TITLE 10

SPECIAL ORDINANCES, REGULATIONS, RULES, POLICIES, AND BARGAINING AGREEMENTS

SUBTITLE 3 — POLICIES

POLICY 4

LINN COUNTY INVESTMENT POLICY

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4.001 Purpose

(A) This Investment Policy defines the parameters within which funds are to be invested by Linn County. This policy also formalizes the framework, pursuant to ORS 294.135, for Linn County's investment activities to ensure effective and judicious management of funds within the scope of this policy.

(B) 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.
[Adopted 16-026 eff 2/24/16]

4.002 Governing Authority

Linn County's 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 these statutes and 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.
[Adopted 16-026 eff 2/24/16]

4.003 Scope

This policy applies to activities of Linn County with regard to investing the financial assets of all County funds including County Service Districts and Trust 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 five years is expected to range between $1 million and $40 million.
[Adopted 16-026 eff 2/24/16]

4.004 General Objectives

(A) *Preservation of Invested Capital*. 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.

(B) *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 may also be placed in the Oregon Short Term Fund (Local Government Investment Pool) managed by the Oregon State Treasurer's Office which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

(C) *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 realized (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. **[Adopted 16-026 eff 2/24/16]**

4.005 Standards of Care

(A) *Prudence*.

(1) 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.

(2) 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.

(B) *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 County. 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.

(C) *Delegation of Authority and Responsibilities*.

(1) *Governing Body*. The Board of County Commissioners 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.

(2) *Delegation of Authority*.

(a) 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 Treasurer, 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. In the absence of the Treasurer, the Treasurer's chief deputy is authorized to act as the Investment Officer.

(b) 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.

(c) 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.

(3) Investment Adviser. The Investment Officer, with the approval of the Governing Body, may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investments transacted by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If the Investment Officer hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of Linn County.

[Adopted 16-026 eff 2/24/16]

4.006 Transaction Counterparties, Investment Advisers and Depositories

(A) *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.

(1) Broker/Dealer firms must meet the following minimum criteria:

(a) Be registered with the Securities and Exchange Commission (SEC);

(b) Be registered with the Financial Industry Regulatory Authority (FINRA).

(c) Provide most recent audited financials.

(d) Provide FINRA Focus Report filings.

(2) Approved broker/dealer employees who execute transactions with Linn County must meet the following minimum criteria:

(a) Be a registered representative with the Financial Industry Regulatory Authority (FINRA);

(b) Be licensed by the state of Oregon;

(c) Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

(3) A 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:

(a) Pending investigations by securities regulators.

(b) Significant changes in net capital.

(c) Pending customer arbitration cases.

(d) Regulatory enforcement actions.

(B) *Investment Advisers*. A list will be maintained of approved advisers selected by conducting a process of due diligence.

(1) 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 Linn County must be registered representatives with FINRA;

(c) All investment adviser firm representatives conducting investment transactions on behalf of Linn County must be licensed by the state of Oregon;

(d) Certification, by all of the adviser representatives conducting investment transactions on behalf of Linn County, of having read, understood and agreed to comply with this investment policy.

(2) 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:

(a) Pending investigations by securities regulators.

(b) Significant changes in net capital.

(c) Pending customer arbitration cases.

(d) Regulatory enforcement actions.

(C) *Depositories*. All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

(D) *Competitive Transactions*.

(a) The Investment Officer shall document comparable or alternative investment on all investments purchased or sold in the secondary market.

(b) 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.

(c) If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

[Adopted 16-026 eff 2/24/16]

4.007 Administration and Operations

(A) *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 County's safekeeping institution prior to the release of funds.

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

(C) *Internal Controls*. The investment officer is 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:

(1) Compliance with Investment Policy.

(2) Control of collusion.

(3) Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.

(4) Clear delegation of authority to subordinate staff members.

(5) Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.

(6) Dual authorizations of wire and automated clearing house (ACH) transfers.

(7) Staff training

(8) Review, maintenance and monitoring of security procedures both manual and automated.

(D) An external auditor in conjunction with the annual County audit shall review compliance with Oregon state law and Linn County policies and procedures.

[Adopted 16-026 eff 2/24/16]

4.008 Suitable and Authorized Investments

(A) *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).

(1) 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.

(2) US Agency Obligations: Senior debenture obligations of US federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE).

(3) Oregon Short Term Fund (Local Government Investment Pool).

(4) Corporate Indebtedness

(a) Commercial Paper issued under the authority of section 3(a)2 or 3(a)3 of the Securities Act of 1933.

(b) Corporate Bonds

(5) Municipal Debt

(6) Bankers Acceptances

(7) Qualified Institution Time Deposits/Savings Accounts/Certificates of Deposit.

(B) *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 Linn County.

(C) *Prohibited Investments*

(1) *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.

(2) *US Agency Mortgage-backed Securities*. US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.

(3) *Securities Lending*. The County shall not lend securities nor directly participate in a securities lending program.

(D) *Demand Deposits and Time Deposits*

(1) 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.

(2) 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.
[Adopted 16-026 eff 2/24/16]

4.009 Investment Parameters

(A) *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:

(1) *Diversification*. It is the policy of Linn County to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type. Investment exposure limitations are detailed in the table below;

(2) *Recognized Credit Ratings*. Investments must have a rating from at least two 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;

(3) 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;

(4) *Exposure Constraints and Minimum Investment Credit Ratings*. The table in Appendix 1 limits exposures among investments permitted by this policy.

(5) *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 five years next preceding the date of the investment.

(B) *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:

(1) The value of at least 10% 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 30 days to provide sufficient liquidity for expected disbursements;

(2) 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 indicated in Appendix 2;

(3) Reserve or Capital Improvement Project funds 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;

(4) Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity;

(5) Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance. Limitations on investment in a specific debt issuance are as indicated in Appendix 3.

(C) *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:

(1) Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk;

(2) 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;

(3) 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;

(4) The maximum percent of callable securities in the portfolio shall be 25%;

(5) The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy;

(6) The maximum portfolio average maturity (measured with stated final maturity) shall be 2.0 years.

[Adopted 16-026 eff 2/24/16]

4.010 Investment of Proceeds from Debt Issuance

(A) 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.

(B) 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 41.009(B) of this Policy.

[Adopted 16-026 eff 2/24/16]

4.011 Investment of Reserve or Capital Improvement Funds

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project funds 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, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.
[Adopted 16-026 eff 2/24/16]

4.012 Guideline Measurement and Adherence

(A) Guideline Measurement. Guideline measurements will use market to market value of investments.

(B) *Guideline Compliance.*

(1) 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.

(2) 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 Board of County Commissioners.

(3) 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.
[Adopted 16-026 eff 2/24/16]

4.013 Reporting and Disclosure

(A) *Compliance.* The Investment Officer shall prepare a report at least monthly that allows the Board of County Commissioners to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include, at a minimum, the following:

(1) 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);

(2) Average maturity of the portfolio at period-end;

(3) Maturity distribution of the portfolio at period-end;

(4) Average portfolio credit quality of the portfolio at period-end;

(5) Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio;

(6) Distribution by type of investment;

(7) 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.

(B) *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 more bond indices with a similar risk profile. 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.

(C) *Marking to Market.* The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be included in the monthly report.

(D) *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.
[Adopted 16-026 eff 2/24/16]

4.014 Policy Maintenance and Considerations

(A) *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.

(B) *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.

(C) *Policy Adoption and Amendments*

(1) This investment policy and any modifications to this policy must be formally approved in writing by the Board of County Commissioners.

(2) 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 Board of County Commissioners, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)); and

(b) 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.

(3) 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 Board of County Commissioners for approval.

[Adopted 16-026 eff 2/24/16]

Statutory References and Other Authorities:
ORS 294

Legislative History of Policy 4:

1st Adopted eff 1989-315 eff 6/14/89
2nd Adopted 1990-482 eff 7/18/90; superceded 1989-315
3rd Adopted 1992-409 eff 6/24/92; superceded 1990-482
4th Adopted 1995-319 eff 9/28/95
5th Adopted 1998-268 eff 6/30/98
6th Adopted 2000-500 eff 9/6/00
  Amendments to 2000-500
   #1 2005-040 eff 2/2/05
7th Adopted 2016-026 eff 2/24/16; repealing 2005-500 as amended by 2005-040
  Amendments to 2016-026:
   #1 none

Appendix 1
Exposure Limits Among Investments

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 (Local Government Investment Pool)	Maximum allowed per ORS 294.810	-
Bankers' Acceptances	25%(1)	A1+/P1/F1+
Time Deposits/Savings Accounts/Certificates of Deposit(2)	50%	-
Per Institution	25%	
Corporate Debt (Total)	25%(3)	-
Corporate Commercial Paper Per Issuer	5.0%(4)	A1/P1/F1
Corporate Bonds Per Issuer	5.0%(4)	A/A/A
Municipal Debt	25%	-
Municipal Bonds		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)

Appendix 2
Total Portfolio Maturity Constraints

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10% or three months Estimated Operating Expenditures
Under 1 year	25%
Under 5 years	100%
Weighted Average Maturity of Portfolio	2.0 years

Appendix 3

Limitations on Investment in a Specific Debt Issuance

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

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