



**Department of County Management**

**MULTNOMAH COUNTY OREGON**

**Finance & Risk Management Division**

TO: Fund Financial Managers

FROM: Mark Campbell, Chief Financial Officer

DATE: December 10, 2012

**SUBJECT: Interest Rate Forecast – FY 2014**

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. Short term interest rates remain extremely low and are forecast to stay near those levels over the next year. The benchmark, three month T-bill has been trading at less than 20 basis points (.20%) for most of the past year.

The County's average daily balance of cash invested was approximately \$361 million as of June 30, 2012. Balances have increased in recent years although interest yields have declined as highlighted in the following table:

	<u>% Yield</u>	<u>Earnings</u>	<u>Avg Balance</u>
FY 2009	1.91%	\$5,289,259	\$305,547,000
FY 2010	.70%	\$2,176,607	\$311,992,000
FY 2011	.58%	\$1,883,850	\$326,327,000
FY 2012	.48%	\$1,755,927	\$361,279,000
FY 2013 (thru September)	.57%	N/A	N/A

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 time 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:

<u>Type</u>	<u>% Allowable</u>
U.S. Treasury Issues	Up to 100%
U.S. Agencies	Up to 75% and 25% per issuer
Municipal Debt	Up to 10% and 10% per issuer
Savings Accounts	Up to 50% and 25% per institution
Certificates of Deposit	Up to 20% and 5% per institution
Banker's Acceptances	Up to 35% and 25% per issuer
Corporate Debt	Up to 25% and 5% per issuer

The limit in the LGIP is established in statute. It is currently set at approximately \$44.9 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 three years) it is likely that we will not see a dramatic increase in yield in the upcoming year. And, given that a large portion of the portfolio is invested in U.S. government backed securities, it is highly sensitive to monetary policy established by the Federal Reserve. The "Fed" has signaled throughout the year that it intends to keep benchmark interest rates low in the hope of spurring economic activity. This policy decision, combined with geopolitical conditions (i.e., the European debt crisis), suggests that interest rates will remain low for quite some time.

Other parts of the portfolio earn higher yields. The LGIP, for example, is currently yielding an annualized rate of 60 basis points (.60%). Treasury continues to look for ways of maximizing investment earnings but always with the primary goal of preserving principal in mind. For the reasons noted above, the forecast for FY 2014 calls for interest rates to fluctuate between the FY 2010 and FY 2011 actual experience. Through the first quarter of FY 2013 rates have increased over the previous fiscal year. While this is certainly a welcome sign, there is some concern about the potential impact of the "fiscal cliff" on the economy.

The Treasury forecast takes a cautious approach and recommends that departments use an **annualized average rate of 60 basis points (.60%)** in estimating interest earnings. This is in line with the LGIP rate and reflects the consensus that interest rates will remain low for quite some time. Treasury produces a monthly investment report that will be posted to the Finance & Risk Management Commons site beginning in January. Should you have any questions regarding the County's Investment Policy, portfolio, or this forecast please contact Dan Arenholz, the County's Investment Officer, at x83440.