BOARD POLICY 8.20.010-P
CASH MANAGEMENT

I. Scope and Pooling of Funds

This cash management policy applies to all cash activities and funds under the control of Multnomah County School District No. 1J ("the District"). This policy applies to the investment of operating funds, capital funds including bond proceeds, and bond reserve funds held by Portland Public Schools. This policy excludes petty cash activities.

The average size of the District's investment portfolio approximates $175,000,000, with an approximate seasonal high and low of $325,000,000 and $30,000,000 respectively. Average ranges do not include proceeds of General Long-Term Obligation Bonds, notes etc., if any.

II. General Objectives

It is the District's policy to invest public funds not required for immediate expenditure in a manner which will provide safety of principal, maintenance of a liquid position, and the maximum return on cash invested while meeting daily cash flow demands and conforming to Oregon Revised Statutes (ORS).

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield, with each objective discussed below.

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The object will be to mitigate both credit and interest rate risks.

(a) Credit Risk

The District will minimize the risk of loss due to the financial failure of the security issuer or backer, by:

- Concentrating its investments in the safest types of securities.
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the District will do business.
- Diversifying the investment portfolio to minimize potential losses.
- Actively monitoring the investment portfolio holdings for changes in credit ratings and economic / market conditions.

(b) Interest Rate Risk

The District will minimize the risk of market value decline by:

- Structuring the investment portfolio so that maturing securities meet cash requirements for ongoing operations and/or capital projects, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities or short-term investment pools.

2. Liquidity

The investment portfolio shall be kept 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). Since all possible cash demands cannot be anticipated, the portfolio shall consist of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in the Oregon Short-Term Fund, or similar investment offering next-day liquidity.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. High returns on investments are of secondary importance compared to the safety and liquidity objectives described above. The majority of the portfolio is limited to highly-rated / low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, unless:

- A security with a declining credit rating may be sold early to prevent or minimize loss of principal.
- An unanticipated cash demand requires that the security be sold.
- A security swap would improve the quality, yield, or target duration of the portfolio.
    - Security swaps will be made only with specific approval of the CFO or, if absent, the CFO’s designee.

III. <u>Standards of Care</u>

1. Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” 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.

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 probably income to be derived.

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 of the investment program, or that could impair their ability to disclose any material interest in financial institutions that conduct business with the District. They shall further disclose any personal / financial / investment positions that could be related to the performance of the investment portfolio.

Employees, officers and their families shall refrain from undertaking personal business 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 Government Standards and Practices code of ethics set forth in ORS Chapter 244.

3. Responsibility

The District’s Board delegates, through the Superintendent to the chief financial officer (CFO), the responsibility for implementing this policy.

Day-to-day administration of this investment policy shall be managed by the CFO and dele-gated to his / her designee. The CFO or designee, hereinafter referred to as Investment Officer, shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: 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 activities of subordinate officials.

IV. Safekeeping and Custody

1. Authorized Financial Dealers and Institutions

A list will be maintained of approved financial institutions authorized to provide investment and safekeeping services. In addition, a list will also be maintained of approved security brokers / dealers selected by creditworthiness and other factors considered relevant by the District. These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) rule 15d3-1 (uniform net capital rule). Qualified dealers and brokers will be required to maintain an office in the states of Oregon or Washington. The District will limit all security purchases to institutions on these approved lists. All financial institutions and broker / dealers who wish to qualify for District investment transactions must supply the following, as appropriate:

- Audited financial statements.
- Proof of Financial Industry Regulatory Authority (FINRA) certification.
- Proof of state registration.
- Certification of having read and understood the District's investment policy.
- Certification of agreement to comply with the District's investment policy.

The Investment Officer will conduct an annual review of the financial condition and registration of qualified financial institutions and broker / dealers.

V. Internal Controls

The Investment Officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of the District from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Accounting Method

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

2. Delivery and Safekeeping

The purchase and sale of securities, repurchase agreements and guaranteed investment contract transactions shall be settled on a delivery-versus-payment basis (DVP) in accordance with ORS 294.145(4), ORS 294.145(5) and GFOA recommended practices. It is the District's intent that all purchased securities shall be delivered to the District's third-party custodian in the account name of the District. Sufficient evidence to title shall be consistent with modern investment and commercial practices.

3. Collateralization

All bank deposits, time deposits, certificates of deposit, and savings accounts shall be held in qualified Oregon depositories and collateralized in accordance with ORS Chapter 295.

ORS 294.035(3)(j) requires repurchase agreements be limited in maturity to three years and priced according to the 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 Treasuries: 102%.
- US Agency discount and coupon securities: 102%.
- Mortgage-backed securities, although allowed by ORS Chapter 294, are not allowed as repurchase agreement collateral under this policy.

Prior to entering into any repurchase agreement, a signed Master Repurchase Agreement must be in place between the District and the securities dealer. At a minimum, the District will monitor the collateral requirements weekly for guaranteed investment contracts.

4. **Pooling of Funds**
Except for cash in certain restricted and special funds, the District will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with GAAP.

VI. Suitable and Authorized Investments

The following investments will be permitted by this policy and are authorized for investment under ORS 294.035, ORS 294.046, ORS 294.052, ORS 294.805 and 294.810:

- US. Treasury securities and other lawfully issued general obligations of the United States, including general obligations of agencies and instrumentalities of the United States or enterprises sponsored by the United States government
- Debt of the agencies and instrumentalities of the states of Oregon, California, Idaho and Washington and their political subdivisions
- Time deposit open accounts, certificates of deposit, share accounts, and savings accounts
- Banker's acceptances
- Corporate indebtedness
- Repurchase Agreements
- Oregon Short-term Fund, also known as Local Government Investment Pool (LGIP)
- The District may invest up to 100% of the proceeds from any bond issue in investment agreements that meet the requirements of ORS 294.052 and the repurchase agreement collateral requirements and restrictions of this policy.
- Demand checking accounts are excluded from this policy scope.

VII. Investment Parameters

1. **Diversification**

Investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Investing in securities that have high credit quality;
- Limiting investments in securities with high interest-rate risk, such as variable-rate securities;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily-available funds such as the Oregon Short-Term Fund (or LGIP).

2. Maximum Maturities and Percentage of Investments by Type

The maximum percentages for direct investments of surplus funds are as shown in the chart below. Surplus funds are defined as the sum of all investments, cash balances, deposit balances of all types, and LGIP balances. The maximum maturity is measured from the settlement date of the investment transaction.

Capital project funds are funds specifically dedicated to capital projects, and will typically include proceeds from the District's bond sales. All bond fund reserves will be considered to be capital project funds. With Board approval, the District may designate other funds as capital project funds. Operating funds are all surplus funds that are not capital project funds.

Security	Maximum % of Total Portfolio	Maximum Maturity
US Treasury Bills, Notes and Bonds, and Obligations secured by the US Treasury	100%	18 months for operating funds; 5 years for capital project funds
US Government Agencies and Instrumentalities, including Government-Sponsored Enterprises	100%	18 months for operating funds; 5 years for capital project funds
State and Local Government Securities	30%	18 months for operating funds; 5 years for capital project funds
Time Certificates of Deposit	50%	18 months
Repurchase Agreements	25%	30 days
Bankers Acceptances	25%	6 months
Corporate Indebtedness (commercial paper and bonds)	35%	18 months
OSTF – Local Government Investment Pool	Pool Limit	Pool Maximum

In order to achieve issuer diversification, this policy sets limits on the maximum holdings by issuer for certain investment types.

- There shall be a limit of 50% of the portfolio held in securities issued by any single US government agency.
- Time certificates of deposit and bankers acceptances can all be issued by a single banking institution. In order to avoid over-concentration in a single banking institution, there shall be a limit of 10% for overall holdings in one institution.

In addition to this policy, ORS 294.035 limits investments in corporate indebtedness to 35% of the total investment portfolio, with no more than 5% of total funds invested in a single corporate entity and its affiliates or subsidiaries.

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 security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

3. Liquidity of Funds

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as OSTF or overnight repurchase agreements, or held in bank balances to ensure sufficient liquidity to meet ongoing obligations.

Maturity limitations will depend upon whether the funds being invested are considered short- or long-term funds. Surplus funds will be considered operating funds, except those reserved for capital projects. Except for special situations, as directed by the Investment Officer, investments will be limited to maturities not exceeding 18 months.

Short-term portfolio investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs.

In addition, the following maturity limits are designed to ensure liquidity in the portfolio:

Length of Maturity	Minimum % of Total Portfolio
Under 30 days	10%
Under 90 days	25%
Under 365 days	75%
Under 18 months	100%

If these maturity limits are inadvertently exceeded at the time of a specific investment, the purchase does not need to be liquidated. However, subsequent investments must not be made to longer maturity dates until the limits will be met.

The investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy, the applicable bond covenants or applicable tax laws, whichever are most restrictive.

This investment policy was submitted to and approved by the OSTF Board as specified above and in accordance with ORS 294.135(1)(a).

4. Credit Ratings

Minimum credit rating levels for permissible investments are set out in ORS 294.035. The District will only recognize ratings of Moody's, S&P, and Fitch of the available Nationally-Recognized Statistical Rating Organizations (NRSROs). These credit rating levels apply to the security at the transaction settlement date.

If a security's credit rating is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate, on a case-by-case basis, in order to determine if the security should be held or sold. The Investment Officer shall notify the CFO or his/her designee about the credit rating downgrade and whether the decision was made to sell or hold the security.

5. **Securities Lending and Reverse Repurchase Agreements**

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

6. **Bids and Offers**

Before any security purchase or sale is initiated, the Investment Officer shall determine the appropriateness of seeking competitive bids or offers. Information about current market interest rate levels can be obtained from various sources, including investment dealers, financial websites and publications, and other sources. Factors to consider include where the securities are held, the size of the transaction, and the term to maturity.

In the event competitive bids or offers are not considered, the decision not to do so shall be documented. When required by applicable tax laws or bond covenants, competitive bids and offers shall be sought for security purchases and sales of bond funds.

VIII. <u>Reporting</u>

1. **Methods**

The Investment Officer shall prepare a quarterly report, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last period. 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 this policy. The report shall be provided to the Board quarterly. The report will include the following:

- List of transactions occurring during the reporting period.
- List of individual securities held at the end of the reporting period.
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmark(s).
- List of investments by maturity date (or call date, as appropriate).
- Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.
- Performance relative to benchmark(s).

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The performance of the District's portfolio shall be measured against the performance of the Oregon Short-Term Fund, 90-day agencies, and 90-day treasuries. The average monthly net yield of the District's portfolio shall be used for such comparison or evaluation. Because bond proceeds are expected to be invested at the time they are received, and are therefore invested in the interest rate environment that exists at that point in time, that portion of the portfolio will be excluded from ongoing benchmark performance measurement.

3. Mark to Market

The market value of the portfolio shall be calculated, and a statement of the market value of the portfolio issued, at least monthly. 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". This "Mark to Market" analysis is provided by the District's third-party investment custodial safekeeping agent.

IX. Administration of Cash Management Program

1. Objectives.

The District's objectives are to comply both with the letter and the spirit of Board policy in a manner that permits efficient use of District resources and effective management control.

2. Deposits.

All District monies from all sources, however small in amount, are to be deposited daily into the designated bank account.

Arrangements shall be made to have large amounts of money, such as bond settlements and recurring receipts, received via wire / ACH transfers.

3. **Payments.**

   All payments shall be made when approved and due, but not before they are due. Cash discounts will be analyzed to determine the cost/benefit of payment terms in relation to investment opportunities. No payments of any kind will be made from un-deposited cash.

4. **Commitments.**

   Purchase commitments shall be made so that the time between receipt of items and services and the need for these items and services is minimized and monies are therefore not prematurely removed from investment availability.

5. **Cash Flow.**

   A cash flow projection is to be prepared at the start of each fiscal year, indicating planned cash receipts and disbursements by month. This projection shall be approved by the CFO.

6. **Daily Cash Control.**

   The District's staff is to account for cash balances daily, by financial institution.

X. Administration of Cash Management Program

Banking services will be engaged by the District based on considerations of availability of required services, cost of those services, and any applicable legal requirements. Banking services will be engaged based on an open bidding process conducted at least once every ten (10) years and reviewed annually for continuing validity. The District will use one bank as its primary depository institution. The District may use different banks or financial institutions for investment purposes than those used for depository purposes.

XI. District Bank Account Administration

The CFO is the only officer with authority to direct a bank to open or close an account.

All District bank accounts will have at least two authorized signers at all times. Student Body Accounts will require two original physical signatures on all checks, while disbursements from the District's primary accounts (Accounts Payable, Payroll, Risk Management) may be issued with electronic signature (ORS 294.129).

History: Amended 01/12/2016; 3/2018; 1/2019

Legal References:

ORS Chapters 244, 294 and 295