May 24, 2001

01-094

ADOPTION OF UPDATED INVESTMENT GUIDELINES FOR PORTLAND COMMUNITY COLLEGE

PREPARED BY: Dee Wilson, Manager, Bursar & Treasury Manager

FINANCIAL RESPONSIBILITY: Wing-Kit Chung, Associate Vice-President, Finance

APPROVED BY: Randy McEwen, Vice-President, Administrative Services
Dan Moriarty, President

REPORT:

ORS 294.035 and Portland Community College Board Policy B502 require the Investment Officer of the College to review and update our investment guidelines periodically and to solicit input from the Oregon Short Term Fund Board.

Investment Guidelines were adopted in 1997 in accordance with this policy, and with ORS 294.035 (Investment of Surplus Funds) and 294.135 (Investment Maturity Dates). Due to the upcoming bond issue, a revision to the **Diversification by Security Type and Institution** section of the guidelines is recommended.

ADD:

Flex Repurchase Agreements (100% bond proceeds only)

Investments in flexible repurchase agreements as a vehicle for construction funds, debt service reserve funds, funds associated with tax-exempt bond financings are allowed, in maturities not to exceed 90 days. The flex repurchase agreements must be collateralized at least 102% by direct U.S. Government or U.S. Government agencies or instrumentalities, and be equal to no more than 3% of the liabilities of the counter party.

ELIMINATE:

Oregon Arbitrage and Investment (100% bond proceeds only) Management Program (OAIM) established by ORS 902.107 & 108, with the consent of the Board.

The change will give the College more flexibility to invest the 2001 Series B bond proceeds to match the yield restriction set by the Federal Arbitrage Regulations.

RECOMMENDATION

That the Board of Directors adopt the attached revision to the investment guidelines for Portland Community College.

Director Anderson moved to approve Resolution 01-094 and it passed unanimously.

PORTLAND COMMUNITY COLLEGE (PCC)

INVESTMENT GUIDELINES

Scope

This Policy applies to activities of PCC with regard to investing all corporate cash. Even if not expressly referenced or cited, this Policy is intended to comply with Oregon Revised Statues, Chapter 294, or other regulations governing Oregon public agencies. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with section 148 of the 1986 Tax Reform Act, and related amendments.

The PCC Board adopted the Oregon Public Contract Guideline 125-310-090 under which the College may, without competitive bidding, contract for the purpose of the investment or borrowing of funds when such investment or borrowing is contracted pursuant to duly enacted statute.

Objectives

The primary objectives of investment activities shall be:

1. Preservation of capital - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate default risk and interest rate risk.[1]

   A. Default Risk - The risk of default may be mitigated by investing in high grade securities, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   B. Interest Rate Risk - The risk that the market value of securities in the portfolio will decline due to changes in general interest rates shall be mitigated by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

2. Liquidity - Investments shall be undertaken in a manner that seeks to ensure sufficient liquidity to meet all operating requirements which might be reasonable anticipated.

3. Diversification - Investments shall be taken in a manner that seeks to avoid incurring unreasonable and avoidable risks by concentration in specific security types, industries or financial institutions.

4. Yield - The investment office shall strive to maintain a maximum rate of return throughout budgetary and economic cycles given the constraints and spirit of these Guidelines. Performance of the investment portfolio shall be measured against the yield of the 13-week Treasury Bill, and/or the monthly net yield of the Local Government Investment Pool.

---

[1]The portfolio will assume some risk by allowing investment in non-government obligations. Sovereign and exchange risk are not a factor as the College is prohibited from investing in foreign assets.

Delegation of Authority

The Controller shall function as the Investment Officer and shall maintain the right to approve staff members to authorize transactions on behalf of PCC, subject to the investment policies contained herein. The Investment Officer and staff members approved to authorize transactions must be bonded individuals.

PCC will hold the investment officer, staff and PCC officials harmless from personal liability for losses that might occur pursuant to administering investments while acting in accordance with these Investment Guidelines.

Prudence

Funds of the College shall be invested only in eligible investments specified in ORS 294.035, and based on policy approved by the Board of Directors. In choosing among eligible investments, the Investment Officer shall be governed by the *"Prudent Investor"* rule, which 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 safety of their capital as well as the income to be derived."* The prudent investor rule shall be applied in the context of managing the overall portfolio.

Investment Maturity

Maturity limitations will depend upon whether the funds being invested are considered short-term or long-term. Funds required for current operating expenses will be considered short-term, all other funds will be considered long-term. Investments will be limited to those which, based on PCC's then-current projected cash requirements, can be held to maturity. Investments shall not be made predicted upon selling the security prior to maturity. However, the investment office may adjust the contents of the portfolio based on the available markets and the relative values of competing instruments. Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs. Unless matched to a specific cash flow, the College will not invest in securities maturing more than three (3) years from the date of purchase. Investment of capital project funds will be timed to meet projected contractor payments.

Monitoring and Adjusting the Portfolio

The Investment Office shall routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality, and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.

Guidelines Review

These Guidelines shall be reviewed and readopted annually by PCC's Board of Directors to ensure that it is updated to reflect any changes from the legislature. Prior to adoption, the Guidelines will be submitted to the Oregon Short-Term Fund Board for comment in accordance with ORS 294.135a.

Accounting Method

PCC 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 Government Accounting Standards Board (GASB); and the Financial Accounting Standards Board (FASB).

Reports

A quarterly report of outstanding investments will be prepared at the direction of the Controller and distributed to the Vice President of Administration.

Total Prohibitions

Purchase of standby commitments, or forward commitments in excess of 14 days (in accordance with ORS 294.145(1))are specifically prohibited.

Securities not specifically addressed by these Guidelines are prohibited for investment purposes.

Diversification by Security Type and Institution

Authorized U.S. Securities - The following U.S. Government and Federal Agency securities are authorized for purchase (Obtain a periodical update from State Treasury):

Investment Instrument	Maximum Percent of Portfolio
U.S. Treasury Obligations	100%
Securities of U.S. Government Agencies and Instrumentalities	100%
Bankers' Acceptances and Bank Deposits -	50%

Demand deposits, certificates of deposit, or bankers' acceptances issued by approved commercial banks which have obtained a rating of A1 (Standard and Poor's) or A2 (Moody's), or an equivalent rating by any nationally recognized rating agency, must meet the same asset requirements as those discussed under *Repurchase Agreements*. Bank deposits must be FDIC Insured, and collateralized at 25%.

Exception to the yield objective and asset requirements (discussed under Repurchase Agreements) may be made for deposits in financially sound community banks and savings & loan associations for up to $100,000 if it is deemed by the President to be pertinent to the college's financial and operational interests.

No more than 25% of the total portfolio shall be invested in instruments which represent the liability of a single commercial bank, bank holding company, or savings & loan association.

Corporate Indebtedness 35%

Commercial paper must be rated A1 by Standard & Poors or P1 by Moody's, or an equivalent rating by any nationally recognized rating agency. Corporate notes, bonds and debentures must be rated AA or better by Standard & Poor's or Aa or better by Moody's, or an equivalent rating by any nationally recognized rating agency.

Corporate indebtedness is subject to a valid registration statement on file with the SEC or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933 as amended. Corporate indebtedness must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution.

Investment in corporate indebtedness shall be limited to a maximum of 5% for one corporate entity.

Repurchase Agreements 25%

In accordance with ORS 294.035(11), investments in repurchase agreements must be for no more than seven (7) days and must be at least 102% collateralized by direct U.S. Government or U.S. Government agency securities. Banking institutions from which repurchase agreements are purchased must have holding company assets of at least $5 billion and execute a master repurchase agreement with the College. PCC will not enter into any reverse repurchase agreements.

Flex Repurchase Agreements **100%***

Investments in flexible repurchase agreements as a vehicle for construction funds, debt service reserve funds, funds associated with tax-exempt bond financings is allowed, in maturities not to exceed 90 days. The flex repurchase agreements must be collateralized at least 102% by direct U.S. Government or U.S. Government agencies or instrumentalities, and be equal no more than 3% of the liabilities of the counter party.

*** Bond proceeds only**

Regional State and Municipal Debt Obligations - 25%

PCC will limit its purchase of debt obligations to municipalities which have obtained a rating of A (Standard and Poor's) or A2 (Moody's) or better on Revenue Bonds, or an equivalent rating by any nationally recognized rating agency, or a BBB+ (Standard and Poor's) or Baa-1 (Moody's) rating or better on General Obligation Bonds or an equivalent rating by any nationally recognized rating agency.

Investment Pools - PCC is allowed to participate in the following pools:

Local Government Investment Pool (LGIP), up to legal limit according to ORS 294.810. 75%

~~Oregon Arbitrage and Investment Management Program (OAIM) established by ORS 902.107 & 108, with the consent of the Board.~~ ~~100%*~~

~~* Bond proceeds only.~~

Safekeeping and Collateraliztion

All securities purchased other than the Pools pursuant to these Guidelines will be held in safekeeping. The purchase and sale of securities will be on a delivery versus payment basis. Securities will be held in the custody of PCC's relationship banks. The custodian shall issue a safekeeping receipt to PCC listing the specific instrument, rate, maturity and other pertinent information. In the event that a security delivery fails, the primary investment agent shall issue a "due bill" and shall not collect the settlement proceeds until the security is duly delivered in accordance with ORS 294.145(4). Repurchase agreements will be subject to the safekeeping requirements. Demand and time deposits shall be collateralized through the state collateral pool as required by statute for any excess over the amount insured by an agency of the United States government.

ORS 294.145 (11) 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. On March 12, 1996, the OSTF Board adopted the following margins:

US Treasury Securities:	102%
US Agency Discount and Coupon Securities:	102%
Mortgage Backed and Other:	103%

Primary Investment Agents

Primary investment agents should be licensed securities dealers and financial institutions who are financially sound and have a good reputation in the community. The Investment Officer shall maintain a list of authorized investment agents and will be responsible for ensuring that all investment agents are presented with a copy of these Guidelines prior to entering into any transaction. On an annual basis, the firms performing investment services shall provide their most recent financial statements or Consolidated Report of Condition (call report) for review. Further, there should be in place, proof as to all the necessary credentials and licenses held by employees of the broker/dealers who will have contact with PCC. PCC shall conduct an annual evaluation of each firm to determine if it should remain on the list. The authorized agent must acknowledge that all investments transactions entered into with PCC will be made in accordance with the Guidelines. Any firm is eligible to make an application to PCC to be added to the list of authorized investment agents, and upon due consideration and approval may be added to the list. If a primary agent does not comply with the Guidelines, they will be removed from the list and will not be considered for future services.

Investment Guidelines Adoption

These Investment Guidelines are adopted by the PCC Board this ___ day of ______, 2001