

**PORT OF HOOD RIVER**  
**Resolution No. 2013-14-6**

**RESOLUTION ADOPTING AN INVESTMENT POLICY**

**PURPOSE**

**WHEREAS**, the Port is permitted under State of Oregon law to invest its funds in various classes of securities including but not limited to: United States Government or United States Agency securities; time deposits and bankers' acceptances of financial institutions located within Oregon; corporate bonds; repurchase agreements; and in the Local Government Investment Pool; and

**WHEREAS**, the primary objective of the Investment Policy is to establish a conservative set of investment criteria that will prudently protect the Port's assets and enable the Port to generate a market rate of return; and

**WHEREAS**, the Executive Director and Finance Manager have developed a formal Investment Policy after seeking the advice of the State Treasurer's Office; and

**WHEREAS**, ORS 294.135 requires the Port to adopt an Investment Policy; and

**WHEREAS**, when material changes are made to the Investment Policy, the Port is required pursuant to ORS 294.135 to submit the Investment Policy to the State of Oregon Short-Term Fund Board for review;

**POLICY**


**NOW, THEREFORE, BE IT RESOLVED** by the Port of Hood River Board of Commissioners of Hood River, Oregon that:

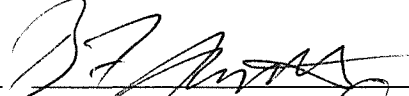
1. The Investment Policy, attached hereto as Exhibit A, fulfills all State of Oregon requirements, and is hereby adopted as the Port of Hood River's Investment Policy.
2. The Finance Manager shall be responsible for the implementation of the Investment Policy, working closely with the Executive Director.
3. Amendments to the Investment Policy must be approved by the Port Board of Commissioners.
4. This resolution shall remain in effect from the date of adoption unless a change is directed by the Board of Commissioners.




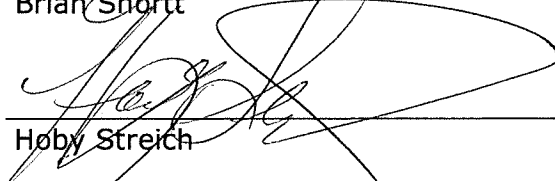
**BE IT FURTHER RESOLVED** that the Port of Hood River Board of Commissioner's directs staff to implement the Investment Policy as a binding Port Policy.


**ADOPTED BY THE BOARD OF COMMISSIONERS** this 6<sup>th</sup> day of May 2014.

  
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Jon Davies

  
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Brian Shortt

  
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Fred Duckwall

  
\_\_\_\_\_  
Hoby Streich

  
\_\_\_\_\_  
Rich McBride



**INVESTMENT POLICY**

## PORT OF HOOD RIVER, OREGON

**I. SCOPE AND OBJECTIVES**

This Investment Policy ("Policy") sets forth current criteria for the operation of the Port of Hood River's investment activities. As economic conditions change, the Policy may need to be amended to reflect new trends and opportunities within the framework of this Policy. The primary objectives of the Policy shall be to establish a conservative set of investment criteria that will, in priority order, (1) prudently protect the Port's principal sums and ensure the preservation of capital, (2) provide ample liquidity to meet the Port's reasonably anticipated operating needs and daily cash requirements, and (3) enable the Port to generate a market rate of return from its investment activities.

This Policy applies to the investment of all funds on deposit at the Port of Hood River bank and investment accounts. All trust or custodial funds shall be invested and administered at the direction of the Finance Manager. Funds held by a Trustee or Fiscal Agents are excluded, if the Port does not have control. Deferred Compensation funds are governed by separate rules and are not covered within this Policy. The estimated average balance of investments covered herein range from \$500,000 to \$10 million.

Bond proceeds are included in the Port's portfolio, factored into its structure and managed to meet cash-flow requirements. Specific investments may on occasion be established to recognize the long-term nature of some funds (e.g. capital projects) and conform to legal restrictions (e.g. bond covenants). Securities may be sold prior to their maturity and reinvested in instruments with a lower yield.

**II. RESPONSIBILITIES, GOVERNING AUTHORITY, STANDARDS OF CARE, INDEMNIFICATION, CONFLICT OF INTEREST AND ETHICS**

The Finance Manager will be responsible for the implementation of this Policy, working closely with the Executive Director in performance of his investment duties.

All investment activities shall be conducted in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this 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 ORS shall be assumed to be part of this Policy immediately upon being enacted.

All persons performing investment duties ("investment officers") shall do so applying the "prudent person" standard in managing all funds for which the Port has investment responsibility. Investment officers acting in accordance with written procedures in conjunction with this 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.

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.”

Investment officers shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Investment officers shall disclose any material interests in financial institutions with which they conduct business, any personal financial/investment positions that could be related to the performance of the investment portfolio, and shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the Port.

The Port Board of Commissioners will retain ultimate fiduciary responsibility for invested funds. The Board will receive an annual report depicting the activity and values of such investments as reported in section VIII of this policy and make any necessary adjustments to the policy based upon performance or other factors on an annual basis.

Investment officers shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, and where applicable, any Port Code, policies and administrative rules, which include, but are not limited to, the Port's Personnel Policy on its Code of Conduct.

Any amendments to this Policy must be approved by the Board of Commissioners after seeking the advice from the Executive Director (or designee), the Finance Manager, and possibly the Investment Advisor.

### **III. TYPES OF INVESTMENT AND DIVERSIFICATION**

The following types of investments will be permitted in the Port's investment portfolio:

#### **A. United States Treasury Debt Obligations**

- Maximum Percent of Portfolio 100%
- Maximum Maturity 10 Years
- (US Treasury Inflation Indexed Securities) 10 Years
- Securities held for safekeeping at the Port's custodian financial institution.

#### **B. United States Agency Debt Obligations**

- Maximum Percent of Portfolio 100%
- Maximum Percent of Portfolio Per Issuer 35%
- Maximum Maturity 10 Years
- Securities held for safekeeping at the Port's custodian financial institution.

#### **C. Repurchase Agreements Secured by United States Treasury Debt Obligations**

- Maximum Percent of Portfolio 25%
- Maximum Maturity 120 Days
- Only Primary Government Securities Dealers reporting to the Federal Reserve Bank of New York may be counterparties.
- Repurchase agreements cannot exceed 2% of counterparty's liabilities.
- A signed repurchase agreement will be obtained in advance of the initial execution of an investment.

- Securities which serve as collateral for repurchase agreements must be delivered to the Port's custodian financial institution on a delivery versus payment basis.
- Collateral for repurchase agreements may be US Treasury securities or US Agency Discount Notes or Coupon securities only. Maximum maturity for acceptable collateral is three years.
- The price paid by the Port for United States Treasury Securities in the repurchase agreement shall not exceed amounts or percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board created by ORS 294.885.

**D. Interest-Bearing Deposits (Time Deposits, Interest-Bearing Deposits, or Certificates of Deposit) in Financial Institutions in Compliance with the Provisions of ORS Chapter 295.**

- Maximum Percent of Portfolio 50%
- Maximum Percent of Portfolio Per Issuer 25%
- Maximum Maturity 5 Year
- Deposits placed in financial institutions which do not participate in the Oregon State Treasurer's Public Funds Collateralization Program (PFCP) shall be limited to amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA), as applicable.
- Securities held for safekeeping in the Port's vault.

**E. Bankers' Acceptance Issued by Financial Institutions in Compliance With the Provisions of ORS 294.035**

- Maximum Percent of Portfolio 5%
- Maximum Percent of Portfolio Per Issuer 5%
- Maximum Maturity 6 Months
- Securities held for safekeeping at the Port's custodian financial institution.

**F. Corporate Indebtedness (Corporate Bonds) Issued by United States Corporations in Compliance With the Provisions of ORS 294.035**

Corporate Indebtedness: Maximum Percent of Portfolio: 10%  
 Maximum Percent of Portfolio Per Issuer: 5%

**F. Corporate Bonds**

- Minimum Ratings: Short-Term (ST) or Long-Term (LT) bond ratings of AA- or Aa3 (or better), equivalent to the security's maturity, by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) of the Securities and Exchange Commission (SEC) at the time of purchase. In the event of a split rating (one higher/one lower), the lowest rating will be used to evaluate investment compliance.

- When the corporate indebtedness is issued by an Oregon entity, the rating must be A- or A3 (or better), equivalent to the security's maturity, at the time of purchase. In the event of a split rating (one higher/one lower), the lowest rating will be used to evaluate investment compliance.
- Maximum Maturity 5 Years
- Securities to be held for safekeeping at the Port's custodian financial institution.

**G. Corporate Debt Obligations Guaranteed by the United States Government, the Federal Deposit Insurance Corporation (FDIC), or any other United States Government Agency that Sponsors Commercial Deposit or Credit Default Protection Insurance.**

- Maximum Percent of Portfolio 35%
- Maximum Percent of Portfolio Per Issuer 10%
- Maximum Maturity 10 Years
- Includes Corporate Debt Obligations backed by an explicit guarantee (payment of principal and interest) of the full faith and credit of the United States Government, the Federal Deposit Insurance Corporation (FDIC), or any other United States Government Agency that provides federally backed commercial deposit or credit default protection insurance.
- The explicit guarantee of payment of principal and interest must be maintained throughout the full term of the debt obligation.
- Securities held for safekeeping at the Port's custodian financial institution.

**H. Municipal Bonds. Taxable and Tax-Exempt Municipal Bonds Issued by state or local governments and their agencies and authorities, not to include conduit revenue bonds issued on behalf of a non-governmental entity.**

- Minimum Ratings: ST: A-1/SP-1 or better. LT: Aa/Aa2 or better. Only one rating from a Nationally Recognized Statistical Rating Organization (NRSRO) of the Securities and Exchange Commission (SEC) at the time of purchase is required. In the event of a split rating (one higher/one lower), the lowest rating will be used to evaluate investment compliance.
- Maximum Percent per Portfolio 50%
- Maximum Percent of Portfolio Per Issuer 15%
- Maximum Maturity 10 Years
- Securities held for safekeeping at the Port's designated safekeeping financial institution.

**I. State of Oregon Local Government Investment Pool(s)**

- The permitted maximum(s) as prescribed by ORS 294.805 to 294.895 and all other applicable Oregon Revised Statutes.



#### **IV. POLICY COMPLIANCE**

Portfolio diversification requirements shall remain consistent with those described within Section III of this policy. Diversification requirements and policy compliance must be met on the settlement date of an investment transaction. If due to unanticipated cash flow requirements or other circumstances beyond the Finance Manager's control, the investment in any security type or financial issuer exceeds the limitations of this policy, the Finance Manager is responsible for bringing the investment portfolio back into compliance as soon as is practical. Portfolio compliance is detailed in the Investment Report, which is produced annually by the Port's Finance Manager.

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 applicable bond covenants and tax laws.

Funds from bond proceeds and amounts held in a bond debt service reserve may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale but are matched with outflows related to capital improvement projects and related engineering and construction schedules. In the case of a current or advanced refunding, the trustee will invest any proceeds tied to the defeasance schedule of such a refunding.

#### **V. DISTRIBUTION OF PORTFOLIO MATURITIES**

Distribution, by maturity, of the investments is illustrated below:

<u>Maturity</u>	<u>Percentage of Funds</u>
0-5 Years	50-100%
5-10 Years	0- 50%

This maturity structure applies to the Finance Manager's best projection as to the lowest cash balance the portfolio will reach during the ensuing five to ten year period. In a rising interest rate environment, the Finance Manager will need to weigh the above allocation. This projection shall be based in part upon historical balances and projected net cash flows. If, for example, the projected lowest cash balance is \$5 million then up to \$5 million may be invested in the five to ten year maturity range. All other funds must be invested in less than five-year maturities and must meet the Port's cash flow requirements. The maximum percent of callable securities in the portfolio shall be 40%. The portfolio's weighted average maturity shall not exceed thirty-six (36) months with no security having more than a 10 year maturity.

#### **VI. QUALIFIED FINANCIAL DEPOSITORIES AND BROKER/DEALER COUNTERPARTIES**

The Executive Director and Finance Manager will assist in determining the maximum deposit level with each Oregon qualified financial depository and the criteria for determining which broker/dealer firms and affiliated registered representatives shall be eligible to conduct investment transactions with the Port. The Finance Manager will maintain a current list of all broker/dealer firms and affiliated registered representatives that have been approved to conduct investment transactions with the Port. The Finance Manager shall conduct an annual

review of each approved financial institution to determine whether it should remain on the approved list.

Broker/dealer firms must meet the following minimum criteria. Additional criteria may also be required:

1. Must be registered with the Securities and Exchange Commission (SEC);
2. Must be registered with the Financial Industry Regulatory Authority (FINRA);
3. Must provide most recent audited financial statements;
4. Must provide FINRA Focus Report filings.

Approved broker/dealer employees who execute transactions must meet the following minimum criteria. Additional criteria may also be required:

1. Must be a registered representative with the Financial Industry Regulatory Authority (FINRA);
2. Must be licensed by the state of Oregon;
3. Certification (in writing) of having read, understood and agreed to comply with the most current version of this Policy.

If an Independent Investment Advisor is used they must disclose their association with a broker/dealer firm and must address conflicts of interest with regard to investment transactions that might occur with the Port by agreeing not to provide the Port with any investment advisory service related to such a broker/dealer firm.

Investment officers will strive for best execution of trades, and shall strive to solicit competitive bids or offers for all investable assets. Investment officers will also verify that the rates being offered to the Port are rates comparable to those available for similar investments within the national market. The allocation of brokerage business will be based upon which brokerage firm offers the best price to the Port on each particular transaction. Where two or more brokers have offered the same best price, allocation will go to the investment firm that has provided the best service to the Port.

## **VII. METHOD OF ACCOUNTING**

The Port shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).

## **VIII. REPORTING REQUIREMENTS**

An Investment Report which provides a detailed review of the Port's investments will be produced annually and reviewed by the Board of Commissioners. The report will provide a review of the investment portfolio including, but not limited to:

1. List of portfolio holdings.
2. Current yields and distributions.
3. Amortized cost, market value and realized and unrealized gains/losses.
4. List of transactions.

5. Diversification analysis.
6. Demonstration of the investment portfolio's compliance with this Investment Policy.
7. The Board will make any adjustments to the Investment Policy on an annual basis based upon the performance and other facts that require such a change.

## **IX. INTERNAL CONTROLS**

The internal controls of the Port are reviewed and tested by the Port's financial auditor.

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in the Port's designated safekeeping institution prior to the release of funds. All deliverable securities will be held by the Port's designated custodian for safekeeping. All securities will be evidenced by safekeeping receipts in the Port's name. Upon request, the safekeeping institutions shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

## **X. PERFORMANCE EVALUATION**

The Port's investment performance shall be reviewed by the Finance Manager. Performance evaluations within the investment industry are commonly referred to as benchmarking. The benchmark used in the Investment Report is a comparative yield analysis which looks at the U.S. Treasury securities, US Government Agency obligations and the State of Oregon's Local Government Investment Pool yield.

## **XI. ANALYSIS OF INVESTMENT RISKS**

In analyzing the Port's Investment Portfolio, there are three areas of risk exposure that the Port confronts through its investment activities. The first risk confronting the Port is interest rate risk. This risk is the uncertainty of the size of future incomes from securities caused by fluctuations in the general level of interest rates in the capital markets.

Interest rates are subject to dramatic fluctuations and, therefore, the Port's Investment Policy is designed to minimize interest rate risk. This is accomplished by limiting investments to a maximum maturity of ten years, a weighted average maturity of the portfolio that does not exceed thirty-six (36) months, and by investing to meet the Port's cash flow requirements. Weighted average maturity is calculated using the final maturity of all callable and variable rate securities. 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. The second area of risk exposure confronting the Port can be termed purchasing power risk. It is predominantly the risk associated with inflation. This risk can be defined as the uncertainty of the purchasing power of interest and principal to be received in the future. It can be easily recognized that if the amount of income from a security in current dollars remains unchanged over a period of time while inflation is rising, then the amount of income in constant dollars declines and the constant value of the principal to be received also declines. The Port's Investment Policy is designed to mitigate this risk through the short-term nature of the portfolio maturity requirements as well as the ability to invest in US Treasury Inflation Indexed Securities or the Corporate credit markets.

The final risk is credit risk or the financial risk of not receiving principal and interest when due from an issuer. The types of investments permitted by the Investment Policy seek to minimize this risk by the conservative nature of the permissible investments and by establishing safe limits on the level of investments with Oregon financial institutions and issuers of corporate indebtedness and monitoring their credit quality on an ongoing basis. A portfolio policy stressing a relatively short maturity serves to additionally minimize credit risk.

Therefore, it is the conclusion that the shorter the portfolio is in terms of maturity, the less risk exposure the Port faces with regard to the all three major areas of risks confronting the Port's investment activities. The policy of maintaining 100% of the funds in securities maturing in ten years or less, and keeping the portfolio's weighted average maturity at no more than thirty-six (36) months, provide ample flexibility to earn capital gains on the Port's investments by extending funds out to longer maturities when interest rates are falling, yet avoids the extreme amount of exposure to interest rate risk and purchasing power risk that exist in longer-term portfolios.