%	10.3%	34.3%	10.5%	18.0%	6.0%	18.5%
Springfield, IL	A3 negative	19%	101.8%	-2.0%	13.2%	-7.9%	14.6%	1.6%	9.6%
Lansing, MI	A2	29%	63.9%	-2.0%	12.8%	8.2%	12.3%	1.6%	11.7%

Source: Moody's Investors Service

The mitigants these state capitals have range from growing tax bases and strong economies to more diverse revenue structures and lower levels of leverage. Among the challenged state capitals, Jackson shares the most pain points with Hartford. Providence, on the other hand, looks to capitalize on an improving economy, while Trenton has benefited from revenue and expenditure adjustments.

**Jackson, MS (Baa2 negative):** The primary driver of the city's weak fiscal profile is a multiyear trend of operating deficits, resulting from a failure to increase revenues despite significant legal flexibility to do so. Jackson's ability to increase taxes is constrained by the practical limitation of its long-term population loss, high poverty and low resident income levels. Expenditure reductions also appear limited as the city has built up approximately \$1 billion in infrastructure needs. Keeping these substantial infrastructure needs in mind, the city has much lower debt outstanding and pension burdens than Hartford. Jackson's ability to improve its credit profile will be determined in part by its ability to manage these infrastructure needs and balance recurring revenues with recurring expenditures. Positively, the city outperformed expectations and posted a surplus in fiscal year 2016 (ending September 30).

**Providence, RI (Baa1 negative):** The Rhode Island capital is grappling with a weak fiscal profile, accentuated by a high debt and pension burden and limited reserve position. Providence's high fixed costs will increase as its underfunded pension liabilities require increasing annual contribution rates through fiscal 2025. Positively, the city's financial flexibility has improved with a surplus in both fiscal 2016 and 2017 (both ended June 30), which have generated a positive reserve position for the first time in five years. The city is also primed to benefit from a growing tax base with a diverse economy anchored by large healthcare, higher education and corporate presence.

**Trenton, NJ (Baa1 stable):** Like Hartford, Trenton was once a major manufacturing center that is now suffering from high poverty and a heavy reliance on state aid. Trenton also faces high fixed costs from debt and pensions. But the city benefits from a growing regional



economy and declining unemployment levels that improve its ability and willingness to raise taxes. In 2017, the city levied \$78.7 million in property taxes, up 20.6% from \$65.2 million in 2010. Furthermore, the city has had several years of expenditure reductions that have also contributed to its improving financial position with solid liquidity of 18.6% of revenues. As long as Trenton can continue to manage even adequate economic growth, it will be able to continue raising taxes and avoid draining its reserves as happened in Hartford.

**Springfield, IL (A3 negative):** The Illinois capital is challenged by high pension and retirement healthcare liabilities. The city is further weakened by annual pension contributions that fall short of the amounts needed to stem the liability's growth. The city's healthy liquidity and broad legal authority to raise local revenue are its most obvious strengths as well as stable population levels and healthier income and poverty levels relative to Hartford. The city is also less impacted by its level of state tax-exempt property as the majority of its revenues are comprised of sales taxes (52.5% of revenues) as opposed to property taxes (16.5%).

**Lansing, MI (A2):** High fixed costs and considerable long-term liabilities will remain a credit weakness for Lansing, despite a recent moderate improvement in operating reserves and liquidity. Rising costs, specifically for retiree healthcare, continue to place significant pressure on operational spending, while annual expenditures to address the unfunded status of the retirement benefits will likely grow over time. Additionally, previous cost-saving measures enacted in response to the last recession have reduced options going forward, while state-imposed revenue-raising limitations and reliance on income taxes make the city vulnerable to economic swings. As such, management's ability to bolster reserves in good years, while working towards retiree healthcare reforms, will be crucial in maintaining a stable credit profile. Favorably, Lansing's economy is demonstrating positive signs, given its four consecutive years of tax base growth and steadily improving income tax collections.

### Like other cities, struggling state capitals cannot rely on the state to bail them out

State governments have a mixed track record in their willingness and timeliness in assisting state capitals in financial distress, signaling they view them much as any other local government. Connecticut was slow to respond to prevent Hartford from defaulting, while [Pennsylvania](#) (Aa3 stable) and Harrisburg failed to develop a plan to avoid the city's default in 2009. Jackson's large infrastructure needs are contributing to the city's deteriorating credit profile and the state is providing only marginal support.

Against a backdrop of the State of Connecticut facing increasingly difficult choices to manage its high and growing fixed costs, the state stepped in to support Hartford with \$25 million in operational aid and \$20 million in debt service assistance as part of its recent 2018-19 biennial budget. The aid came after the state's 17-week budget impasse during which the city discussed seeking approval to file for bankruptcy.

In the case of Harrisburg, the city was not bailed out by the state even while under state receivership from December 2011 to February 2014. In 2009, the city defaulted on revenue bonds that it guaranteed tied to incinerator projects, then later defaulted on its own GO bonds while in receivership. The receivership was helpful in executing a more orderly restructuring than may have been the case without state involvement. At the same time, the state agreed to enter into a parking lease that helped drive a better recovery for bondholders. In the end, GO creditors were left with recovery rates averaging 75%.

Jackson has large deferred maintenance and capital needs of approximately \$1 billion, including an approximately \$400 million consent decree with the federal government to improve its sewer system. Despite the burden, the state has provided only minimal assistance. In April 2017, the state created a Capitol Complex Improvement District to alleviate some of the city's costs associated with providing public safety and infrastructure in an area that includes the state capitol. While helpful, the \$100 million over 10 years in aid is unlikely to materially ease the city's infrastructure burden.

[Detroit](#) (B1 positive) is not a state capital, but its bankruptcy is evidence that local governments cannot count on the state to provide unlimited amounts of emergency support. Detroit is a crucial economic hub with nearly six times the population of Lansing and the state's unwillingness or inability to prevent Detroit's bankruptcy calls into question the appetite to assist other cities in fiscal stress.

[New Jersey](#) (A3 stable), however, took over operations of financially troubled Atlantic City in late 2016, which prevented a default. Albeit under a different gubernatorial administration, the move is a sign that if state capital Trenton were to endure severe difficulty, the state would consider intervening.

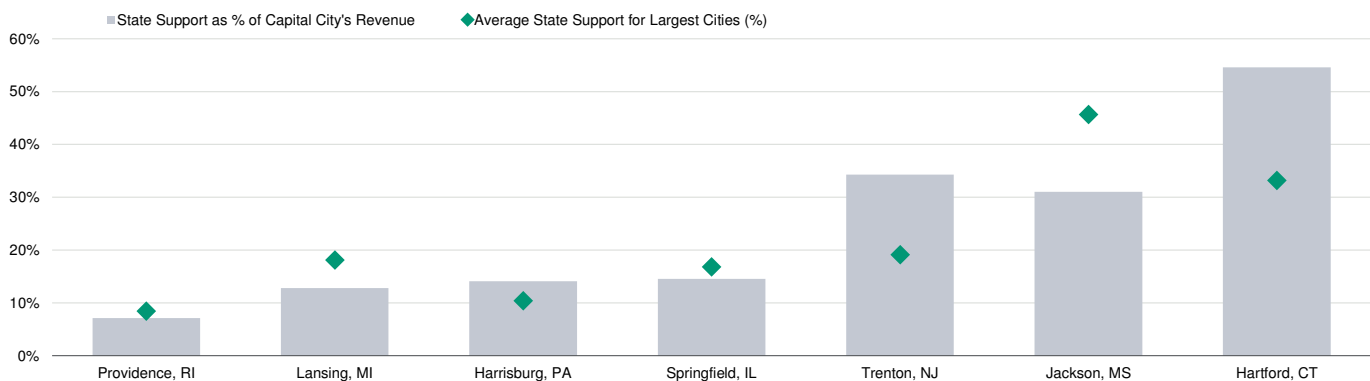


Like Connecticut, budget woes may increasingly challenge some states in identifying funds to bail out state capitals. For example, if Springfield's difficulties worsen, the [State of Illinois](#) (Baa3 negative) may be hard-pressed to increase assistance given its own pension funding needs and other financial challenges.

Separately, there is little to suggest a pattern of states providing their capitals with an outsized amount of annual state support. About half of Hartford's annual revenues come from the state, relative to an average of 33% for Connecticut's 10 largest cities (see Exhibit 6). On the flip side, Jackson derives 31% of its revenue from state support, well below an average 46% for Mississippi peers. Among the financially challenged capitals in Exhibit 6, only three receive more state support than the average for the 10 largest cities in their state.

Exhibit 6

### Struggling state capitals receive varying levels of state financial support relative to other large cities



"Largest cities" include the 10 most populous cities in each state. Data derived from latest available city audited financial statements. State support generally includes intergovernmental revenues and state-shared revenues.

Sources: Audited financial statements, Moody's Investors Service

## Endnotes

1 See Moody's Analytics: "Stress-Testing States," October 2017.

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