



ADMINISTRATIVE SERVICES COMMITTEE

Agenda

Wednesday, March 19, 2014
3:30 pm

Madison Avenue Meeting Room
500 SW Madison Avenue

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|------------------------------------|--|
| Discussion/ Possible Action | I. Council Policy Review and Recommendation:
97-10.01 – 10.08, "Financial Policies"
(Attachment) |
| Discussion/ Possible Action | II. Second Quarter Operating Report
(Attachment) |
| Discussion/ Possible Action | III. Ambulance Rate Review
(Attachment) |
| Information | IV. Other Business |

Next Scheduled Meeting

Wednesday, April 9, 2014 at 3:30 pm

Madison Avenue Meeting Room, 500 SW Madison Avenue

Agenda

Utility Rate Structure Review

Neighborhood/Property Maintenance Code Program

MEMORANDUM

March 12, 2014

TO: Administrative Services Committee

FROM: Nancy Brewer, Finance Director 

SUBJECT: Annual Financial Policies Review

I. Issue

To complete the annual review of the City Council's Financial Policies.

II. Background

The City Council's Financial Policies have been in place since 1989. They are reviewed annually to help inform the budget process, along with other financial management practices. Extensive changes were made to the Fund Balance and General Fund consolidation language in 2013, so those sections require little updating this year other than a few grammatical or clarifying fixes (Attachment A).

As Finance Department staff began working on achieving a sustainable budget for FY 14-15, all operations were examined for ways the work could be done differently or be streamlined more than has already been done. One of the issues that arose during this discussion was the Investment Council. This group was established via Financial Policies 25 years ago (section 10.08) and consists of the City Manager, Council President, City Attorney, Finance Director and one citizen with financial expertise. The Investment Council was never codified in Municipal Code, and has never been sunset reviewed. The very well qualified citizen member of the Investment Council was appointed (it is not clear by whom or when) and has been the same person for more than 20 years. The Investment Council meets quarterly, for meetings that generally last 30 minutes or less. The work load to staff the group and maintain minutes is not particularly onerous, but the staff review for creating more efficiencies led to considerable discussion within Finance about Investment Policies.

Until now, the City Council's Financial Policies have included the Investment Policy section (10.08) which has provided a high level overview. Most of the specifics have been included in an Administrative Procedure document that is reviewed annually by the Investment Council. As a local government entity with investment maturities longer than 18 months, the City's investment policy is also required to be approved by the Oregon Short Term Funding Board (OSTFB). The Administrative Procedure has been forwarded to that body every year for their review when significant changes are made. The Procedure has become fairly specific and lengthy as OSTFB recommendations have pushed for more detail.

These issues led staff to initiate a discussion with the Investment Council about their role and responsibility and whether or not it would be more appropriate for the City Council, or more specifically the Administrative Services Committee of the City Council, to assume the oversight role. Specific questions considered include:

- Where should the fiduciary responsibility for City investments rest?
- Where should the policy making responsibility for City investments rest?
- Is there a need for a separate body to review quarterly investment reports?

The Investment Council discussed these concepts in November 2013 and ultimately recommended sunsetting the Investment Council in favor of Administrative Services Committee taking on the oversight role.

Subsequent to that discussion, Finance Department staff has been in contact with State Treasurer's Office staff to determine how to best align policies and procedures with fiduciary responsibility. In many cases, what staff is proposing is a departure from the norm for OSTFB so even if the city Council accepts staff's recommendations, OSTFB may reject these changes, or recommend alterations.

III. Discussion

The only recommended significant changes in Financial Policies are the Investment Policies in Section 10.08. The recommended changes are included in the total policy document (page 17 in Attachment A), but have also been pulled out in a redline (Attachment B) and for ease of reading a non-redlined (Attachment C) version. Also attached for the City Council's information is the City Manager's Administrative Procedure to show where language for many of the Financial Policies has come from (Attachment D).

The fundamental issues staff is attempting to address include answers to the questions posed above:

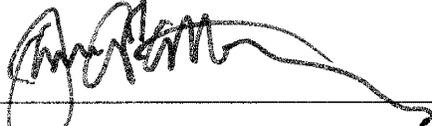
- Where should the fiduciary responsibility for City investments rest?
 - State law places the fiduciary responsibility for City investments with the Governing Body – the City Council. As such, staff is recommending changes to the Financial Policy on Investments that strengthens the Council Policy language rather than having the strongest policy language in the City Manager's Administrative Policy.
- Where should the policy making responsibility for City investments rest?
 - The Policy making responsibility follows the fiduciary responsibility and should rest with the entire City Council.
- Is there a need for a separate body to review quarterly investment reports?
 - There is a need for a body with fiduciary responsibility to review Investment Policies and actual investment performance. Staff recommends placing this responsibility with the Administrative Services Committee (ASC) as the subcommittee of the City Council defined as addressing finance issues. Because the Investment Council has benefitted from advice from a third party, language has been added that would allow the ASC to include a knowledgeable citizen when reviewing quarterly reports. Staff anticipates doing the quarterly review when the Quarterly Operating Report is presented.

Alternatives to staff's recommended changes include keeping the current language and bifurcation in policies, or modifying the current practice by making the Investment Council a standing Advisory Board, codified in the Municipal Code, with the citizen appointed by the Mayor for a set three-year term.

IV. Requested Action

Staff requests the Administrative Services Committee review the recommended amendments to the Financial Policies, clarify as needed, and then recommend the City Council adopt updated Financial Policies.

Review and Concur:



City Manager

FINANCIAL POLICIES

Adopted November 27, 1989

Last Revised

CP 10.01 FINANCIAL POLICIES PURPOSE, MISSION, AND GOALS

10.01.010 Purpose

To underscore the responsibility of the City of Corvallis to its citizens for the long-term care of public funds and wise management of municipal finances while providing adequate funding for the services desired to achieve a sense of well-being and safety by the public and maintaining the community's public facilities and infrastructure to enhance the long-term livability and economic vitality of Corvallis.

10.01.020 Mission

To provide policy direction from the City Council to the City of Corvallis organization about sustainable financial management to ensure the City continues to provide desired services to the community in perpetuity.

10.01.030 Goals

To meet this mission, the goals for financial management include the following:

- A. To protect the policy making ability of the City Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- B. To enhance the policy making ability of the City Council by providing accurate information on program costs.
- C. To assist sound management of the City by providing accurate and timely information to the City Council and the public on the City's financial condition.
- D. To provide sound principles, reports and analyses to guide the important decisions of the City Council and of management which have significant fiscal impact.
- E. To set forth operational principles which minimize the cost of government and financial risk, and safeguard the City's assets.
- F. To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- G. To provide adequate resources to operate and maintain essential public facilities and the City's infrastructure.
- H. To protect and enhance the City's credit rating and prevent default on any debt issue of the City.
- I. To ensure the legal use of all City funds through a sound system of administrative policies and internal controls.

10.01.040 Background

Municipal financial operations have a wide variety of oversight or standard setting agencies, including multiple departments within both State and Federal governments, the Securities and Exchange Commission, and the Governmental Accounting Standards Board. The City of Corvallis manages public funds within all of these oversight agency requirements. These financial management policies, designed to ensure the fiscal stability of the City of Corvallis municipal corporation, provide guidance in financial management when oversight agencies are otherwise silent or to reiterate best practices that may be codified by another entity. The City Council's Financial Policies have been reviewed and updated each year since they were first adopted to ensure the policy direction is current.

10.01.050 Achieving Financial Policy Goals

To achieve and maintain the goals outlined in these policies, the Finance Department will conduct an annual analysis of projected financial condition and key financial indicators. This budget capacity analysis shall be used to inform the next budget development process.

It is the focus of this analysis to:

- A. identify the areas where the city is already reasonably strong in terms of protecting its financial condition;
- B. identify existing or emerging problems in revenue sources, management practices, infrastructure conditions, and future funding needs;
- C. forecast expenditures and revenues for the next three to seven years, with consideration given to such external factors as state and federal actions, the municipal bond market, management options being explored and used by other local governments; and
- D. review internal management actions taken during the last budget cycle.

10.01.060 Review & Update

The Financial Policies shall be reviewed by the Finance Director annually in November and updated as appropriate for City Council Adoption.

CP 10.02 FUND BALANCE POLICIES

10.02.010 Purpose

Fund balance is used to provide stable resources for times when service levels might otherwise be impacted by taxes or fees that temporarily underperform, or to cover one-time unexpected expenditures. Maintaining a positive ending fund balance is a best financial management practice, and is important to maintain the City's credit rating, and to meet state law requirements for no deficit spending.

10.02.020 Background

Budgetary fund balance is a critical component of the City's financial management policies. Large ending fund balance targets may be viewed as reducing resources that could be used to provide direct services to citizens; small ending balances may be viewed as leaving the City open to too much risk from emergencies or temporary economic downturns and may result in downgrades to the City's credit rating that would increase the cost of borrowing. Residents' sense of well-being is enhanced when the City is able to provide a consistent level of service from year-to-year.

This policy is designed to provide guidance for maintaining an ending fund balance that is adequate to manage risk while maximizing the services provided to citizens.

The budgetary ending fund balance describes the net financial assets of governmental funds; in lay terms it represents the net revenues in excess of expenditures since the fund's inception. Actual fund balances for each fund shall be reported in the Comprehensive Annual Financial Report, issued as of June 30 of each fiscal year. Budgetary fund balances shall be reported in the annual budget, and shall be projected for each operating fund as part of the financial planning process to prepare the budget each year.

10.02.030 Fund Balance Definitions

The Governmental Accounting Standards Board (GASB) has defined fund balance categories for financial reporting to be classified as defined in the glossary attached to these Financial Policies.

The City of Corvallis will use the GASB's definitions of Fund Balance for the Comprehensive Annual Financial Report (CAFR) and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. The portion of the fund balance that is not available for appropriation will be identified as a Reserved Balance.

10.02.040 Fund Balance Policy

A. General Fund – Budgetary Fund Balance for Financial Planning Purposes

1. The City Council has established the fund balance reserve target for the General Fund to total three months of payroll expenses.
2. The City Council shall appropriate 10% of the target fund balance amount each fiscal year as a contingency to be used for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. Use of the contingency is expected to be infrequent. The City Council must authorize expenditure of any contingencies via a resolution.
3. The City Manager will review the City's financial status each year and develop a budget process that is designed to meet Oregon Local Budget Law requirements, taking into account the City's projected financial status for the budget year, including:
 - a) the current budgetary fund balance;
 - b) cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;
 - c) future capital needs;
 - d) significant revenue and expenditure trends including the HNA;
 - e) susceptibility of the fund's operations to emergency or unanticipated expenditures;
 - f) credit worthiness and capacity to support debt service requirements and covenants;
 - g) legal or regulatory requirements affecting revenues, expenditures, and fund balances;
 - h) reliability of outside revenues; and
 - i) any other factors pertinent to the fund's operations.
4. Should the projected ending fund balance reserve for the budget year be lower than the City Council's target, the following strategy will be implemented:
 - a) For times when the fund balance reserve is lower than the target as the result of structural/systemic changes, the fund balance shall be re-built over a period of no more than:
 1. five years if the fund balance reserve is less than 50 percent of the target. The balance shall be re-built to achieve an ending fund balance of no less than 10 percent of the target in the first year; 25 percent in the second year; 45 percent in the third year; 70 percent in the fourth year; and 100 percent in the fifth year. This strategy is specifically designed to allow for consideration/development of a new revenue source prior to significant service reductions taking effect should the City Council wish to consider revenue alternatives.
 2. three years if the fund balance reserve is between 50 percent and 100 percent of the target. The balance shall be rebuilt to achieve an ending fund balance of no less than 60 percent at the end of the first year; 75 percent at the end of the second year, and 100% at the end of the third year.
 - b) For times when the fund balance reserve is lower than the target as the result of short-term poor experience (i.e., costs to respond to a natural disaster; use of contingencies for unanticipated expenditures), the City Manager shall recommend a strategy for re-building the fund balance reserve taking into account the following criteria:
 1. the cause of the poor experience;
 2. the City's ability to control/change the causing factor;
 3. the impact to services to achieve an immediate re-build of fund balance;

4. the likelihood the causing factor will end and revenues/expenditures will return to normal levels within one year; and
 5. the likely amount of time required to re-build the fund balance if no additional changes in services/revenues occurred and/or one-year is not a viable time frame for proposed solutions.
5. Should the projected ending fund balance be above the target, the City Manager will make a recommendation to the City Council whether to reserve those monies above the target for:
- a) one-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
 - b) undesignated assigned or committed balances for future basic operations;
 - c) other one-time costs; and/or
 - d) ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

B. Appropriate Budgetary Fund Balance – all other funds

1. Each operating fund shall have a positive budgetary ending fund balance for the budget year under discussion.
2. The Finance Director shall recommend the appropriate ending budgetary fund balance for each fund as part of the budget development process. The Finance Director shall take into account the following factors:
 - a) the current budgetary fund balance;
 - b) cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;
 - c) future capital needs;
 - d) significant revenue and expenditure trends including the HNA;
 - e) relative rate stability from year to year for enterprise funds;
 - f) susceptibility of the fund's operations to emergency or unanticipated expenditures;
 - g) credit worthiness and capacity to support debt service requirements and covenants;
 - h) legal or regulatory requirements affecting revenues, expenditures, and fund balances;
 - i) reliability of outside revenues; and
 - j) any other factors pertinent to that fund's operations.

3. The minimum fund balance targets for any given non-property tax fund shall be no less than five percent of current revenue.

4. Ending Budgetary Fund Balance Below Recommended – All Other Funds

If the annual budget is recommended by the Budget Commission and accepted by the City Council to be adopted with a budgetary fund balance below either the minimum or the recommended ending budgetary fund balance in any fund, the budgetary ending fund balance for the then current fiscal year will be re-calculated as soon as the audit work for the prior fiscal year is complete. If at that point, the audited ending fund balance contributes to a budgetary fund balance which is lower than this policy would dictate, staff shall develop a plan for City Council consideration through the Administrative Services Committee that addresses the shortfall.

5. Ending Budgetary Fund Balance Above Recommended

In the event the ending budgetary fund balance is higher than either the minimum or recommended level, the difference may be used to fund the following activities:

- a) one-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;

- b) undesignated assigned or committed balances for future basic operations;
- c) other one-time costs; and/or
- d) ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

CP 10.03 REVENUE POLICIES

10.03.010 Purpose

These policies provide direction in the management and oversight of existing revenue sources and for the development of new revenue sources.

10.03.020 Background

A significant portion of the City's revenues come from taxes, charges for service and fees. Some of these revenue sources are governed by the Oregon Constitution/Statutes, federal law, or regulations promulgated by a state, federal, or other agency; others are assessed solely through the City's home rule authority. Revenues are critical to the City's financial operations as they provide the resources necessary to provide services at the level the community desires. However, the City Council also recognizes that the majority of the revenue received by the City comes from its own citizens and the ability to pay increasing amounts may make Corvallis less livable, especially for low income residents. Revenue decisions are complex and must take into account a variety of factors. The Revenue Policies are designed to provide guidance to staff and the City Council as new revenue sources or rate increases for existing revenues are considered.

10.03.030 General Revenue Policies

- A. Revenue Diversity and Stability -- The City will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any one revenue source and ensure its ability to provide ongoing service. In particular, the City will seek alternatives to the property tax for general government services.
- B. Restricted Revenues -- Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated and accounted for as such.
- C. Capital Improvement Funding -- Revenue for capital improvements shall be used to finance only those capital improvements identified in the funding plan (i.e., bond or grant funded projects) that are consistent with the capital improvement program and local government priorities, and where the operating and maintenance costs have been included in operating budget forecasts. Revenue restricted for specific purposes will be expended consistent with those restrictions.
- D. One-time Revenue -- One-time revenue includes fund balances and grants or other sources which have a specific time limit and/or reason for expenditure. One-time revenue will be used for one-time expenses whenever possible; in some cases one-time revenue may be used for costs the City would have incurred for a program or service, regardless of the receipt of the one-time revenue. If one-time revenue is considered for ongoing expenditures (such as adding staff) the Budget Commission or City Council will balance the need for the additional ongoing expenditures with the on-going ability to pay prior to approving the program.
- E. Unpredictable Revenue -- Unpredictable revenue, which includes development related revenue such as Systems Development Charges (SDC), Public Improvement by Private Contractor fees, Development Review, Plan Review and Inspection Permit revenues, will be closely monitored through the year. Capital projects to be constructed with SDC monies will not be initiated until SDC revenue is available or another financing alternative is developed.
- F. Revenue Monitoring -- Revenues will be monitored monthly for performance compared to both the annual budget and the anticipated timing of revenue receipts. Operations funded partially or wholly from unpredictable revenue will be monitored monthly and mitigating action will be taken if revenues are not received as expected.
- G. Collections -- The City shall manage its revenue collections through a policy that actively pursues collection of all revenues owed to the City.

- H. Charges for Services -- Fees and charges for service are assessed to specific users where the user pays all or a portion of the costs to provide the service. When assessed as a fee, the charge generally grants the payer permission or a license to do a specific activity (i.e., franchise fees authorize use of the public right-of-way; a liquor license fee authorizes the license holder to sell liquor). When assessed as a charge for service, the charge is for a specific service, directly used by the payer (i.e., the admission fee at the swimming pool is only assessed to the person going swimming).
1. Fees and charges other than those identified elsewhere in City Council policy or via Corvallis Municipal Code will use the following criteria to determine the ratio of cost recovery:
 - a) Whether the person paying the fee can avoid it;
 - b) Whether the program supported by the fee is designed to benefit the entire community or only a small segment of the population;
 - c) Whether the fee is set high or low to incentivize something (i.e., change behavior);
 - d) Whether the fee should be earmarked for a specific use or should be treated as a general revenue available for operations;
 - e) Whether there are extenuating circumstances where the Council believes the fee should not cover all of the costs associated with the service; and
 - f) Whether the fee costs less to collect/administer than the revenue it brings in.
 2. Fees and charges are reviewed annually, and are updated via Council action when necessary. A revenue manual listing all such fees and charges of the City shall be maintained by the Finance Department and updated concurrent with the review.
 3. A fee shall be charged for any service that benefits limited interests within the community, except for basic, unavoidable human needs type services provided to persons with limited ability to pay.
 4. Historically, the City Council has provided very limited tax and fee exemptions; rather, the City Council has elected to use General Fund monies to pay the fees/charges for non-profit entities that request exemptions when the cause matches the City's goals.
- I. Systems Development Charges (SDC) – SDC rates are set via resolution and are designed to cover the costs of infrastructure necessary to provide services for future growth. The list of projects eligible for SDC funding shall be updated when facility plans are updated or amended, or when a project not listed in a facility plan is identified and will provide additional capacity to serve growth. The overall SDC program methodology and population service scenario shall be reviewed approximately every ten years.

10.03.040 Property Taxes

The City levies property taxes for operations and for general obligation debt service in compliance with the Oregon Constitution and Oregon Revised Statutes. The City has a permanent tax rate of \$5.1067 per \$1,000 of assessed value; the City may have a local option property tax levy for a limited period of time. Revenue for a local option levy will be accounted for according to the ballot language for the levy. Revenue from property taxes levied for general obligation debt service shall be for specific series of debt, levied and accounted for in accordance with state legal requirements. Revenue from the City's permanent tax rate shall be accounted for in the General Fund.

10.03.050 Utility Fees (Water, Wastewater, Storm Water)

- A. Utility Fee Basis -- Utility user charges for each of the three City utilities will be based on the total cost of providing the service (i.e., set to fully support the total direct, indirect, and capital costs) and are established so that the operating revenues of each utility are at least equal to its operating expenditures, reserves, debt coverage and annual debt service obligations, and planned replacement of the utility's facilities.
- B. Annual Rate Review -- Staff shall conduct an annual comprehensive rate review each fall for the Water, Wastewater and Storm Water funds for Council review. Rate increases will be targeted for implementation in February. Every effort shall be made to index/limit rate increases for the entire utility bill (water, wastewater, and storm water) to the

rate of inflation (estimated at 2% to 3%) but not more than 7% in any one year unless federal or state mandate, judgment arising out of litigation, or Council approved policy needs dictate otherwise.

- C. Rate Adoption -- Utility rates will be adopted by ordinance and will be recorded in the Corvallis Municipal Code.
- D. Franchise Fees -- The City's Water, Wastewater, and Storm Water utilities will pay a franchise fee to the City's General Fund to compensate for the use of the public right-of-way. The franchise fee will be equal to 5% of the utility's gross operating revenue each year, net of interest, intergovernmental monies, miscellaneous water service fees, permit fees, SDCs, and turn-on service fees.

10.03.060 Parks and Recreation Department Fees

- A. Cost Recovery -- Parks and Recreation services are funded through a combination of user fees, property taxes, grants, and donations. Fees and charges shall be assessed in an equitable manner in accordance with the following fee and charge assessment schedule. Through a special initiative, services that provide recreational opportunities for populations with the fewest recreational alternatives (youth, limited income, senior adults, and families) may be more heavily supported by grants, donations, or property taxes than user fees to ensure that the population is well served by Parks & Recreation programs. Percentages shall be considered as guidelines; however, special circumstances, the nature and cost of each program, and persons to be served should be taken into consideration.
- B. Fee Model -- the following lists represent all categories of services currently provided or those which may be provided in the future by the Parks & Recreation Department. The model is based upon the degree of benefit to the community (Tier 1 -- mostly a community benefit) or individual (Tier 5 -- mostly an individual benefit) of the service provided, the values of the Corvallis community, and the vision and mission of the Parks & Recreation Department. This model and policy form the basis for setting fees and charges.
 - 1. Revenue positive cost recovery (Tier 5 services are targeted to recover a minimum of 200 percent of direct costs):
 - a) concession/vending
 - b) merchandise for resale
 - c) private/semi-private lesson
 - d) rentals -- private/commercial
 - e) long-term leases
 - f) equipment rentals
 - g) trips
 - h) organized parties
 - i) drop-in childcare/babysitting
 - j) leased services -- private/commercial
 - k) permitted services
 - 2. Totally fee supported with no tax investment (tier 4 services are targeted to recover a minimum of 100 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
 - a) classes and programs -- intermediate/advanced
 - b) leased services -- non-profit/governmental agency
 - c) preschool
 - d) social clubs

3. Primarily fee supported with little or no tax investment (tier 3 services are targeted to recover a minimum of 90 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
 - a) health services, wellness clinics, and therapeutic recreation
 - b) classes and programs – beginning/multi-ability
 - c) tournaments and leagues
 - d) rentals – non-profit/governmental agency
 - e) specialized events/activities
 - f) camps/after school care
 - g) leased services – affiliates
 - h) work study/internship/community service program
 4. Partial tax investment with minimal to partial fee support (tier 2 services are targeted to recover a minimum of 45 percent of direct costs, and many of these services may be appropriate for use of alternative funding sources such as grants, donations and use of volunteers):
 - a) life/safety classes
 - b) rentals – affiliates
 - c) supervised park/facility
 - d) community-wide events
 - e) volunteer program
 5. Full tax investment with little or no fee support (tier 1 services are targeted to recover zero percent of direct costs, although some of these services may be appropriate for use of alternative funding sources such as grants, donations, and volunteers):
 - a) non-supervised park/facility
 - b) inclusionary services
 - c) support services
- C. Setting Fees -- The Parks & Recreation Department Director shall set fees for programs and services in compliance with the targets listed above. Fees shall be adjusted during the course of each year as needed to ensure the cost recovery targets are achieved. The following pricing strategies will be used by the Parks & Recreation Director in setting fees:
1. Market pricing: a fee based on demand for a service or facility or what the target market is willing to pay for a service. One consideration for establishing a market fee is determined by identifying all providers of identical service (i.e., private sector providers, municipalities), and setting the highest fee. Another consideration is setting the fee at the highest level the market will bear.
 2. Competitive pricing: a fee based on what similar service providers or close proximity competitors are charging for service. One consideration for establishing a competitive fee is determined by identifying all providers of an identical service (i.e., private sector providers, municipalities), and setting the mid-point or lowest fee.
 3. Cost recovery pricing: a fee based on cost recovery goals within market pricing ranges.
- D. Fee Review -- The Park and Recreation Department shall conduct an annual comprehensive review of cost recovery targets in compliance with these policy targets; this review will be forwarded to the Parks, Natural Areas and Recreation Board which will forward their comments to the City Council via the Human Services Committee..

- E. Use of Volunteers -- Through an aggressive volunteer recruitment program, the Parks and Recreation Department shall seek to minimize the amount required for full tax investment with little to no fee support (tier 1 services) and partial tax investment with minimal to partial fee support (tier 2 services).
- F. Alternate Funding Sources -- Solicitation of funds through donations, fund raising events, nontraditional sources, and various other modes shall be encouraged by the Parks, Natural Areas and Recreation Board and other advisory committees. Funds collected for any special purpose shall be earmarked for that purpose.

10.03.070 Ambulance Fees

- A. Policy -- It is the intent of the City to provide responsive, efficient and self-funded emergency medical services as the Benton County designated service provider to the Benton County Ambulance Service Area, including all residents of the City.
- B. Rate Changes -- Staff shall review ambulance rates annually no later than February 28 to ensure the rates reflect changes in the direct costs of service. In reviewing rates, staff will consider the historic and projected costs of service, service demands, changes in fixed and variable costs, market rates, and changes in service requirements or mandates. The City shall notify Benton County of proposed fee increases or decreases at the beginning of the City's formal budget review process.
 - 1. Proposed rate changes will be submitted to the City Council via the Administrative Services Committee for review and recommendation to the full Council no later than April 1 of each year. If no rate change is recommended, staff will note the fact in a Council Report.
 - 2. The Council shall adopt rate adjustments by resolution. Following Council adoption, the new rates will go into effect by July 1 of each fiscal year.
 - 3. Notification will be issued to the public 30 days prior to the July 1 deadline. Customers will be notified of rate changes via advertisements in the local newspaper.
- C. Special Rate Reviews -- If, at any time during the fiscal year, estimated costs of service exceed available revenue, the City Manager may conduct a special rate review. In conducting such reviews the City Manager would follow the above procedures. In this instance, rate adjustments could take place at any time within the fiscal year, with 30 days' public notice.

10.03.110 Grants

- A. Grant Opportunities -- The City shall aggressively pursue grant opportunities; however, before accepting grants, the City will consider the current and future implications of accepting the monies.
- B. Federal Funds -- Federal funds shall be actively sought by the City. The City will use these funds to further the applicable national program goal. Because federal funds are not a guaranteed revenue source and are intended for a specific purpose, they will not be relied upon as an alternative source of capital improvement funds unless the federal grant is specifically for capital projects. Use of federal funds shall support City goals and services.
- C. Grant Review -- In reviewing grants the department director and Finance Director shall evaluate each grant offer and make their recommendation to the City Manager after considering:
 - 1. the amount of the matching funds required;
 - 2. in-kind services that are to be provided;
 - 3. length of grant and consequential disposition of service (i.e., is the City obliged to continue the service after the grant has ended?); and,
 - 4. the related expenditures including administration, record keeping, and auditing expenditures.
- D. Single Audit -- The annual audit by the City's independent auditors will include all required audit procedures for grant compliance as specified in the federal government's Office of Management and Budget OMB Circular A-133.

10.03.120 Gifts, Donations and Bequests

- A. Use of Gifts, Donations & Bequests -- Gifts, donations and/or bequests given to, and accepted by, the City for the use of any of its departments or divisions shall be used solely for the purpose intended by the donor. Unrestricted gifts will be expended on the recommendation of the related advisory board.
- B. Evaluation -- Gifts, donations, and bequests will be evaluated to determine what, if any, obligations are to be placed upon the City. Gifts, donations, and bequests will be considered as "over and above" basic City appropriations unless the gift, donation or bequest is for an already planned and budgeted service or program.

CP 10.04 EXPENDITURE POLICIES

10.04.010 Purpose

To provide direction for developing the annual budget, monitoring the City's financial status throughout the year, and ensuring that the City's monies are expended to provide services to citizens.

10.04.020 Background

The City expends a significant amount of money each year to provide services that are important to citizen's sense of well being and safety and to improve the livability of the community. The largest portion of expenditures is for the operating costs of the organization. These costs include all of the salaries/wages and related benefits for City staff, along with materials, services and capital outlays necessary to perform the basic functions of the City. Additional costs associated with capital projects (infrastructure investments) and debt service are part of the annual budget, based on specific plans for both.

10.04.030 Operating Budget -- Pay-As-You-Go

- A. Pay-As-You-Go -- The City shall attempt to conduct its operations from existing or foreseeable revenue sources. Achieving pay-as-you-go requires the following practices:
 - 1. current direct and indirect costs for operations and maintenance will be controlled and will be funded with current revenues, and
 - 2. revenue and expenditure forecasts will be prepared annually for all operating funds prior to budget discussions.
- B. Cost Allocation Plan -- The Finance Director shall prepare a full cost allocation plan triennially to provide accurate, complete estimates of indirect service costs. The plan will be updated annually during budget development.
- C. Mandated Costs -- Costs attributable to mandates of other government agencies shall be included in the annual budget.

10.04.040 Budget Balance

The City Manager will prepare a budget for each fund each year where resources on a modified accrual basis either equal or exceed all expenditures in compliance with Oregon Administrative Rule 150-294.352(1)-(B)

- A. Resources available include all revenue anticipated in the budget year, including taxes, fees, charges for service, fines, intergovernmental payments, miscellaneous revenue, transfers, other financing sources, expendable reserves, and beginning fund balances.
- B. Expenditures include all planned expenditures for operations, inter-fund transfers, capital budget, debt service, and contingencies.

10.04.050 Budget Performance Reporting

- A. Quarterly Reports -- The Finance Director shall submit a Quarterly Operating Report (QOR) to the Budget Commission within 45 days of the close of the fiscal quarter. The QOR will be published on the City's web site for public review. The QOR will be reviewed by the Administrative Services Committee and be accepted by the City Council. At a minimum, the QOR will include income statements developed on the modified accrual (budgetary) basis for all operating funds of the City, and may include other information such as the status of the City Council's Values and Goals and departmental performance information.
- B. Performance Indicators -- Where practical, the City shall develop and employ performance indicators that are tied to Council values and goals, as well as management objectives, to be included in the budget. Status of the measures will be reported in each QOR.

10.04.060 Maintenance, Repair & Replacement

- A. Master Plans -- The City shall maintain master plans for all major infrastructure systems. Master plans provide direction about system needs (such as pipe size and reservoir locations) for predicted population build out of the community. Infrastructure master plans are required for Parks, Transportation, Water Plant, Water Distribution system, Wastewater Plant, Wastewater Collection system, Storm Water system, and the Airport. The master plans shall be adopted by the City Council as amendments to the City's Comprehensive Plan.
- B. Master Plan Projects -- Projects identified via an infrastructure master plan will be scheduled based on the priority of the project as identified in the master plan and will be budgeted in the Capital Improvement Program (CIP) when resources are available to implement the project and the project will result in the acquisition of a new or addition to an existing a capital asset; master plan projects that do not result in capital assets shall be included in the operating budget.
- C. Annual Inventory -- The City will conduct an inventory of all capital assets in conjunction with the annual audit. During the inventory, any excess wear and tear will be noted by staff and used to update replacement plans during the following budget preparation cycle.
- D. Equipment Replacement Plans -- Assets which are not part of a major infrastructure system or buildings and land, including vehicles, computers, and specialized equipment required for normal work (i.e., defibrillators, bullet proof vests), will be tracked by each department with replacement plans made for at least the financial planning period. These schedules will be updated annually in conjunction with the budget process.
- E. Stable Spending plans -- Every effort will be made to develop an equipment replacement schedule that results in a stable annual spending level. If spending levels cannot be stable and would result in a significant dollar amount variance year-over-year, staff will set aside in reserves an amount each year adequate to fully fund the project in the future. If monies are not set aside in reserves due to financial shortfalls:
 - 1. reserves will be re-built within three fiscal years to the level required to meet future replacement plans; or
 - 2. staff will develop a plan to borrow monies for critical equipment replacement.
- F. Equipment Replacement Budgeting -- Equipment to be replaced will be budgeted considering:
 - 1. Age of the asset and its manufacturer's recommended useful life;
 - 2. Wear and tear on the asset;
 - 3. Environmental conditions which may shorten or lengthen the useful life of the asset;
 - 4. The cost/benefit to complete routine maintenance and delay replacement;
 - 5. Availability of service and/or parts; and
 - 6. The cost/benefit of early replacement with more efficient and/or less expensive technology.
- G. Facility Maintenance -- The facility maintenance schedule for major maintenance or replacement projects for all City-owned buildings will be updated annually. The primary goal of the plan is to complete maintenance projects prior to system failures that would cause a decrease in service levels to citizens. Criteria for including projects are the same as those identified in 10.04.060.F.
- H. Maintenance Costs from the CIP -- Projects included in the proposed CIP will identify the anticipated operating costs or savings associated with the project. Estimated operating costs from CIP projects will be included in all years of the financial plan for the appropriate fund prior to approval of the CIP by the CIP Commission, Budget Commission or City Council.

10.04.070 Personnel Services

- A. Compensation -- The City Council has a separate policy on compensation that provides policy direction and guidelines for labor negotiations and for the City Manager as it relates to compensation for exempt employees.

- B. Compensation Budget -- total projected compensation shall be budgeted in compliance with approved bargaining unit agreements. Compensation for exempt employees shall be budgeted in compliance with the City Manager's recommendation for these positions.
- C. Changes in Full Time Equivalents (FTE) -- Changes in the FTE shall be identified in the summary financial data in the Budget each year. This summary will include data by department, and a list of positions added, deleted, or approved but unbudgeted for the year.
- D. Vacant Positions -- The City shall not carry vacant budgeted positions for more than one fiscal year without the Department Director identifying a strategy for the position.

10.04.080 Transfers

- A. General Fund Transfers -- To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenditures shall be transferred back to the General Fund, unless Council directs the transfer to be used for other purposes.
- B. Transfer Reconciliation & Cash Flow -- Transfers for specific programs or projects, or to support special operations, should occur on the basis of cash flow needs of the program or service being supported. A reconciliation of actual transfers against budgeted transfers will be included in the year-end audit process.
- C. Advances -- Where it is necessary to make a one-time advance of General Fund monies to another fund, this action shall occur under the following conditions:
 1. The advance is reviewed, prior to the transfer of funds, by the Administrative Service Committee.
 2. All excess cash balances in the fund receiving the advance shall be invested for the benefit of the General Fund, if allowed by federal and state law and regulations, as long as the advance is outstanding.
 3. Should the borrowing fund accumulate an unexpected unrestricted balance, this excess shall be used first to repay the advance.
 4. At the time of closing out the fund, assets net of liabilities of the fund equaling the unpaid portion of the advance revert to the General Fund, if allowed by federal, state or local law.
 5. For short-term cash deficits in funds other than the General Fund during the course of the year, short-term loans are preferred to advances, except in cases where the receiving fund is legally precluded from paying interest on loans, or where loan transactions would be too numerous and costly to be cost effective.

10.04.090 Contingency – Non-General Fund

- A. Contingency Amount -- To meet emergency conditions, the budget shall provide for an appropriated contingency in each fund other than the General Fund of at least 2% of estimated annual operating revenues. All governmental and enterprise funds shall maintain a contingency. The contingency shall be exclusive of all reserves.
- B. Contingency Use -- Use of the contingency should be infrequent and for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. The City Council must authorize expenditure of any contingencies via a resolution.
- C. Contingency in Excess of 2% -- The Finance Director may recommend a contingency in excess of 2% of current revenue in specific funds to address specific needs. When this occurs, the Finance Director will provide the Budget Commission and City Council with information regarding the reasons for the recommendation.
- D. Contingency Below 2% -- Where correction of a fund balance deficit causes the contingency to be budgeted below 2% of operating revenue, a gradual correction of the problem over several years is preferable to a one-time jump in rates, or substantial decreases in other expenditure plans.

CP 10.05 CAPITAL IMPROVEMENT PROGRAM (CIP)

10.05.010 Purpose

To maintain the City's investment in infrastructure, this policy provides direction for the development and implementation of the annual CIP.

10.05.020 Background

The City has a significant investment in the infrastructure necessary for the general public's use. The infrastructure systems – streets, bikeways and sidewalks, water treatment plants and distribution system, wastewater treatment plants and collection system, storm water conveyance system, airport, parks, recreation facilities, open spaces, and municipal facilities – are important to the general well-being of the community. The City maintains and enhances the infrastructure systems by developing long-term plans and securing the funding necessary to implement the plans. The Capital Improvement Program is developed to advise the community of the plans for maintaining the public investment, and to ensure the resources are available to invest when the community requires them.

10.05.030 Capital Improvement Program

- A. Definition of a Capital Project -- A capital project must:
 - 1. cost more than \$25,000, and
 - 2. be a permanent addition to the capital assets of the City, and
 - 3. purchase land, or
 - 4. construct a new building, or
 - 5. remodel or add to an existing building, or
 - 6. construct/install public infrastructure, or
 - 7. replace existing infrastructure.
- B. Full Costs Included -- For any project which meets the definition of a capital project, all costs for the project including design, land or right-of-way acquisition, appraisals, construction, construction management, furnishings, and legal or administrative costs will be included in the project budget.
- C. Five-year CIP -- A five-year Capital Improvement Program (CIP) shall be developed and presented annually by staff to the CIP Commission, reviewed by the Planning Commission for compliance with the comprehensive plan, reviewed by the Budget Commission for compliance with long-term financial plans, and approved by the City Council. This plan shall contain all capital improvements from all funds and departments of the City. The first year of the plan shall constitute the next-year's capital budget.
- D. Existing Assets -- A high priority shall be placed on repair or replacement of capital assets when such assets have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively affecting property values, and/or are no longer functionally serving their intended purposes.
- E. Construction Standards -- Capital improvements constructed in the City shall be designed and built based on published construction standards which shall be periodically updated by the City Engineer. The construction standards will assure projects are built with an acceptable useful life and minimum maintenance costs.

10.05.040 Capital Improvement Maintenance

- A. Maintenance Standards -- Standards of maintenance to adequately protect the City's capital investments shall be developed and periodically updated. The annual budget will be prepared to meet established maintenance schedules.
- B. Operating Budget Impacts -- Future operating budget impacts for new capital facilities will be analyzed and estimates included in all years of the financial plans as part of considering a proposed capital project.

10.05.050 Capital Improvement Financing

- A. Appropriate Funding -- Within the limitation of existing law, various funding sources may be used for capital improvements. When capital projects are proposed, appropriate funding will be identified.
- B. Unspent Funds -- Upon completion of capital projects, the Finance Director shall certify any unspent funds from the project. The most restrictive project revenues shall be used first so that unused funds will have the fewest restrictions on future use. Unspent capital project funds, except bond funds, shall be returned to their original source. If there are unspent funds from a bond issue, those monies will be allocated according to stipulations in the bond indenture. In no case shall projects incur a funding deficit without the express approval of the City Council.
- C. Interest Earnings in the Capital Construction Fund (governmental fund) -- Interest earnings shall be allocated to each project based on the project's proportion of the cash balance in the fund. Projects which have a negative cash balance due to timing of reimbursements of grants or loans will not accrue interest revenue or an interest expense.
 - 1. Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions.
 - 2. Interest earnings not otherwise limited will be considered the most restricted City funds in the project and will be spent first in compliance with Financial Policy 10.05.050.B.
- D. Interest Earnings in the Proprietary Fund Construction Components -- Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions. All non-restricted interest earnings will be accrued to the operating fund and will be available to spend on either operations or future capital projects.

CP 10.06 DEBT

10.06.010 Purpose

To proactively manage the City's existing and future debt issues in compliance with state and federal laws to maintain the City's capacity for future debt issues that may be required for infrastructure investment.

10.06.020 Background

The City of Corvallis operates on a pay-as-you go basis for most capital investment, matching resources with appropriate uses. Systems Development Charge revenue is used to fund capital investments that are required to increase the capacity of the City's infrastructure. Operating monies are used to pay for maintenance of existing infrastructure, and as leverage for grant monies to fund projects that may otherwise be unattainable. If necessary for some projects, reserves are built over time, or grants are sought to fund some capital investments. From time-to-time the City plans for a capital improvement project or a significant long-term operating expenditure (such as pension obligations) which is too expensive to finance with cash reserves or which needs to be completed before reserves can be developed. When this occurs, the City borrows monies. The City is conservative in its borrowing practices, and strives to maintain low debt-per-capita ratios when compared to similar sized cities.

10.06.030 Use of Debt Financing

- A. Long-term Debt -- The City of Corvallis shall only use long-term debt for capital projects that cannot be financed out of current revenues within the Revenue Policy guidelines for rate increases. Debt financing shall generally be limited to one-time capital improvement projects or to leverage a future significant cost the City must bear (such as pension obligations) and only under the following circumstances:
 - 1. when the project's useful life is greater than or equal to the term of the financing;
 - 2. when project revenue or specific resources will be sufficient to service the debt; and,
 - 3. when analysis demonstrates that the debt will smooth or reduce costs over multiple years or the project is expected to benefit the citizens of Corvallis.
- B. Use of Debt Financing -- Debt financing shall not be considered appropriate for:

1. Current operating and maintenance expenses (except for issuing short-term instruments such as revenue anticipation notes or tax anticipation notes or interfund loans as per State law limitations); and
 2. Any recurring purpose (except as indicated above).
- C. Tax/Revenue/Bond Anticipation Notes -- Tax and revenue anticipation debt will be retired within the fiscal year issued, and bond anticipation notes will be retired no later than six months after the completion of the project.
- D. Short-term Debt -- Debt issued with a final maturity of one year or less from the time of issuance, which is outstanding at the end of the year, will not exceed 5% of net operating revenues (including tax anticipation notes but excluding bond anticipation notes.)

10.06.040 Limits on Debt Issuance

- A. Vote to Issue General Obligation Debt -- General obligation bonds require an affirmative vote prior to issuance. Constitutional limitations require a simple majority of votes for elections in May or November; for all other elections, a simple majority of registered voters must vote in the election, and of those voting a simple majority must vote affirmatively.
- B. Statutory General Obligation Bond Debt Limits -- Oregon Revised Statutes chapters 287 and 288 limit the outstanding general obligation principal indebtedness of the City other than bonds issued for water, sanitary or storm sewers to 3% of the true cash value of the taxable property within the City.
- C. Council Imposed Debt Limits -- The annual general obligation debt service for long-term issues (greater than five years), where the debt service is paid from property tax sources, shall not exceed 15% of the combined operating and capital budgets in the Governmental funds.
- D. Limited Tax General Obligation Bonds -- The outstanding principal debt for Limited Tax General Obligation Bonds (LTGO), non-self-supporting leases, and full faith and credit lease purchases, is limited to 1% of the true cash value of the taxable property in the City. Furthermore, annual debt payments for General Fund supported LTGO debt shall not exceed 5% of the combined operating and capital budgets in the Governmental Funds.
- E. Revenue Bonds -- Revenue secured debt obligations will be undertaken only after a study of the projected operating, maintenance, debt service and coverage requirements and the impact of these requirements on user rates have been completed. The outcome of the study will be shared with the City Council prior to issuing the debt.

10.06.050 Debt Issuance

- A. Timing of Debt Issuance -- The timing for each debt issue in association with the construction schedule will be carefully considered, using the following criteria:
1. Projected cash flow requirements for the capital project;
 2. Cash reserves on hand to temporarily fund preliminary project expenses;
 3. Spend down schedules identified by the IRS to meet arbitrage limitations; and
 4. Market conditions.
- B. Competitive Sale -- All bonds will be sold at competitive sale unless it is in the City's best interest to sell at a negotiated sale. The City reserves the right to reject any and all bids at a competitive sale and sell the bonds at a negotiated sale if it is in the best interest of the City of Corvallis to do so.
- C. Refunding Bonds -- Refunding or advanced refunding bonds may be authorized by the City Council providing the issuance complies with the rules adopted by the State Treasurer and outlined in Oregon Revised Statutes.
- D. Annual Debt Payment Limits -- To maintain the City's credit rating and expenditure flexibility, the annual debt service payments the City must make on net direct long-term general obligation debt shall not exceed 10% of operating revenue. To achieve this goal, on a per issue basis, the City will structure its debt to pay no less than 33% of the principal on bonds sold during the first half of the repayment term.
- E. Overlapping Debt -- City staff shall endeavor to notify the City Council of the debt issuance plans of the City's overlapping taxing jurisdictions and the possible impact such debt plans may have on the City's debt capacity.

- F. Investment of Bond Proceeds -- Receipt of bond proceeds will be timed to occur in conjunction with construction. However, it is acknowledged that in most cases bond proceeds will not be fully expended as soon as they are received. The City shall invest the proceeds from debt issuance in the legally authorized investment instruments for local governments in Oregon to maximize interest earnings available for the capital project. Prior to choosing an investment instrument, staff will take into consideration projected cash flow of the project and the likelihood that Internal Revenue Service (IRS) spend down targets will be met or exceeded. The investment instrument(s) shall be chosen to maximize interest earnings and minimize any arbitrage penalties which may accrue within the established IRS regulations.

10.06.060 Leasing

Lease purchase financing shall be considered only when the useful life of the item is equal to or greater than the length of the lease, and a lease purchase is the most economical method of purchasing available. If the item may become technologically obsolete or is likely to require major repair during the lease purchase period, then the item should be either purchased with cash or placed on an operating lease.

10.06.070 Rating Agency Relationship

- A. Reporting -- The City shall maintain good communication with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.
- B. Compliance with SEC Rules -- The City will comply with all aspects of the Securities and Exchange Commission rule 15c2-12 pertaining to secondary market disclosure.

10.06.080 Debt Management Plan

- A. Debt Management Plan -- A Debt Management Plan shall be developed and updated prior to the issuance of any additional debt. The Debt Management Plan shall encompass all debt of the City which draws on the same financial resources, including, but not limited to:
1. detail of the sources of funding for all debt;
 2. current and future debt capacity analysis;
 3. issues to be addressed for sound debt management;
 4. a contingency debt plan should any of the funding sources become unavailable in the foreseeable future; and
 5. reporting as to the City's compliance with its debt policies.
- B. Review -- The Administrative Services Committee shall review the Debt Management Plan prior to the issuance of new debt and any recommendations made therein.

CP 10.07 RISK MANAGEMENT

10.07.010 Purpose

These policies set forth the over-arching guidance for the City's risk management program which is designed to minimize risk of incidents where damage could occur to citizens, employees, or the City's infrastructure or assets. Managing risk is critical to protect the community's assets and the organization's financial position.

10.07.020 Background

The City of Corvallis' basic operations have certain risks associated with them, which could have a significant financial impact if the risks were not managed. Risk Management policies are designed to identify and assess the risks, change factors that can be controlled to reduce risks, ensure that risk is transferred to others when appropriate, and provide insurance to mitigate against losses. The Risk Management program is comprehensive and addresses risks to City employees through appropriate training, and risks to staff and the general public through proactive maintenance and insurance coverage as well as holding adequate reserves for uninsured losses and programs designed to reduce factors associated with claims.

10.07.030 Risk Management Report

- A. Annual Report -- The City Manager shall annually prepare a Comprehensive Risk Management Report, including but not limited to:
1. a summary of the past year's risk management claims,
 2. an identification of current and potential liability risks or activities potentially impacting the City's finances,
 3. specific strategies to address the risks identified, and
 4. a summary of the past year's safety and violence in the workplace activities/trainings.

10.07.040 Risk Management Program

- A. Program -- The City shall implement and maintain a Risk Management program designed to decrease exposure to risk. At a minimum, the program shall include:
1. a safety program that emphasizes reducing risks through training and safe work habits,
 2. an annual examination of the City's insurance program to evaluate how much risk the City should assume, and
 3. other risk management activities, including review of all City contracts with respect to indemnification and insurance provisions.

10.07.050 Risk Management Fund

- A. Purpose -- The Risk Management Fund shall be used to provide for insurance coverage, uninsured losses in excess of deductible amounts, safety program expenses, and prudent reserves, contingencies and fund balances.
- B. Catastrophic Reserves -- The targeted balance for unappropriated catastrophic reserves shall be \$500,000 each year. Appropriated catastrophic reserves which are drawn down will be rebuilt the following fiscal year. Unappropriated catastrophic reserves which are drawn down below the recommended target will be re-built at the rate of a minimum of 33% of the deficit balance per year over three years, or sooner if practical.
- C. Unreserved Fund Balance Target -- The unreserved fund balance target for the Risk Management Fund shall be \$40,000. Should the ending fund balance drop below \$40,000 in any fiscal year, it will be re-built the following year. Ending unreserved balances in excess of \$40,000 will be used as a dividend to departments if the catastrophic reserves are fully funded or can be used as funding for additional expenditures in the safety program as directed by the City Manager and appropriated within the following budget year. If the excess is used as a dividend to departments, the funds will be returned to departments based on the prior year's experience.

CP 10.08 INVESTMENTS

10.08.010 Purpose

To minimize risk associated with investing the City's monies and ensure the availability of cash to meet expenditures, while maximizing earnings opportunities and minimizing idle funds. These policies provide direction for managing the City's investments.

10.08.020 Background

The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments as authorized by Oregon Revised Statutes on local government investments ~~and the City's Administrative Policy on Investments~~. Investing monies has inherent risks; these risks are managed through the application of appropriate risk assessments and diversification, and following prudent rules for investing governmental funds. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments.

10.08.030 Scope

- A. ~~Application of Policy~~—These investment policies apply to all cash-related assets within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon for public funds.
- B. ~~Pooled Cash~~—The City of Corvallis will make use of pooled cash to invest under the prudent investor rule. The rule 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." as described under S.10.08.060 below.

10.08.040 Objectives

- A. The City's investment objectives are listed below, and can be summarized as primarily concerned with safety, legality and liquidity, with a secondary objective of return:
1. Safety: Preserve capital and protect investment principal, by implementing diversification and risk management practices;
 2. Legality: Conform with federal, state and other legal requirements,
 3. Liquidity: Maintain sufficient liquidity to meet operating needs requirements—by managing cash flow requirements.;
 4. ~~Diversify to avoid incurring unreasonable risks regarding specific security types or individual financial institutions;~~
 5. ~~Return: Attain a market rate of return throughout budgetary and economic cycles, by implementing an investment strategy.~~
 6. ~~Invest with the intent to hold until maturity.~~

10.08.50 Responsibility

- A. ~~Authority Governing Body~~— The City Council has a fiduciary responsibility for invested City funds. The City Council's standing Administrative Services Committee (ASC) shall serve as the oversight body. Formal review of this investment policy and investment activity shall be conducted at ASC meetings at least quarterly. On an ad hoc basis, a citizen of the City of proven integrity and business ability may be invited to attend ASC meetings to provide additional, local, unbiased expertise. The City Council, via ASC, will receive reports with sufficient detail to comply with ORS Chapter 294.085 and 294.155 requirements.
- B. Delegation of Authority - The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio, place purchase and sell orders with dealers and financial institutions, and prepare reports as required. The Finance Director may choose to use the services of a professional investment advisor if he/she believes that is most beneficial to the organization.
- A. -- ~~To assist the City Manager in carrying out this the management responsibility for the investment program, the Investment Council has been created. The Investment Council shall be composed of the City Manager, the Finance Director, the City Attorney, and~~ On an adhoc basis, a citizen of the City of proven integrity and business. The City Council President, or the Council Vice-President if the Council President is unable to serve, shall serve ex-officio as a voting member.
- C. ~~Investment Council Charge~~—The Investment Council is responsible for providing advice with respect to the investment decisions, activities, and establishment of written procedures for investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.

~~B. Investment Council Meetings — The Investment Council shall meet quarterly. At each meeting, the Investment Council reviews investment reports submitted by the City Treasurer reflecting investment activity for each of the immediately preceding three months. Acceptance of the report must be unanimous. Should the reports not be accepted, the reports shall be revised accordingly by the City Treasurer and resubmitted to the Investment Council at its next regularly scheduled meeting or sooner if requested.~~

~~C. Investment Adviser -- The City may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and the City Manager's Investment Administrative Procedures for implementing this policy, and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City. The following items are required minimum criteria for the approved Investment Advisors:~~

- ~~1) The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;~~
- ~~2) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);~~
- ~~3) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed to do business/trades in the state of Oregon;~~
- ~~4) An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by Federal or State regulators.~~

~~D. Governing Authority -- Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended. Investment Maturity Matches Cash Flow — Recognizing that the City's need for funds is not constant, the City Treasurer should schedule investments in coordination with all funds such that there is as little idle cash as practical, consistent with the projected cash flow budget.~~

~~E. Investment Administrative Policy — The City Treasurer shall annually update the City's administrative policy for investments, to be reviewed and approved by the Investment Council prior to adoption. Substantive changes in the Investment Administrative Policy shall be submitted to the Oregon Short Term Fund Board for review after City Manager approval.~~

10.08.060 Standards of Care

~~A. Prudence -- 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. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.~~

~~The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.~~

10.08.070 — Administration and Operations

~~A. — Safekeeping and Collateralization~~

1. Safekeeping Custodial Bank: Investment securities purchased by the City will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The purchase and sale of all securities will be on a delivery-versus-payment basis.
2. Collateralization of Re-purchase Agreements: Re-purchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the adopted policy of the Oregon Investment Council:

<u>United States Treasury Securities</u>	<u>102%</u>
<u>United States Agency Discount and Coupon Securities</u>	<u>102%</u>

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed.

All re-purchase agreements require a master re-purchase contract with the approved broker dealers.

3. Collateralization of Certificates of Deposits and Bank Deposits: At a minimum, time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295. All depositories must be on the State of Oregon's qualified list. Additional collateral may be required if staff deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasury the financial institutions that are transacting business with the City as required by ORS.

B. Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor, who shall provide an annual review to assure compliance with ORS and the City's policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

10.08.090 Qualified Institutions

- A. Qualified Institutions — Broker/Dealer and Financial Depositories —The City shall maintain a listing of authorized broker/dealers and financial institutions which are approved for investment purposes. The list will be shared with the ASC when changes are made. Approval of Qualified Institutions can occur in one of the following three circumstances:

1. Investment Advisor Approved List

If the City has an Investment Advisor, the Advisor shall provide a list of brokers/dealers which the Advisor has vetted for meeting ORS standards for local government investments.

2. City-Approved Broker/Dealer List:

If the City does not have an Investment Advisor, the Finance Director may create and maintain a broker/dealer list using the following criteria: Any firm is eligible to apply to provide investment services to the City and will be added to the list referenced above if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director, then reviewed and approved by the Investment Council:

Selection Criteria for Broker/Dealer Approval/Removal if there is no Investment Advisory firm under contract (see part 3):

- a) Broker/dealers must have a branch located in Oregon.
- b) The broker/dealer must routinely provide services to public entities in Oregon and be knowledgeable of Oregon governmental investments statutes and the City Council's Investment Policy as well as the City Manager's Investment Administrative Procedures.
- c) Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.
- d) Broker/dealers must be approved by the City of Corvallis Administrative Services Committee at the next quarterly meeting before conducting investment business with the City.

- e) An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.
- f) Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.
- g) Any broker/dealer may be removed from the approved list at any time by the Finance Director based upon news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.

3. City – Financial Institution – List:

The State of Oregon Treasurer's Office maintains a list of The City shall maintain a listing of all financial institutions for deposits and certificates of deposits, which are approved for local government investment purposes. Any financial institution on the Treasurer's list shall be acceptable for City investment purposes.

10.08.060100 Authorized and Suitable Investments Instruments/Vehicles

A. Legal Investments

All investments of the City shall be made in accordance with Oregon Revised Statutes Chapter 294. Any revisions or extensions of this chapter of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted, and will be formally incorporated at the next annual update of this policy.

B. Suitable Investments (Specific Types)

<u>U. S. Treasury Obligation</u>	<u>Direct Obligations of the United States Treasury whose payment is guaranteed by the United States. (ORS 294.035(3)(a))</u>
<u>Government Sponsored Enterprise or US Agency Obligations</u>	<u>US Government Agencies, Government Sponsored Enterprises (GSE's) Corporations or Instrumentalities of the US Government -- Federal Instrumentality Securities include, but are not limited, to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB). (ORS 294.035(3)(a))</u>
<u>Commercial Paper</u>	<u>Commercial Paper that is rated A1/P1 and has long-term bonds which have a minimum rating of AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing.</u>
<u>Corporate Obligations</u>	<u>Corporate domestic bonds issued by a commercial, industrial, or financial institution registered with the Securities and Exchange Commission. Authorized corporate bonds shall be limited to obligations of the United States dollar-denominated corporations organized and operating within the United States. The debt must be rated at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. A list of approved corporate issuers for purchases will be maintained and updated under the same mechanism as the Broker/Dealer list in Section 10.08.09.</u>

<u>Municipal Obligations</u>	<u>Lawfully issued debt obligations of the State of Oregon and its agencies or instrumentalities of the State of Oregon and its political subdivisions that have a AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. (ORS 294.035(3)(b))</u>
<u>Bankers Acceptance</u>	<u>A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose long-term letter of credit rating is at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. (ORS 294.035(3)(h)(A))</u>
<u>Certificates of Deposit/Bank Deposit/ Savings Accounts</u>	<u>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))</u>
<u>Local Government Investment Pool (LGIP)</u>	<u>State Treasurer's local short-term investment fund up to the statutory limit, per ORS 294.810.</u>

C. Investment Parameters

1. Investment Diversification

The City will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

<u>U.S. Treasury Obligation</u>	<u>100%</u>	<u>None</u>
<u>GSE's Agency Securities</u>	<u>100%</u>	<u>FHLB,FFCB, FHLMC, FNMA 40% other names – 10%</u>
<u>Commercial Paper</u>	<u>10%</u>	<u>5%</u>
<u>Corporate Bonds</u>	<u>10%</u>	<u>5%</u>
<u>Municipal Bonds</u>	<u>10%</u>	<u>5%</u>
<u>Banker's Acceptance</u>	<u>10%</u>	<u>5%</u>
<u>Certificates of Deposit/Bank Deposit/Savings Accounts</u>	<u>25%</u>	<u>15%</u>
<u>OSTF LGIP Fund</u>	<u>ORS 294 limit</u>	

2. Investment Maturity

- a) The City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- b) The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.
- c) Liquidity funds will be held in the LGIP or in money market instruments maturing one year and shorter.
- d) Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and five years and will be only invested in higher-quality and liquid securities that meet suitable investment criteria outlined in 10.08.100.
- e) Total Portfolio Maturity Constraints:

Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
WAM (weighted average maturity)	1.5 years

f) Exception to the five-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

3. Competitive Selection and Pricing

The City shall seek competitive pricing when buying or selling investments, and will buy or sell the offer that provides the optimal price for the risk of the term/instrument.

4. Securities shall generally be held until maturity with the following exceptions:

- a) A security with declining credit may be sold early to minimize loss of principal.
- b) A security exchange that would improve the quality, yield, or target duration in the portfolio.
- c) Liquidity needs of the portfolio require that the security be sold.
- d) As needed for 10.08.130(c).

10.08.110 Prohibited Investments:

- A. Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.
- B. The City prohibits mortgage-backed securities in the portfolio.
- C. Securities lending is prohibited in the City's portfolio.
- D. Private Placement or "144A" Securities.

10.08.120 Investment of Proceeds from Debt Issuance:

- A. 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 and the applicable bond covenants and tax laws.
- B. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for re-sale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this Policy's liquidity risk constraints within section 10.08.100.

10.08.130 Monitoring; Guideline Measurement and Adherence

- A. Monitoring -- The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.
- B. Guideline Measurement -- Guideline measurements will be market value of the investments.
- C. Guideline Compliance
 - 1. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this Policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.

2. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance, and reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Investment Council/Administrative Services Committee.
3. 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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
4. If a corporate bond is downgraded below corporate rating criteria established at purchase, the Finance Director will immediately notify the Investment Council/ASC members of the downgrade and provide an analysis and recommendation. The analysis will be reviewed at the next quarterly Investment Council/ASC meeting to document the decision in the meeting minutes.

Investment Instruments -- Funds of the City of Corvallis must be limited to those investments allowed by the statutes of the State of Oregon and as identified in the Investment Administrative Policy.

- A. Investment Diversification -- Funds of the City of Corvallis will be invested in accordance with diversification by financial institution, investment type, and maturity as outlined in the Investment Administrative Policy.

10.08.070130 Reporting Requirements

- A. Annual Reports -- The City Treasurer/Finance Director shall submit an annual statement certifying compliance with the ~~this~~ Investment Administrative Policy to the Investment Council/ASC, noting compliance throughout the most recently completed fiscal year. This statement shall be filed as soon as practical, but no later than August 31 of each year.
- A-B. Quarterly Reports -- The ASC shall at a regular meeting, review the quarterly operating report (QOR) section on the investment portfolio as submitted by the Finance Director reflecting investment activity for each of the immediately preceding three months, using the objectives outlined above. Should the report not be accepted, the report shall be revised accordingly by the Finance Director and resubmitted to the ASC at its next regularly scheduled meeting or sooner if requested.
- B-C. Monthly Reports -- The City Treasurer/Finance Director shall provide the Investment Council/ASC with a Monthly Investment Report reviewing the compliance with the ~~this~~ Investment Administrative Policy and providing data on investment instruments being held, as well as any narrative necessary for clarification. -- The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.

CP 10.09 ACCOUNTING AND FINANCIAL REPORTING

10.09.010 Purpose

To provide Council leadership for the organization by stating the importance of a system of internal controls to be implemented and maintained to meet the goals of providing accurate and timely financial reports to the community and financial markets.

10.09.020 Background

Best practices state that the City Council must lead the organization's commitment to excellence in financial management through the adoption of policies stating clear expectations. The City of Corvallis maintains a financial management system that ensures transactions are appropriately recorded, assets are managed for the benefit of the community, and risk of fraud or financial loss is identified and minimized through a set of internal controls designed to manage the risk. The financial markets and other interested parties rely on the City's annual financial statements to ensure Corvallis bondholders the City's financial condition will allow the City to continue to make all required debt payments and meet all covenants.

10.09.030 Internal Controls

- A. Internal Control System -- The City shall establish and maintain a process that is designed to provide reasonable assurance that the City is achieving the following objectives:
1. effective and efficient operations,
 2. reliable and accurate financial information,
 3. compliance with applicable laws and regulations, and
 4. safeguarding assets against unauthorized acquisition, use, or disposition.
- B. Annual Audit -- The City shall hire an independent external auditor to perform an annual audit of the financial statements, including tests of the internal controls. It is the City's objective that the financial statements receive an unqualified opinion, an opinion in which the auditor can state, without reservation, that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

10.09.040 Financial System

- A. Purpose of the Financial System -- The financial system shall be used as the means of recording and reporting financial transactions in a way that will assist users in assessing the service efforts, costs and accomplishments of the City.
- B. Financial System Characteristics -- The City's accounting and reporting system shall demonstrate the following characteristics:
1. reliability,
 2. accuracy,
 3. consistency,
 4. timeliness,
 5. efficiency,
 6. responsiveness,
 7. compliance with legal requirements, and
 8. conformance with GAAP.
- C. Funds -- The City shall establish and maintain only those funds that are necessary by law and for sound financial administration. The funds shall be structured in a manner consistent with GAAP, to maximize the City's ability to audit, measure and evaluate financial performance. The fund structure will be reviewed annually and the Finance Director will recommend changes to improve compliance with Council policies, financial planning, resource allocation and service delivery will be made to the City Manager at the beginning of the annual budget process. Adding, closing, or making significant changes to a fund shall be done by the City Council by adopting a resolution.

10.09.050 External Financial Reporting

- A. Comprehensive Annual Financial Report (CAFR) -- The City shall annually prepare and publish, by December 31st of each year, a CAFR in conformity with generally accepted accounting principles. The CAFR shall include but not be limited to:
1. an explanation of the nature of the reporting entity,
 2. the extent of activities conducted by the City,
 3. comparison of actual activity to adopted budget,
 4. an explanation of the City's fiscal capacity,
 5. disclosure of short and long term liabilities of the City,
 6. capital assets reporting,

7. cash policies and compliance reporting,
8. accounting policies, controls and management responsibilities, and
9. all other disclosures required by GAAP.

GLOSSARY OF TERMS USED IN FINANCIAL POLICIES

Accrual Basis of Accounting - The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Appropriation - Legal authorization granted by City Council to make expenditures and incur obligations.

Assessed Value - The value set by the County assessor on real and personal taxable property as a basis for levying taxes.

Assessments - An amount levied against a property for improvements specifically benefiting that property.

Balanced Budget - A budget in which the resources are equal to or greater than the requirements in each/every fund.

Benefits - Employee benefits mandated by state and federal law, union contracts, and/or Council policy. The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, deferred compensation, automobile allowances, disability insurance, and educational and incentive pay.

Bonds - A written promise to pay a sum of money (principal or face value) at a future date (maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used to finance long-term capital improvements.

Budget - A plan of financial operation, embodying an estimate of proposed expenditures for a given period (typically a fiscal year) and the proposed means of financing them (revenue estimates). Upon approval by the City Council, the budget appropriation resolution is the legal basis for expenditures in the budget year.

CAFR (Comprehensive Annual Financial Report) - Prepared at the close of each fiscal year and published no later than December 31 of each year to show the actual audited condition of the City's funds and serves as the official public record of the City's financial status and activities.

Capital Budget - A plan of proposed capital expenditures and the means of financing them. The capital budget is usually enacted as part of the complete annual budget which includes both operating and capital outlays. The capital budget should be based on a capital improvement program.

Capital Improvement Program (CIP) - A plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

Capital Outlay - Expenditures for operating equipment drawn from the operating budget. Capital outlay items normally include equipment that will last longer than one year and having an initial cost above \$5,000. Capital outlay does not include capital budget expenditures for construction of infrastructure such as streets, buildings, or bridges.

Contingencies - An appropriation of funds to cover unforeseen events which occur during the budget year. City Council must authorize the use of any contingency appropriations (not to be confused with Reserves).

Cost Allocation - A costing of local government services to identify the full cost of municipal services.

Council Goals - Broad goals established by the City Council at the outset of each two-year term to guide the organization in its activities and focus.

Debt Service - The amount of principal and interest that a local government must pay each year on net, direct-bonded, long-term debt plus the interest it must pay on direct short-term debt.

Deficit - (1) The excess of an entity's liabilities over its assets (see Fund Balance). (2) The excess of expenditures or expenses over revenues during a single accounting period. Direct Cost - A cost directly related to producing and/or providing related services. Direct costs consist chiefly of the identifiable expenses such as materials and supplies used to provide a service, the wages and salaries of personnel working to provide a service, and facility costs. These expenses would not exist without the program or service.

Equipment Replacement Schedule - A schedule of annual purchases to replace major equipment and vehicles that have met or exceeded their useful life to the City.

Expenditure - Total amount incurred if accounts are kept on an accrual basis; total amount paid if accounts are kept on a cash basis.

Financial Audit - A systematic examination of resource utilization concluding in a written report. It is a test of management's internal accounting controls and is intended to:

- Ascertain whether financial statements fairly present financial position and results of operations,
- Test whether transactions have been legally performed,
- Identify areas for possible improvements in accounting practices and procedures,
- Ascertain whether transactions have been recorded accurately and consistently, and
- Ascertain the stewardship of officials responsible for governmental resources.

Financial Condition - The City's ability to pay all costs of doing business and to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire.

Financial Plans - A schedule that provides information about the expected future fiscal stability of City operations. The projections are for the operating funds of the City. Each financial plan, or proforma, includes a discussion about issues that are addressed in the proforma, as well as assumptions made about both revenues and expenditures for each fund.

Financial Policies - Administrative and Council policies established to govern the City's financial operations.

Fixed or Mandated Costs - These include expenditures to which the government is legally committed (such as debt service and pension benefits), as well as expenditures imposed by higher levels of government (such as for wastewater treatment facilities).

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or resources together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Fund Balance - The difference between fund assets and fund liabilities of governmental and similar trust funds. The equivalent terminology within proprietary funds is Retained Earnings. (When the term "Fund Balance" is used in reference to Proprietary Funds, it is normally referring to the estimated budgetary-basis amount available for appropriations for budgeting purposes.) The Governmental Accounting Standards Board (GASB) has defined fund balance segments as follows:

- A. Non-spendable: Amounts inherently non-spendable or that must remain intact according to legal or contractual restrictions.
- B. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
- C. Committed: Amounts constrained by the City Council via a resolution or ordinance.
- D. Assigned: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- E. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

GAAP - Generally Accepted Accounting Principles.

General Obligation Bonds - When a government pledges its full faith and credit to the repayment of the bonds it issues, then those bonds are general obligation (GO) bonds. Sometimes the term is also used to refer to bonds which are to be repaid from taxes and other general revenues.

Government Funds - These funds subscribe to the modified accrual basis of accounting and include the following types of funds:

- General Fund - The major source of revenue for this fund is taxes. There are no restrictions as to the purposes in which the revenues in this fund can be used
- Special Revenue Funds - The resources received by these funds are limited to a defined use, such as the Street Fund.
- Debt Service Funds - Funds used for paying principal and interest of debt on non-enterprise funds.

- Capital Project Funds - Resources from these funds are used for purchase or construction of long-term fixed assets.
- Permanent Funds - The resources received by these funds are limited to a defined use and only earnings may be spent. The Davidson Fund is the city's only permanent fund.

Grant - A contribution of assets by one entity to another. Grants are generally designated for a specific expenditure.

HNA - the Historic Norming Adjustment is the factor in each fund that results from actual experience that is usually better than projected, either because revenues perform better than expected, and/or expenditure budgets are not fully expended due to unpredictable events such as employee turnover. The HNA is trended over a period of time and projected in future years in the financial plans to give a more likely projection of fund balance than otherwise would be visible.

Indirect Cost - A cost incurred in the production and/or provision of related services that usually cannot be directly associated with any one particular good or service. Indirect costs encompass overhead including administrative costs such as wages of supervisory and administrative personnel, occupancy and maintenance of buildings, and utility costs. These costs would exist without the specific program or service.

Investment - Cash balances, securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

Liabilities - The sum of all amounts that are owed at the end of the fiscal year, including all accounts payable, accrued liabilities, and debt.

Long-Term Debt - Present obligations that are not payable within a year. Bonds payable, long-term notes payable, and lease obligations are examples of long-term debt.

Master Plan - A comprehensive plan, normally covering a 5-10 year period, developed to guide delivery of specific services, identify future needs and challenges, and identify future infrastructure needs.

Modified Accrual Basis of Accounting - The accrual basis of accounting adapted to the governmental fund type under which revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are generally recognized when the related fund liability is incurred.

One-Time Revenue - Revenue that cannot reasonably be expected to continue, such as a single-purpose federal grant, an interfund transfer, or use of a reserve. Also referred to as a non-recurring revenue.

Operating Budget - The appropriated budget supporting current operations. Most operations are found in the General, Special Revenue, Permanent, Enterprise, and Internal Service Funds.

Overlapping Debt - The net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community.

Pay-As-You-Go Basis - A term used to describe the financial policy of a government which finances all of its capital outlays and/or improvements from current revenues rather than by borrowing.

Personnel Services - A category encompassing all salaries, fringe benefits, and miscellaneous costs associated with employee expenditures. Budget law also refers to this category as personnel services.

Proprietary Funds - These funds subscribe to an accrual basis of accounting and include the following types of funds:

- Enterprise Funds - Account for distinct, self-sustaining activities that derive the major portion of their revenue from user fees.
- Internal Service Funds - Account for goods and/or services provided to other funds or departments within the organization. Examples include the Vehicle and Equipment Maintenance and Data Processing Funds.

Reserved Balance - For budgetary purposes, this is the amount of fund balance that is not available for appropriation except for the uses defined for the specific reserve.

Resolutions - A legal document adopted by the City Council that directs a course of action. In relationship to the budget, resolution refers to the document that levies taxes and sets legal appropriation levels.

Restricted Revenue - Legally earmarked for a specific use, as may be required by state law, bond covenants, or grant requirements. For example, many states require that gas tax revenues be used only for street maintenance or street construction.

Revenue - Monies received or anticipated by a local government from either tax or non-tax sources.

System Development Charge (SDC) - A charge levied on new construction to help pay for additional expenses created by growth or to compensate for already existing capacity in key facilities and systems already in place which support the new development.

Transfer - Amounts distributed from one fund to finance activities in another fund. Shown as an expenditure in the originating fund and a revenue in the receiving fund.

Unfunded Liability - A liability that has been incurred during the current or a prior year, that does not have to be paid until a future year, and for which reserves have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future.

CP 10.08 INVESTMENTS

10.08.010 Purpose

To minimize risk associated with investing the City's monies and ensure the availability of cash to meet expenditures, while maximizing earnings opportunities and minimizing idle funds. These policies provide direction for managing the City's investments.

10.08.020 Background

The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments as authorized by Oregon Revised Statutes on local government investments and the City's Administrative Policy on Investments. Investing monies has inherent risks; these risks are managed through the application of appropriate risk assessments and diversification, and following prudent rules for investing governmental funds. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments.

10.08.030 Scope

~~Application of Policy~~—These investment policies apply to all cash-related assets within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon for public funds.

~~A. Pooled Cash~~—The City of Corvallis will make use of pooled cash to invest under the prudent investor rule. The rule 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." as described under S.10.08.060 below.

10.08.040 Objectives

- A. The City's investment objectives are listed below, and can be summarized as primarily concerned with safety, legality and liquidity, with a secondary objective of return:
1. ~~Safety~~: Preserve capital and protect investment principal, by implementing diversification and risk management practices;
 2. ~~Legality~~: Conform with federal, state and other legal requirements,
 3. ~~Liquidity~~: Maintain sufficient liquidity to meet operating needs requirements by managing cash flow requirements;
 4. ~~Diversify to avoid incurring unreasonable risks regarding specific security types or individual financial institutions;~~
 5. ~~Return~~: Attain a market rate of return throughout budgetary and economic cycles, by implementing an investment strategy.
 6. ~~Invest with the intent to hold until maturity.~~

10.08.50 Responsibility

- A. ~~Authority Governing Body~~— The City Council has a fiduciary responsibility for invested City funds. The City Council's standing Administrative Services Committee (ASC) shall serve as the oversight body. Formal review of this investment policy and investment activity shall be conducted at ASC meetings at least quarterly. On an *ad hoc* basis, a citizen of the City of proven integrity and business ability may be invited to attend ASC meetings to provide additional, local, unbiased expertise. The City Council, via ASC, will receive reports with sufficient detail to comply with ORS Chapter 294.085 and 294.155 requirements.
- B. ~~Delegation of Authority~~ - The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio, place purchase and sell orders with dealers and financial institutions, and prepare reports as required. The Finance Director may choose to use the services of a professional investment advisor if he/she believes that is most beneficial to the organization.
- A. -- To assist the City Manager in carrying out this ~~the~~ management responsibility for the investment program, the Investment Council has been created. The Investment Council shall be composed of the City Manager, the Finance

Director, the City Attorney, and ~~On an *ad hoc* basis,~~ a citizen of the City of proven integrity and business. The City Council President, or the Council Vice-President if the Council President is unable to serve, shall serve ex-officio as a voting member.

~~C. Investment Council Charge — The Investment Council is responsible for providing advice with respect to the investment decisions, activities, and establishment of written procedures for investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.~~

~~Investment Council Meetings — The Investment Council shall meet quarterly. At each meeting, the Investment Council reviews investment reports submitted by the City Treasurer reflecting investment activity for each of the immediately preceding three months. Acceptance of the report must be unanimous. Should the reports not be accepted, the reports shall be revised accordingly by the City Treasurer and resubmitted to the Investment Council at its next regularly scheduled meeting or sooner if requested.~~

~~C. Investment Adviser -- The City may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and the City Manager's Investment Administrative Procedures for implementing this policy, and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City. The following items are required minimum criteria for the approved Investment Advisors:~~

- ~~1) The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;~~
- ~~2) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);~~
- ~~3) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed to do business/trades in the state of Oregon;~~
- ~~4) An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by Federal or State regulators.~~

~~D. Governing Authority -- Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended. Investment Maturity Matches Cash Flow — Recognizing that the City's need for funds is not constant, the City Treasurer should schedule investments in coordination with all funds such that there is as little idle cash as practical, consistent with the projected cash flow budget.~~

~~E. Investment Administrative Policy — The City Treasurer shall annually update the City's administrative policy for investments, to be reviewed and approved by the Investment Council prior to adoption. Substantive changes in the Investment Administrative Policy shall be submitted to the Oregon Short Term Fund Board for review after City Manager approval.~~

10.08.060 Standards of Care

~~A. Prudence -- 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. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.~~

~~The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual~~

security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

10.08.070 — Administration and Operations

A. — Safekeeping and Collateralization

1. Safekeeping Custodial Bank: Investment securities purchased by the City will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The purchase and sale of all securities will be on a delivery-versus-payment basis.
2. Collateralization of Re-purchase Agreements: Re-purchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the adopted policy of the Oregon Investment Council:

<u>United States Treasury Securities</u>	<u>102%</u>
<u>United States Agency Discount and Coupon Securities</u>	<u>102%</u>

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed.

All re-purchase agreements require a master re-purchase contract with the approved broker dealers.

3. Collateralization of Certificates of Deposits and Bank Deposits: At a minimum, time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295. All depositories must be on the State of Oregon's qualified list. Additional collateral may be required if staff deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasury the financial institutions that are transacting business with the City as required by ORS.

B. Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor, who shall provide an annual review to assure compliance with ORS and the City's policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

10.08.090 Qualified Institutions

A. Qualified Institutions — Broker/Dealer and Financial Depositories—The City shall maintain a listing of authorized broker/dealers and financial institutions which are approved for investment purposes. The list will be shared with the ASC when changes are made. Approval of Qualified Institutions can occur in one of the following three circumstances:

1. Investment Advisor Approved List

If the City has an Investment Advisor, the Advisor shall provide a list of brokers/dealers which the Advisor has vetted for meeting ORS standards for local government investments.

2. City-Approved Broker/Dealer List:

If the City does not have an Investment Advisor, the Finance Director may create and maintain a broker/dealer list using the following criteria: Any firm is eligible to apply to provide investment services to the City and will be added to the list referenced above if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director, then reviewed and approved by the Investment Council.

~~Selection Criteria for Broker/Dealer Approval/Removal if there is no Investment Advisory firm under contract (see part 3):~~

- a) Broker/dealers must have a branch located in Oregon.
- b) The broker/dealer must routinely provide services to public entities in Oregon and be knowledgeable of Oregon governmental investments statutes and the City Council's Investment Policy as well as the City Manager's Investment Administrative Procedures.
- c) Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.
- d) Broker/dealers must be approved by the City of Corvallis Administrative Services Committee at the next quarterly meeting before conducting investment business with the City.

- e) An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.
- f) Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.
- g) Any broker/dealer may be removed from the approved list at any time by the Finance Director based upon news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.

3. City—Financial Institution—List:

The State of Oregon Treasurer's Office maintains a list of The City shall maintain a listing of all financial institutions for deposits and certificates of deposits, which are approved for local government investment purposes. Any financial institution on the Treasurer's list shall be acceptable for City investment purposes.

10.08.060100 Authorized and Suitable Investments Instruments/Vehieles

A. Legal Investments

All investments of the City shall be made in accordance with Oregon Revised Statutes Chapter 294. Any revisions or extensions of this chapter of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted, and will be formally incorporated at the next annual update of this policy.

B. Suitable Investments (Specific Types)

<u>U. S. Treasury Obligation</u>	<u>Direct Obligations of the United States Treasury whose payment is guaranteed by the United States. (ORS 294.035(3)(a))</u>
<u>Government Sponsored Enterprise or US Agency Obligations</u>	<u>US Government Agencies, Government Sponsored Enterprises (GSE's) Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited, to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB). (ORS 294.035(3)(a))</u>
<u>Commercial Paper</u>	<u>Commercial Paper that is rated A1/P1 and has long-term bonds which have a minimum rating of AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing.</u>
<u>Corporate Obligations</u>	<u>Corporate domestic bonds issued by a commercial, industrial, or financial institution registered with the Securities and Exchange Commission. Authorized corporate bonds shall be limited to obligations of the United States dollar-denominated corporations organized and operating within the United States. The debt must be rated at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. A list of approved corporate issuers for purchases will be maintained and updated under the same mechanism as the Broker/Dealer list in Section 10.08.09.</u>
<u>Municipal Obligations</u>	<u>Lawfully issued debt obligations of the State of Oregon and its agencies or instrumentalities of the State of Oregon and its political subdivisions that have a AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. (ORS 294.035(3)(b))</u>
<u>Bankers Acceptance</u>	<u>A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose long-term letter of credit rating is at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. (ORS 294.035(3)(h)(A))</u>

<u>Certificates of Deposit/Bank Deposit/ Savings Accounts</u>	<u>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))</u>
<u>Local Government Investment Pool (LGIP)</u>	<u>State Treasurer's local short-term investment fund up to the statutory limit, per ORS 294.810.</u>

C. Investment Parameters

1. Investment Diversification

The City will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

<u>U.S. Treasury Obligation</u>	<u>100%</u>	<u>None</u>
<u>GSE's Agency Securities</u>	<u>100%</u>	<u>FHLM, FFEB, FHLMC, FNMA 40% other names – 10%</u>
<u>Commercial Paper</u>	<u>10%</u>	<u>5%</u>
<u>Corporate Bonds</u>	<u>10%</u>	<u>5%</u>
<u>Municipal Bonds</u>	<u>10%</u>	<u>5%</u>
<u>Banker's Acceptance</u>	<u>10%</u>	<u>5%</u>
<u>Certificates of Deposit/Bank Deposit/Savings Accounts</u>	<u>25%</u>	<u>15%</u>
<u>OSTF LGIP Fund</u>	<u>ORS 294 limit</u>	

2. Investment Maturity

- a) The City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- b) The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.
- c) Liquidity funds will be held in the LGIP or in money market instruments maturing one year and shorter.
- d) Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and five years and will be only invested in higher-quality and liquid securities that meet suitable investment criteria outlined in 10.08.100.
- e) Total Portfolio Maturity Constraints:

<u>Under 30 days</u>	<u>10%</u>
<u>Under 1 year</u>	<u>25%</u>
<u>Under 5 years</u>	<u>100%</u>
<u>WAM (weighted average maturity)</u>	<u>1.5 years</u>

- f) Exception to the five-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

3. Competitive Selection and Pricing

The City shall seek competitive pricing when buying or selling investments, and will buy or sell the offer that provides the optimal price for the risk of the term/instrument.

4. Securities shall generally be held until maturity with the following exceptions:

- a) A security with declining credit may be sold early to minimize loss of principal.
- b) A security exchange that would improve the quality, yield, or target duration in the portfolio.
- c) Liquidity needs of the portfolio require that the security be sold.
- d) As needed for 10.08.130(c).

10.08.110 Prohibited Investments:

- A. Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.
- B. The City prohibits mortgage-backed securities in the portfolio.
- C. Securities lending is prohibited in the City's portfolio.
- D. Private Placement or "144A" Securities.

10.08.120 Investment of Proceeds from Debt Issuance:

- A. 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 and the applicable bond covenants and tax laws.
- B. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for re-sale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this Policy's liquidity risk constraints within section 10.08.100.

10.08.130 Monitoring; Guideline Measurement and Adherence

- A. Monitoring -- The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.
- B. Guideline Measurement -- Guideline measurements will be market value of the investments.
- C. Guideline Compliance
 - 1. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this Policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
 - 2. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance, and reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the ~~Investment Council~~Administrative Services Committee.
 - 3. 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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
 - 4. If a corporate bond is downgraded below corporate rating criteria established at purchase, the Finance Director will immediately notify the ~~Investment Council~~ASC members of the downgrade and provide an analysis and recommendation. The analysis will be reviewed at the next quarterly ~~Investment Council~~ASC meeting to document the decision in the meeting minutes.

~~Investment Instruments -- Funds of the City of Corvallis must be limited to those investments allowed by the statutes of the State of Oregon and as identified in the Investment Administrative Policy.~~

- ~~A. Investment Diversification -- Funds of the City of Corvallis will be invested in accordance with diversification by financial institution, investment type, and maturity as outlined in the Investment Administrative Policy.~~

10.08.070130 Reporting Requirements

- A. Annual Reports -- ~~The City Treasurer~~ Finance Director shall submit an annual statement certifying compliance with ~~the this Investment Administrative Policy~~ to the ~~Investment Council~~ ASC, noting compliance throughout the most recently completed fiscal year. This statement shall be filed as soon as practical, but no later than August 31 of each year.
- A.B. Quarterly Reports -- ~~The ASC shall at a regular meeting, review the quarterly operating report (QOR) section on the investment portfolio as submitted by the Finance Director reflecting investment activity for each of the immediately preceding three months, using the objectives outlined above. Should the report not be accepted, the report shall be revised accordingly by the Finance Director and resubmitted to the ASC at its next regularly scheduled meeting or sooner if requested.~~
- B.C. Monthly Reports -- ~~The City Treasurer~~ Finance Director shall provide ~~the Investment Council~~ ASC with a Monthly Investment Report reviewing the compliance with ~~the this Investment Administrative Policy~~ and providing data on investment instruments being held, as well as any narrative necessary for clarification. ~~The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.~~

CP 10.08 INVESTMENTS

10.08.010 Purpose

To minimize risk associated with investing the City's monies and ensure the availability of cash to meet expenditures, while maximizing earnings opportunities and minimizing idle funds. These policies provide direction for managing the City's investments.

10.08.020 Background

The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments as authorized by Oregon Revised Statutes on local government investments. Investing monies has inherent risks; these risks are managed through the application of appropriate risk assessments and diversification, and following prudent rules for investing governmental funds. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments.

10.08.030 Scope

These investment policies apply to all cash-related assets within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon for public funds.

10.08.040 Objectives

- A. The City's investment objectives are listed below, and can be summarized as primarily concerned with safety, legality and liquidity, with a secondary objective of return:
1. Safety: Preserve capital and protect investment principal, by implementing diversification and risk management practices;
 2. Legality: Conform with federal, state and other legal requirements,
 3. Liquidity: Maintain sufficient liquidity to meet operating needs by managing cash flow requirements.
- Return: Attain a market rate of return throughout budgetary and economic cycles by implementing an investment strategy.

10.08.050 Responsibility

- A. Governing Body – The City Council has a fiduciary responsibility for invested City funds. The City Council's standing Administrative Services Committee (ASC) shall serve as the oversight body. Formal review of this investment policy and investment activity shall be conducted at ASC meetings at least quarterly. On an *ad hoc* basis, a citizen of the City of proven integrity and business ability may be invited to attend ASC meetings to provide additional, local, unbiased expertise. The City Council, via ASC, will receive reports with sufficient detail to comply with ORS Chapter 294 requirements.
- B. Delegation of Authority - The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio; place purchase and sell orders with dealers and financial institutions, and prepare reports as required. The Finance Director may choose to use the services of a professional investment advisor if he/she believes that is most beneficial to the organization.
- C. Investment Adviser -- The City may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and the City Manager's Investment Administrative Procedures for implementing this policy, and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City. The following items are required minimum criteria for the approved Investment Advisors:
- 1) The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;
 - 2) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);

- 3) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed to do business/trades in the state of Oregon;
 - 4) An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by Federal or State regulators.
- D. Governing Authority -- Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended.

10.08.060 Standards of Care

- A. Prudence -- 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. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.

The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

10.08.070 Administration and Operations

A. Safekeeping and Collateralization

- 1. Safekeeping Custodial Bank: Investment securities purchased by the City will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The purchase and sale of all securities will be on a delivery-versus-payment basis.
- 2. Collateralization of Re-purchase Agreements: Re-purchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the adopted policy of the Oregon Investment Council:

United States Treasury Securities	102%
United States Agency Discount and Coupon Securities	102%

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed.

All re-purchase agreements require a master re-purchase contract with the approved broker dealers.

- 3. Collateralization of Certificates of Deposits and Bank Deposits: At a minimum, time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295. All depositories must be on the State of Oregon's qualified list. Additional collateral may be required if staff deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasury the financial institutions that are transacting business with the City as required by ORS.

B. Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor, who shall provide an annual review to assure compliance with ORS and the City's policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

10.08.090 Qualified Institutions

- A. The City shall maintain a listing of authorized broker/dealers and financial institutions which are approved for investment purposes. The list will be shared with the ASC when changes are made. Approval of Qualified Institutions can occur in one of the following three circumstances:

1. Investment Advisor Approved List

If the City has an Investment Advisor, the Advisor shall provide a list of brokers/dealers which the Advisor has vetted for meeting ORS standards for local government investments.

2. City-Approved Broker/Dealer List:

If the City does not have an Investment Advisor, the Finance Director may create and maintain a broker/dealer list using the following criteria:

- a) Broker/dealers must have a branch located in Oregon.b) The broker/dealer must routinely provide services to public entities in Oregon and be knowledgeable of Oregon governmental investments statutes and the City Council’s Investment Policy as well as the City Manager’s Investment Administrative Procedures.
- c) Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.
- d) Broker/dealers must be approved by the City of Corvallis Administrative Services Committee at the next quarterly meeting before conducting investment business with the City.
- e) An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.
- f) Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.g) Any broker/dealer may be removed from the approved list at any time by the Finance Director based upon news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.

3. Financial Institution :

The State of Oregon Treasurer’s Office maintains a list of all financial institutions for deposits and certificates of deposits, which are approved for local government investment purposes. Any financial institution on the Treasurer’s list shall be acceptable for City investment purposes.

10.08.100 Authorized and Suitable Investments

A. Legal Investments

All investments of the City shall be made in accordance with Oregon Revised Statutes Chapter 294. Any revisions or extensions of this chapter of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted, and will be formally incorporated at the next annual update of this policy.

B. Suitable Investments (Specific Types)

Type	Definition
U. S. Treasury Obligation	Direct Obligations of the United States Treasury whose payment is guaranteed by the United States. (ORS 294.035(3)(a))
Government Sponsored Enterprise or US Agency Obligations	US Government Agencies, Government Sponsored Enterprises (GSE’s) Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited, to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB). (ORS 294.035(3)(a))
Commercial Paper	Commercial Paper that is rated A1/P1 and has long-term bonds which have a minimum rating of AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing.

Category	Definition
Corporate Obligations	Corporate domestic bonds issued by a commercial, industrial, or financial institution registered with the Securities and Exchange Commission. Authorized corporate bonds shall be limited to obligations of the United States dollar-denominated corporations organized and operating within the United States. The debt must be rated at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. A list of approved corporate issuers for purchases will be maintained and updated under the same mechanism as the Broker/Dealer list in Section 10.08.09.
Municipal Obligations	Lawfully issued debt obligations of the State of Oregon and its agencies or instrumentalities of the State of Oregon and its political subdivisions that have a AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. (ORS 294.035(3)(b))
Bankers Acceptance	A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose long-term letter of credit rating is at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. (ORS 294.035(3)(h)(A))
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))
Local Government Investment Pool (LGIP)	State Treasurer's local short-term investment fund up to the statutory limit, per ORS 294.810.

C. Investment Parameters

1. Investment Diversification

The City will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

Issuer Type	Maximum Holdings	Maximum per Issuer
U.S. Treasury Obligation	100%	None
GSE's Agency Securities	100%	FHLB,FFCB, FHLMC, FNMA 40% other names – 10%
Commercial Paper	10%	5%
Corporate Bonds	10%	5%
Municipal Bonds	10%	5%
Banker's Acceptance	10%	5%
Certificates of Deposit/Bank Deposit/Savings Accounts	25%	15%
OSTF LGIP Fund	ORS 294 limit	

2. Investment Maturity

- a) The City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- b) The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.
- c) Liquidity funds will be held in the LGIP or in money market instruments maturing one year and shorter.

- d) Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and five years and will be only invested in higher-quality and liquid securities that meet suitable investment criteria outlined in 10.08.100.
- e) Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
WAM (weighted average maturity)	1.5 years

- f) Exception to the five-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
3. Competitive Selection and Pricing
- The City shall seek competitive pricing when buying or selling investments, and will buy or sell the offer that provides the optimal price for the risk of the term/instrument.
4. Securities shall generally be held until maturity with the following exceptions:
- a) A security with declining credit may be sold early to minimize loss of principal.
 - b) A security exchange that would improve the quality, yield, or target duration in the portfolio.
 - c) Liquidity needs of the portfolio require that the security be sold.
 - d) As needed for 10.08.130(c).

10.08.110 Prohibited Investments:

- A. Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.
- B. The City prohibits mortgage-backed securities in the portfolio.
- C. Securities lending is prohibited in the City's portfolio.
- D. Private Placement or "144A" Securities.

10.08.120 Investment of Proceeds from Debt Issuance:

- A. 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 and the applicable bond covenants and tax laws.
- B. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for re-sale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this Policy's liquidity risk constraints within section 10.08.100.

10.08.130 Monitoring: Guideline Measurement and Adherence

- A. Monitoring -- The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.
- B. Guideline Measurement -- Guideline measurements will be market value of the investments.
- C. Guideline Compliance

1. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this Policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
2. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance, and reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Administrative Services Committee.
3. 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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
4. If a corporate bond is downgraded below corporate rating criteria established at purchase, the Finance Director will immediately notify the ASC members of the downgrade and provide an analysis and recommendation. The analysis will be reviewed at the next quarterly ASC meeting to document the decision in the meeting minutes.

10.08.130 Reporting Requirements

- A. Annual Reports -- The Finance Director shall submit an annual statement certifying compliance with this Investment Policy to the ASC, noting compliance throughout the most recently completed fiscal year. This statement shall be filed as soon as practical, but no later than August 31 of each year.
- B. Quarterly Reports -- The ASC shall at a regular meeting, review the quarterly operating report (QOR) section on the investment portfolio as submitted by the Finance Director reflecting investment activity for each of the immediately preceding three months, using the objectives outlined above. Should the report not be accepted, the report shall be revised accordingly by the Finance Director and resubmitted to the ASC at its next regularly scheduled meeting or sooner if requested.
- C. Monthly Reports -- The Finance Director shall provide a Monthly Investment Report reviewing the compliance with this Investment Policy and providing data on investment instruments being held, as well as any narrative necessary for clarification. The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.

CITY OF CORVALLIS
ADMINISTRATIVE POLICY MANUAL

POLICY AREA 5 - FINANCIAL MATTERS

AP 95-5.03 Investment Administrative Procedures

<u>Adopted</u>	<u>December 1, 1990</u>
Revised	February 5, 2004
Reviewed	February 3, 2005
Revised	August 4, 2005
Revised	May 3, 2007
Reviewed	February 7, 2008
Revised	August 7, 2008
Revised	May 18, 2010
Revised	August 2011
Revised	August 7, 2012
Revised	August 8, 2013

5.03.010 Purpose

It is the purpose of these investment administrative procedures to establish and provide guidelines for the safe and efficient management of City funds within the policy guidelines set by City Council in CP 10.08 Investments. and the purchase and sale of investment instruments. The goal of the City Council's investment policy is to minimize risk and ensure the availability of cash to meet expenditures, while earning market rates of return by investing idle funds consistent with state and federal law and prudent investment principles.

5.03.020 Governing Authority

The governing authority for the investment of public funds is found in ORS Chapter 294. Implementation guidance is provide by the Oregon State Treasurer's Office via the Oregon Short Term Fund Board and their related policies and procedures.

The City Council adopts CP 10.08 Investment Policies as part of their overall Financial Policies to provide local guidance to implement state requirements.

This Administrative Procedure further defines Council Policy directives for staff to implement in the actual day-to-day management of City monies.

Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294.035 through 294.048,

~~ORS 294.125 through 294.155, ORS 294.810, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended, and regulations adopted thereunder.~~

5.03.030 Scope

These investment administrative procedures apply to all cash-related assets included within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these administrative procedures; however, such funds are subject to the regulations established by the State of Oregon.

5.03.040 Objectives

The City's investment objectives are defined by the City Council in CP 10.08, listed below. Safety, legality and liquidity are the primary objectives for the City, with a secondary objective of return.

- ~~a. — Safety: Preservation of capital and the protection of investment principal, by implementing diversification and risk management practices.~~
- ~~b. — Legality: Conformance with Federal, State, and other legal requirements.~~
- ~~c. — Liquidity: Maintenance of sufficient liquidity to meet operating requirements by managing cash flow requirements.~~
- ~~d. — Return: Attainment of a market rate of return throughout budgetary and economic cycles by implementing investment strategies.~~

5.03.050 Standards of Care

5.03.051 Delegation of Authority and Responsibilities

a. Authority is delegated by the City Council in CP 10.08. Through the annual review and adoption of this Administrative Policy, the City Manager has delegated authority for day-to-day management of City monies to the Finance Director.

~~a. Governing Body~~

~~The City Council will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.~~

~~b. Delegation of Authority~~

~~The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-~~

~~day operations of the City's investment portfolio, place purchase orders and sell orders with dealers and financial institutions, and prepare reports as required.~~

~~The Finance Director, acting by authority of the City Manager, is the Treasurer and, as such, is responsible for the daily administration of investments by the Investment Officer(s) and shall evaluate all investment opportunities with respect to these investment administrative procedures.~~

~~c. Investment Council~~

~~To assist the City Manager in carrying out the management responsibility for the investment program, the City Manager's Investment Council has been created by the City Council through the Financial Policies, Investment Policy. The Investment Council shall be composed of the City Manager, the Finance Director, the City Attorney, and a citizen of the City of proven integrity and business ability. The City Council President, or the Council Vice President, if the Council President is unable to serve, shall serve *ex-officio* as a voting member.~~

~~The City Manager's Investment Council is responsible for advice with respect to investment decisions, activities, and the establishment of written administrative procedures for the investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.~~

~~d. Investment Adviser~~

~~The Finance Director may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Administrative Investment Policy and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City.~~

5.03.052 Prudence

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. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.

The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

5.03.053 Ethics / Conflicts of Interest

Regarding 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 interest (excluding mortgage, checking, and savings accounts) in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the City's 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 City. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244. ~~Upon appointment to the Investment Council, and upon each annual review of this document, Investment Councilors will sign a statement to the effect they have read and agree to abide by this Investment Administrative Procedure and associated policies.~~

5.03.060 Administration and Operations

5.03.061 Safekeeping and Collateralization

- a. Safekeeping Custodial Bank: Investment securities purchased by the Finance Director will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The City may use a third-party financial institution for safekeeping and custody, as deemed appropriate. The purchase and sale of all securities will be on a delivery-versus-payment basis. The custodian shall provide the City with daily access to account balances and transaction activity.
- b. Collateralization of Repurchase Agreements: Repurchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the following adopted policy of the Oregon Investment Council:

United States Treasury Securities	102%
United States Agency Discount and Coupon Securities	102%

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed.

All repurchase agreements require a master repurchase contract with the approved broker dealers.

- c. Collateralization of Certificates of Deposits and Bank Deposits: Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.018. All depositories must be on the State of Oregon's qualified list. Additional collateral requirements may be required if the Finance Director deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasurer, documentation of the financial institutions that are transacting business with the City. The City will also provide contact information to the Oregon State Treasury as required by ORS. Other investments shall be collateralized by the actual security held in safekeeping.

5.03.062 Accounting Method

The City will comply with required legal provisions and generally accepted accounting principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies, including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), as they apply to governmental entities.

Except as provided for in Section 5.03.095, all City funds are combined to make investment purchases on a "pooled basis." Each City fund owns a proportional share of the City's total investment portfolio based upon the individual fund's cash balance as a proportion of the total City cash balance. No investment is identified with a particular fund. Investments are stated at cost or amortized cost on a "pooled basis." Gains or losses from investments will be credited or charged to investment income at the time of the sale. Interest earnings are distributed to the various individual City funds (excluding internal service funds) according to the fund's proportional share of the total City cash balance.

5.03.063 Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor to assure compliance with ORS and the City's policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

~~5.03.064 External Controls~~

~~An external auditor shall provide an annual independent review to assure compliance with Oregon state law and the City's policies and procedures.~~

5.03.070 Transaction Counterparties, Investment Advisers and Depositories Qualified Institutions

- A. The City Council's Policy on Investments (CP 10.08) addresses the requirements for Qualified Institutions. To implement these requirements, Finance Department staff shall:
- a. Work with the Investment Advisor to understand and maintain the Advisor's list of qualified brokers/dealers, review the list when it changes, and provide information on all changes to the Administrative Service Committee (ASC);
 - b. Maintain a broker/dealer questionnaire to provide to entities that contact the City directly and wish to be on the approved broker/dealer list;
 - c. Take all new applications to be on the City's broker/dealer list to ASC at its next quarterly review;
 - d. Work with the City's Investment Advisor to add approved brokers/dealers for pricing opportunities when the City is in the market to buy/sell;
 - e. Submit the questionnaire to all brokers/dealers which are on the City's list but not on the Investment Advisor's list for annual updates and review for the appropriateness of maintaining that entity on the City's list.

~~5.03.071 Qualified Institutions — Broker/Dealer and Financial Depositories~~

~~The City shall maintain a listing of all authorized broker/dealers and financial institutions which are approved for investment purposes.~~

~~a. City Approved Broker/Dealer List:~~

~~Any firm is eligible to apply to provide investment services to the City and will be added to the list referenced above if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director, then reviewed and approved by the Investment Council.~~

~~Selection Criteria for Broker/Dealer Approval/Removal if there is no Investment Advisory firm under contract (see part c.):~~

- ~~i) Broker/dealers must have a branch located in Oregon.~~
- ~~ii) The broker/dealer must provide services routinely to public entities in Oregon.~~
- ~~iii) The broker/dealer must be knowledgeable of Oregon governmental investments statutes and the City of Corvallis' Investment Policy.~~
- ~~iv) Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.~~
- ~~v) Broker/dealers must be approved by the City of Corvallis Investment Council at the next quarterly meeting before conducting investment business with the City.~~
- ~~vi) An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials to the Treasury Accountant. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.~~
- ~~vii) Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.~~
- ~~viii) Any broker/dealer may be removed from the approved list at any time by the Finance Director or an Investment Council member based on news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.~~

~~b. City Financial Institution List:~~

~~The City shall maintain a listing of all financial institutions for deposits and certificates of deposits, which are approved for investment purposes. Any firm is eligible to apply to provide investment services to the City and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director then reviewed and approved by the Investment Council.~~

- ~~(i) Banks must be qualified public depositories as prescribed by Oregon State law (ORS 295.001 to 295.108) and must meet or exceed the requirements outlined therein.~~
- ~~(ii) The bank must be knowledgeable of Oregon governmental investments statutes and the City of Corvallis' Investment Policy.~~

~~c. Investment Advisor Approved List:~~

~~If an investment advisor is authorized to transact buys and sells on behalf of the City, the advisor's dealer list will be provided to the Finance Director and Investment Council for review and approval, prior to being added to the City's authorized list. The City has the ability to approve or deny broker/dealers from the advisor's list at will, and not necessarily subject to criteria in part a. above, and the advisor will provide an updated list annually. Buys and sells may be transacted with any dealers on the advisor's list once approved, until/unless removed.~~

~~5.03.072 Investment Advisers~~

~~a. An Investment Advisor may be selected by conducting a process of due diligence.~~

~~i. The following items are required for the approved Investment Advisers:~~

~~(i.) The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;~~

~~(ii.) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);~~

~~(iii.) All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed by the state of Oregon;~~

~~(iv.) An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by federal or state regulators.~~

~~ii.B. The Finance Director Investment Officer(s) will conduct at least annual reviews of engaged Investment Advisers to determine their continued eligibility within the guidelines of this policy.~~

~~iii.C. Should the City decide to seek or renew investment advisory services, it shall be done through a Request for Proposal (RFP) process a minimum of every five years.—~~

5.03.080 Authorized and Suitable Investments

A. The authorized investment types, parameters, and maturity of the City's portfolio are defined by the City Council in CP 10.08.

B. The investment types that are specifically not authorized are identified in CP 10.08.

C. The investment of bond proceeds will follow the direction provided by City Council in CP 10.08.

D. Staff responsibilities for authorized and suitable investments include:

- i. Ensuring the Investment Advisor knows about the City Council's authorized list of suitable investments.
- ii. Working with the Investment Advisor to test any considered purchase against the authorized limits to ensure that the individual purchase meets the authorized investment types, parameters, and maturity at the time of purchase.
- iii. Where possible, examine the portfolio for short-term activity which could cause the contemplated purchase to push the portfolio out of compliance for more than XX days.

iv.

5.03.081 **Legal Investments**

All investments of the City 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 custodial officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), and 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.

5.03.082 ~~Suitable Investments (Specific Types)~~

TYPE	Definition
U.S. Treasury Obligation	Direct Obligations of the United States Treasury whose payment is guaranteed by the United States. (ORS 294.035(3)(a))
Government Sponsored Enterprise or US Agency Obligations	US Government Agencies, Government Sponsored Enterprises (GSE's) Corporations or Instrumentalities of the US Government — Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association(FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB) (ORS 294.035(3)(a))
Commercial Paper	Commercial Paper that is rated A1/P1 and has long term bonds which have a minimum rating of AA by Standard and Poors or Aa3 by Moody's or AA by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing.

Corporate Obligations	Corporate domestic bonds issued by a commercial, industrial or financial institutions registered with the securities and exchange commission. Authorized corporate bonds shall be limited to obligations of the United States dollar denominated corporations organized and operating within the United States. The debt must be rated at least AA by Standard and Poors, or Aa3 by Moody's, or AA by Fitch at the time of purchase. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. A list of approved corporate issuers for purchases will be maintained and updated under the same mechanism as the Broker/Dealer list in S.5.03.071c.
Municipal Obligations	<p>Lawfully issued debt obligations of the State of Oregon and its agencies or instrumentalities of the State of Oregon and its political subdivisions that have a AA by Standard and Poors or Aa3 by Moody's or AA by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. [ORS 294.035(3)(b)]</p> <p>Lawfully issued debt obligations of the Washington and political subdivisions of those states if the obligations have a AA by Standard and Poors or Aa2 by Moody's or AA by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. [ORS 294.035(3)(c)]</p>
Bankers Acceptance	A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose long-term letter of credit rating is atleast AA by Standard and Poors, or Aa3 by Moody's, or AA by Fitch at the time of purchase c [ORS 294.035(3)(h)(A)]
Certificates of Deposit/ Bank	Time deposit open accounts, certificates of

Deposit/Savings Accounts	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)]
Local Government Investment Pool	State treasurer's local short-term investment fund up to the statutory limit per ORS 294.810

5.03.090 — Investment Parameters

5.03.091 — Investment Diversification

The Finance Director will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss and varying maturity length to ensure availability of funds to meet cash needs.

Issuer Type	Maximum Holdings	Maximum per Issuer
U.S. Treasury Obligation	100%	None
GSE's Agency Securities	100%	40% FHLB, FFEB, FHLMC, FNMA; 10% Other names
Commercial Paper	10%	5%
Corporate Bonds	10%	5%
Municipal Bonds	10%	5%
Banker's Acceptance	10%	5%
Certificates of Deposit/ Bank Deposit/Savings Accounts	25%	15%
OSTF LGIP Fund	ORS 294 Limit	

5.03.092 — Investment Maturity

a. — The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

b. — The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.

c. ~~Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.~~

d. ~~Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in higher quality and liquid securities.~~

e. ~~Total Portfolio Maturity Constraints:~~

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
WAM (weighted average maturity)	1.5 years

f. ~~Exception to the 5-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.~~

5.03.093 ~~Competitive Selection and Pricing~~

a. ~~Before the City invests any surplus funds or divests of investments prior to maturity, competitive bids to sell or offers to buy shall be obtained from a minimum of three authorized brokers/dealers. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted and utilized in conjunction with an analysis of economic trends to determine which maturities would be most advantageous. Yield curve analysis will also be conducted to determine economics of divesting of existing investments prior to maturity.~~

b. ~~Bids/offers will be requested from financial institutions for various options with regard to term and instrument. The City will accept the bid/offer which provides the optimal price when selling securities or investing funds within the scope of these administrative procedures. Purchases shall be in compliance with investment administrative procedures at the time of purchase.~~

c. ~~Records will be kept of the bids/offers made, the bid(s)/offer(s) accepted, and a brief explanation of the decision which was made regarding the investment. The Investment Council will be advised in the relevant monthly report of any sale of investment(s) prior to maturity, including details of the competitive bids made and the award decision criteria.~~

- ~~d. Securities shall generally be held until maturity with the following exceptions:~~
 - ~~i. A security with declining credit may be sold early to minimize loss of principal.~~
 - ~~ii. A security exchange that would improve the quality, yield or target duration in the portfolio.~~
 - ~~iii. Liquidity needs of the portfolio require that the security be sold.~~

~~5.03.094 Prohibited Investments:~~

- ~~a. Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.~~
- ~~b. The City prohibits mortgage-backed securities in the portfolio.~~
- ~~c. Securities lending is prohibited in the City's portfolio.~~
- ~~d. Private Placement or "144A" Securities.~~

~~5.03.095 Investment of Proceeds from Debt Issuance:~~

- ~~a. 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 and the applicable bond covenants and tax laws.~~
- ~~b. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section 5.03.092.~~

5.03.100 Monitoring; Guideline Measurement and Adherence

5.03.100.01 Monitoring

- a. Finance Department staff will work with the City's Investment Advisor to monitor the City's portfolio
- b.

5.03.100.021 Guideline Measurement

Guideline measurements will be market value of the investments.

~~5.03.102~~ 5.03.100.03 Guideline Compliance

- a. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the ~~Investment Officer~~ Finance director shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- b. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the ~~Investment Council~~ Administrative Services Committee.
- c. 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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
- d. If a corporate bond is downgraded below corporate rating criteria established at purchase, the ~~fFinance dDirector~~ will immediately notify the ~~investment council~~ ASC members of the downgrade and provide an analysis and recommendation. Action may be taken by the Finance Director to immediately address the downgrade. The analysis, recommendation, and review of the actions taken will be reviewed at the next ASC quarterly meeting to document the decision in the meeting minutes.

5.03.103 Monitoring and Adjusting the Portfolio

The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.

5.03.110 Reporting Requirements

5.03.111 Annual Compliance:

The Finance Director shall submit an Annual Statement of Compliance with Council Investment Policy to the ~~Investment Council~~ ASC, noting compliance with Council policies. ~~This statement shall be filed as soon as practical after each year end, but by no later than the date specified in the Council Financial Policies.~~

5.03.112 Procedure Revisions:

The Finance Director shall submit the written investment internal control procedures to the ~~Investment Council~~ ASC when significant revisions are made.

5.03.113 Reporting:

5.03.??? The Finance Director shall publish a monthly report within 21 days of the end of each calendar month on the City's website for public consumption. At a minimum, each monthly report shall include:

a. Monthly Report

Transaction Report

- Issuer or broker/dealer (financial institution) on each transaction
- Type of investment;
- Certificate or other reference number, if applicable;
- Purchase date;
- Call date (if applicable);
- Maturity date;
- Purchase amount;
- Sale prior to maturity¹;
- Current market value;
- Total cost of the City's portfolio;
- Total market value of the City's portfolio (including GASB 31 gain/loss);
- Weighted average term to maturity;
- Investment activity (purchases and maturities)

Holdings Report

- Par Amount;
- Book Value;
- Current Market Value;
- Total Value of Fund;
- Percentage yield on an annualized basis;
- Yield on Total Portfolio

Performance Report

- Performance of Core Investments relative to the benchmark

5.03.??? The Finance Director shall provide the ASC Investment Council with a Quarterly Investment Report reviewing compliance with the City Council's Financial Policies and these investment administrative procedures and providing data on investment instruments being held, a liquidity analysis, a strategy review for the coming period as well as any narrative necessary for clarification. In addition, a Monthly Investment Report shall be issued within 21

¹ Information and documentation of details of the competitive offers made and the award decision criteria for sales prior to maturity would be available to Investment Council on request.

days after the end of the monthly reporting period. At a minimum, the following information shall be provided for each investment or security:

~~a. Monthly Report~~

~~Transaction Report~~

~~— Issuer or broker/dealer (financial institution) on each transaction~~

~~— Type of investment;~~

~~— Certificate or other reference number, if applicable;~~

~~— Purchase date;~~

~~— Call date (if applicable);~~

~~— Maturity date;~~

~~— Purchase amount;~~

~~— Sale prior to maturity²;~~

~~— Current market value;~~

~~— Total cost of the City's portfolio;~~

~~— Total market value of the City's portfolio (including GASB 31 gain/loss);~~

~~— Weighted average term to maturity;~~

~~— Investment activity (purchases and maturities)~~

~~Holdings Report~~

~~— Par Amount;~~

~~— Book Value;~~

~~— Current Market Value;~~

~~— Total Value of Fund;~~

~~— Percentage yield on an annualized basis;~~

~~— Yield on Total Portfolio~~

~~Performance Report~~

~~— Performance of Core Investments relative to the benchmark~~

~~b. Quarterly Report~~

~~— Liquidity analysis;~~

~~— Compliance monitoring data;~~

~~— Strategy Review~~

5.03.114 Performance Evaluation

a. The overall performance of the City's investment program shall be evaluated by the ASC Investment Council at the scheduled quarterly meeting using the objectives outlined in the City Council's Policy 10.08 ~~se~~ administrative procedures.

b. The monthly performance of the City's portfolio shall be measured by comparison to appropriate benchmarks for each of the maturity sections in the investment fund.

² Information and documentation of details of the competitive offers made and the award decision criteria for sales prior to maturity would be available to Investment Council on request.

- i. Benchmark for Total Funds - LGIP State Pool
- ii. Market Benchmark for Investment Funds – Bank of America-Merrill Lynch Treasury 0-3 year Index

5.03.115 Adoption

These investment procedures may be reviewed by the ~~Investment Council~~ ASC and the Oregon Short-Term Fund Board prior to approval by the City Manager.– Adoption of these procedures supersedes any other previous administrative procedures regarding the City's investment management practices.

5.03.116 Revisions

ORS 294.135(a) requires the annual re-adoption of a written investment policy by the governing body when investments having a maturity longer than 18 months are allowed. –Therefore, these procedures shall be reviewed and re-adopted annually by the ~~Investment Council~~City Manager concurrently with the City Council's annual review of its Financial Policies.

Reviewed and Concurred

James Patterson, City Manager

Date

MEMORANDUM

February 13, 2014

TO: Administrative Services Committee
FROM: Nancy Brewer, Finance Director 
SUBJECT: Second Quarterly Operating Report

I. Issue

To review and accept the Second Quarterly Operating Report for FY 13-14.

II. Discussion

The Second Quarterly Operating Report (QOR) has been published on the City's web site and is available for review. At the end of the second quarter of the fiscal year total revenues are nearly 56% of budget compared to about 61% this time last year. The FY 12-13 total revenues were higher year-to-date than this fiscal year due to the second quarter debt refunding amount of \$11,485,000. All operating revenue categories are, with the exception of property taxes and miscellaneous revenue (business energy tax credits specifically), higher across the board in FY 13-14.

Operating expenditures across departments were roughly as expected and comparable to the prior year at about 44% of the amended budget. While vacancies persist across all departments except Library, personnel service costs are still running close to 48% of budget at the half-way point in the fiscal year, primarily due to higher overtime and temporary staff needed to continue basic service provision. As of the end of the second quarter, the City had just over 30 unfilled FTE (this excludes three unbudgeted police officers and 6.49 Parks Seasonal FTE's). Sixteen of the vacancies were in Public Works. All but four of these positions are on hold for recruitment as management considers future plans, particularly in view of the number of significant retirements this past quarter and in coming months.

In summary, financial performance in all funds is generally at expected levels, and the noteworthy situations have not changed significantly from last quarter:

- General Fund – The large property tax refund paid in July in respect of H-P has resulted in FY 13-14 year-to-date net receipts that are about \$350,000 lower than last fiscal year at this time. Since this situation was known prior to budget adoption, second quarter total revenues are only slightly below last year's levels on a percentage of budget basis. Most other General Fund revenues are coming in at or higher than budgeted levels so far this fiscal year, although Municipal Court fines continue to lag the budget target, and are only slightly ahead of last fiscal year. Now that both Municipal Court and the Police Department are close to fully staffed, some improvement is expected in the latter half of the year. Second quarter miscellaneous revenue receipts are higher in FY 13-14 by the \$636,000 received by the Library from the Friends of the Library fund-raising donation for the purchase of the Fenner Building. On the expenditure side, Parks & Recreation typically has higher personnel service costs through the second quarter of the fiscal year than a 50% target at quarter end would indicate, due to seasonal hires for summer programs, including outdoor aquatics. However, Finance (Municipal Court), Fire and Library are running much closer than normal to the 50% expended level due primarily to overtime/temp wages to cover vacancies.
- Street, Utility and Parks SDC Funds, as well as the Development Services Fund are all seeing substantial increases in SDC revenue and other development and plan review fee and charge for service revenue. OSU and Good Samaritan Hospital, as well as several other commercial projects have created a spike in these revenue sources that is helping improve fund balances. However, due to the dedicated nature of SDC funds in particular, this does not necessarily help with cost of ongoing operations in any of these funds.
- The two large snow storms (one of which was subsequent to quarter end) are having a fiscal impact on the Public Works department in particular with extra hours and overtime costs. The Street Fund is being closely monitored to ensure that sufficient funding is available to cover these unexpected costs, and more information about this should be forthcoming at the end of the third quarter.
- The negative cash position in the Community Development Revolving Fund was still in the \$144,000 range at quarter end, but has improved somewhat as of the writing of this memo due to some unanticipated loan

payoffs. However, these create a different issue for the Fund as these program revenues must be spent first for certain otherwise grant reimbursable expenditures. Staff continues to monitor and plan for a solution for the fiscal health of this Fund by late spring.

Attached to this memo is the executive summary for the Second QOR (Attachment A) and the General Fund income statement (Attachment B). The executive summary includes some basic economic information, an analysis of any significant variances from expected financial performance, an income statement for all funds combined, and a summary of operating expenditures by fund and by department. The summary also includes a table showing all the budget amendments approved so far this fiscal year by the City Council. These amendments all have the effect of increasing total appropriations for the City above what was in the adopted budget.

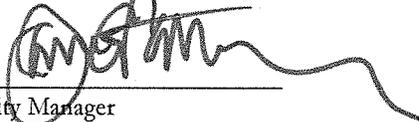
The Capital Project budget is roughly 29% expended at the end of the second quarter. Capital project work and the related spending tend to fluctuate each year, with delays causing carryovers to future years or savings on conservative budgeting typically resulting in much less than 100% of budget being accomplished. The following projects were essentially complete as of the end of the second quarter: 36th and Grant water pump station; five sanitary sewer lines were replaced on 21st Street between Harrison Boulevard and Polk Avenue, as well as a line in Johnson Avenue between 28th to 30th Streets and at Walnut Boulevard and Glenridge Drive; reconstruction of 10th Street between Buchanan and Grant Avenues; construction of all segments of the Corvallis to Albany Trail within city limits; Storm Drain replacement construction based on FY 12-13 project designs; the Willamette Park Rotary shelter; and installation of playground equipment and other improvements to Tunison Park.

This Quarterly Operating Report also includes an update on the status of City Council Goals as of December 31, 2013.

III. Requested Action

Review the Second Quarterly Operating Report, and recommend the City Council accept the report.

Review & Concur:



City Manager

SECOND QUARTERLY OPERATING REPORT FISCAL YEAR 2013-2014

EXECUTIVE SUMMARY

February 13, 2014

The Quarterly Operating Report is produced and published on the City's web site within 45 days of the close of each fiscal quarter based on Financial Policy 10.04.050, then shared with the City Council's Administrative Services Committee to provide citizens, the Budget Commission, and City Council with information about the City's financial performance for the quarter.

This Executive Summary provides highlights of the City's financials. The remainder of the report covers:

- The revenue and expenditure performance for each of the operating funds in an income statement format that includes operating and non-operating revenues, expenditures and total fund activities.
- Departmental information including updated performance measures for the quarter as well as accomplishments and pending work plan items. This section also includes a report on vacancies;
- Capital Improvement Program (CIP) status report on the various projects underway year-to-date; and
- An update on City Council Values and Goals.

The FY 13-14 budget was prepared and adopted during challenging economic times and in a highly fiscally constrained environment for the City. The second quarter has seen some more distinct improvement in the economy, and in particular the stock market, however the jobs situation remains tenuous. Property values have been rising slowly, however development continues to be more commercial than residential focused. Demand for most City services continues to be strong, which in the face of the relatively flat, and in some cases declining, revenue streams continues to have a negative impact on fund balances across the organization. While November saw the passage of a 5-year City operating levy, the funds will not be available for another year and are primarily for very specific services or programs.

The Federal Open Market Committee (FOMC) December press release suggests that the economy has continued to expand at a moderate pace since it met last quarter. Although labor market conditions are showing some signs of improvement, the unemployment rate continues to be elevated and job growth rates were disappointing at calendar year-end. Corvallis continues to fare better than the State and the Nation as far as its unemployment rate. Advancements continue in household spending, however the housing sector has slowed in recent months due to an increase in mortgage interest, but expectations are that mortgage rates will remain relatively favorable and home values will continue to climb. The FOMC sees some progress in economic activity and labor market conditions since it began its asset purchase program over a year ago to promote broader economic strength, and thus began tapering its purchases shortly after the second quarter ended. Based on its current assessment of labor market conditions, inflation pressures and expectations, and readings on financial developments, the FOMC is expected to maintain the federal funds rate in the 0% to .25% range even if the unemployment rate

declines below its goal level of 6.5%, especially if projected inflation continues to run below the committee's longer-run objective of 2%.

The City's financial performance through the second quarter of the fiscal year generally has been as expected. Revenue and expenditure timing is close to historical patterns (i.e., Parks & Recreation usually spends more than 25% of its budget in the busy summer months; the majority of Property Tax revenue is received in the second quarter as seen in this report). Charges for Services, including System Development Charges (SDC), is higher in FY 13-14 year-to-date, driven largely by development project application fees, which contributed over a \$1 million increase compared to this time last year and a greater percentage of budget overall than forecast. Miscellaneous revenue received is less than last year since Transit Business Energy Tax Credits received during the second quarter of last year will not be received at all in FY 13-14. Other Financing Sources relating to the refunding of three utility-backed loans in the Water and Wastewater Funds were also recorded in FY 12-13 and will not occur in FY 13-14.

At the end of the second quarter, total expenditures are 43.75% of budget, and operating expenditures are approximately \$369,330 lower than last year's spending levels driven primarily by less capital outlay and special projects (i.e., fewer vehicle replacements have been made year-to-date) when compared to the first half of FY 12-13. Community Development CDBG/HOME grant-related expenditures are higher through the first half of the year compared to last year at the same time. Grant funding was provided for seven non-profit agency activities through the CDBG Human Services Fund and one CDBG grant for Microbusiness program funding for Linn-Benton Community College. Ten loans and eight grants have closed in the second quarter, so related payouts are expected to pick up in the latter part of the year.

The following table compares year-to-date actuals with budget for all funds in both FY 13-14 and FY 12-13:

	AMENDED BUDGET	2nd Quarter FY 13-14	UNAUDITED FY 13-14	FY 13-14 % REC/EXPEND	AMENDED BUDGET	2nd Quarter FY 12-13	Y-T-D FY 12-13	FY 12-13 % REC/EXPEND
REVENUE								
Budgeted Fund Balance	\$36,856,854							
Property Taxes	\$21,994,360	\$21,574,802	\$20,263,485	92.13%	\$23,904,680	\$20,476,224	\$20,618,908	86.25%
Other Tax	1,372,600	389,826	654,416	47.68%	1,270,650	368,782	622,851	49.02%
Licenses/Permits	9,079,840	2,177,240	4,090,270	45.05%	8,740,150	2,024,387	3,743,452	42.83%
System Development Charges	3,266,130	764,559	2,137,357	65.44%	1,989,780	621,716	1,083,887	54.47%
Charges for Service	38,746,760	9,761,349	20,718,551	53.47%	37,738,370	10,237,976	20,033,741	53.09%
Intergovernmental	17,319,344	4,458,420	6,117,359	35.32%	17,335,633	4,838,493	5,722,108	33.01%
Fines/Forfeitures	1,202,630	287,359	545,728	45.38%	1,283,410	282,102	539,867	42.05%
Miscellaneous	3,504,460	1,130,352	1,680,158	47.94%	2,767,850	1,679,760	2,014,053	72.77%
Other Financing Sources/Transfers in	19,695,047	4,238,689	8,825,252	44.81%	24,023,308	16,464,199	18,583,831	77.36%
TOTAL CURRENT REVENUE	\$116,181,171	\$44,782,595	\$65,032,577	55.98%	\$119,053,831	\$56,993,639	\$72,962,498	61.29%
EXPENDITURE BY DEPARTMENT								
City Manager's Office	\$3,297,010	\$664,820	\$1,919,080	58.21%	\$3,302,670	\$518,647	\$1,669,931	50.56%
Community Development	7,919,050	1,504,800	3,231,840	40.81%	7,506,640	1,381,795	2,611,099	34.78%
Finance	5,005,060	1,221,392	2,328,786	46.53%	4,790,210	1,119,732	2,292,150	47.85%
Fire	10,485,960	2,495,024	5,158,165	49.19%	10,455,220	2,541,018	5,034,197	48.15%
Library	6,524,140	1,415,271	2,829,505	43.37%	6,054,010	1,473,657	2,856,325	47.18%
Park & Recreation	6,181,860	1,341,344	3,075,441	49.75%	6,080,310	1,250,117	2,859,804	47.03%
Police	13,403,410	2,996,187	6,237,087	46.53%	13,031,970	3,063,720	6,443,161	49.44%
Public Works	30,709,350	5,909,981	12,159,311	39.59%	29,744,922	7,112,145	13,342,286	44.86%
Non-Departmental	1,482,220	283,345	626,551	42.27%	1,512,927	474,749	826,144	54.61%
TOTAL OPERATING EXPENDITURES	\$85,008,060	\$17,832,164	\$37,565,766	44.19%	\$82,478,879	\$18,935,580	\$37,935,097	45.99%
Debt Service	\$7,245,970	\$4,145,540	\$5,106,190	70.47%	\$4,734,140	\$1,715,408	\$2,561,251	54.10%
Capital Projects	10,929,889	1,574,581	3,178,598	29.08%	9,687,779	1,528,833	2,021,849	20.87%
Transfers Out / Other Financing Uses	19,665,047	4,130,971	8,638,215	43.93%	26,348,831	18,757,467	20,739,323	78.71%
Contingencies/Reserves	1,694,990	0	0	0.00%	1,611,260	0	0	0.00%
TOTAL ALL EXPENDITURES	\$124,543,956	\$27,683,356	\$54,488,769	43.75%	\$124,860,889	\$40,937,288	\$63,257,520	50.66%
CURRENT REVENUES LESS								
TOTAL EXPENDITURES	(\$8,362,785)	\$17,099,239	\$10,543,808		(\$5,807,058)	\$16,056,351	\$9,704,978	

In general, the status of the City’s finances was in line with expectations for second quarter. Revenues total \$65,032,577, and are at 55.98% of the Amended Total Revenue Budget of \$116,181,171. The Amended Budget reflects the adopted budget, plus any amendments approved by the City Council via resolution during the course of the fiscal year. In the first half of FY 13-14, the following amendments to the budget were approved:

Date	Amendment Type	Resource	Fund	Department	Net Expenditure Impact
8/19/2013	Res - Grant	Benton County Foundation	General	Parks & Recreation	\$ 9,130
8/19/2013	Res - IGA	IGA Oregon Dept of Aviation	Airport	Public Works	\$ 322,000
9/3/2013	Res - Grant	ODOT Grant	Airport-CIP	Public Works	\$ 93,104
10/7/2013	Res - Grant	Benton County Soil & Water	General	Parks & Recreation	\$ 3,000
10/21/2013	Res - Supp Budget	IGA Oregon State University	CIP	Public Works	\$ 600,000
11/18/2013	Res - Grant	Restore Oregon & Kinsman Foundation	General	Parks & Recreation	\$ 5,500
12/2/2013	Res - Donation/Rental	Corvallis-Benton County Library Foundation	General	Library	\$ 645,990
12/2/2013	Res - Donation	Anonymous Donor	CIP	Parks & Recreation	\$ 100,000
12/16/2013	Res - Grant	Benton County Health Department	General	Police	\$ 10,000
Total Increase					<u>\$1,788,724</u>

Significant revenue highlights include:

- **Property taxes** totaled \$20,263,485 through the second quarter, which equals 92.13% of the budgeted property tax revenue. The majority of property taxes are typically collected in the second quarter. FY 13-14 year-to-date property tax revenues are over \$350,000 less than last year’s results for the same time period, and are expected to be nearly \$1 million lower than what was received by year-end FY 12-13 due primarily to the outcome of the of the HP valuation appeal.
- **Other Taxes** are collected from hotels for room taxes and totaled \$654,416 or 47.68% of budget as of second quarter-end. Summer seasonality, attendance at fall sporting events, and signs of mild economic recovery have led to better results thus far in FY 13-14. Current expectations are that receipts will finish higher than budget by year-end due to the one-month lag for these receipts.
- **Licenses, Fees and Permits** totaled \$4,090,270 which represents 45.05% of the amended budget and is slightly higher as a percentage of budget received when compared with the same time last year. The largest portion of this category is franchise fees, where payments from Allied Waste and Comcast relating to the quarter’s franchise fees, as well as the right-of-way charges on City Utilities, are typically posted in the following quarter, creating a lag that results in lower than target budget percentages each quarter in both years. However, franchise fee receipts are expected to achieve target in FY 13-14 based on year-to-date results and anticipated year-end accruals. The transportation maintenance and sustainability initiative fees, as well as Development Services permit fees are at or above target in the second quarter.
- **System Development Charges** were \$2,137,357 which represents 65.44% of the amended budget and is substantially higher than anticipated this year due to OSU-related construction activity. In both FY 13-14 and the latter part of FY 12-13, the higher percentage of actuals YTD compared to budget was due to un-forecasted increased development for off-campus student housing. SDC income, being of restricted use, has been isolated here and in the income statements from “other charges for service” so as to ensure the understanding that this significant incremental dedicated funding source is not available for operational spending.

- **Charges for Services** (not including SDC's) were \$20,718,551, which represents 53.47% of the amended budget. This category is slightly above target as a percentage of budget due to early receipt of three of the four quarterly payments year-to-date from Benton County for various police services, Development Services Fund plan reviews, and Water Fund metered revenue.
- **Intergovernmental** revenues are below target at \$6,117,359 and 35.32% of budget but are higher as actuals and a percentage of budget than the same time last year. The receipt of grant monies tends to be volatile and highly dependent on timing of related expenditures.
- **Fines & Forfeiture** receipts related to Municipal Court are in line with last year, but ended up low as a percentage of budget in both years due primarily to reduced staffing at Municipal Court and less success with delinquent account collections than originally anticipated. While some improvement continues to be noted from concentrated efforts related to collections in the past several years, after turning over about \$2.3 million in traffic and \$553,000 in parking delinquencies, these accounts still have 87% and 60% of their respective balances outstanding.
- **Interest earnings** totaled \$147,696 at the end of the second quarter, which represents 63.02% of budgeted interest and is about 99% of last year's earnings at this same point in time. The City's investment advisory firm has helped bolster what earnings there are in this category; however, the market continues to hover at historic lows, and this situation is expected to prevail through at least mid-2015 according to the Federal Open Market Committee.

Operating expenditures for all funds totaled \$37,565,766 or 44.19% of the Amended Operating Expenditure Budget which is slightly lower than last year in total dollars expended and as a percentage of budget. These results are primarily due to less spending early in this fiscal year on special projects and capital outlay. Community Development has only spent approximately 10% of its \$335K special project budget in the Development Services Fund for various implementations of software enhancements. Public Works has decided to push out some sizeable vehicle replacements, while other special projects, most notably in the utility funds, are experiencing delays or are in the early design phases with few expenditures incurred at this point in the year.

Non-operating expenditures, which include capital projects, transfers, debt service, and contingency, totaled \$16,923,003 or 42.80% of the \$39,535,896 Amended Non-Operating Budget. In total, expenditures through the second quarter were \$54,488,769 or 43.75% of the \$124,543,956 budgeted, compared to 50.66% for the second quarter of last fiscal year. A breakdown of departmental expenditures by category is provided below:

OPERATING EXPENDITURES BY DEPARTMENT

DEPARTMENT	AMENDED BUDGET	PERSONNEL SERVICES	SUPPLIES & SERVICES	CAPITAL OUTLAY	TOTAL EXPENDITURES	% OF AMENDED BUDGET
<i>Total Budget by Category</i>		\$47,382,800	\$34,748,050	\$2,877,210	\$85,008,060	
City Manager's Office	\$3,297,010	\$668,720	\$1,250,360	\$0	\$1,919,080	58.21%
Community Development	7,919,050	1,837,334	1,394,506	0	3,231,840	40.81%
Finance	5,005,060	1,587,583	741,203	0	2,328,786	46.53%
Fire	10,485,960	4,294,056	864,109	0	5,158,165	49.19%
Library	6,524,140	1,993,174	836,331	0	2,829,505	43.37%
Parks & Recreation	6,181,860	2,037,667	1,025,638	12,136	3,075,441	49.75%
Police	13,403,410	4,780,083	1,457,004	0	6,237,087	46.53%
Public Works	30,709,350	5,448,757	6,528,779	181,774	12,159,311	39.59%
Non Department	1,482,220	0	626,551	0	626,551	42.27%
TOTAL	\$85,008,060	\$22,647,373	\$14,724,482	\$193,911	\$37,565,766	44.19%
Percent of Budget		47.80%	42.37%	6.74%	44.19%	

Significant expenditure highlights include:

- **Personnel Services** totaled \$22,647,373 or 47.80% of the amended budget of \$47,382,800. While there are 2.33 less authorized FTE in FY 13-14 vs. FY 12-13, the personnel services budget in FY 13-14 has increased by over \$1.1 million due to contractual COLA increases for CPOA (2.5%) and IAFF (2.0%), as well as an overall 5.8% increase in benefits, which include PERS/OPSRP and healthcare costs. AFSCME contract negotiations have not yet been finalized, but any contractual increases will need to be offset by other savings and/or reductions.
- **Supplies and Services** totaled \$14,724,482 or 42.37% of the amended budget of \$34,748,050 . The dollars spent in FY 13-14 are roughly \$413,750 more than the amount spent in FY 12-13 due in part to the Economic Development program in the City Manager's Office not being fully staffed during the first half of FY 12-13 and increased CDBG/HOME spending in Q1 of FY 13-14.
- **Capital Outlay** totaled \$193,911 or 6.74% of the amended budget of \$2,877,210 . While this is low as a percentage of budget, capital purchases do not tend to follow a regular pattern other than to sometimes weight toward the end of the fiscal year, if practical, to ensure that sufficient budget remains for the acquisition. Several purchases are still on schedule for this fiscal year, such as replacements for three patrol vehicles and two transit buses, while some have been pushed out to future years such as two dump trucks for utilities.

NON OPERATING EXPENDITURES

- **Capital projects** totaled \$3,178,598 or 29.08% of the amended budget of \$10,929,889. Capital project expenditures tend to fluctuate year-over-year, and there are always projects that are either carried forward into following years or simply do not come to fruition. Several projects have been carried forward to FY 13-14 from FY 12-13.
- **Debt service** payments totaled \$5,106,190 or 70.47% of the total budget of \$7,245,970, which is up from the 54.10% spent this time last year; however, FY 12-13 was an anomalous year due to the refunding of three utility-backed loans which took place prior to their respective debt service payments scheduled for Q2. This refunding subsequently lowered the percentage of budget spent on debt service as reported in Q2 of last fiscal year.
- **Transfers and Other Financial Uses** totaled \$8,638,215 or 43.93% of the amended budget of \$19,665,047. The majority of the transfers are related to capital projects. See the Capital Improvement Program section for information on the status of capital projects.

Please note that a [reader's guide](#) to some of the terminology used throughout the report is available through the hyperlink provided. As always, if you have questions or concerns about the information in this report, please do not hesitate to contact me at (541) 766-6990 or via e-mail at nancy.brewer@corvallisoregon.gov.

Nancy Brewer
Finance Director

GENERAL FUND

REVENUE	AMENDED BUDGET	2nd Quarter FY 13-14	UNAUDITED FY 13-14	FY 13-14 % REC/EXPEND	2nd Quarter FY 12-13	Y-T-D FY 12-13	FY 12-13 % REC/EXPEND
Budgeted Fund Balance	\$6,265,564						
Property Taxes (1)	\$18,975,500	\$18,896,232	\$17,648,957	93.01%	\$17,997,900	\$18,140,584	86.37%
Other Tax	1,372,600	389,826	654,416	47.68%	368,782	622,851	49.02%
Licenses/Permits (2)	5,925,060	1,375,809	2,294,957	38.73%	1,296,470	2,145,882	37.59%
Charges for Service	5,889,850	2,287,032	3,725,521	63.25%	2,241,418	3,520,013	60.10%
Intergovernmental (3)	4,220,850	2,383,739	2,594,150	61.46%	2,538,010	2,733,502	63.43%
Fines/Forfeitures (4)	749,530	175,949	343,330	45.81%	153,416	324,332	39.07%
Miscellaneous (5)	1,151,400	745,316	886,448	76.99%	249,144	366,567	63.61%
Other Financing Sources (6)	6,755,405	2,361,139	2,527,382	37.41%	1,727,216	1,893,717	66.55%
TOTAL CURRENT REVENUE	\$45,040,195	\$28,615,041	\$30,675,161	68.11%	\$26,572,357	\$29,747,448	70.16%
EXPENDITURE BY DEPARTMENT							
City Manager's Office (7)	\$326,250	\$79,301	\$145,353	44.55%	\$54,749	\$71,032	18.69%
Community Development	1,309,840	293,024	580,880	44.35%	300,276	607,060	46.29%
Finance	646,770	148,986	312,427	48.31%	142,171	296,107	47.02%
Fire	10,485,960	2,495,024	5,158,165	49.19%	2,541,018	5,034,197	48.15%
Library	6,524,140	1,415,271	2,829,505	43.37%	1,473,657	2,856,325	47.18%
Parks & Recreation	6,181,860	1,341,344	3,075,441	49.75%	1,250,117	2,859,804	47.03%
Police	10,659,520	2,419,213	5,040,582	47.29%	2,430,173	5,187,142	49.41%
Public Works (3)	1,026,260	190,924	342,441	33.37%	265,308	532,558	43.69%
Non-Departmental	1,480,870	283,345	625,701	42.25%	331,801	683,196	50.16%
TOTAL OPERATING EXPENDITURES	\$38,641,470	\$8,666,433	\$18,110,495	46.87%	\$8,789,270	\$18,127,421	48.20%
Debt Service (8)	\$243,180	\$0	\$220,530	90.69%	\$0	\$218,342	89.53%
Transfers / Other Financing Uses (6)	6,899,715	1,729,853	2,190,059	31.74%	1,408,992	1,939,518	62.55%
Contingencies/Reserves	597,200	0	0	0.00%	0	0	0.00%
TOTAL ALL EXPENDITURES	\$46,381,565	\$10,396,286	\$20,521,084	44.24%	\$10,198,262	\$20,285,281	48.92%
CURRENT REVENUE LESS							
TOTAL EXPENDITURES	(\$1,341,370)	\$18,218,755	\$10,154,076		\$16,374,095	\$9,462,167	

- (1) The majority of current year property taxes are collected in Q2. This year's collection pattern is consistent with prior years, however FY 13-14 year-to-date (YTD) property tax revenues are about \$490,000 less than last year's results for the same time period, and are expected to be nearly \$1 million lower by year-end than what was received for FY 12-13 in total, due primarily to the outcome of the HP valuation appeal.
- (2) Lower franchise fees and dog license revenue collections compared with budget is due primarily to timing of receipts and amounts accrued back to the prior year that are related to that period. Franchise fees however are marginally higher than last year at this time.
- (3) The Benton County Library District payment makes up the majority of the revenue received YTD in this classification, and due to its property tax-based nature, is largely received in Q2 of the fiscal year. Absent this payment, Intergovernmental revenue receipts would be low as a percentage of budget, due to PW grant projects not yet started and/or completed that are reimbursable in nature.
- (4) Traffic fine revenue is under-performing FY 12-13 levels and is not keeping pace with anticipated FY 13-14 budget, which is attributed to prior year staffing reductions at Municipal Court, and less success with delinquent account collections than originally anticipated. Additionally, there have been fewer civil penalties and nuisance alarms YTD as compared to the same time last year.
- (5) Miscellaneous revenue is trending higher than budget due to a \$636,000 donation from the Corvallis-Benton County Public Library Foundation to cover the purchase and closing costs of the Fenner building.
- (6) Other Financing Sources and Uses include pass-through agency receipts and payments related to State-mandated surcharges for Municipal Court fines and Community Development permit surcharges. Other sources are from property tax transfers from the 2011 Operating Levy (mostly collected in Q2). Uses include transfers for pension obligation bond (POB) payments and capital projects. More information on the status of the Capital Improvement Program (CIP) is in a later section.
- (7) The Economic Development (ED) program, housed in the City Manager's Office, was new in FY 12-13. Expenditures are greater this fiscal year over last since one of the two ED positions was vacant for most of FY 12-13.
- (8) The majority of Debt Service spending occurs in Q1 with principal and interest payments for the 2010 CIP Loan. The remaining budget is scheduled to be paid out with an interest only payment in Q3.



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CORVALLIS FIRE DEPARTMENT
MEMORANDUM
400 NW Harrison Blvd.
Corvallis, OR 97330

To: Administration Service Committee
From: Roy Emery, Fire Chief 
Subject: Annual Ambulance Rate Review
Date: February 27, 2014

Purpose:

To review the fee schedule associated with ambulance transport services, and seek council guidance on establishing rates for FY14/15.

Background:

Fees associated with ambulance transport services reduce the fire department's reliance on general fund dollars by an estimated 20% annually. As directed by council, we have again conducted the annual ambulance rate review to maintain a general balance between fees charged for services and cost. To achieve this balanced approach desired by Council, ambulance rate adjustments have been based upon the alignment with "median" values charged among comparable agencies reviewed (see attachment A).

Information & Findings:

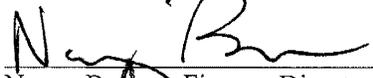
Staff completed a survey of agencies within Benton, Linn, Lane, Yamhill, Polk, and Marion Counties. The areas and agencies were selected in an effort to obtain a representative sample of agencies of similar size, and/or areas served - including communities with institutions of higher education. The following outlines the findings and information gained:

- Due to substantial rate adjustments among agencies surveyed, Basic Life Support (BLS) rates for Corvallis Fire Department were found to be \$225 to \$325 below the median levels.
- Advanced Life Support (ALS) rates remained relatively flat. However, Corvallis Fire Department ALS rates are between \$20 and \$100 below the median levels.
- Of billable EMS responses, approximately 70% are considered ALS and 30% BLS.
- Factors which continue to influence the realization of additional revenues include, but are not limited to, call volume, payer mix/cost shifting, collection performance, bad/uncollectable debt, and other discretionary write-off (charitable).
 - In FY12/13 CFD's payer mix shifted slightly from the Insurance category to increases in Medicaid and Private Pay
 - FY12/13 showed a 2% increase in EMS responses. However, the number of transports decreased by 5% (26% of EMS responses now result in a non-transport disposition).
 - FY12/13 Collection efforts continue to meet industry expectations.
 - FY12/13 Realized an increase in delinquent accounts resulting in increased requests for charitable write-off and/or accounts being turned to collections
 - Mandated write-offs in FY12/13 (those associated to Medicare, Medicaid, and other regulated payers increased by 13% from FY11/12 demonstrating a continuing upward trend.

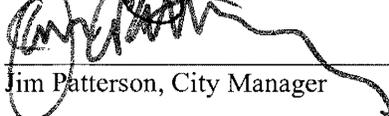
Staff Recommendation:

Obtain Admin Services/Council direction on specific rate modifications for FY 14/15

REVIEWED and CONCUR:



Nancy Brewer, Finance Director



Jim Patterson, City Manager

	County	Fire-Med	BLS-Emergency	ALS 1 Emergency	ALS 2 Emergency	ALS 1 Non-Emergency	BLS Non-Emergency	Evaluation & Treatment No Transport	Transport Mileage (per mile)
Corvallis Fire (Current)	Benton	\$65.00	\$775.00	\$1,000.00	\$1,000.00	\$1,000.00	\$775.00	\$450.00	\$15.00
Eugene Fire & EMS	Lane	\$65.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$800.00	\$20.00
Lane Fire Authority	Lane	\$65.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$800.00	\$20.00
South Lane Fire and Rescue	Lane	\$65.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$800.00	\$20.00
Springfield Fire & Life	Lane	\$65.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$800.00	\$20.00
Albany Fire	Linn	\$65.00	\$1,020.00	\$1,020.00	\$1,020.00	\$1,020.00	\$1,020.00	\$420.00	\$19.50
Jefferson Fire District	Linn	\$50.00	\$1,000.00	\$1,200.00	\$1,200.00	\$1,200.00	\$1,000.00	\$450.00	\$18.00
Lebanon Fire District	Linn	\$50.00	\$744.00	\$855.00	\$855.00	\$855.00	\$744.00	\$274.00	\$14.00
Sweet Home Fire	Linn	\$50.00	\$800.00	\$800.00	\$800.00	\$800.00	\$800.00	\$177.50	\$14.00
Salem Fire Department	Marion	\$60.00	\$801.00	\$942.00	\$975.00	\$942.00	\$650.00	\$460.00	\$15.00
Marion County Fire District #1	Marion	\$60.00	\$801.00	\$942.00	\$994.00	\$942.00	\$650.00	\$460.00	\$15.00
Keizer Fire District	Marion	\$60.00	\$801.00	\$942.00	\$995.00	\$942.00	\$635.00	\$460.00	\$15.00
Turner Fire District	Marion	\$50.00	\$763.00	\$897.00	\$947.00	\$897.00	\$650.00	\$450.00	\$15.00
Dallas Fire Department	Polk	\$55.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$450.00	\$18.00
Polk County Fire District #1	Polk	\$60.00	\$1,100.00	\$1,100.00	\$1,100.00	\$1,100.00	\$1,100.00	\$450.00	\$18.00
McMinnville Fire	Yamhill	\$70.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$1,600.00	\$450.00	\$21.00
Newberg Fire Department	Yamhill	\$52.00	\$1,440.00	\$1,440.00	\$1,440.00	\$1,440.00	\$1,440.00	\$432.00	\$19.00
Median		\$60.00	\$1,000.00	\$1,020.00	\$1,020.00	\$1,020.00	\$1,000.00	\$450.00	\$18.00
Difference from median values		\$5.00	(\$225.00)	(\$20.00)	(\$20.00)	(\$20.00)	(\$225.00)	\$0.00	(\$3.00)
Median for College/University Communities		\$60.00	\$1,100.00	\$1,100.00	\$1,100.00	\$1,100.00	\$1,100.00	\$450.00	\$18.00
Difference from Median values for College Communities		\$5.00	(\$325.00)	(\$100.00)	(\$100.00)	(\$100.00)	(\$325.00)	\$0.00	(\$3.00)