

OFFICE OF THE STATE TREASURER
Finance Division

LOCAL GOVERNMENT INVESTMENT POOL

*An Investment Service
For Public Funds*

Information Statement
Revised September 2016

**Office of the State Treasurer
Advisory Board
Oregon Short-Term Fund Board**

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Introduction

The Local Government Investment Pool (LGIP or the “Pool”) 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 this state that by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds.

Oregon's LGIP was created by Oregon Laws 1973, Chapter 748. Since its inception, over 900 local governments in Oregon have participated in the pool.

The LGIP is open every day that the Federal Reserve and Oregon State Government are open.

Purpose

The purpose of this Information Statement is to ensure that local government investment officials, when choosing among their available investment options, are fully aware of significant investment and administrative policies, practices and restrictions of the LGIP and are thereby able to make informed investment decisions on behalf of their local governments.

Eligibility Requirements for Pool Participation

ORS Chapters 293 and 294 authorize the State Treasurer to invest funds tendered by local governments that include any county, municipality, school district, political subdivision, public corporation or tribal government. Therefore, cities, special service districts such as water and sewer districts, as well as other organizations formed for the purpose of intergovernmental cooperation under ORS 190.003 to 190.030, are eligible participants.

Where an organization is not easily categorized as a city, county, school district or other special service district, the entity will be required to provide an opinion from the entity's legal counsel stating that the entity is a local government qualified to participate in the Pool. The opinion must be supported by an analysis of the documents and laws under which the applicant entity was formed. An organization qualified to participate in the Pool may have some or all of the following characteristics:

1. Participation in the Public Employees' Retirement System (PERS).
2. Subject to audit laws under ORS Chapter 297.
3. Subject to public meeting or records laws.

4. Subject to local budget laws under ORS Chapter 294.
5. Officers and board members are subject to Oregon Government Standards and Practices Laws under ORS Chapter 244.

This list is not conclusive and should be used as an initial indicator of whether the applicant wishes to proceed with an opinion of counsel regarding its eligibility to participate in the Pool.

A participant must be qualified under the conditions listed above. A unit of the qualified participant is not eligible to establish a separate pool account. For example, a high school that is part of a school district could not establish a separate account. A high school district established under ORS Chapter 335 would be eligible.

After written application, with supporting documentation, is submitted to the State Treasurer's Office (OST), a determination of eligibility will be made. If it is not clear that the entity qualifies for participation in the Pool, a determination by the State's Attorney General will be requested. The entity will be notified in writing of OST's determination regarding eligibility. If the entity does not agree with the determination of OST, it shall submit in writing the basis for the disagreement. Treasury will make every attempt to resolve the issues to the satisfaction of all parties involved.

Policy Statement

Safety of public funds is the primary responsibility of every public investment officer. Therefore, the policy of the LGIP is to provide a safe environment for the short-term investment of public funds. The LGIP allows public entities to continue to manage their funds in a manner that allows them to maximize the yield on their investments while meeting the safety and liquidity requirements for their funds. OST manages the LGIP in the same manner it oversees the management of the State's funds and in accordance with the prudent investor rule (ORS 293.726). The LGIP is commingled with other state funds in the Oregon Short-Term Fund (OSTF). The OSTF is not managed as a stable net asset value fund. As such, investors should be aware that preservation of principal is not assured by OST management or the OSTF Board. While the OSTF is not currently rated by an independent rating agency, the OSTF's holdings provide very strong protection against losses from credit defaults; however, the fund may be sensitive to changing market conditions.

Objectives

The primary objectives, in priority order, of the LGIP investment activities shall be:

1. **SAFETY.** Safety of principal is the foremost objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
2. **LIQUIDITY.** The LGIP investment portfolio will be sufficiently liquid to enable it to meet all operational requirements that might be reasonably anticipated.
3. **RETURN ON INVESTMENT.** The LGIP investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account its investment risk constraints and the cash flow characteristics of the Pool.

Advisory Board

In seeking to best serve local governments in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon Investment Council and the State Treasurer's Office in the management and investments of the LGIP.

The Board consists of seven members: The State Treasurer or his designee; three nonpublic members who are qualified by training and experience in the field of investment and finance (appointed by the State Treasurer); and three members who are treasurers, finance or fiscal officers or business managers of any county, city or school district (appointed by the Governor).

Board members serve four-year terms. The Board serves without compensation. Expenses to attend meetings of the Board are reimbursed pursuant to Oregon Revised Statutes subject to limits established for state employee travel.

Investment Policy

ORS 293.726 requires that the OST apply the Prudent Investor Rule in the management of the fund. That standard "requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of each investment fund's investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund."

The Oregon Short-Term Fund Board has adopted additional portfolio rules outlined in Attachment A.

Borrowing and Leverage Practices

Borrowing may be done for purposes of short-term cash flow enhancements and interest rate arbitrage. Borrowing for interest rate arbitrage shall only be done on a matched book basis.

Custodian of Securities

The Oregon Short-Term Fund is an *external investment pool* as defined in Government Accounting Standards Board (GASB) Statement 31. In accordance with this Statement, OST may issue a separate or standalone annual financial report that includes a statement of net assets and a statement of changes in net assets along with the appropriate disclosures and Accountant's Report.

In preparing annual financial statements in accordance with generally accepted accounting principles, a local government may find it necessary to use certain information contained in this report, or otherwise provided in the State's Comprehensive Annual Financial Report (CAFR). OST will either make available this report by mailing a copy to each Pool Participant or by letting Participants know how to obtain a copy of the information.

All investment assets and collateral will be held in safekeeping by the OST's Master Custodial Agent or by an authorized state depository. All security transactions are settled on a delivery vs. payment basis consistent with industry practices.

Legal Counsel and Independent Auditor

The State Attorney General serves as General Counsel to the LGIP. The LGIP is audited by the Secretary of State, Audits Division.

Interest Allocation

Interest is accrued daily on each account based on the ending account balance and a variable preset interest rate that OST routinely sets to pay on all accounts in the OSTF. Interest is posted to accounts on the last calendar day of the month. The interest rate used to calculate the earnings credited to each account is preset and adjusted as necessary during the month to approximate the actual yield of the OSTF. The difference between the total interest distributed each month and the actual earnings on the OSTF will be recorded in an Over/Under Interest Distribution Account. The balance of this account is taken into consideration when interest rates are reset so that all interest net of the administrative fee will be distributed.

Expenses of the LGIP

OST seeks to operate the LGIP on a breakeven basis. OST charges an administrative fee on the OSTF to recover its operating costs. The administrative fee is deducted from the gross earnings of the OSTF and is transparent to LGIP Participants.

In addition, OST charges transaction and account maintenance fees on LGIP accounts to recover the costs of operating the Banking Section including staffing, overhead and direct bank charges incurred by OST. OST reviews the revenues and expenses of the OSTF and Banking Section periodically and may adjust fees in order to reduce or increase program fund balances. Any change in the authorized charge normally occurs at the beginning of the State's fiscal year, currently July 1. However, should a change need to be made other than the beginning of the fiscal year, OST will seek to provide advance notice.

Below is the current LGIP fee schedule, as of July 1, 2013:

Next Business Day ACH Deposit/Withdrawal	\$.05 per transaction
Same Business Day Wire Withdrawal	\$10.00 per transaction
Electronic Pool to Pool Transfer	\$.05 per transaction
Manual Pool to Pool Transfer	\$.40 per transaction
ACH Returned Item fee	\$ 1.50 per occurrence
ACH Reversal fee	\$17.00 per request
Overdraft fee	\$30.00 per occurrence
Monthly Maintenance fee	\$10.00 per pool account
Faxed Copy of Account Statement	\$ 1.50 per page

LGIP Accounts

Prior to setting up an account in the LGIP, a Certification to Establish an Account (Attachment B) must be sent to OST. A list of authorized signatures (Attachment D) and the names, locations, ABA numbers and account numbers for the financial institutions through which its Pool transactions will be handled (Attachment C), must also be submitted. With the exception of specific debt service accounts, the local government must be the owner of each bank account listed on Attachment C. Local governments must request new LGIP accounts by submitting an Add A Local Government Pool Account form (Attachment F). In addition, local governments should be aware of the requirements for deposits of public funds located in ORS Chapter 295. Local governments must request closure of existing LGIP accounts by submitting a Close Local Government Pool Account form (Attachment G). OST is not responsible for determining whether the financial institutions meet the statutory definition of “depository bank” which is necessary for the lawful deposit of public funds. A current list of qualified depositories for public funds is available for review on OST’s web page <http://www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/Qualified-Depositories.aspx>

Political subdivisions are precluded from investing funds of other political subdivisions under ORS 294.125. Whenever a change in bank accounts tied to a LGIP account is requested, a new Account Information form (Attachment C) is required to be submitted.

Account Overdrafts

Local governments will be charged an overdraft fee each time they draw their account balance below zero. In addition, negative account balances resulting from an overdraft will be charged interest at an annualized rate equaling the Oregon Short Term Fund rate in effect plus **170** basis points (1.70%). Local governments are responsible for clearing overdrafts as soon as possible. OST reserves the right to transfer any funds a local government has in accounts at OST to offset unauthorized overdrafts that are not cleared in a timely manner. Excessive overdrafts may result in termination of a local government's access to the LGIP.

Limits on Aggregate Pool Balances

As of August 31, 2016, local governments may place in the aggregate up to \$47,390,998 in the Pool. This amount is adjusted annually by the Consumer Price Index for the U.S. City Average Consumer Price Index (ORS 294.810). OST notifies all Pool Participants whenever the aggregate deposit amount is adjusted. The current limit may be found on OST's Internet website located [here](#).

There is an exception to the aggregate deposit limits if the funds are placed in the Pool on a pass-through basis. Local governments must remove pass-through funds, which result in exceeding the aggregate deposit limit, within 10 business days. County governments have up to 20 business days to remove excess funds. In determining whether or not the pass-through funds causing the aggregate balance to be exceeded are held beyond the permitted time period, local governments may consider that pass-through monies pass through on a first-in, first-out basis. Example: A county receives property taxes and maintains aggregate balances exceeding the limit for more than 20 business days. However, the county turns over tax payments collected on a weekly basis, thereby ensuring all pass-through moneys are transferred out within the prescribed time period on a first-in, first-out basis.

Pass-through funds include monies that are collected by one local government that are to be passed on to other governmental units such as property tax payments, federal funds, and other revenue distributions. They also include monies that are deposited to a local government's Pool account via transfer from a state agency or other local government unit. Pass-through funds do not include proceeds from the maturity of investments that will be reinvested or otherwise used for expenditure purposes nor excess funds that will be used for debt service or to liquidate other liabilities.

Change of Authorization

New Pool Participants must submit a letter listing those persons authorized to initiate bank account information changes on behalf of the local government. A letter must also be submitted each time a local government has any changes in persons authorized to initiate bank account information changes. The list of authorized signers must be on the local government's letterhead, be signed by the local government's CFO or Treasurer and contain the complete list and original signatures (no faxes or copies accepted) of each person authorized. (Attachment D) Staff changes involving a CFO or Treasurer position requires the additional submission of a governing board resolution that outlines the change and the delegation of authority by the governing board.

Voice Response System (VRS)

OST has designed and implemented a Voice Response System (VRS) that greatly increases internal controls for both OST and LGIP participants, and that significantly improves the level and quality of service provided to LGIP participants. Local governments can reach the VRS via a toll free phone number.

The VRS allows local governments to access account balances, transaction history and current pool rate information. In addition, local governments can initiate deposits to, or withdrawals from, their pool accounts, as well as transfer funds between their own pool accounts using the VRS.

Transfer of Funds

- **Deposits to a pool account:** Local governments deposit funds into their pool accounts via the VRS. Deposit transfer requests called in to the VRS by the 1:00 pm daily cutoff will occur on the business day following the request via the Automated Clearing House (ACH). Deposit transfer requests called in after the 1:00 pm cutoff will occur on the second business day following the request. Deposit transfers sent by state agencies to LGIP accounts may be initiated via the State's central accounting system (SFMS) or through agencies' use of OST's ACH Network (STAN). **OST does not accept checks for deposit** to LGIP accounts. This practice was accommodated in the past since some banks were not ACH capable; however, this is no longer the case. Also, OST is typically not the payee on these checks and should not be negotiating them. Local governments may **not** make deposits to their Pool account by wire transfer.
- **Withdrawals from a pool account:** Local governments withdraw funds from their Pool accounts via the VRS. Withdrawal transfer requests called in to the VRS by the 1:00 pm cutoff will occur the following business day. Withdrawal transfer requests called in after the 1:00 pm cutoff will occur on the second business day following the request. In the

event a local government needs money the same day for liquidity, they may request a wire transfer withdrawal for an amount up to \$1.5 million dollars using the VRS. The cutoff time for a same day wire withdrawal is currently 10:00 a.m. OST's transaction fee for wire transfers is in addition to the bank wire fee the local government will likely be assessed by their depository bank.

- **Transfers between pool accounts:** Pool Participants may transfer money between their Pool accounts using the VRS. Transfers called in to the VRS before the 1:00 pm cutoff will occur on a same-day basis. Transfer requests called in after the 1:00 pm cutoff will occur on the next business day. Pool Participants may request transfers to be made to other local governments' Pool accounts by sending an email to LGIP@mail.ost.state.or.us or by faxing a request to the Banking Section at (503) 373-1179. Faxed or email transfer requests received by 1:00 pm will be processed on a same-day basis. Those received after 1:00 pm will be processed the following business day.

There is no notice requirement for transfers over certain dollar thresholds which are originated through the VRS. However, we do request that you notify a Banking Analyst two days prior on Pool withdrawals or deposits in excess of \$15 million to assist in cash flow forecasting.

All deposits to, and most withdrawals from, the LGIP are made via ACH. Many banks offer ACH filter service to help protect their customers from unauthorized ACH transactions. ACH filters can interfere with legitimate LGIP transfer activity if they are not identified as acceptable within the ACH filter at your bank. If you have an ACH filter established at your bank, please contact LGIP Customer Service for additional information that will need to be shared with your bank to ensure that LGIP transactions pass through any ACH filter that may be in place.

ACH commerce must be conducted in accordance with NACHA Rules. NACHA Rules require that the sender or originator of ACH transactions maintain on file, written authorization from the receiving party to send ACH transactions. Therefore, all Pool Participants are required to sign and return a copy of the *Authorization Agreement for ACH Debits and Credits* (Attachment E).

Compliance with Tax Law and Debt Covenants

OST makes no representations as to whether the LGIP complies with Section 148 of the Internal Revenue Code. Accordingly, the LGIP may not be appropriate for the investment of bond proceeds. Bond covenants may also restrict the investment of bond proceeds and may preclude the LGIP as a permitted investment option. Participants should discuss arbitrage rebate, yield restriction and other applicable bond provisions with their bond counsel prior to depositing bond proceeds in the LGIP.

Reports

Online statement software has been designed by OST to enable users to view, save and print daily and/or monthly statements of account balance and transactions at their convenience. Statements are made available each afternoon for access to same day information, and three years of statement history is available online. Online account statement access must be setup by contacting OST.

A monthly statement of account balance and transactions is either mailed or made available via Internet access to each LGIP Participant for each LGIP account, regardless of account transaction activity. A daily statement of account balance and transactions is either mailed or made available via Internet access only to those local governments that have transaction activity on that day.

Other reports are available on a monthly basis including the Oregon Short-Term Fund portfolio analysis. These reports will be available in either hardcopy, at OST's Internet web-site, or by email. OST reserves the right to change reports, as necessary, to more accurately and efficiently report on the Pool.

Local Government News Email List

OST has created an electronic mailing list for local governments called Local-Gov-News. The purpose of the Local-Gov-News mailing list is to notify local governments immediately about any OST related issues or problems that may impact their daily processes. This list will also be used, periodically, to provide customers with general OST information regarding services that we provide, notification about information that is available on our website, etc. The monthly Local Government News Report is also distributed via this email list. Participants interested in subscribing to this email list can find subscription instructions on OST's Internet web-site at:

<http://www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/Newsletters.aspx>