

METRO INVESTMENT POLICY DISCUSSION

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Services
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ISSUE STATEMENT

Metro policy guides the investment of all cash assets with the primary objectives of ensuring the safety of capital and the availability of funds to meet program requirements. The investment policy also ensures that cash investments are consistent with the region's values. State law requires the Metro Council annually readopt the investment policy and provides the opportunity to evaluate whether the current policy direction is still consistent with the Metro Council and the region's values.

ACTION REQUESTED

Feedback from Council on whether changes to the direction in the investment policy should be considered and how the Council would like to be engaged in those decisions.

IDENTIFIED POLICY OUTCOMES

The current investment policy identifies four primary objectives:

- Safety – investments will ensure the preservation of principal.
- Liquidity – funds will be constantly available to meet payment requirements.
- Return on investment – investment portfolio is designed to achieve a market rate of return through budgetary and economic cycles.
- Legality – funds will be invested in accordance with statutes, ordinances and policy.

Metro Code also currently prohibits investments in securities listed on the Carbon Fuel Underground 200 list.

POLICY QUESTION(S)

- Does the Council want to change the Metro Code to further restrict the types of investments that can be included in Metro's portfolio?
- Does the Council want to change or provide additional policy direction to guide investments in corporate securities in Metro's portfolio?

POLICY OPTIONS FOR COUNCIL TO CONSIDER

There are a range of policy options for the Council to consider:

Option 1: No Change

This option would leave the current policy direction in place.

Pro: The current policy provides significant flexibility for Metro to make investments that help achieve market rate returns from the portfolio. While corporate securities are a small part of Metro's overall portfolio, they do tend to offer diversification and attractive returns in low interest rate environments.

Con: Metro could hold investments in firms that do not share the region's values around climate change, racial equity or employee wages, benefits and working conditions. Metro's investments could implicitly or explicitly be supporting policies and actions inconsistent with the values of the region and the agency.

Financial impact: Selecting this option would not result in any material financial impact.

Option 2: Expand the "Prohibited Investments" list to reflect other policy considerations
Expand the list of prohibited investments to include other policy considerations such as racial equity, additional climate change issues beyond fossil fuels and/or employee working conditions.

Pro: This option would be relatively easy to implement and is consistent with the decision making framework in the current policy.

Con: This would further limit investment options and could result in lower investment income to Metro.

Financial impact: This option could result in lower investment income for Metro, but it is difficult to quantify without determining which additional issuers would be prohibited.

Option 3: Limit investments in corporate debt to a list of authorized issuers
This option would implement a method similar to that used by the City of Portland and specifically list corporate issuers that may be included in Metro's portfolio.

Pro: Once the list of approved issuers was determined, it would be easy to administer this policy.

Con: This would further limit investment options and could result in lower investment income to Metro, but it is difficult to quantify without determining which issuers would be authorized. The process to select the approved issuers could potentially be time-consuming and controversial.

Financial Impact: This option could result in lower investment income for Metro, but it is difficult to quantify.

Option 4: Prohibit any investments in corporate securities
This option would update the Metro Code and not allow any investments in corporate notes or commercial paper.

Pro: This option would be easy to administer and significantly reduce political risk in Metro's investment portfolio.

Con: This option would result in lower investment income for Metro.

Financial Impact: This option would result in lower investment income, but it is difficult to quantify. As of 6/30/2019, investments in corporate securities represented less than 2% of the agency's total portfolio. Implementing this option would have a relatively small impact on current earnings, but those impacts could grow as economic conditions change.

STAFF RECOMMENDATIONS

Staff recommends directing the Finance and Regulatory Services Department to work with the Investment Advisory Board to draft an update to the Metro Code for Council consideration that reflects the policy option selected by the Council.

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

Metro's investment policy (adopted as Metro Code Chapter 7.03) is one of the financial policies that guide execution of the Council's strategic priorities. The investment policy should also reflect the Council's vision and values.

- Legal Antecedents
Oregon Revised Statutes Chapter 294, Metro Code Chapter 7.03.

BACKGROUND

The vast majority of Metro's portfolio is invested in United States government securities. A small portion (less than 2% as of 6/30/2019) is invested in corporate securities. Per Oregon Revised Statutes, local governments are prohibited from investing in equities or other speculative investments. Metro is permitted to purchase commercial paper and corporate indebtedness that meet ratings standards set in statute.

The Metro Code currently limits investments in those types of corporate securities to no more than 35% of the total portfolio and no more than 5% of the portfolio in securities offered by a single issuer. In practice, Metro's portfolio is always well below those limits. Those limits reflect the maximum allocation as allowed by Oregon Revised Statutes.

In the prior fiscal year, investment income across Metro's major functions totaled approximately \$2.9 million, or about 1% of total operating revenues. Income from investments in corporate securities represents a small portion of overall investment income. However, it is also important to note that investment income was a more significant portion of Metro's revenue prior to the last recession and the extended period of historically low interest rates that followed. For example, in FY2007-08 investment income totaled \$12 million, or over 5% of total operating revenues for Metro.

- Is legislation required for Council action? ☐ Yes ☒ No
- If yes, is draft legislation attached? ☐ Yes ☒ No