

July 15, 2004

05-004

ADOPTION OF UPDATED INVESTMENT GUIDELINES
AND PROCEDURES FOR PORTLAND COMMUNITY
COLLEGE

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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 and procedures periodically and to solicit input from the Oregon Short Term Fund Board. In accordance with ORS 294.035, College Staff have prepared the attached updated investment guidelines and procedures, which have been reviewed and approved by the Oregon Short Term Fund Board.

RECOMMENDATION: That the Board of Directors adopt the Investment Guidelines and Standard Procedures for Portland Community College in "Attachment A."

Director Palmer moved for approval of Resolutions 05-001 through 05-004 and it passed unanimously.

PORTLAND COMMUNITY COLLEGE (PCC)

INVESTMENT GUIDELINES AND STANDARD PROCEDURES

Scope

The objective of these Guidelines and Procedures is to implement Board policy B502. They apply to activities of PCC with regard to the investment of all financial assets of the district. These funds are accounted for in the Comprehensive Annual Financial Report (CAFR). Even if not expressly referenced or cited, this Policy is intended to comply with Oregon Revised Statutes, 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 OAR 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.

Portfolio size:

The size of the district's portfolio varies, depending on whether the district has proceeds from recent capital or other financing activities, such as general obligation bonds approved by the voters of the district. Including bond proceeds, the maximum portfolio is \$180 million. The average without bond proceeds is approximately \$40 million.

Objectives

The primary objectives of investment activities shall be:

1. Preservation of capital - Investments shall be undertaken in a manner that ensures the preservation of capital in the overall portfolio. The objective will be to mitigate default risk and interest rate risk.
 - 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 anticipated operating requirements.
3. Diversification - Investments shall be undertaken in a manner that reduces unnecessary risk by avoiding over concentration in specific security types, industries, financial institutions and, to the extent permitted by cash requirements, maturity ranges.
4. Yield - The Investment Officer shall maintain a maximum rate of return throughout budgetary and economic cycles given the constraints and spirit of these Guidelines and Procedures.

Delegation of Authority

The Associate Vice President of Finance shall function as the Investment Officer. The Investment Officer may delegate to specified treasury position(s) the authority to conduct transactions on behalf of PCC, subject to the investment guidelines and procedures contained herein. Delegation of authority shall be in writing. The Investment Officer and treasury staff members authorized to conduct 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 when acting in accordance with these Investment Guidelines and Procedures.

Ethics and Conflicts of Interest

The Investment Officer and treasury personnel shall refrain from personal business activity that conflicts with the proper execution of investments or that violates Oregon Government Standards and Practices on government ethics (ORS 244).

Prudence

Funds of the College shall be invested only in eligible investments specified in ORS 294.035. 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 and maturing within one-year 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 predicated upon selling the security prior to maturity. However, the Investment Officer 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 Officer 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. The Investment Officer may request competitive bids and offers for investment transactions. If the Investment Officer deems a competitive bid is not necessary, the reason will be documented.

Procedural Review

These Guidelines and Procedures shall be updated periodically as necessitated by material changes in legislative and administrative rules or in the College's investment strategies. In accordance with ORS 294.135a, all changes will be submitted to the Oregon Short-term Fund Board for comment prior to review and re-adoption by PCC's Board of Directors.

Benchmark

The Investment Officer shall use the Local Government Investment Pool and 91 day T-Bill as a benchmark comparison for the portfolio's monthly average yield and duration.

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); the General Accounting Office (GAO); and the Financial Accounting Standards Board (FASB).

Internal Controls

The Investment Officer and employees engaged in investment activity shall adhere to the internal controls currently specified in the operating procedures of the College and Financial Services Division, and any policies adopted hereafter. Internal controls will cover, but are not limited to, separation of duties, written delegation of authority, written confirmation of investment transactions, wires and safekeeping, investment diversification by type and maturity, and other measures designed to provide reasonable assurance against loss of College assets.

Reports

A quarterly report of investment performance will be prepared at the direction of the Investment Officer and distributed to the Vice President of Administrative Services.

Total Prohibitions

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

Securities not specifically addressed by these Guidelines and Procedures 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):

<u>Investment Instrument</u>	<u>Maximum Percent Of Portfolio</u>
U.S. Treasury Obligations	100%
Securities of U.S. Government Agencies and Instrumentalities	100%
Bankers' Acceptances and Bank Deposits	50%
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 <i>Repurchase Agreements</i> . 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 per institution if it is deemed by the President to be pertinent to the college's financial, operational, and community outreach 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 purchases to lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.

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

75%

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

Investment of Bond Proceeds

The Investment Officer and the college's Financial Advisors will determine the investments best suited for the bond proceeds. These investments will be segregated for both tracking and arbitrage purposes within the district's overall portfolio and invested in a manner consistent with these Guidelines and Procedures, Internal Revenue Service requirements, trust indentures, if any, Oregon Revised Statutes (294) and expected drawdown schedules. This provision also applies to bond proceeds received in defeasance of previously issued debt.

Safekeeping and Collateralization

All securities purchased other than the Pools pursuant to these Guidelines and Procedures 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 ORS 294.035 and ORS 295 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 shall be licensed securities dealers and financial institutions that 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 and Procedures 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 a periodic evaluation of each firm to determine if it should remain on the list. The authorized agent must acknowledge that all investment transactions entered into with PCC will be made in accordance with the Guidelines and Procedures. 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 and Procedures, they will be removed from the list and will not be considered for future services.

Indemnity Clause

The district shall indemnify, hold harmless and defend the Investment Officer and any college employees engaged in investment activities from personal liability for losses that may occur during the course of administering these Investment Guidelines and Procedures, when acting in accordance with these Investment Guidelines and Procedures.

Investment Standard Guidelines and Procedures Adoption

These Investment Standard Guidelines and Procedures are adopted by the PCC Board this
Fifteenth Day of July, 2004

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Original established: September 9, 1991

Revision dates: July 28, 1992
June 10, 1997
May 3, 2001
July 15 2004