

Deschutes Public Library District Investment Policy

I. Governing Authority

1. Legality

The Deschutes Public Library District [“The District”] shall operate its investment program in conformance with governing legislation and other legal requirements, including but not limited to ORS 294.035 (*Investment of Funds of Political Subdivisions*), ORS 294.040 (*Restriction on Investment Under ORS 294.035*) and ORS 294.135 (*Investment Maturity Dates*).

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds administered through the Oregon Public Employees Retirement System.

1. Pooling of Funds

Except for cash in certain restricted and special funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. Safety

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 credit risk and interest rate risk.

a. Credit Risk

The District will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy;
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business in accordance with Section V;
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

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- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, while considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" 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 in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. 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 District.

3. Delegation of Authority

Authority to manage the investment program is granted to the District's Business Services Manager ["the investment officer"]. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. 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.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the District as with all securities held in the District's name. The safekeeping institution shall annually provide a

copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the Library Director and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices and other binding documents, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Obligations of state, provincial and local governments and public authorities rated A or better;
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
- Other investment types or asset classes as approved by the District Board.

2. Collateralization

Where allowed by governing legislation and in accordance with the Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts.

3. Repurchase Agreements

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

VIII. Investment Diversification & Constraints

1. Diversification

It is the policy of the District to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all District funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than Treasury bills or U.S. Government agencies. The investment officer shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- Maturity: No more than 15 percent of the portfolio may be invested beyond 24 months, and the weighted average maturity of the portfolio shall never exceed 1.25 years.
- Default risk: No more than 50 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than 35 percent of the portfolio may be invested in each of the following categories of securities:
 - a) Commercial paper (270 day max maturity, no more than 5 percent per single issuer),
 - b) Corporate bonds (36 months max maturity, no more than 5 percent per single issuer),
 - c) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured.

2. Maximum Maturities

To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than three (3) years from the date of purchase or in accordance with governing legislation. The District shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding three (3) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the District Board.

3. Competitive Bids

The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

IX. Reporting

1. Methods

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the District's Library Director, the District Board, and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements);
- Average weighted return on investments as compared to applicable benchmarks;
- Percentage of the total portfolio which each type of investment represents;
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

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. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. Amendments

This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the District Board.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the District Board and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types.

Attachment - A

List of Authorized Personnel

The following District employees are authorized to make investment decisions on behalf of the District in accordance with the District's adopted Investment Policy:

- Todd Dunkelberg, Library Director
- Lynne Mildenstein, Assistant Director
- Robert Guzzo, Business Services Manager

Attachment - B

Relevant Statutes

ORS 294.035 - Investment of funds of political subdivisions

(1) Subject to ORS 294.040 (Restriction on investments under ORS 294.035) and 294.135 (Investment maturity dates) to 294.155 (Annual audit report), the custodial officer may invest any sinking fund, bond fund or surplus funds in the custody of the custodial officer in the bank accounts, classes of securities at current market prices, insurance contracts and other investments listed in this section, but only after obtaining from the governing body of the county, municipality, political subdivision or school district a written order that has been entered in the minutes or journal of the governing body.

(2) This section does not:

(a) Limit the authority of the custodial officer to invest surplus funds in other investments when the investment is specifically authorized by another statute.

(b) Apply to a sinking fund or a bond fund established in connection with conduit revenue bonds issued by a county, municipality, political subdivision or school district for private business entities or nonprofit corporations.

(3) Investments authorized by this section are:

(a) Lawfully issued general obligations of the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government and obligations whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government.

(b) 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 without any refinement or gradation for short-term municipal debt by a nationally recognized statistical rating organization.

(c) Lawfully issued debt obligations of the States of California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating of AA- 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.

(d) Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in ORS 706.008 (Additional definitions for Bank Act), in credit unions as defined in ORS 723.006 ("Credit union" defined) or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state.

(e) Share accounts and savings accounts in credit unions in the name of, or for the benefit of, a member of the credit union pursuant to a plan of deferred compensation.

(f) Fixed or variable life insurance or annuities as defined in ORS 731.170 ("Life insurance") and guaranteed investment contracts issued by life insurance companies authorized to do business in this state.

(g) Trusts in which deferred compensation funds from other public employers are pooled, if:

(A) The purpose is to establish a deferred compensation plan;

(B) The trust is a public instrumentality of such public employers and described in section (2)(b) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(b), as amended, in effect on September 20, 1985, or the trust is a common trust fund described in ORS 709.170 (Establishment of and investment in common trust funds);

(C) Under the terms of the plan the net income from or gain or loss due to fluctuation in value of the underlying assets of the trust, or other change in such assets, is reflected in an equal increase or decrease in the amount distributable to the employee or the beneficiary thereof and, therefore, does not ultimately result in a net increase or decrease in the worth of the public employer or the state; and

(D) The fidelity of the trustees and others with access to such assets, other than a trust company, as defined in ORS 706.008 (Additional definitions for Bank Act), is insured by a surety bond that is satisfactory to the public employer, issued by a company authorized to do a surety business in this state and in an amount that is not less than 10 percent of the value of such assets.

(h) Intentionally left blank —Ed.

(A) Banker's acceptances, if the banker's acceptances are:

(i) Guaranteed by, and carried on the books of, a qualified financial institution;

(ii) Eligible for discount by the Federal Reserve System; and

(iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category without any refinement or gradation by one or more nationally recognized statistical rating organizations.

(B) For the purposes of this paragraph, "qualified financial institution" means:

(i) A financial institution that is located and licensed to do banking business in the State of Oregon; or

(ii) 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.

(C) A custodial officer shall not permit more than 25 percent of the moneys of a local government that are available for investment, as determined on the settlement date, to be invested in banker's acceptances of any qualified financial institution.

(i) Intentionally left blank —Ed.

(A) 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.

(B) Corporate indebtedness must be rated on the settlement date P-1 or Aa3 or better by Moody's Investors Service or A-1 or AA- or better by S&P Global Ratings and Fitch Ratings or an equivalent rating by any nationally recognized statistical rating organization.

(C) Notwithstanding subparagraph (B) of this paragraph, the corporate indebtedness must be rated on the settlement date P-2 or A3 or better by Moody's Investors Service or A-2 or A or better by S&P Global Ratings and Fitch Ratings or an equivalent rating by any nationally recognized statistical rating organization when the corporate indebtedness is:

(i) Issued by a business enterprise that has its headquarters in Oregon, employs more than 50 percent of its permanent workforce in Oregon or has more than 50 percent of its tangible assets in Oregon; or

(ii) Issued by a holding company owning not less than a majority interest in a qualified financial institution, as defined in paragraph (h) of this subsection, located and licensed to do banking business in Oregon or by a holding company owning not less than a majority interest in a business enterprise described in sub-subparagraph (i) of this subparagraph.

(D) A custodial officer may not permit more than 35 percent of the moneys of a local government that are available for investment, as determined on the settlement date, to be invested in corporate indebtedness, and may not permit more than five percent of the moneys of a local government that are available for investment to be invested in corporate indebtedness of any single corporate entity and its affiliates or subsidiaries.

(j) 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. The price paid by the custodial officer for such securities may 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 (Oregon Short Term Fund Board).

(k) Shares of stock of any company, association or corporation, including but not limited to shares of a mutual fund, but only if the moneys being invested are funds set aside pursuant to a local government deferred compensation plan and are held in trust for the exclusive benefit of participants and their beneficiaries.

(l) The investment pool as defined in ORS 294.805 (Definitions for ORS 294.805 to 294.895) and, with the approval of the State Treasurer, any other commingled investment pool that may be established in the discretion of the State Treasurer for investment of the funds of local

governments. The State Treasurer may require the governing body of a local government to enter into an investment agreement with the State Treasurer as a condition of investing funds in a commingled investment pool under this paragraph. [Amended by 1957 c.53 §1; 1957 c.689 §1; 1965 c.404 §1; 1973 c.157 §1; 1973 c.288 §1; 1974 c.36 §9; 1975 c.359 §3; 1977 c.300 §1; 1981 c.804 §84; 1981 c.880 §13; 1983 c.456 §2; 1985 c.256 §2; 1985 c.440 §1; 1985 c.690 §2; 1987 c.493 §1; 1991 c.459 §379; 1993 c.59 §1; 1993 c.452 §1; 1993 c.721 §1; 1995 c.79 §102; 1995 c.245 §2; 1997 c.249 §91; 1997 c.631 §446; 1999 c.601 §1; 2001 c.377 §43; 2003 c.405 §1; 2005 c.443 §§13,13a; 2009 c.821 §25; 2013 c.192 §1; 2014 c.18 §1; 2019 c.587 §52]

ORS 294.040 - Restriction on investments under ORS 294.035

The bonds listed in ORS 294.035 (Investment of funds of political subdivisions) (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. [Amended by 1995 c.245 §3; 2005 c.443 §21]

ORS 294.135 - Restriction on investments under ORS 294.035

(1)An investment made by a custodial officer under ORS 294.035 (Investment of funds of political subdivisions) (3)(a) to (f), (h) and (i) or 294.125 (Investment of funds authorized by order of governing body) may not exceed a maturity of 18 months or the date of anticipated use of the funds by the county, municipality, school district or other political subdivision to which the funds belong, whichever period is shorter. However:

(a)The custodial officer may make investments having a maturity longer than 18 months when the governing body of the county, municipality, school district or other political subdivision to which the funds belong has adopted a written investment policy that, prior to adoption, was submitted to the Oregon Short Term Fund Board for review and comment to the governing body, that includes guidelines concerning maximum investment maturity dates and that provides by its terms for readoption not less than annually; or

(b)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.

(2)The maximum term of any repurchase agreement transaction may not exceed 90 days. [1981 c.880 §§6,8; 1987 c.389 §1; 1989 c.303 §1; 1995 c.245 §7; 2003 c.41 §1; 2005 c.443 §24; 2009 c.821 §30]

Attachment - C

List of Authorized Broker/Dealers and Financial Institutions

On January 28, 2020, the District selected Piper Sandler & Co. underwriter for the issuance of general obligation bonds. Piper Sandler & Co is also the District's authorized broker for investment of funds raised by the issuance of general obligation bonds. On April 7, 2021, the District Board adopted a resolution to authorize the creation of an account with US Bank for the purpose of safekeeping of the funds received upon sale of general obligation bonds.

Attachment - D

Detailed listing of authorized investment classes, sectors, and types

The following investments are authorized by the District:

- US Treasury Notes or Government Agency bonds
 - 100% of portfolio value allowed
 - Maximum maturity of 60 months
 - Maximum of 50% per single issuer, except for US Treasury Notes
- Corporate bonds
 - Maximum of 35% of portfolio value allowed
 - Maximum maturity of 36 months
 - Rated Aa, AA, A-1, P-1, F-1, D-1, or higher
- Commercial Paper
 - Maximum of 35% of portfolio value allowed
 - Maximum maturity of 9 months
 - Rated A-1, P-1, F-1, D-1, or higher
- Oregon, California, Idaho, or Washington state municipal bonds
 - Maximum of 25% of portfolio value allowed
 - Maximum maturity of 36 months
 - Rated Aa/AA, SP-1+, MIG1 or higher