

RESOLUTION NO. 08-2023

A RESOLUTION ADOPTING FISCAL POLICIES FOR THE CITY OF MADRAS; AMENDING, RESTATING, SUPERSEDING, AND REPLACING RESOLUTION NO. 14-2021.

WHEREAS, the City Finance Department has researched and identified new fiscal policies that should be adopted to conform with GFOA best practices and the expectations of the bond market; and

WHEREAS, financial management best practices include a systematic and regular review of fiscal policies, which will be easier to track in the future through adopting changes to the appendices of this resolution; and

WHEREAS, the City will review fiscal policies during the annual budget process in future years; and

WHEREAS, by adoption of this Resolution No. 08-2023 (this "Resolution"), the Madras City Council desires to amend, restate, supersede, and replace Resolution No. 14-2021, adopted by Resolution on March 10, 2021, in its entirety.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the Common Council of the City of Madras as follows:

SECTION 1: The City Council recognizes the need for a standard process for adopting and maintaining fiscal policies.

SECTION 2: The policies included in Appendix A are adopted as Council Fiscal Policies. Appendix A shall be maintained by the City's Finance Department and shall be posted on the City website by the City Recorder. The policies included in Appendix B are adopted as the City's Investment Policy. Appendix B shall be maintained by the City's Finance Department and shall be posted on the City website by the City Recorder.

SECTION 3: The Finance Director is hereby authorized and directed to review the fiscal policies of the City on an annual basis.

SECTION 4: Future fiscal policies shall be adopted annually by resolution.

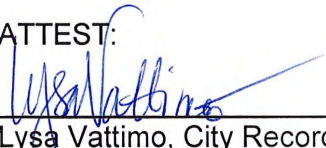
SECTION 5: This resolution shall become effective on July 1, 2023.

APPROVED by the Common Council of the City of Madras and signed by the Mayor this 9th day of May, 2023.

Ayes: 6
Nays: 0
Abstentions: 0
Absences: 0
Vacancies: 0



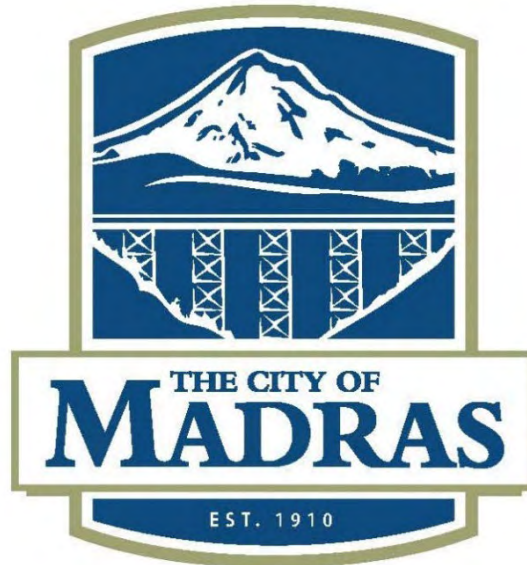
Mike Lepin, Mayor

ATTEST:


Lysa Vattimo, City Recorder

APPENDIX A – CITY OF MADRAS FISCAL POLICIES

FISCAL POLICY



City of Madras
125 SW "E" Street, Madras, Oregon 97741
541-475-2344
www.ci.madras.or.us

Updated May 9, 2023

"A Vibrant Responsive Community Where You Can Thrive and Grow"

TABLE OF CONTENTS

I. PURPOSE	1
II. REVENUE POLICIES.....	1
III. OPERATING BUDGET POLICIES.....	3
IV. FUND BALANCE POLICY	4
V. EXPENDITURE CONTROL POLICIES.....	5
VI. CAPITAL IMPROVEMENT POLICIES.....	5
VII. FINANCIAL PLANNING POLICIES	6
VIII. ECONOMIC DEVELOPMENT FUNDING POLICIES.....	7
IX. PENSION AND RETIREMENT FUNDING POLICIES.....	7
X. CASH MANAGEMENT AND INVESTMENT POLICIES	8
XI. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES	8
XII. DEBT MANAGEMENT POLICIES	9
XIII. UNRESTRICTED FUND BALANCES	12

I. PURPOSE

The City of Madras is committed to responsible fiscal management through financial integrity, prudent stewardship of public assets, planning, accountability, and full disclosure. The broad purpose of Fiscal Policies is to enable the City and the Madras Urban Renewal Agency to achieve and maintain a long term stable and positive financial condition. These policies are adopted by the City Council as the basic framework for overall financial management of the City and Madras Urban Renewal Agency. Any reference to 'the City' in this document shall also apply to the Madras Urban Renewal Agency.

The policies are designed to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Provide an adequate financial base to sustain a sufficient level of municipal services to maintain the social well-being and physical conditions of the City.
2. Deliver cost effective and efficient services to citizens.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and also to assure taxpayers and the financial community that the City is well managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect City residents.
6. Adhere to the highest standards of financial management and reporting practices as set by the Government Finance Officers Association (GFOA), the Governmental Accounting Standards Board (GASB) and other related professional financial standards.
7. Fully comply with finance related legal mandates, laws, and regulations.
8. Promote intergenerational equity for the City's taxpayers and ratepayers by spreading the cost of new or upgraded City infrastructure over time so that generations benefitting from such infrastructure contribute to the cost.

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt management, pension funding, accounting, and financial reporting, reserves and internal controls. These policies are reviewed and updated annually as part of the budget process.

II. REVENUE POLICIES

1. The City will strive for and maintain a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds. This revenue diversity will shelter the City from short-run fluctuations in any one revenue source.
2. When evaluating new revenue sources, the following elements will be taken into consideration: sustainability of the revenues to the programs they are intended to support, administrative costs, operational and maintenance costs, acceptability to the community, and the impact on economic competitiveness relative to other communities.

3. One-time and non-recurring revenues will be used only for one-time expenditures. The City will avoid using temporary revenues to fund mainstream services or for budget balancing purposes.
4. User fees and charges will be established for services provided that benefit specific individuals or organizations. Cost of service analyses will be prepared so that user fees and charges can or will be set at a level sufficient to recover full cost of service whenever practical to minimize subsidization by taxpayers. The City will systematically review user fees and charges to take into account the number of customers served, changes in methods or levels of service delivery as well as changes in cost of living, inflationary increases, and supplier related cost increases.
5. Unless prohibited by law, certain fees may be deferred by Council action when it can be demonstrated that a direct public benefit will be obtained. In addition, the Council may direct that certain fees be paid on behalf of applicants and Council's action will include a determination of the source of funds to pay such fees.
6. All fees, charges or assessments that are deferred for later payment will be evidenced by a promissory note or agreement. The City may charge periodic interest, processing fees and additional interest and penalties for delinquencies as appropriate.
7. Utility funds will be self-supporting through user fees. Fee adjustments will be based on long term financial plans that include a forecast period of no less than five years. The water and water reclamation utility rates should be set to yield a minimum 1.25 debt service coverage ratio or a debt service coverage ratio sufficient to maintain the credit rating of the Water and Wastewater systems.
8. To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues and expenditures in the General Fund and other major funds for the succeeding five years.
9. All potential grants shall be evaluated for matching requirements and on-going resource requirements and balanced with the benefits of the grant before acceptance. Grants may be rejected to avoid commitments beyond available funding.
10. The City will not respond to long-term revenue shortfalls with deficit financing and borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecasts and/or revenue increases will be considered.
11. Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively; explanations of the underlying assumptions and risks to the forecast, including both upside and downside risks, will be provided. The City will estimate its revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.
12. The City shall pursue a timely and firm policy of collecting delinquent accounts. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.
13. Use of General Fund revenues is at the City Council's discretion and unless otherwise noted, discretionary revenues are not earmarked for specific purposes. Exceptions include:
 - a. Grants or other revenues that are legally restricted for specific purposes.

- b. Fifty percent (50%) of franchise fee revenues will be dedicated to transportation system improvements and maintenance; the other fifty percent (50%) will be allocated to the General Fund to support public safety services provided by the Madras Police Department.
- 14. Before the City sells any building or land or relinquishes any operating or capital arrangements that involved fixed revenue, the implications of such a sale or arrangements will be fully determined by City Council for impact on current and future year revenue estimates.

III. OPERATING BUDGET POLICIES

- 1. The City will prepare an annual budget with the participation of all Departments.
- 2. All budgetary procedures will conform to existing state and local regulations. Oregon budget law requires each local government to prepare a balanced budget and Oregon Administrative Rules state: the budget must be constructed in such a manner that the total resources in a fund equal the total of expenditures and requirements for that fund. Budgets for all funds will be prepared on a modified accrual basis consistent with Generally Accepted Accounting Principles.
- 3. The budget process will allocate resources to achieve Council goals and city-wide strategic plans. Department goals and objectives will be identified and incorporated into the budget.
- 4. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government and internal service costs to other funds and capital projects to reflect the full cost of providing services.
- 5. A budget preparation calendar is crucial for successful budget preparation and execution. Finance department staff will prepare a detailed budget schedule for internal use that ensures the budget is approved by the Budget Committee and adopted by the City Council no later than June 30.
- 6. The City Council and Madras Redevelopment Commission shall adopt the budget for each fund or program as required by budget law.
- 7. Essential services will receive priority for funding. The City will attempt to maintain current service levels for all essential services. The quality of existing core services will be maintained before the City adds new services unless there is an explicit decision to lower the quality of existing services in favor of providing a new service. Essential services for the City are defined as follows (based on ORS 221.760 which determines if a city is eligible to receive state shared revenues):
 - a. Police protection.
 - b. Fire protection.
 - c. Street construction, maintenance, and lighting.
 - d. Sanitary sewers.
 - e. Storm sewers.
 - f. Planning, zoning and subdivision control.
 - g. One or more utility services.

8. All supplemental appropriations for programs requested after the original budget is approved will be analyzed by the City Administrator's Office and Finance Department and will only be presented to Council for approval after consideration of availability of revenues. Oregon budget law provides a means to adjust the budget for emergency expenditures or unforeseen circumstances. All resolutions adjusting the budget will be prepared by the Finance Department, at the direction of the City Administrator's Office, for Council approval to ensure compliance with budget laws.
9. Monthly reports comparing actual to budgeted expenditures will be prepared by the Finance Department and distributed to the City Administrator and Department Head Team. Significant budget to actual variances will be investigated and explained.
10. Quarterly reports comparing actual to budgeted expenditures will be prepared by the Finance Department and presented to City Council and Madras Urban Renewal Agency.

IV. FUND BALANCE POLICY

GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 54

1. Policy

The City of Madras shall maintain financial integrity and consistency in accounting and financial reporting practices using specific fund balance categories within the guidelines of generally accepted accounting principles (GAAP).

2. Purpose

The purpose of this policy is to define fund balance reporting policies as established by Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued in February 2009.

3. Definitions

Fund balance classifications, per GASB Statement No. 54:

- a. Non-spendable - Represents assets that are non-liquid (such as inventory) or legally or contractually required to be maintained intact (such as the principal amount of an endowment)
- b. Restricted – When legally-enforceable constraints are placed on the use of resources for a specific purpose by a third party or enabling legislation.
- c. Committed – When constraints are created by formal action of the government's decision-making authority, generally by resolution and/or ordinance, on how it will spend its resources. The constraints remain binding until formally rescinded or changed by the same method the constraints were created.
- d. Assigned – When resources that are neither committed nor restricted are constrained by the intent of the governing body or authorized staff.
- e. Unassigned – The excess of total ending fund balance over non-spendable, restricted, committed and assigned amounts. Only the General Fund has an unassigned category since money remaining in any other fund is automatically considered assigned to the purpose(s) of that fund.

4. Fund Balance Reporting

GASB's objective in issuing Statement No. 54 was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied.

5. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Administrator and/or Finance Director for the purpose of reporting these amounts in the annual financial statements.

v. EXPENDITURE CONTROL POLICIES

1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Director will be responsible for the administration of his/her department/division/program budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each department/division/program budget for compliance with spending limitations.
2. The City Council will adopt the budget by fund at the organizational unit or program level. Expenditures anticipated to be in excess of these levels require approval of a Council resolution. The City Administrator will administer expenditure control at the organizational unit and program level. Additionally, the City Administrator may give authorization to mandate this level of control down to any line-item level. Expenditures anticipated to be in excess of these levels require approval of the City Administrator.
3. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures and with State and Federal laws and regulations.
4. Before the City purchases any major asset or undertakes any operating or capital arrangements that create fixed costs or ongoing operational expenses, the implications of such purchases or arrangements will be fully determined for current and future years.
5. All compensation planning and collective bargaining will include analysis of total cost of compensation which includes analysis of salary increases, health benefits, pension contributions, fringe benefits and other personnel costs. The City will only propose operating personnel costs which can be supported by on-going operating revenues.
6. The City will make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient.

vi. CAPITAL IMPROVEMENT POLICIES

1. The City's asset capitalization policy is to capitalize and depreciate assets greater than \$25,000 with a useful life beyond one year unless Fleet Equipment. Capital assets costing less than \$25,000 or having a useful life of one year or less will be treated as operating expenditures unless identified below. The asset capitalization threshold will be applied to individual assets rather than to groups of assets (i.e., office furniture, computer equipment, radio equipment, etc.).
2. All land is capitalized.
3. Fleet Equipment/Rolling Stock:
 - a. Equipment with a value greater than \$5,000 and/or required to be licensed for use on the roadway will be capitalized.

4. Buildings:
 - a. When phasing new construction of a building it will be capitalized regardless of price when the purpose is to support agency operations. (example is the multi-year Public Works Fleet Building Remodel requiring multiple years of investment).
5. Public infrastructure repairs are not capitalized (exception can be made if these are combined as part of a larger capital project).
 - a. Transportation Infrastructure
 - i. Pavement preservation (i.e., chip sealing, crack-sealing, seal coating, pothole patching, pavement overlay, grind/inlay, etc.).
 - ii. Removal and replacement of existing footpaths (sidewalks, paved trails).
 - iii. Removal and replacement of existing curbing.
 - iv. Removal and replacement of landscaping and mobile streetscape items (i.e., flower pots, hanging baskets, pavers, grass, wood chips, gravel, irrigation, trees etc.).
 - v. Street lighting not owned by the City.
 - vi. Gravel applied for road maintenance.
 - vii. Cinders and/or gravel applied to road for snow response.
 - viii. Pavement markings (i.e., striping, thermoplastic).
 - ix. Road signage.
 - b. Utilities (water, sewer, storm, electrical) – When expanding the system or upsizing the system then it is all capitalized. Repair of current infrastructure is not capitalized.
 - c. Park Infrastructure
 - i. Removal and replacement of landscaping material and irrigation are not capitalized (grass, wood chips, trees, gravel, etc.).
 - ii. Equipment/structures are capitalized.
6. Annually, the City will approve a 5-year Capital Improvement Plan (CIP), congruent with the adoption of its annual budget. The CIP shall provide details on each capital project: its estimated costs, sources of financing and a description, including a statement identifying:
 - a. the needs, conditions and circumstances that have caused the project's creation; and
 - b. the expected results if the project is approved and implemented.

VII. FINANCIAL PLANNING POLICIES

1. The City's financial plan should be strategic, meeting regulatory requirements and reflecting the Council's and the community's priorities for service while providing resources that realistically fund routine operations.

VIII. ECONOMIC DEVELOPMENT FUNDING POLICIES

1. The City may employ economic development incentives to encourage value-added development and accrue public benefits to the City. Public benefits may include but not limited to, the following:
 - a. A benefit that increases the City's employment base or materially enhances the financial position of the City by increasing assessed valuation.
 - b. A contribution to the basic infrastructure of the City that is greater than that which would be required of the development alone.
 - c. A benefit that increases access to other public services.
 - d. A benefit that increases livability across socio-economic levels.
2. Economic development incentives may include formation of improvement or redevelopment districts, reimbursement, exemption or deferral of certain fees and charges, use of discount lease rates or other forms of financial incentives. All such incentives will be fully evaluated by the Finance Department as to the costs, risks and level of benefit as well as the financial impact of such incentives on the City's operating and capital budgets.
3. The fiscal impact evaluation will be presented to Council and Agency along with City Administrator's recommendation. The City Council and/or Madras Urban Renewal Agency shall make the final decision concerning proposed economic development incentives including any repayment of incentives if performance requirements are not met.
4. Funding for economic development incentives must be identified before approval of all such incentives.
5. A development incentive shall not be provided if the development does not provide sufficient public benefit or if the cost and risks to the City will have a materially adverse impact on the City's finances or operations.

IX. PENSION AND RETIREMENT FUNDING POLICIES

1. The City is an employer-participant in the State of Oregon Public Employees Retirement System (PERS). Actuarial valuations of PERS are performed for the Public Employees Retirement Board (PERB) to evaluate PERS' assets and liabilities and indicate its current and prospective financial condition. The PERB determines employer-participant contribution rates, which are then used to calculate each employer-participant's annual required contribution. It is the City's policy to make contributions at no less than the rate established by PERB and required by ORS 238.225. All current pension liabilities shall be funded on an annual basis.
2. In addition to providing pension benefits, the City provides certain health and dental care benefits for retired employees. Funding the liability for future retiree benefits will be determined by City Council action.
3. The PERS reserve fund exists to stabilize future cash flows. It will help stabilize the cost of PERS through the issuance of future pension obligation bonds (POB) to fund the City of Madras' existing unfunded actuarial liability (UAL) and associated debt repayment. The principal source of revenue is charges to other funds with salaries subject to the Oregon Public Employee Retirement System (PERS) via a surcharge. Expenditures are for payments to PERS for the UAL and for debt service requirements.

4. PERS Stabilization Policy includes a minimum rate of 3% consistent with the budget for FY 2020-21 and increases by 0.5% each year until the rate is equal to the PERS annual earnings rate (currently 7.2%).

x. CASH MANAGEMENT AND INVESTMENT POLICIES

1. The Finance Director or designee shall invest all City funds in accordance with ORS 294.035 Investment of Funds of Political Subdivisions; 294.040 Restriction on Investments under ORS 294.035; ORS 294.046 List of Approved Securities for Investment under ORS 294.035; ORS 294.047 Loss of Principal on Liquidation of Investments; ORS 294.048 Borrowing Money When Premature Withdrawal or Liquidation of Certain Investments Would Cause Loss; ORS 294.052 Definitions; ORS 294.125 Investment of Funds Authorized by Order of Governing Body; ORS 294.135 Investment Maturity Dates; 294.145 Prohibited Conduct for Custodial Officer.
2. The City will consolidate or pool cash balances from various funds for investment purposes and will allocate investment earnings to each participating fund.
3. The City's investment securities will be held by a third party for custodial safekeeping.
4. Quarterly investment reports summarizing investment holdings and compliance with the City's Investment Policy will be provided to City Council.
5. Review Attachment B for the City of Madras' complete Investment Policy.

xi. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

1. The City will comply with the following accounting and reporting standards:
 - a. Generally Accepted Accounting Principles (GAAP) developed by Governmental Accounting Standards Board;
 - b. Government Accounting, Auditing and Financial Reporting standards prescribed by the Government Finance Officers Association (GFOA);
 - c. Government Accounting Standards, issued by the Comptroller General of the United States;
 - d. Oregon Revised Statutes relating to Municipal finance; and
 - e. U.S. Office of Management and Budget (OMB) Circular A-133.
2. Monthly financial reports summarizing financial activity by fund will be presented to the City Administrator and Department Heads.
3. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
4. In accordance with State law, a comprehensive financial audit including an audit of federal grants will be performed annually by an independent public accounting firm with the objective of expressing an opinion on the City's financial statements and assessing the accounting principles used and evaluating the internal controls in place.
5. The City will prepare its financial statements and maintain its accounting and internal control systems in accordance with applicable standards with the goal of obtaining an unqualified opinion from its auditors.

6. All departments will provide notice of all significant events and financial and related matters to the Finance Director for the City's annual disclosures to the municipal markets as required by SEC Regulation 15-C-2-12. Full disclosure will be provided in the financial statements and bond representations. Significant events include delinquencies and defaults related to the City's bonds, adverse tax opinions or events affecting the tax-exempt status of bonds, the release, substitutions or sale of property securing repayment of bonds and other events having a significant impact on the City's finances and outstanding bonds. The Finance Director will notify the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) database of these significant events.
7. The City's asset capitalization policy is to capitalize and depreciate assets greater than \$10,000 with a useful life beyond one year. Capital assets costing less than \$10,000 or having a useful life of one year or less will be treated as operating expenditures. The asset capitalization threshold will be applied to individual assets rather than to groups of assets (i.e., office furniture, computer equipment, radio equipment, etc.).

XII. DEBT MANAGEMENT POLICIES

1. The debt management policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policies that:
 - a. The City obtain financing only when prudent;
 - b. The process for identifying the timing and amount of debt or other financing be as efficient as possible;
 - c. The most favorable interest rate and other related costs be obtained; and
 - d. When appropriate, future financial flexibility be maintained.
2. In conjunction with the City's debt financing team including but not limited to bond counsel and financial advisors, the Finance Director structures and recommends to the City Administrator and City Council all debt issuances and oversees the on-going management of all City debt. Debt includes voter approved general obligation bonds, tax increment financing, full faith and credit bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, lines and letter of credit, interfund borrowings, variable rate debt, equipment financing agreements and any other contractual arrangements that obligate the City to make future principal and interest payments.
3. No debt shall be issued for which the City is not confident that a sufficient specifically identified revenue source is available for repayment. The Finance Director shall prepare an analysis of the source of repayment prior to issuance of any debt.
4. The City will not use long-term debt to fund current operations, to balance the budget or to fund projects that are more appropriately funded from current resources.
5. The City will issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings exceeds the cost of the purchase price of the refunding bonds (defined as the par amount of the refunding bonds, plus net original issue premium, or less net original issue discount). The City will issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings exceed \$50,000. Refunding may also be undertaken for other reasons when legally permissible, prudent and when in the best interests of the City.

6. The City may utilize short-term debt or interfund loans as permitted, to cover temporary shortage due to timing of cash flows which may result from delay in receiving grant proceeds or other revenues and delay in issuance of long-term debt.
7. When issuing long-term debt, the City will ensure that the debt is soundly financed by:
 - a. Incurring debt only when necessary for capital improvements not appropriate to be financed from current available resources.
 - b. Ensuring that capital projects financed through long term debt shall be financed for a period not to exceed the useful life of the project. This precludes future generations of rate payers or taxpayers from paying debt service on an asset that no longer provides benefit and prevents debt capacity from being tied up servicing a defunct asset in the event the asset needs replacing.
 - c. Determining that the benefit of financing exceeds the cost of financing.
 - d. Analyzing source of repayment, debt service coverage ratios and the impact of debt service on annual fixed costs prior to issuance of long-term debt.
 - e. Amortizing debt on a level payment plan to the extent practical considering the forecasted available pledged revenues and impact on the City's aggregate overall debt payment schedules.
8. The City may issue debt on either a competitive or negotiated basis. Bank placements and other private offerings are authorized under circumstances such as interim financings or to avoid the cost of a public sale for smaller issuances. The Finance Director will recommend the most appropriate method of sale in light of financial, market, transaction specific, and issuer-related conditions. If a negotiated public sale is determined to be in the City's best interest, the underwriter should typically be selected through a request for proposal (RFP) process.
9. All bond issuances and promissory notes will be authorized by resolution of the City Council.
10. The City will comply with all statutory debt limitations imposed by the Oregon Revised Statutes.
11. ORS 287A.050 establishes a limitation on the amount of general obligation bonds the City may issue. This limitation is 3% of the City's Real Market Value as certified by the Jefferson County Assessor. "General obligation bonds" are defined by ORS 287A.010(10) to mean exempt bonded indebtedness, as defined in ORS 310.140, that is secured by a commitment to levy ad valorem taxes outside the limits of sections 11 and 11b, Article XI, of the Oregon Constitution (i.e., voter approved, unlimited tax general obligation bonds). Additionally, ORS 287A.050(3) excludes certain types of general obligation bonded indebtedness from being included in the limitation, including for example general obligation bonds issued for water supply, treatment, or distribution or sanitary or storm sewage collection or treatment. The City is not required to include full faith and credit obligations when computing its statutory general obligation bond debt limit.
12. The City will strive to maintain its current credit ratings which are (as provided by Moody's Investor Services): A3 for General Obligation Bonds, and A3 for Full Faith and Credit Obligations.

13. The City will strive to maintain debt service coverage ratios and percentages that uphold the City's credit rating. Water and Water Reclamation (Sewer) debt coverage ratios should be maintained at a minimum of 1.25 or at a level sufficient to protect the credit rating of the Water and Water Reclamation systems.

14. The City will comply with all bond covenants, arbitrage requirements, disclosure and other requirements specified by law.

a. Post Debt Issuance Tax Compliance

i. External Advisors and Documentation - The City shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for tax-exempt status. Those requirements and procedures shall be documented in the tax certificate and agreement ("Tax Certificate") and/or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and certain other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds. This shall include, without limitation, consultation in connection with any potential changes in use of Bond-financed or refinanced assets.

The City shall engage expert advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds, unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of Bonds.

Unless otherwise provided by the transaction documentation relating to the Bonds, unexpended Bond proceeds shall be segregated from other funds of the City, and the investment of Bond proceeds shall be managed by the City. The City shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving Bond proceeds.

ii. Arbitrage Rebate and Yield - Unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of Bonds, the Finance Director, or persons reporting to the Finance Director shall be responsible for:

- Either (a) engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other financial institution to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider, or (b) undertaking rebate calculations itself and retaining or obtaining periodic statements concerning the investment of Bond proceeds;
- providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- monitoring efforts of the Rebate Service Provider;
- assuring payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed;
- during the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond

proceeds and consulting with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months or 18 months, as applicable, following the issue date of the Bonds; and

- retaining copies of all arbitrage reports, investment records and trustee statements.

iii. Use of Bond Proceeds and Bond-Financed or Refinanced Assets - The City's Finance Director, or persons under the supervision of the Finance Director, shall be responsible for:

- monitoring the use of Bond proceeds (including investment earnings and including reimbursement of expenditures made before bond issuance) and the use of the financed asset throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds;
- maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds (including investment earnings and including reimbursement of expenditures made before bond issuance), including a final allocation of Bond;
- consulting with bond counsel, City's counsel and other legal counsel and advisers in the review of any change in use or transfer of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Certificate relating to the Bonds; and
- to the extent that the City discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to preserve the tax-exempt status of the bonds.

b. Continuing Disclosure Policies

- i. The Finance Director, or persons under the supervision of the Finance Director, shall have a clear understanding of the continuing disclosure requirements for each bond transaction.
- ii. Internal procedures shall be developed that identify the information that is obligated to be submitted in an annual filing, disclose the dates on which filings are to be made, list the material events as stated by the Securities and Exchange Commission (SEC) and the continuing disclosure agreement, and identify the person responsible for making the filings.
- iii. Material event notices will be filed within 10 business days of the event.

XIII. UNRESTRICTED FUND BALANCES

1. With respect to the City's General Operating Funds and Enterprise Funds, the City will target an unrestricted fund balance of at least 60 days (approximately 16.4%) of its budgeted operating expenditures as recommended by the Government Finance Officers' Association (GFOA). Further, the City's General Operating Funds' unrestricted fund balance at the beginning of each fiscal year (July 1) shall be sufficient to meet budgeted operating expenditures (cash flow) over the course of the first 60

days (approximately 16.4%) of the fiscal year. The table below further summarizes these targets and the methodology for calculation the balances to be maintained.

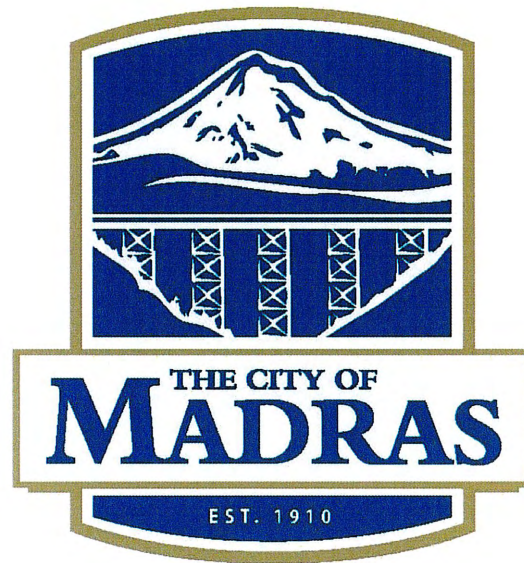
	General Operating Funds	Enterprise Funds	Calculation
60 Days of Operating Expenses	Yes	Yes	Multiply 16.4% (60/365) by the total budget for Personnel Services, Materials & Services and Transfer categories
First 60 days of fiscal year (or approx 16.4%)	Yes	Not Applicable	Multiply 16.4% (60/365) of the total budget for Personnel Services, Materials & Services, and Transfer categories

2. Fund Balance Below Target - While targeting to maintain a fund balance as indicated above, the City understands there may be circumstances that warrant that the City use these funds temporarily. The City has established the following instances where it may elect to use these funds:
 - a. An economic downturn in which revenues have declined;
 - b. Unexpected and unappropriated costs to maintaining essential City services and operations;
 - c. Unexpected and non-budgeted emergencies, natural disaster costs, and/or litigation;
 - d. Grant matching;
 - e. Early retirement of debt;
 - f. To cover deficits in other funds due to a shortfall in budgeted revenues; or
 - g. Capital asset acquisition, construction, and improvement projects.

3. Fund Balance Above Target - In the event the fund balance is substantially higher than the target, the difference may be held or used to fund the following activities:
 - a. One-time capital expenditures which do not significantly increase ongoing City operating costs or, if significant, have been incorporated into long-term financial plans and are financially sustainable;
 - b. Other one-time costs;
 - c. Grant matching;
 - d. Ongoing or new City programs/initiatives, provided such action is short-term (temporarily) in nature and is considered in the context of multi-year projections of revenue and expenditures; or
 - e. Major financial risks as determined by the City.

APPENDIX B – CITY OF MADRAS INVESTMENT POLICIES

INVESTMENT POLICY



City of Madras
125 SW "E" Street, Madras, Oregon 97741
541-475-2344
www.ci.madras.or.us

Updated May 9, 2023

"A Vibrant Responsive Community Where You Can Thrive and Grow"

TABLE OF CONTENTS

I. STATEMENT OF PURPOSE.....	1
II. GOVERNING AUTHORITY	1
III. SCOPE.....	1
IV. OBJECTIVES.....	1
V. STANDARDS OF CARE	2
VI. TRANSACTION COUNTERPARTIES, INVESTMENT ADVISERS AND DEPOSITORIES	3
VII. ADMINISTRATION AND OPERATIONS.....	5
VIII. SUITABLE AND AUTHORIZED INVESTMENTS.....	6
IX. INVESTMENT PARAMETERS.....	8
X. INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE.....	10
XI. INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENT FUNDS.....	10
XII. GUIDELINE MEASUREMENT AND ADHERENCE.....	10
XIII. REPORTING AND DISCLOSURE.....	11
XIV. POLICY MAINTENANCE AND CONSIDERATIONS.....	12

I. STATEMENT OF PURPOSE

This Investment Policy defines the parameters within which funds are to be invested by the City of Madras. The City of Madras is a city whose purpose is to provide services to its citizens. This policy also formalizes the framework, pursuant to ORS 294.135, for the City of Madras' investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. GOVERNING AUTHORITY

The City of Madras' investment program shall be operated in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to regulations established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

III. SCOPE

This policy applies to activities of the City of Madras with regard to investing the financial assets of all funds. Investments of employees' retirement funds, deferred compensation plans, and other funds are not covered by this policy. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$2 million and \$20 million.

IV. OBJECTIVES

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

1. Preservation of Invested Capital

Preservation of principal is the most important 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 goal is to mitigate credit risk and interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

V. STANDARDS OF CARE

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.

The "prudent person" standard states:

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

2. Ethics and Conflicts of Interest

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

3. Indemnification for Investment Decisions

Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.

4. Delegation of Authority and Responsibilities

a. Governing Body

The City Council will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

b. Delegation of Authority

Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to the Finance Director, hereinafter referred to as Investment Officer, and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible

for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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

c. Investment Adviser

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

VI. TRANSACTION COUNTERPARTIES, INVESTMENT ADVISERS AND DEPOSITORIES

1. Broker/Dealers

The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives. The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

a. Broker/Dealer firms must meet the following minimum criteria:

- i. Be registered with the Securities and Exchange Commission (SEC);
- ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
- iii. Provide most recent audited financials.
- iv. Provide FINRA Focus Report filings.

b. Approved broker/dealer employees who execute transactions with the City of Madras must meet the following minimum criteria:

- i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
- ii. Be licensed by the state of Oregon.
- iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

c. The Investment Officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:

- i. Positive references from at least three other local government clients.
- ii. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.

- iii. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - iv. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- d. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
- i. Pending investigations by securities regulators.
 - ii. Significant changes in net capital.
 - iii. Pending customer arbitration cases.
 - iv. Regulatory enforcement actions.

2. Investment Advisers

A list will be maintained of approved advisers selected by conducting a process of due diligence. The following items are required for all approved Investment Advisers:

- a. The investment adviser firm must 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. All investment adviser firm representatives conducting investment transactions on behalf of the City of Madras must be registered representatives with FINRA.
- c. All investment adviser firm representatives conducting investment transactions on behalf of the City of Madras must be licensed by the state of Oregon.
- d. Certification, by all of the adviser representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.
- e. A periodic (at least annual) review of all authorized investment advisers will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. Factors to consider would be:
 - i. Pending investigations by securities regulators.
 - ii. Significant changes in net capital.
 - iii. Pending customer arbitration cases.
 - iv. Regulatory enforcement actions.

3. Depositories

- a. All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

4. Competitive Transactions

- a. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate

brokers/financial institutions or through the use of a nationally recognized trading platform.

- b. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- c. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- d. If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

VII. ADMINISTRATION AND OPERATIONS

1. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in the City of Madras' safekeeping institution prior to the release of funds.

2. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the City of Madras. All securities will be evidenced by safekeeping receipts in the City of Madras' name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

3. Internal Controls

The investment officer and City Council are responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment policy and protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Investment Officer.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- a. Compliance with Investment Policy
- b. Control of collusion.
- c. Separation of transaction authority from accounting and record keeping.
- d. Custodial safekeeping.
- e. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
- f. Clear delegation of authority to subordinate staff members.
- g. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.

- h. Dual authorizations of wire and automated clearing house (ACH) transfers
- i. Staff training
- j. Review, maintenance, and monitoring of security procedures both manual and automated.

4. Audit

An external auditor shall provide an annual independent review to assure compliance with Oregon state law and the City of Madras policies and procedures.

VIII. SUITABLE AND AUTHORIZED INVESTMENTS

1. Permitted Investments

The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810. *(Note: Permitted investments may be more restrictive than ORS 294.035 and 294.810).*

- a. **US Treasury Obligations:** U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest.
- b. **US Agency Obligations:** Senior debenture obligations of US federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE).
- c. **Oregon Short Term Fund:** The Oregon Short Term Fund or any other commingled investment pool established by the State Treasurer for investment of the funds of state agencies or local governments.
- d. **Corporate Indebtedness/Corporate Bonds:** Corporate indebtedness 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 banker's 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.
- e. **Repurchase Agreements:** Repurchase agreements 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. Only securities described in paragraph (a) of this subsection may be used in conjunction with a repurchase agreement and such securities shall have a maturity of not longer than three years.
- f. **Municipal Debt:** Debt issued by a local or state government, including however not limited to city, county, state, or other political entity.
- g. **Bankers Acceptances**, if bankers' acceptances are:
 - i. Guaranteed by, and carried on the books of, a qualified financial institution.
 - ii. Eligible for discount by the Federal Reserve System.

- h. Qualified Institution Time Deposits/Savings Accounts/Certificates of Deposit:** A financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon.

2. Approval of Permitted Investments

If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by the City of Madras City Council.

3. Prohibited Investments

a. Private Placement or “144A” Securities

Private placement or “144A” securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.

b. US Agency Mortgage-backed Securities

US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.

c. Securities Lending

The City of Madras shall not lend securities nor directly participate in a securities lending program.

4. Demand Deposits and Time Deposits

- a.** All demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

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

5. Repurchase Agreements

- a.** ORS 294.035 (3)(j) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short Term Fund Board.

- b.** ORS 294.135 (2) limits the maximum term of any repurchase agreement to 90 days.

- c.** On March 12, 1996, the OSTF Board adopted the following margins:

- d.** US Treasury Securities: 102%

- e.** US Agency Discount and Coupon Securities: 102%

- f.** Mortgage Backed and Other*: 103%

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

IX. INVESTMENT PARAMETERS

1. Credit Risk

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

a. Diversification:

It is the policy of the City of Madras to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type. Allowed security types and Investment exposure limitations are detailed in the table below.

b. Recognized Credit Ratings:

Investments must have a rating from at least one of the following nationally recognized statistical ratings organizations (NRSRO): Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.

c. Portfolio Average Credit Rating:

The minimum weighted average credit rating of the portfolio’s rated investments shall be Aa/AA/AA by Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service respectively.

d. Exposure Constraints and Minimum Investment Credit Ratings:

The following table limits exposures among investments permitted by this policy.

Issue Type	Maximum % Holdings	Minimum Ratings Moody’s / S&P / Fitch
US Treasury Obligations	100%	None
US Agency Securities	100%	-
Per Agency (Senior Obligations Only)	33%	-
Oregon Short Term Fund	Maximum allowed per ORS 294.810	-
Bankers’ Acceptances	25%(1)	P1/A1+/F1+
Time Deposits/Savings	50%	-
Accounts/Certificates of Deposit ⁽²⁾ Per Institution	25%	-
Repurchase Agreements	5%	-
Corporate Debt (Total)	15%(3)	-
Corporate Commercial Paper Per Issuer	15%(3) 2.5%(4)	P1/A1/F1
Corporate Bonds	10%(3)	-
Per Issuer	2.5%(4)	Aa/AA/AA
Municipal Debt (Total)	10%	P1/A1/F1
Municipal Commercial Paper Municipal Bonds	10% 10%	Aa/AA/AA

⁽¹⁾ 25% Maximum per ORS 294.035(D)

⁽²⁾ As authorized by ORS 294.035(3)(d)

⁽³⁾ 35% Maximum per ORS 294.035(D)

⁽⁴⁾ 5% Maximum per ORS 294.035(D)

e. Restriction on Issuers With Prior Default History:

Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of three years next preceding the date of the investment.

f. Determining Security Rating:

A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor’s, Moody’s Investor Services and Fitch Ratings respectively.

2. Liquidity Risk

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

- a. The value of at least 25% of funds available for investing or three months of budgeted operating expenditures will be invested in the Oregon Short Term Fund, with a qualified depository institution, or investments maturing in less than 90 days to provide sufficient liquidity for expected disbursements.
- b. Funds in excess of liquidity requirements are allowed for investments maturing in greater than one year. However, longer-term investments tend to be less liquid than shorter term investments. Portfolio investment maturities will be limited as follows:

Total Portfolio Maturity Constraints:

Maturity	Minimum % of Total Portfolio
Under 90 days	25% or three months estimated operating expenditures
Under 3 year	50%

- c. Reserve or Capital Improvement Project monies may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
- d. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.

Issue Type	Maximum % of Issuance* (Par)
US Agency Securities	50%
Corporate Debt (Total)	-
Corporate Commercial Paper	100%
Corporate Bonds	25%
Municipal Bonds	25%

*The paramount issued under a single CUSIP.

3. Interest Rate Risk

Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

Certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

- a. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
- b. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.
- c. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date or receive a fee other than interest for future deliveries.
- d. The maximum percent of callable securities in the portfolio shall be 35%.
- e. The maximum stated final maturity of individual securities in the portfolio shall be three years, except as otherwise stated in this policy.
- f. The maximum portfolio average maturity (measured with stated final maturity) shall be three years.

X. INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE

Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).

XI. INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENT FUNDS

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

XII. GUIDELINE MEASUREMENT AND ADHERENCE

1. Guideline Measurement:

Guideline measurements will use market value of investments.

2. Guideline Compliance:

- a. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- b. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the City Council.
- c. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

XIII. REPORTING AND DISCLOSURE

1. Compliance

The Investment Officer shall prepare a report at least quarterly that allows the City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- a. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- b. Average maturity of the portfolio at period-end.
- c. Maturity distribution of the portfolio at period-end.
- d. Average portfolio credit quality of the portfolio at period-end.
- e. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio
- f. Distribution by type of investment.
- g. Transactions since last report.
- h. Distribution of transactions among financial counterparties such as broker/dealers.
- i. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

2. Performance Standards/Evaluation

At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates; or against one or bond indices with a similar risk profile (e.g., Bond indexes comprised high grade investments and maximum maturities of three years). When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

3. Marking to Market

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

4. Audits

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

XIV. POLICY MAINTENANCE AND CONSIDERATIONS

1. Review

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. The annual report should also serve as a venue to suggest policies and improvements to the investment program and shall include an investment plan for the coming year.

2. Exemptions

Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

3. Policy Adoption and Amendments

This investment policy and any modifications to this policy must be formally approved in writing by the City Council of the City of Madras. This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

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

Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the City Council for approval.