

County Treasury

To: Fund Financial Managers
 From: Jeff DeCosta, Treasury Department
 Date: March 20, 2019
Subject: Interest Rate Forecast – FY 2020

This memo provides some background information on the County’s investment portfolio and offers the Treasury unit’s interest rate forecast for the upcoming fiscal year. It is designed to provide guidance in establishing revenue estimates for interest earnings to County staff who manage dedicated funds. The benchmark three month T-bill traded at an average of 221 basis pts for the second half of CY2018. The Federal Reserve scaled back their projected Fed Fund rate increases to zero for 2019 from a previously announced two increases. This reflects concerns that economic growth is decelerating and lower energy prices are reducing the odds of increasing inflation. The three month T-Bill was trading at 2.45% at the end of February 2019.

The County’s average daily balance of cash invested was approximately \$594 million as of June 30, 2018. Balances have increased in recent years along with yields.

	<u>% Yield</u>	<u>Earnings</u>	<u>Avg Balance</u>
FY 2009	1.91%	\$5,289,259	\$305,547,599
FY 2010	.70%	\$2,176,608	\$311,992,320
FY 2011	.58%	\$1,883,850	\$326,326,968
FY 2012	.48%	\$1,755,927	\$361,278,878
FY 2013	.45%	\$1,779,308	\$392,439,251
FY 2014	.39%	\$1,724,869	\$438,185,207
FY 2015	.43%	\$2,121,725	\$496,792,151
FY 2016	.62%	\$3,079,016	\$495,709,053
FY 2017	.82%	\$4,229,270	\$518,098,821
FY 2018	1.39%	\$8,243,782	\$594,836,444
FY 2019 – Thru Feb	2.15%	\$9,381,946	\$654,526,971

The investment of public funds is governed by state statute (ORS, Chapter 294). The primary goal of the statutory guidelines is the preservation of principal. For this reason, the types of investments that public agencies can make are generally limited to instruments of the U.S. government and its agencies, highly rated corporate debt, municipal debt, and certificates of deposit. The Oregon Treasury also manages a Local Government Investment Pool (LGIP) which the County participates in.

The mix of investments in the County’s portfolio varies from month to month but follows guidelines described in the [Investment Policy](#) which is updated annually. Per the policy, the percentage of the portfolio that can be held in investments authorized by statute is: (*note: State statute allows up to 35% in Corporate Debt, County is more restrictive on Corporate Debt*)

<u>Type</u>	<u>% Allowable</u>
U.S. Treasury Issues	Up to 100%
U.S. Agencies	Up to 100% and 25% per issuer
Municipal Debt	Up to 10% and 5% per issuer
Savings Accounts	Up to 50% and 25% per institution
Certificates of Deposit	Up to 20% and 10% per institution
Banker's Acceptances	Up to 10% and 5% per issuer
Corporate Debt	Up to 25% and 5% per issuer
Commercial Paper	Up to 10% and 5% per issuer

The limit in the LGIP is established in statute. It is currently set at \$49.5 million and that is the amount the County usually maintains in the pool.

Given the types of investments the County is allowed to make and the limited duration (under the existing policy investments can be made for no longer than five years and weighted average maturity cannot exceed 2.0 years) it is likely that we will see a moderate increase in yield in the upcoming year. Multnomah County is maintaining a neutral approach to duration relative to respective benchmarks. The yield on the two-year through five-year treasury notes are yielding close to the current fed funds rate, indicating investors are comfortable locking in rates for five years.

Other parts of the portfolio earn higher yields. The LGIP, for example, is currently yielding an annualized rate of 2.75 percent. Treasury continues to look for ways of maximizing investment earnings with the primary goal of preserving principal and liquidity. The County manages its investment portfolio in two separate funds, core fund and liquidity fund. The core is operating cash balances which exceed current year liquidity needs. Core funds are invested longer than one year on the yield curve to diversify the maturity structure. The liquidity fund is invested shorter term and targets to meet current year liabilities with an established contingency.

The Treasury forecast takes a cautious approach and recommends that departments use an **annualized average rate of 210 basis points (2.10%)** in estimating interest earnings. Interest rates will most likely be flat in FY 2020. Treasury produces a monthly investment report that is posted to the Finance & Risk Management commons site monthly. Should you have any questions regarding the County's Investment Policy, portfolio, or this forecast please contact me at x87471.