County Treasury

To: Fund Financial Managers

From: Jeff DeCosta, Treasury Department

Date: June 30, 2021

Subject: Interest Rate Forecast – FY 2022

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 Federal Reserve sees interest rates rising through 2022 as the economy recovers from the coronavirus pandemic and inflation increases.

The County's average daily balance of cash invested was $855 million as of June 30, 2021.

	% Yield	Earnings	Avg Balance
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	2.25%	$14,618,300	$649,161,044
FY 2020	2.11%	$13,662,290	$647,194,377
FY 2021	.83%	$7,107,146	$855,893,087

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:

Type	% Allowable
U.S. Treasury Issues	Up to 100%
U.S. Agencies	Up to 100% and 40% per issuer
Municipal Debt	Up to 25% 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 / Commercial Paper	Up to 35% and 5% per issuer

The limit in the LGIP is established in statute. It is currently set at $51.1 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 5.25 years and weighted average maturity cannot exceed 2.5 years) the county will see a drastic decrease 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 relatively flat.

Other parts of the portfolio earn higher yields. The LGIP, for example, is currently yielding an annualized rate of .60 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 50 basis points (.50%)** in estimating interest earnings. 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.