



# Local Government

## News Report

SEPTEMBER 2015

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Gary Halvorson, Oregon State Archives

### BANK HOLIDAY

Columbus Day  
October 12  
Oregon State Treasury  
open and  
banks/credit unions closed

## CREDIT MARKET REVIEW

The front-end interest rate markets were at an inflection point ahead of the September 17 Federal Open Market Committee (FOMC) announcement as market participants seemed divided on whether or not the Fed would raise rates for the first time in nearly nine years. The Federal Funds futures market was pricing in a 30 percent probability that the Fed would hike rates while the Fed-sensitive two-year Treasury yield reached multi-year highs in yield at 0.81 percent. The Fed chose not to raise rates in September as it took a cautious view toward inflation, global economic developments, and recent market volatility. That decision sent two-year Treasury note prices higher (and yields lower) by an amount last seen when the Fed announced its first round of bond buying in the early days of the recovery from the 2008/2009 global financial crisis.

While the post-meeting Fed statement indicates its desire to hike rates in 2015, the Federal Funds futures market is pricing in only a 43 percent probability of that actually occurring. If the Fed does not move in 2015, it faces losing credibility if they do decide to move market pricing will need to adjust. Either way, volatility appears here to stay until more clarity is infused into the markets.

The August payroll report was released Friday, September 4. The jobs report was weaker than expected as the economy added 173k nonfarm jobs, less than the Bloomberg-reported median economist expectation of 217k. The headline unemployment rate declined to 5.1 percent as the labor force participation rate remained steady at 62.6 percent. The

*(Continued on page 2)*

## UPCOMING BANK HOLIDAY

Monday, October 12, is Columbus Day. The Oregon State Treasury will be open; however, the Federal Reserve and Oregon banks/credit unions will be closed. Due to the holiday, ACH transfers called-in prior to 1:00 p.m. on Friday, October 9, will settle at your bank on Tuesday, October 13. ACH transfers called-in between 1:00 p.m. Friday, October 9, and 1:00 p.m. Tuesday, October 13, will settle at your bank on Wednesday, October 14.

### INTEREST RATES

The average annualized yield for August was: **0.54 percent**

The rate for August was as follows:

August 1–31  
**0.54 percent**

## CREDIT MARKET REVIEW

(Continued from page 1)

report contained strong upward revisions as July nonfarm payroll additions were boosted from 215k to 245k jobs while June was revised higher from 231k additions to 245k. Average hourly earnings came in slightly above expectations advancing 2.2 percent year-over-year.

Signs of life emerged in the cash markets as investors were demanding a premium for a potential Fed rate hike at the September meeting. Six-month Treasury Bills traded hands at 0.23 percent at August

month-end compared to 0.06 percent just three months ago. Federal Home Loan Bank's 91-day discount notes auctioned for around 0.21 percent in the first week of September. Credit spreads, as measured by the Barclays corporate index (tracked below), continued their trend wider as risk assets re-priced in response to the Chinese market turmoil and currency devaluation. Once the Fed announcement came out, the cash markets reverted back to low levels with six-month Treasury Bills trading at 0.08 percent.



## LGIP LIMITATION INCREASE

The limitation in ORS 294.810 has increased from \$46,801,588 to \$47,012,858. The increase is in proportion to the percent change for the 12 consecutive months ending August 31, 2015, in the U.S. City Average Consumer Price Index, as compiled by the U.S. Bureau of Labor Statistics.

**CPI Adjustments for LGIP Balance Limitation**

Period Start	Period End	Portland CPI	Change	LGP Balance Limitation
1/1/2010	6/30/2010	217.508	0.15%	\$42,788,459
7/1/2010	12/31/2010	219.179	0.77%	\$43,117,180
1/1/2011	6/30/2011	223.105	1.79%	\$43,889,508
7/1/2011	12/31/2011	226.077	1.33%	\$44,474,164
1/1/2012	6/30/2012	228.746	1.18%	\$44,999,213
7/1/2012	12/31/2012	230.811	0.90%	\$45,405,443

Period Start	Period End	US City Ave CPI	Change	LGP Balance Limitation
9/1/2012	8/31/2013	232.018	--	\$46,073,407
9/1/2013	8/31/2014	235.685	1.58%	\$46,801,588
9/1/2014	8/31/2015	236.749	0.45%	\$47,012,858

\*ORS 294.810 (3) was revised during the 2015 legislative session. It provides that the \$30 million limitation shall increase in proportion to the increase occurring after August 31, 1995, in the U.S. City Average Consumer Price Index for the 12 consecutive months ending August 31 of the current calendar year.

## CMIRP CORNER

*The Cash Management Improvement & Renewal Program (CMIRP) is a continuous improvement program focused on the renewal, replacement, and refinement of processes and technology supporting Treasury cash management services.*

Treasury provides LGIP services through a complex and integrated structure of systems and processes. Technologies underlying the LGIP business systems are outdated and inefficient, and they are part of a larger scheme of systems and processes that is complex, integrated, and just as outdated. Through the LGIP Business Systems Renewal (BSR) effort, Treasury is working not only to replace failing systems and outdated processes, but also to improve Treasury's and its customers' risk profiles while providing enhanced services to its customers. Since adoption of the related business case in August 2014, Treasury has worked closely with our treasury management services provider, U.S. Bank, to define a solution that addresses risks and best meets customer needs.

After further discussions with U.S. Bank clarifying both the time and potential cost impacts of enhancements needed to the proposed platform, Treasury has decided to pursue a short-term mitigation project related to the failing Voice Response System (VRS) prior to implementation of a long-term (online) solution. This short-term effort is intended to address risks associated with the failing VRS only and is expected to have limited customer-facing impacts. This approach also will provide time for continued examination of long-term alternatives (including further evaluation of the proposed platform). In the coming months, Treasury will continue to work closely with its LGIP BSR Stakeholder Workgroup (*see member list on next page*) with regard to the VRS risk mitigation effort and evaluation of proposed long-term solutions. If you have questions or comments about the LGIP Business Systems Renewal effort, please contact project staff at [cmirp@ost.state.or.us](mailto:cmirp@ost.state.or.us).

## MARKET DATA TABLE

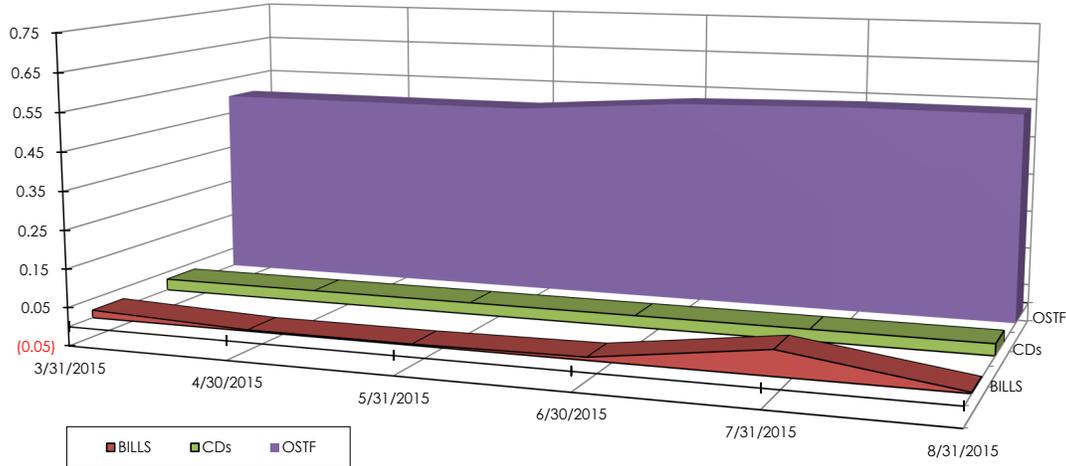
	8/31/2015	1 Month	3 Months	12 Months		8/31/2015	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.03	0.03	0.02	0.02	Barclays 1-3 Year Corporate YTW*	1.73	1.58	1.35	1.02
30-Day Agency Nt Disc**	0.06	0.04	0.03	0.04	Barclays 1-3 Year Corporate OAS*	0.88	0.83	0.67	0.48
90-Day Agency Nt Disc**	0.15	0.08	0.05	0.05	Barclays 1-3 Year Corporate Modified Duration*	1.96	1.99	2.00	1.93
180-Day Agency Nt Disc**	0.25	0.15	0.09	0.07					
360-Day Agency Nt Disc**	0.39	0.35	0.25	0.16	JPM 1-3 Year Floating Rate Note Index Yield***	0.67	0.67	0.67	0.56
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	41.88	41.88	41.88	34.04
30-Day Treasury Bill**	0.00	0.02	0.01	0.01					
60-Day Treasury Bill**	0.01	0.04	(0.00)	0.01	7-Day Muni VRDN Yield**	0.02	0.02	0.10	0.05
90-Day Treasury Bill**	0.06	0.06	(0.00)	0.02					
6-Month Treasury Yield**	0.23	0.15	0.06	0.05	O/N GGC Repo Yield**	0.29	0.31	0.21	0.08
1-Year Treasury Yield**	0.38	0.31	0.25	0.09					
2-Year Treasury Yield**	0.739	0.66	0.61	0.49	1-Day CP (A1/P1)**	0.12	0.14	0.12	0.12
3-Year Treasury Yield**	1.05	0.97	0.93	0.93	7-Day CP (A1/P1)**	0.13	0.15	0.12	0.15
					30-Day CP (A1/P1)**	0.18	0.18	0.14	0.15
1-Month LIBOR**	0.20	0.19	0.18	0.16					
3-Month LIBOR**	0.33	0.31	0.28	0.23	30-Day CD (A1/P1)**	0.19	0.18	0.16	0.13
6-Month LIBOR**	0.53	0.49	0.42	0.33	90-Day CD (A1/P1)**	0.29	0.28	0.23	0.17
12-Month LIBOR**	0.84	0.83	0.75	0.57	6-Month CD (A1/P1)**	0.48	0.45	0.35	0.25
					1-Year CD (A1/P1)**	0.64	0.72	0.54	0.43
US 1 Year Inflation Break-Even**	(1.29)	(0.46)	0.80	0.40					
US 2 Year Inflation Break-Even**	0.30	0.75	1.26	1.31					
US 3 Year Inflation Break-Even**	0.82	1.05	1.39	1.55	Sources: *Barclays, **Bloomberg, ***JP Morgan				

# Local Government News Report

## LGIP BSR STAKEHOLDER WORKGROUP

<b>Entity</b>	<b>Representative</b>
Baker County	Alice Durlinger
Camas Valley School District 21	Rachel Amos
Carlton Fire District	Ken Wright
Central Linn School District	Celest Van Cleave
City of Burns	Dauna Wensenk
City of Dundee	Sheryl Hartman
City of Hillsboro	Jon Grover
City of King City	David Wells
City of Lincoln City	Scott Morgan
City of Portland	Michael Montgomery
City of Sherwood	Barbara Henkes
City of Sweet Home	Patricia Gray
City of Yamhill	Lori Gilmore
Clackamas Co. Soil and Water	Tom Salzer
Clackamas County	Nancy Wilson
Elkton School District	Rita VanCampen
Eugene Water & Electric Board	Aaron Balmer
Gresham-Barlow School District	Gina Sanstrum
Harney County	Ellen "Nellie" Franklin
High Desert ESD	Greg Munn
Jefferson County	Deena Goss
La Pine RFPD	Bonita Johnson
Linn County	Michelle Hawkins
Marion County	Laurie Steele
Mid-Willamette Valley Council of Governments	Greg Smith
Multnomah County	Eric Arellano
North Clackamas School District	Mary Knigge
Port of Portland	Tracy Westerfield
Portland Community College	Revathi Aditham
Portland Public School District	Hank Horn
Sherman County School District	Kimberly McKinney
Tualatin Valley Water District	Tod Burton
Washington County	Indira Hadziosmanovic
West Linn-Wilsonville School District	Jolene May

## OREGON SHORT TERM FUND ANALYSIS AS OF 8-31-15



Oregon Short Term Fund Analysis as of 8/31/15

	3/31/2015	4/30/2015	5/31/2015	6/30/2015	7/31/2015	8/31/2015
LGIP AV DOLLARS INVESTED (MM)	6,831	6,763	6,696	5,963	5,612	5,728
STATE AGENCY AV DOLLARS INVESTED (MM)	7,153	7,736	7,998	7,954	7,424	6,931
TOTAL OSTF AV DOLLARS INVESTED (MM)	13,983	14,499	14,694	13,917	13,035	12,659
OST ANNUAL YIELD (ACT/ACT)	0.50	0.50	0.50	0.53	0.54	0.54
3-MO UST BILLS (BOND EQ YLD)	0.02	0.00	0.00	0.01	0.06	0.00
3-MO JUMBO CDS (ACT/360)	0.03	0.03	0.03	0.03	0.03	0.03

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 month end. 3MO JUMBO CDS is the highest posted rate received by the Treasury from Oregon banks as of month end. Consequently, while 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.

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### Website

[www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/default.aspx](http://www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/default.aspx)

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### Local Government News List

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