



## Staff Report

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**File #:** 22-78

**Version:** 1

**Date:** 2/28/2022

**Item #:** 3.2e.

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**TO:** Mayor and City Council

**FROM:** City of Salem and Salem Urban Renewal Agency Finance Committee

**SUBJECT:**

Amending Council Policy No. C-7, Investment Policy and Portfolio Guidelines.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Good Governance; Natural Environment Stewardship; Strong and Diverse Economy.

**SUMMARY:**

The City of Salem and Salem Urban Renewal Agency Finance Committee (Finance Committee) is recommending changes to the Policy including adding Environmental, Social and Governance (ESG) factors for investments.

**ISSUE:**

Shall the City Council adopt Resolution No. 2022-12 amending Council Policy No. C-7, Investment Policy and Portfolio Guidelines?

**RECOMMENDATION:**

Adopt Resolution No. 2022-12 amending Council Policy No. C-7, Investment Policy and Portfolio Guidelines.

**FACTS AND FINDINGS:**

In early 2021, the Finance Committee asked staff to begin researching incorporating ESG factors into the City's investment policy. Over the course of several public meetings with staff and PFM Asset Management, the Committee directed staff to return with a revised Council Policy C-7 for approval and referral to City Council. The Finance Committee reviewed the proposed changes to the Policy at its meeting held on December 13, 2021 and approved forwarding the changes to the City Council for consideration.

Proposed revisions to the Policy (Attachment 2) include:

1. Inclusion of ESG Parameters: To meet the requirements of the new ESG parameters of the investment policy, a company must meet the following criteria:
  - a. Cannot be a company in the industries of energy services, oil & gas producers or refiners & pipelines
  - b. Issuer's ESG Risk Rating must be medium or lower as rated by Sustainalytics (less than 30 on a scale of 0-100, with lower scores indicating a less ESG related risk)
2. Adjustments to Investment Portfolio Composition, Safekeeping and Municipal Debt requirements: General updates to the policy in these categories will bring the Policy in compliance with Oregon Revised Statutes and will increase clarity.
3. Updates to Authorized Finance Personnel: Policy Appendix II, Authorized Finance Staff by Title, lists the Finance personnel who are authorized by the Custodial Officer, with the City Manager's consent, to invest City funds. The proposed changes to titles for Appendix II include: Chief Financial Officer, Budget Officer, Chief Accountant, Treasury Supervisor, and Accounting Supervisor.

Under the proposed policy, based on a company's rankings in the Environmental, Social and Governance categories, the City's investment advisor will no longer recommend investments in certain companies. A company that ranks high on the ESG rating system and meets traditional investment standards such as safety, minimum credit ratings, and favorable relative yields will be eligible for investment. A company that meets the investment standards but not ESG standard will be ineligible for investment.

PFM Asset Management engages with Sustainalytics (a leading ESG analytics company that is a subsidiary of Morningstar) to perform ESG analysis and review of companies.

If City Council approves the adoption of Resolution No. 2022-22, the policy will be sent to the Oregon Short Term Fund Board (OSTF) per ORS 294.135(a). The statute requires any material changes to investment policies be reviewed by the OSTF Board prior to adoption. The proposed changes have been reviewed by PFM Asset Management and they have determined the proposed Policy changes require OSTF Board review. Should the OSTF Board review result in any required changes to the proposed Policy, the Finance Committee will review prior to City Council consideration.

## **BACKGROUND:**

Policy C-7 was last amended in 2018.

Jennifer Mattecheck, CPA

Chief Accountant

Attachments:

1. Resolution No. 2022-12 Amending Council Policy C-7
2. Resolution No. 2022-12 Exhibit A, Council Policy C-7 with Amendments
3. Council Policy C-7 Revised - Redline Version
4. PFMAM ESG Investment Solution Overview
5. Local Government Investment Policy Review Process Overview