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# LOCAL GOVERNMENT NEWS REPORT

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September 2009

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## INTEREST RATES

The average annualized yield for August was 0.8306%. The rates for August were as follows:

August 1 <sup>st</sup> – 19 <sup>th</sup>	0.85%
August 20 <sup>th</sup> – 31 <sup>st</sup>	0.80%

## CREDIT MARKET UPDATE

After two solid months of strong improvement, corporate credit spreads ended August practically unchanged for the month. In our opinion, while there may be room for slight improvement in the yield gap (credit spread) of corporate debt yields over treasury yields in the next few months, the market will need to see solid evidence of economic traction for further significant improvement in corporate spreads. Year over year, the average spread in the Barclays Corporate Index was 71 basis points tighter at August month-end and a whopping 322 basis points tighter year-to-date. Coupled with cyclically low treasury yields, the overall yield on new investments has declined rather rapidly. The longest term investment allowed by the Oregon Short Term Fund (OSTF) is 3 years (typically longer term investments generate higher yields) so the August-end 3-year Treasury yield (1.40%) plus the average spread over treasuries for a double-A rated corporate debt investment of 138 basis points implies a yield of only 2.78%. Of course, the OSTF has high liquidity requirements; therefore, much of the OSTF portfolio must comprise significantly shorter-term investments, which means even lower available yields for new investments. Treasury yields have increased year to date slightly but remain very low on a historical basis and despite significantly greater amounts of new treasury debt entering the market. For the month of August, 2-year Treasury yields declined 6 basis points to 0.91%, but are 14 basis points higher for the year. 5-year Treasury yields declined 7 basis points in August to 2.32%.

Questions regarding this update can be directed to Tom Lofton, Senior Credit Analyst, at (503) 378-4155, or via e-mail at [tom.lofton@ost.state.or.us](mailto:tom.lofton@ost.state.or.us).

## UPCOMING BANK HOLIDAY OCTOBER 12<sup>th</sup>

Monday, October 12<sup>th</sup>, is Columbus Day. The Office of the State Treasurer will be open; however, the Federal Reserve and Oregon banks will be closed. Due to this bank holiday, any ACH transfers called prior to 1:00 p.m. on Friday, October 9<sup>th</sup>, will settle at your bank on Tuesday, October 13<sup>th</sup>. Any ACH transfers called between 1:00 p.m. Friday, October 9<sup>th</sup>, and 1:00 p.m. Tuesday, October 13<sup>th</sup>, will settle at your bank on Wednesday, October 14<sup>th</sup>. The same-day Fed Wire withdrawal option will be unavailable on October 12<sup>th</sup>.

## PROTECTION OF PUBLIC FUNDS

The State Treasurer's Office (OST) has been receiving many phone calls from public funds depositors concerned about the safety of their funds in bank depositories. OST has always worked closely with the Department of Consumer and Business Services Division of Finance and Corporate Securities (DCBS DFCS) and the Oregon Short Term Fund (OSTF) staff in monitoring the health and strength of the qualified public funds bank depositories; and we are continuing this practice at an even higher level in light of the economic conditions with regard to financial institutions. Please be assured that OST is doing everything within its power, governed by ORS 295, to ensure the safety of Oregon public funds and will continue to take appropriate action as deemed necessary through consultation with DCBS DFCS and OSTF staff. OST's goal is to mitigate any risk to Oregon public funds.

If you have any questions or concerns, please feel free to contact Wendy Finley at (503) 378-3400 or visit our Public Funds Webpage at: <http://www.ost.state.or.us/divisions/finance/Collateral/Index.htm>.

## ORS 294.810 LIMITATION INCREASE

The limitation in ORS 294.810 will remain unchanged at \$42,523,082. This is due to the decrease of the Consumer Price Index in the 1<sup>st</sup> half of 2009 for All Urban Consumers of the Portland, Oregon, Standard Metropolitan Statistical Area, as compiled by the U.S. Department of Labor, Bureau of Labor Statistics.

CPI adjustments for Local Gov't Balance Limitation

Period Start	Period End	Portland CPI	Semi-Annual		LGP Balance Limitation
1/1/2003	6/30/2003	186.0	1.09%	\$	36,610,104
7/1/2003	12/31/2003	186.5	0.27%	\$	36,708,519
1/1/2004	6/30/2004	189.8	1.71%	\$	37,337,705
7/1/2004	12/31/2004	192.5	1.42%	\$	37,868,853
1/1/2005	6/30/2005	194.5	1.04%	\$	38,262,295
7/1/2005	12/31/2005	197.5	1.54%	\$	38,852,459
1/1/2006	6/30/2006	199.8	1.16%	\$	39,304,918
7/1/2006	12/31/2006	202.5	1.35%	\$	39,836,066
1/1/2007	6/30/2007	206.7	2.05%	\$	40,653,049
7/1/2007	12/31/2007	210.5	1.84%	\$	41,401,967
1/1/2008	6/30/2008	214.6	1.98%	\$	42,220,131
7/1/2008	12/31/2008	216.2	.72%	\$	42,523,082
1/1/2009	6/30/2009	214.102	-.95%	\$	42,523,082

ORS 294.810 (2) provides that the \$30 million limitation shall increase in proportion to the increase occurring after 9/9/95 in the CPI for all urban consumers of the Portland, Oregon area.

## ONLINE POOL ACCOUNT STATEMENTS

Local governments ready to make the move to online statement access may contact us via e-mail at [ost.banking@state.or.us](mailto:ost.banking@state.or.us). An Office of the State Treasurer Customer Service Representative will work with local governments to set up access to our online statement software.

The online statement software was designed by the Office of the State Treasurer (OST) to enable users to view, save, and print daily and/or monthly OST pool account statements at their convenience 24 hours a day, 7 days a week. Statements are updated each afternoon for access to same day information, and three years' of history is available online.

Local governments currently accessing online pool account statements should use our [ost.banking@state.or.us](mailto:ost.banking@state.or.us) e-mail address for requesting password resets, adding or removing users, or submitting questions related to online statements.

Local governments are not required to use the Online Statement application and may opt to continue to receive their statements via mail if they desire; although, online access will provide much quicker access to daily and monthly pool account statements.

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Website: <http://www.ost.state.or.us/divisions/finance/LocalGovernment.htm>

Local Government News List: <http://www.webhost.osl.state.or.us/mailman/listinfo/local-gov-news>

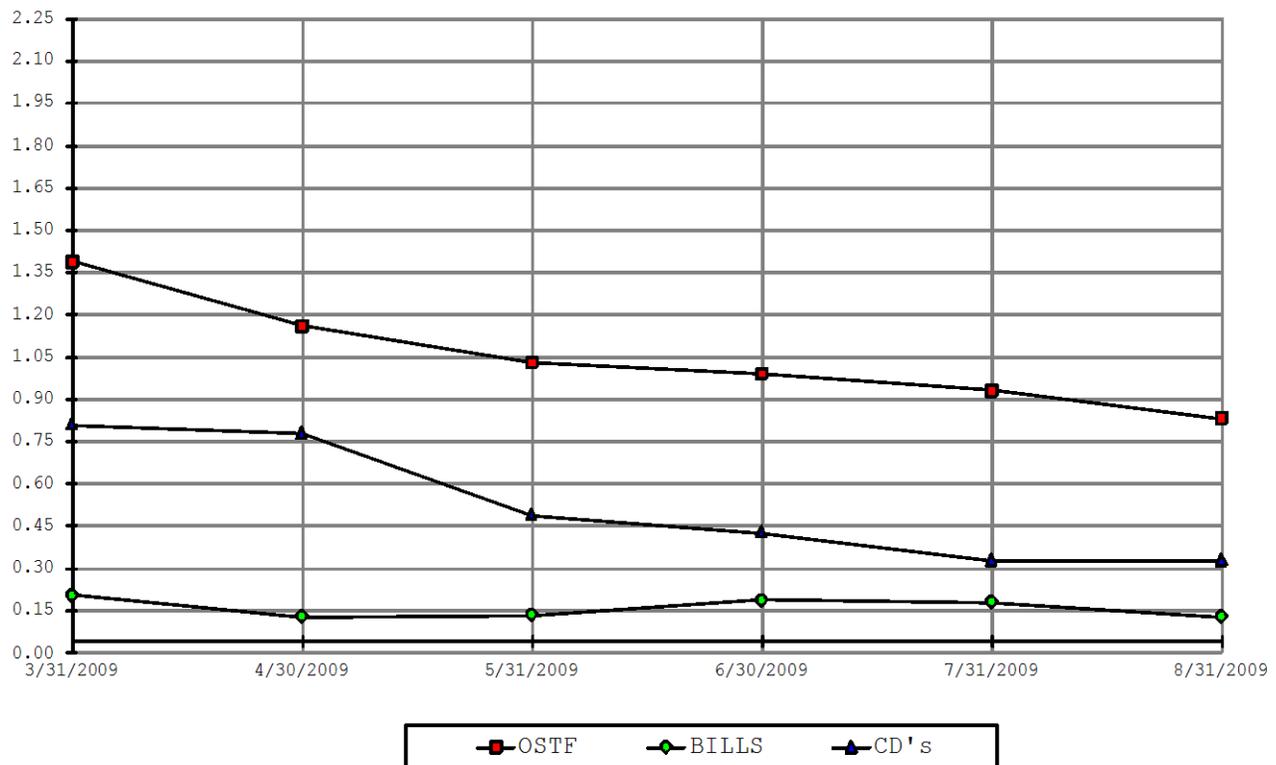
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**OREGON SHORT-TERM FUND ANALYSIS**



**Oregon Short-Term Fund Analysis as of August 31, 2009**

	3/31/2009	4/30/2009	5/31/2009	6/30/2009	7/31/2009	8/31/2009
LGIP AV DOLLARS INVESTED (MM)	5,194	5,042	4,871	4,331	4,082	4,152
STATE AGENCY AV DOLLARS INVESTED (MM)	4,928	6,156	6,329	6,066	5,760	6,051
TOTAL OSIF AV DOLLARS INVESTED (MM)	10,122	11,198	11,201	10,397	9,842	10,202
OST ANNUAL YIELD (ACT/ACT)	1.39	1.16	1.03	0.99	0.93	0.83
3-MO UST BILLS (BOND EQ YLD)	0.21	0.13	0.14	0.19	0.18	0.13
3-MO JUMBO CDS (ACT/360)	0.81	0.78	0.49	0.43	0.33	0.33

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to accountholders during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from monthend. 3-MO JUMBO CDS is the highest posted rate received by the Treasury from Oregon banks as of monthend. Consequently, whereas the yield on UST Bills should normally be lower than CD rates, the fact that the quotes are up to a week different in time may result in an apparent reversal of this situation.

This material is available in alternative format and media upon request.