

Tualatin Valley Water District



**BOARD OF COMMISSIONERS
1850 SW 170th AVENUE
BEAVERTON, OR 97006
OCTOBER 27, 2011**

**EXECUTIVE SESSION – 6:00 PM
REGULAR MEETING - 7:00 PM**

Listening devices are available upon request
48 hours prior to the day of the meeting (503-642-1511)
Streaming live at www.tywd.org
Broadcast by TVCTV (at a later date)

AN EXECUTIVE SESSION IS SCHEDULED BEFORE THE REGULAR MEETING AT 6:00 PM CALLED UNDER ORS 192.660 2 (e) TO CONDUCT DELIBERATIONS WITH PERSONS DESIGNATED BY THE GOVERNING BODY TO NEGOTIATE REAL PROPERTY TRANSACTIONS, ORS 192.660 2 (h) TO CONSULT WITH LEGAL COUNSEL CONCERNING THE LEGAL RIGHT AND DUTIES OF A PUBLIC BODY WITH REGARD TO CURRENT LITIGATION OR LITIGATION LIKELY TO BE FILED, AND ORS 192.660 2 (f) 192.502 (9) TO DISCUSS INFORMATION OR RECORDS THAT ARE EXEMPT BY LAW FROM PUBLIC INSPECTION

ALL VERBAL TESTIMONY IS ELECTRONICALLY RECORDED

1. CALL TO ORDER – REGULAR MEETING
2. REPORTS BY THE CHIEF EXECUTIVE OFFICER AND MANAGEMENT STAFF
3. COMMISSIONER COMMUNICATION
 - 3.1 -Reports of Meetings Attended
 - 3.2 -Topics to be raised by the Commissioners
4. PUBLIC COMMENT:
This time is set aside for persons wishing to address the Board on items on the Consent Agenda, and matters not on the Agenda. Additional public comment will be invited on agenda items as they are presented. Each participant is limited to five minutes, unless an extension is granted by the Board.

CONSENT AGENDA: These items are considered to be routine and may be enacted in one motion without separate discussion. Any Board member may request that an item be removed by motion for discussion and separate action.

ITEMS REMOVED FOR SEPARATE DISCUSSION: Any items requested to be removed from the consent agenda for separate discussion, will be considered immediately after the Board of Commissioners have approved those items which do not need discussion.

5. CONSENT AGENDA ITEMS
 5.1 -Work Session Minutes of September 6, 2011 4
 5.2 - Regular Meeting Minutes of September 21, 2011 16

BUSINESS AGENDA ITEMS:

Time will be set aside for public comment for each business item. Each participant is limited to five minutes unless the Board grants an extension, or the agenda item is noted for a specific amount of time for public comment.

6. RESOLUTION 08-11, AMENDING THE INVESTMENT POLICY FOR THE
 TUALATIN VALLEY WATER DISTRICT (MOTION) 30

7. ADJOURNMENT

**TUALATIN VALLEY WATER DISTRICT
BOARD AGENDA ITEM**

MEETING DATE: OCTOBER 27, 2011

TITLE: RESOLUTION 08-11; AMENDING THE INVESTMENT POLICY FOR THE TUALATIN VALLEY WATER DISTRICT.

ITEM: Finance staff continually monitors the District’s Investment Policy to ensure it meets current portfolio management needs and complies with state statutory requirements under ORS 294.

The current policy was adopted by the District’s Board of Commissioners on January 19, 2011 (Resolution No. 03-11). In consultation with the District’s investment advisor Davidson Fixed Income Management, staff is recommending amendments to the Investment Policy. We would like to be allowed to have the option of purchasing individual securities having a maximum maturity of five years. The current Investment Policy provides a maximum maturity of three years for any single issue without express approval of the Board of Commissioners. We are seeking such approval because it may be possible to increase the yield of our portfolio if we commit some funds for a longer period of time. We believe we should look at this opportunity because delays in the Tualatin Basin Water Supply Project have left us with some fund balances that we will not need to access in the near term. We are not proposing to invest the entire balance of funds in longer term investments; only a portion. Staff is also recommending the weighted average maturity (WAM) of the District’s total portfolio be amended from a maximum of 18 to 24 months. This amendment assists with the purchase of five year securities, but keeps our overall commitment of funds significantly shorter than five years in duration.

The District’s investment policy was approved by the Oregon Short-Term Fund Board (OSTF) in April 2009. OSTF review is conducted when significant changes are requested for an investment policy of a political subdivision investing public funds under ORS 294. We have been informed the proposed amendments fall within OSTF guidelines. Therefore, the District is not required to submit the policy for further review at this time.

STAFF RECOMMENDATION: It is recommended the Board move to adopt Resolution 08-11.

BUDGET IMPACT: None

ADDITIONAL INFORMATION: Bernice Bagnall, 503.848.3017, Tod Burton 503.848.3040

ATTACHMENTS: Resolution 08-11, Exhibit 1 – Tualatin Valley Water District Investment Policy

APPROVING MANAGERS INITIAL:

CHIEF EXECUTIVE OFFICER	_____	HUMAN RESOURCES	N/A
FIELD OPERATIONS	N/A	INTERGOV. RELATIONS	N/A
FINANCIAL SERVICES	_____	CUSTOMER SERVICES	N/A
ENGINEERING SERV.	N/A		

BOARD ACTION:

APPROVED _____
DENIED _____

RESOLUTION 08-11

**A RESOLUTION AMENDING THE INVESTMENT POLICY
FOR THE TUALATIN VALLEY WATER DISTRICT**

WHEREAS, the District’s Board in compliance with ORS 294.135 adopts its Investment Policy annually; and,

WHEREAS the Investment Policy was last adopted by the Board through its approval of Resolution 03-11 on January 19, 2011; and,

WHEREAS, the Investment Policy provides guidance on investment decisions and operating principles for the effective management of financial risk, portfolio diversification, and internal controls, and allows for the purchase of investments having a maturity longer than 18 months as allowed by ORS 294.135; and,

WHEREAS, the District desires to amend its Investment Policy to provide the option of purchasing securities with a maximum maturity of five years for any single issue and provide a 24 month maximum weighted average maturity (WAM) for its total portfolio; and

WHEREAS, the Investment Policy with these proposed amendments remains in compliance with ORS 294.035 regulating the investment of public funds by municipal subdivisions, and policy guidelines established by the State of Oregon Short Term Fund Board (OSTF)

WHEREAS, the State of Oregon Short Term Fund Board (OSTF) approved the District’s Investment Policy on April 24, 2009; and,

WHEREAS, the amendments to the Investment Policy do not require further OSTF review as the amendments remain within OSTF guidelines and will be submitted to the OSTF for record; and

WHEREAS, the current Investment Policy is attached hereto as Exhibit 1 and incorporated by reference; and being fully advised;

NOW, THEREFORE, BE IT RESOLVED, the Investment Policy as amended attached hereto as Exhibit 1 and incorporated by reference is hereby adopted and staff is directed to implement in the ordinary course of the District business.

**INTRODUCED AND ADOPTED THIS 27th DAY OF OCTOBER, 2011
TUALATIN VALLEY WATER DISTRICT**

BY _____
Dick Schmidt, President

BY _____
James Duggan, Secretary

Exhibit 1

INVESTMENT POLICY



Adopted: October 27, 2011

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I. SCOPE

This policy applies to activities of Tualatin Valley Water District (District) with regard to investing the financial assets of all funds as defined by the District in its Chart of Accounts except that funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the District.

This policy has been adopted by Resolution No. 08-11 by the District's Board of Commissioners on October 27, 2011 and replaces the District's previous Investment Policy.

Other than bond proceeds or other unusual situations, the total of all funds ranges from \$40,000,000 to \$90,000,000. The Chart of Accounts currently defines the following funds that are not held by trustee or fiscal agent:

- 1.) Cash Pool
- 2.) General Fund
- 3.) Bond Construction Fund
- 4.) Construction Fund
- 5.) Revenue Bond Debt Service Fund
- 6.) Willamette River Water Coalition
- 7.) Partners for a Sustainable Washington County Community

If, in the course of its activities, the District should define further funds (not held by trustee or fiscal agent), these rules shall also apply to the investment of the financial assets of those new funds. These funds will be invested in compliance with the provisions of, but not necessarily limited to, ORS 294.035 through ORS 294.048; and ORS 294.125 through ORS 294.155. Investment of any tax exempt borrowing proceeds and any related debt service funds will comply with the arbitrage restrictions on all applicable Internal Revenue Codes.

The District acts as collection agent for several other utilities. These funds are to be turned over to the respective agency in compliance with the intergovernmental agreements. Currently the agreements vary from two business days from receipt, the second business day following the week of collection and twice a month following the 15th and end of month. The method of transfer is by requesting a Pool to Pool account transfer at the Local Government Investment Pool (LGIP) or a check if the agency requests it.

II. OBJECTIVES

The District's investment objectives are as follows:

2.1: Safety

- Preservation of capital and the protection of principal.
- Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

2.2: Liquidity

- Maintenance of sufficient liquidity to meet operating requirements.

2.3: Limit Risk

- Avoidance of imprudent credit, market, or speculative risk.

2.4: Legality

- Conformance with federal, state and other legal requirements.

2.5: Return

- Attainment of a market rate of return throughout all economic and fiscal cycles.

III. STANDARDS OF CARE

3.1: Delegation of Authority

- The Chief Financial Officer is the designated Investment Officer of the District and is responsible for investment decisions, under the review of the Board of Commissioners. The Chief Financial Officer may delegate authority to another member of the Finance and Information Technology Department staff to perform all or some of the duties of the Investment Officer.
- The Investment Officer is responsible for setting investment policy and guidelines subject to review and adoption by the Board of Commissioners and, if required, review and comment by the Oregon Short Term Fund Board. Further, the Investment Officer will be responsible for the day to day operations of the investment process which include but are not limited to choosing what to buy or sell, from whom investments will be purchased, executing the buy/sell orders, producing necessary reports, and supervising staff. In addition to the active management of the investment portfolio, the Investment Officer is responsible for the maintenance of other written administrative procedures consistent with this policy and the requisite compliance.
- To further optimize the total return of the investment portfolio, the Investment Officer will administer an active cash management program the goal of which will maintain historical cash flow information, i.e., debt service, payroll, revenue receipts, and, any extraordinary expenditures.

- Subject to required procurement procedures, the District may engage the support services of outside professionals as necessary for the efficient management of the investment program. External service providers shall be subject to Oregon Revised Statutes, the provisions of this Investment Policy.

3.2: Prudence

- The standard of prudence to be used by the Investment Officer in the context of managing the financial resources shall be the prudent person 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 probable safety of their capital as well as the probable income to be derived.”
- The Investment Officer and staff, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security’s credit risk, market price changes, or loss of principal if securities are liquidated prior to maturity provided these deviations and losses are reported as soon as practical and action is taken to control adverse developments.

3.3: Ethics and Conflict of Interest

- District 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 to the General Manager any material interests in financial institutions with which they conduct business. They shall further disclose any person financial/investment positions that could be related to the performance of the investment portfolio. Employees, officers and their families shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District. Officers and employees shall, at all times, comply with the State of Oregon’s Government Ethics requirements set forth in ORS 244.

IV. SAFEKEEPING, ACCOUNTING, QUALIFICATIONS & CONTROLS

4.1: Safekeeping and Collateralization

- Purchased investment securities will be delivered by either Fed book entry, DTC, or physical delivery, and held in third party safekeeping with a designated custodian. The trust department of a bank may be designated as custodian for safekeeping securities purchased from that bank. The purchase and sale of securities will be on a delivery versus payment basis. The custodian shall provide monthly statements and accrual basis reports to Tualatin Valley Water District listing security holdings, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, accrued interest, and other pertinent information. The custodian shall also provide daily access regarding pending investment transactions, future call notices, and any other important information. Delivery versus payment will also be required for all repurchase transactions and with the collateral priced and limited in maturity

in compliance with ORS 294.035 (k).

- Demand and time deposits shall be collateralized through the State collateral pool as required by ORS 295 for any excess over the amount insured by an agency of the US Government. Additional collateral requirements may be required if Chief Financial Officer or Investment Officer deems increased collateral is beneficial to the protection of the monies under the District's management.

4.2: Accounting Method

- The District shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of the 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).

4.3: Qualified Institutions

- The Investment Officer, and if applicable, the investment management firm as described in Section 4.5, shall maintain a list of all authorized broker/dealers and financial institutions which are approved for investment purposes or investment dealings. Any firm is eligible to make an application to the District, and upon due consideration and approval, will be added to the list. Additions or deletions to the list will be made at the Investment Officer's discretion.
- At the request of the District, the firms performing investment services shall provide their most recent financial statements 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 the District as specified by but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc. The District shall conduct an annual evaluation of each firm's creditworthiness to determine if it should remain on the list. Securities broker/dealers not affiliated with a bank shall be required to have an office located in Oregon or be classified as reporting dealers affiliated with the Federal Reserve as primary dealers.
- If an Investment Management Firm is retained by the District to execute transactions on the District's behalf, they will have authority to execute investment trades and transactions from their list of authorized broker/dealers and financial institutions.

4.4: Internal Controls

- The Chief Financial Officer shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor at least annually or upon any extraordinary event, i.e., turnover of key personnel, the discovery of any inappropriate activity.

4.5: Investment Advisory Services

- The District may enter into contracts with external investment management firms as it applies to the investment of its short term operating funds and capital funds including bond proceeds and bond reserve funds. The investment management firm must work on a nondiscretionary basis, which requires that the Investment Officer approves all transactions prior to execution.
- If an investment manager is hired, the manager will serve as fiduciary for the District and comply with all requirements of this Investment Policy. The Investment Officer remains the person ultimately responsible for the prudent management of the portfolio.
- Factors to be considered when hiring an investment management firm may include, but are not limited to:
 - 1.) The firm's major business
 - 2.) Ownership and organization of the firm
 - 3.) The Background and experience of key members of the firm, including portfolio manager expected to be responsible for the District's account
 - 4.) The size of the firm's asset base, and the portion of that base which would be made up by Tualatin Valley Water District's portfolio if the firm were hired
 - 5.) Management fees
 - 6.) Cost analysis by Chief Financial Officer/Investment Officer
- The investment management firm will be monitored on a monthly basis. Results will be compared to benchmarks developed by the District appropriate to the level of risk.

V. AUTHORIZED AND SUITABLE INVESTMENTS

5.1: Authorized Investments

- All investments of the District shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for Investment Officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

5.2: Suitable Investments

Type	Definition
US Treasury Obligation	Direct obligations of the United States Treasury whose payment is guaranteed by the United States. [ORS 294.035(3)(a)]
GSE – Agency Obligations	US Government Agencies, Government Sponsored Enterprises (<i>GSEs</i>), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (<i>FNMA</i>), the Federal Home Loan Mortgage Corporation (<i>FHLMC</i>), Federal Home Loan Banks (<i>FHLB</i>), and the Federal Farm Credit Bureau (FFCB). [ORS 294.035(3)(a)]
TLGP Debt Obligations	Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation under the Temporary Liquidity Guarantee Program (TLGP) or other federal government guaranteed programs; Eligible debt obligations must carry the full faith and credit of the United States Government.
Commercial Paper	Commercial Paper* that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor’s and Aa3 by Moody’s
Bankers’ Acceptances	<p>Bankers’ acceptances, if the bankers’ 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 by one or more nationally recognized statistical rating organizations.</p> <p>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. [ORS 294.035(3)(h)]</p>
Repurchase Agreements	Maximum maturity of 90 days.
Corporate Indebtedness	Corporate Indebtedness* that has a minimum long term debt rating of AA- rated by Standard and Poor’s and a Aa3 rating by Moody’s and must be rated on the settlement date P-1 or Aa or better by Moody’s Investors Service or A-1 or AA or better by Standard & Poor’s Corporation or equivalent rating by any nationally recognized statistical rating organization. [ORS 294.035(3)(i)]
Local Government Investment Pool	State treasurer's local short-term investment fund up to the statutory limit per ORS 294.810

Type	Definition
Certificates of Deposit/Bank Deposit/Savings Accounts	Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. [ORS 294.035(3)(d)]
State Obligations	<p>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. [ORS 294.035(3)(b)]</p> <p>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. [ORS 294.035(3)(c)]</p>

*As determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

VI. INVESTMENT PARAMETERS

6.1: Investment Maturity

- The Investment Officer may invest funds that are related to cash flows for future construction projects or that are being accumulated for future renewal and replacement of infrastructure, by purchasing securities that will be held for a maximum of 5 years. Except for the aforesaid funds and funds requiring special handling (bond proceeds subject to arbitrage, etc.), investments beyond 5 years require the express approval of the Board of Commissioners. The first priority will be to invest in maturities that match liquidity needs of the District. Thereafter, the District shall target to maintain maturities within the following parameters for the total portfolio:

Term Minimum Allocation % of Total:

Under 45 Days	10%
Under 1 Year	25%

Under 5 Years 100%

- 24 months maximum weighted average maturity (WAM)
- 5 years maximum maturity of any single issue.
- Further, the District shall target the weighted average maturity (WAM) of the total fund to one year which includes both liquidity funds and core investments. The weighted average maturity of the total funds shall not exceed eighteen months.
- Cash flow projections will be reviewed and updated at least monthly and will be the controlling guide to establishing maturities. Maturities will be selected to ensure that sufficient cash is available to meet requirements. At least one month's estimated cash operating requirements will be maintained in the Local Government Investment Pool (LGIP) at all times.

6.2: Portfolio Diversification

**Diversification Constraints on Total Holdings:
Liquidity and Core Funds**

Issuer Type	Maximum % Holdings
US Treasury Obligations	100%
US Agency (GSE) Securities	75%
LGIP (Oregon Short Term Fund)	ORS 294 Limit
Bankers' Acceptances From Qualified Institutions	25%
Certificates of Deposit/Bank Deposits/Savings	35%
Repurchase Agreements	10%
Corporate Indebtedness	35%
TLGP or other federal guarantee debt	30%
Commercial Paper	10%
Corporate Notes	10%
Obligations of States and Political sub-divisions	10%

Diversification by Institution

Issuer Type	Maximum % Holdings *
Certificates of Deposit/Savings Deposits	10%
Local Government Investment Pool	ORS Minimum
Non-US Treasury/GSE Issuer	30%
Corporate Debt Issuers:	
TLGP or other federal guarantee debt	10%
Banker's Acceptances	10%
Commercial Paper	5%
Other Corporate Debt	5%
Municipal Debt Issuers	5%

*Consult limits under ORS 294.035 and the most recent revision of “Summary of Liquid Investments Available to Local Governments for Short Term Fund Investment” published by the Oregon State Treasury. The most restrictive diversification and credit quality criteria from these three sources will apply.

6.3: Competitive Selection of Bids or Offers

- Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the District or investment management firm. At least two broker/dealers shall be contacted for each transaction and their bids and offering prices shall be recorded. A record, subject to District archiving policy, shall be maintained by the District of all bids and offerings for security transactions in order to ensure that the District receives competitive pricing.
- If the District is offered a security for which there is no readily available competitive offering, then the Investment Officer shall document quotations for comparable or alternative securities. 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.

6.4: Prohibited Investments

- The District shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

VII. REPORTING REQUIREMENTS

7.1: Reporting Requirements

- The Investment Officer shall generate monthly reports for management purposes. The Board of Commissioners will be provided with reports which will include but not necessarily be limited to; portfolio activity, instruments held by type, investment allocations by maturity, estimated market valuations, as well as any narrative necessary for adequate clarification.

7.2: Performance Evaluation

- The performance of the District's portfolio will be measured against the performance of the Local Government Investment Pool and/or other comparable fixed income benchmarks, such as a nationally published 0-3 year Treasury Index, tracked on a monthly, quarterly and annual basis. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. Given these considerations, the District portfolio should provide a net yield that is equal or better to that attained by the Local Government Investment Pool or comparable national fixed income benchmark index. When comparing the performance of the District's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

7.3: Monitoring and Adjusting the Portfolio

- The Investment Officer will 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 policies set forth in this document will be adhered to and monitored on a monthly basis. 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 subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future reinvestments occur.

VIII. INVESTMENT POLICY ADOPTION

This Investment Policy will be formally adopted by the Board of Commissioners; and thereafter, this policy will be readopted annually, even if there are no changes. Prior to adoption by the Board of Commissioners, if changes to the Investment Policy require review and comment by the Oregon Short Term Fund Board, such review will be sought prior to formal adoption.

IX. GLOSSARY OF INVESTMENT TERMS:

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Agency Securities: Government sponsored enterprises of the US Government.

Basis Point: One-hundredth of 1 percent. One hundred basis points equal 1 percent.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

Bond Discount: The difference between a bond's face value and a selling price, when the selling price is lower than the face value.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Callable: A bond that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by businesses.

Commission: Broker's or agent's fee for purchasing or selling securities for a client.

Core Fund: Core funds are defined as operating fund balance which exceeds the District's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Coupon Yield: The annual interest rate of a bond, divided by the bond's face value and stated as a percentage. This usually is not equal to the bond's current yield or its yield to maturity.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The reduction in the price of a security; the difference between its selling price and its face value at maturity. A security may sell below face value in return of such things as prompt payment and quantity purchase. "At a discount" refers to a security selling at less than the face value, as opposed to "at a premium", when it sells for more than the face value.

Fannie Mae: Trade name for Federal National Mortgage Association (FNMA).

Freddie Mac: Trade name for Federal Home Loan Mortgage Corporation (FHLMC).

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as "governments."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

Investment Advisor or Manager: An investment advisor that acts on a non-discretionary basis to provide investment and risk strategies. The advisor must act in a fiduciary capacity.

Investment Portfolio: A collection of securities held owned by the District and held by a custodian.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the District.

Local Government Investment Pool: Oregon's Local Government Investment Pool (LGIP) was created by Oregon Laws in 1973, Chapter 748. It is a diversified portfolio offered to eligible participants of the State of Oregon. The Local Government Investment Pool is an alternate investment vehicle offered to participants that includes, but is not limited to, any municipality, political subdivision or public corporation of this state that by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds. Since its inception, over 900 local governments in Oregon have participated in the pool.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state or its agencies. The interest on “munis” is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution.

Prudent Man Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation, or Quote: The highest bid to buy or the lowest offer to sell a security in any market at a particular time.

Settlement Date: The actual date when a security is purchased is becomes under ownership of the buyer.

Spread: The difference between two figures or percentages. For example, the difference between the bid and asked prices of a quote or between the amount paid when a security is bought and the amount received when it is sold.

Trade Date: The date when a security transaction is executed.

TLGP: Temporary Liquidity Guaranteed Program, a program established by the federal government to provide support to the banking system. All securities issued by the banks under this program have the full faith and credit of the federal government through the FDIC guarantee.

Trading Market: The secondary market for bonds that have already been issued.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Weighted Average Maturity: The weighted sum of the average years to maturity of the investments held by the District.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.