




Department of County Management
Finance and Risk Management

Office of the Chief Financial Officer
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To: Jessica Vega Pederson, County Chair
Meghan Moyer, County Commissioner District 1
Shannon Singleton, County Commissioner District 2
Julia Brim-Edwards, County Commissioner District 3
Vince Jones-Dixon, County Commissioner District 4

From: Eric Arellano, Chief Financial Officer 

CC: Jenny Smith, Chief of Staff County Chair
Stacy Borke, Deputy Chief of Staff County Chair
Travis Graves, Interim County Chief Operating Officer
Lori Stegmann, Director of Youth and Family Services Division

RE: [Status Update FY 2025 Budget Note](#) – Environmental, Social, and Government (ESG) Standards for County Investment Policy

Date: January 2, 2025

Background:

Fiscal year 2025 budget note directs the Chief Financial Officer to explore a new policy (or amendment to existing County Policy) for Environmental, Social, and Governance Standards (ESG) and possible inclusion into the County's Investment Policy. The budget note directs recommendations to be shared with the board in a briefing no later than December 31, 2024. In consultation with the Chair's Office and former Commissioner Stegmann we have delayed the timing of a formal briefing into the first half of calendar year 2025. This memo is intended to share some background on topic, recommendations to be shared with board around ESG Standards in 2025, and some other general information on the County existing Investment Policy.

Over the last year the County has heard from many community members on the importance of being mindful of public investments. County investments serve a role in supporting our ongoing ability to meet the needs of our community (especially in a high interest rate environment) but it is important we balance those needs with the values of Multnomah County and the community we represent. More specifically, over the last year there have been requests for the County to divest from its corporate bond holdings with Amazon. The County current holds four corporate securities (bonds) totaling \$20 million (par value) that will mature between calendar years 2026 and 2027. Per County Policy investments are held to maturity when a sell can result in a loss (market value is less than book value on the date of sale.) Currently any sell of Amazon holdings prior to full maturity would result in an estimated \$320K loss, this amount fluctuates daily based on market changes.

Recommendations:

I would recommend we NOT divest in Amazon holdings for the following reasons:

- A. Selling current holdings prior to maturity date(s) would result in an estimated loss of \$320,000 in the general fund. The holdings would be resold in the open market which would have no direct impact on Amazon.
- B. Per Investment Policy: though securities can be sold prior to maturity, generally we hold to maturity to prevent any potential losses "Safety of Principal".
- C. Oregon Revised Statute credit rating (e.g. corporate bonds must be rated AA-/AA3 or better) requirements really limit corporate bond options for County investment. Removing a firm from our existing list further limits our ability to diversify our investment portfolio. Diversification is important to limit credit and interest rate risk to County Investment Portfolio. ***(see Attachment B for a complete list of available companies-corporates that are approved, note: not all companies currently issue bonds for purchase)***
- D. The County has a fiduciary responsibility to County residents to maximize yields from investment portfolio. Removing qualified firms further limits our ability to maximize investment returns that support essential services to the public.

My office has been exploring the possibility of including ESG determinations into our investment decisions for corporate bond holdings. ESG integration (through a reputable rating agency) would allow us to score companies based on environmental, social, and governance factors (see below). Integration of ESG standards into our Investment Policy would allow us to make investments decisions that better reflect our County values while enhancing long-term value and risk management.

1. Environmental Factors:

- Evaluate companies based on their emissions, climate transition risks, and sustainable finance practices.
- Prioritize investments in companies with strong environmental performance, including those using renewable energy sources and reducing greenhouse gas emissions.

2. Social Factors:

- Assess companies on data security, customer privacy, labor practices, and ethical conduct.
- Invest in companies that demonstrate strong social responsibility, including fair labor practices and robust data protection measures.

3. Governance Factors:

- Review board composition, executive compensation, audit practices, and shareholder rights.
- Favor companies with transparent governance structures and practices that align with shareholder interests.

The County would use Bloomberg's ESG scoring system. The Bloomberg ESG system uses data from voluntary and mandatory disclosures from each company. Bloomberg assigns a score on scale 0 to 10 with 10 being the highest and 0 being the lowest. Then scores are compared to peer groups (comparable industry) to determine a Bloomberg ESG Score Percentile which is normalized on a scale 0 to 100 (50 being median and 75-100 being leading). ESG scores are published once a year and can change during a fiscal year with newly disclosed information. Under a County proposed approach, for the County to investment in a company, they would need to be have an ESG score percentile of 50 or above.

Below is Draft Proposed Language for Inclusion into County Investment Policy:

Environmental, Social and Governance Constraints: *Corporate indebtedness that does not carry an ESG Disclosure Score of 50 or higher according to Bloomberg ESG ratings, at time of purchase, including:*

- 1. Commercial Paper*
- 2. Corporate Notes*
- 3. Any other permitted corporate debt obligations*

The integration of ESG factors into the investment decision-making framework assists in the assessment of near-term and long-term risks associated with our investments, thus providing a potential positive impact on performance.

If an issuer held in the portfolio falls below the ESG investment parameters set forth herein, the County Investment Officer will notify the Investment Advisory Board promptly, and the County will continue to hold the security until maturity unless the Investment Advisory Board or the Board of County Commissioners directs the Investment Officer to sell it. The County as a general practice will refrain from selling security holdings at a loss to preserve capital.

Corporate Issuers that have not been given an ESG rating by Bloomberg ESG- will not be eligible for direct investment.

Exemptions: Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

Next Steps:

We plan to share the draft language with County's Investment Advisory Board (IAB) in January before finalizing draft language. Upon IAB approval we will schedule time to brief the Board of County Commissioners (early 2025). All Investment Policy changes must be approved by the Board of County Commissioners. If you have questions or need additional information please let me know.

I wanted to thank former District 4 Commissioner Stegmann for her leadership, guidance and support in exploring ways the County could enhance its Investment Strategies that better support our community values while still supporting long-term value and mitigating investment risk. Also, a special thanks to Layan Ammouri (former Policy and Planning Director for District 4) in navigating our strategy.

Next pages (4-7) reference summary information on the County's current Investment Policy

Attachment A: General Information - County Investment Policy

County Investment Approach:

Multnomah County's investment program is operated in conformance with Oregon Revised Statutes and applicable federal law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810.

It is the policy of Multnomah County to administer its investments (cash assets) with the highest degree of public trust. Investments are made in manner that assures security of principal. County Investments are managed with three primary objectives:

- **Safety of Principal** – investment are made in manner that seeks to ensure the preservation of capital. We mitigate credit and interest risk through investment diversification, maturity constraints, and credit quality.
 - **Diversification** – It is the policy of County to diversify its investment. Where appropriate, exposure will be limited by security type, maturity, issuance and issuer.
 - **Investment Credit Ratings:** Investments must have strong credit rating (e.g. for corporate bonds they must be rated AA- by S&P or Aa3 by Moody's or equivalent by any other nationally recognized rating agency).
 - **Credit Exposure Constraints:** the County limits exposure among authorized investment, example the County can only hold 35% in corporate debt/commercial paper and a max of 5% per issuer.
- **Liquidity** – investment will remain sufficiently liquid to meet anticipated obligations (e.g. debt service, payroll, payroll taxes, etc.)
- **Yield-Return** – investment portfolio strategy will aim to obtain/maximize market rates but will be secondary to safety and liquidity requirements. Though individual investments may be sold prior to maturity, investments will generally be held to maturity.

Authorized County Investments Per Policy:

***Note:** Multnomah County does not directly invest cash assets in the corporate debt securities issued by any fossil fuel companies listed on the Fossil Free Index (FFI) Carbon (FFICU) annual listing (County Board Resolution No. 2015-104)*

- **US Treasury Obligations:** U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest. [ORS Section 294.035(3)(a)]
- **US Agency Obligations:** Federal agency and instrumentalities of the United States or enterprises sponsored by the United States Government (GSEs) and whose payment is guaranteed by the United States, the agencies and instrumentalities of the United states or enterprises sponsored by the United States Government. [ORS Section 294.035(3)(a)]
- **Municipal Debt:** Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of Aa3 or better by Moody's Investors Service or AA- or better by S&P or equivalent rating by any nationally recognized statistical rating organization. [ORS 294.035(3)(b)] [ORS 294.035(3)(c)]
- **Corporate Indebtedness:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)3 of the Securities Act of 1933, and not listed on the Fossil Free Index (FFI) Carbon Underground (FFICU) 200™ annual listing. Corporate indebtedness must be rated on the settlement date AA- or better by S&P or Aa3 or better by Moody's Investors Service or equivalent rating by any nationally recognized statistical rating organization. [ORS 294.035(3)(i)]

- **Commercial Paper:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, and not listed on the Fossil Free Index (FFI) Carbon Underground (FFICU) 200™ annual listing. Commercial Paper must be rated on the settlement date A-1 or better by S&P or P-1 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value of portfolio per issuer. [ORS 294.035(3)(i)]
- **Certificates of Deposit:** Certificates of deposit in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006, or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)]. Certificates of deposit into financial institutions outside of Oregon are allowed if the Investment Officer deposits the funds into a depository in Oregon and the Oregon depository participates in a program pursuant to ORS Section 295.004
- **Bank Time Deposits/Savings Accounts:** Bank Time Deposits and savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006, or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)]
- **Local Government Investment Pool:** The Local Government Investment Pool, (LGIP) also named the Oregon Short Term Fund (OSTF) is an open-ended, no-load diversified portfolio offered to eligible participants that includes, but is not limited to, any municipality, political subdivision or public corporation of the State of Oregon that by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State of Oregon's short-term funds. Oregon's LGIP was created by ORS Chapter 748.

County Policy Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 90 days	10%
Under 1 year	35%
Under 5.25 years	100%
Weighted Average Maturity	2.5
Security Type Constraints	Maximum % of Total Portfolio
Callable Securities	25%

County Policy Holding Constraints:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	40%	N/A	5.25 years
Municipal Bonds (OR, CA, ID, WA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Bonds	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings Accounts	50%	25%	Oregon Public Depository	N/A
Certificates of Deposit	20%	10%	Oregon Public Depository	5.25 years
Banker's Acceptance	10%	5%	A1 / P1	180 days
Repurchase Agreements	10%	5%	AA- / Aa3	90 days
Reverse Repurchase Agreements	10%	5%	AA- / Aa3	90 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

*Short Term Ratings: Moody's - P1/MIG1/VMIG1, S&P - A-1/P-1, Fitch - F-1

**35% maximum combined corporate and commercial paper per ORS.

***Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

Attachment B

List of Approved Corporates – Oregon:

GPA Corporate Approved List - Oregon			
Company	Sector	ACTION	C
Alphabet Inc	Communications	Buy	
Amazon.com Inc	Communications	Buy	
Apple Inc	Technology	Buy	
Bank of America Corp	Financial	Buy	
Bank of America NA	Financial	Buy	
Bank of Montreal	Financial	Buy	
Bank of New York Mellon Corp/The	Financial	Buy	
Bank of New York Mellon/The	Financial	Buy	
Bank of Nova Scotia/The	Financial	Buy	
Berkshire Hathaway Finance Corp	Financial	Buy	
Berkshire Hathaway Inc	Financial	Buy	
BlackRock Inc	Financial	Buy	
Canadian Imperial Bank of Commerce	Financial	Buy	
Chevron Corp	Energy	No Fossil	
Cisco Systems Inc	Communications	Buy	
Citibank NA	Financial	Buy	
Colgate-Palmolive Co	Consumer, Non-cyclical	Buy	
Costco Wholesale Corp	Consumer, Cyclical	Buy	
Exxon Mobil Corp	Energy	No Fossil	
Johnson & Johnson	Consumer, Non-cyclical	Buy	
JPMorgan Chase & Co	Financial	Buy	
JPMorgan Chase Bank NA	Financial	Buy	
Mastercard Inc	Financial	Buy	
Microsoft Corp	Technology	Buy	
Morgan Stanley Bank NA	Financial	Buy	
National Bank of Canada	Financial	Buy	
NIKE Inc	Consumer, Cyclical	Buy	
Procter & Gamble Co/The	Consumer, Non-cyclical	Buy	
Royal Bank of Canada	Financial	Buy	
State Street Corp	Financial	Buy	
Toronto-Dominion Bank/The	Financial	Buy	
Visa Inc	Financial	Buy	
Walmart Inc	Consumer, Cyclical	Buy	
Wells Fargo Bank NA	Financial	Buy	