Department of County Management

Multnomah County

County Treasury

To: Fund Financial Managers

From: Jeff DeCosta, Treasury Department

Date: February 14, 2018

Subject: Interest Rate Forecast – FY 2019

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 relatively low but have increased steadily since March 2017. For the second half of fiscal year 2017, the benchmark three month T-bill had been trading at an average of 75 basis pts (.75%) up from 36 basis pts (.36%) for the first half of the year. Markets are predicting that the Federal Reserve Board (FRB) will raise the benchmark federal funds rate three to four times in calendar year 2018. The three month T-Bill was trading at 1.46% at the end of January 2018.

The County's average daily balance of cash invested was approximately $518 million as of June 30, 2017. Balances have increased in recent years although interest yields have declined up until fiscal year 2015 as highlighted in the following table:

	% 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 – Thru Jan	1.26%	$4,067,615	$549,376,253

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: (***note**: State statue allows up to 35% in Corporate Debt, County is more restrictive on Corporate Debt*)

Type	% Allowable
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 approximately $48.3 million and that is the amount the County usually maintains in the pool.

The unemployment rate is at a 17-year low (4.1%). Nonfarm payroll jobs added has averaged 192,000 over the last three months. Hourly earnings are up 2.9% year over the year. Interest rates in the short end of the yield curve continued to rise steadily during the second quarter FY 2018. Low unemployment rates coupled with the passage of a major tax reform bill have paved the way for more interest rate hikes in the second half of FY 2018 and first half of FY 2019. 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 but 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 will continue to take a defensive approach to investing long with the expectation of higher interest rates in the future.

Other parts of the portfolio earn higher yields. The LGIP, for example, is currently yielding an annualized rate of 1.85 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 140 basis points (1.40%)** in estimating interest earnings. Interest rates will rise in FY 2019 but there is a lot of unknown at the federal level with the executive administration and new Chairman of the Federal Reserve. 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.