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OREGON STATE TREASURY

# Local Government

## News Report

JANUARY 2016

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### BANK HOLIDAYS

#### Birthday of Martin Luther King Jr. January 18

Treasury Closed  
Banks/Credit Unions Closed

See article for more information

### UPCOMING HOLIDAY

Due to the Birthday of Martin Luther King Jr. holiday, the Oregon State Treasury, Federal Reserve, and Oregon banks and credit unions will be closed Monday, January 18. Local government account statements will not be produced for January 18 due to the closures. ACH transfers called-in prior to 1:00 p.m. on Friday, January 15, will settle at your bank on Tuesday, January 19. ACH transfers called-in between 1:00 p.m. Friday, January 15, and 1:00 p.m. Tuesday, January 19, will settle at your bank on Wednesday, January 20.

### 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.*

Yesterday Treasury met with the LGIP Business Systems Renewal Stakeholder Workgroup to discuss the status of the project. Based on several factors including the level of customization needed, cost, and implementation timeline, Treasury has decided not to pursue the Cash Concentration/Disbursement platform. In light of that decision, Treasury has developed a business continuity plan that can be immediately deployed if the Voice Response System (VRS) fails or must be decommissioned. The plan would shift transactions to manual processing by Treasury staff but does not anticipate the need to restrict or limit transactions. Pool participants would be able to contact Treasury staff during business hours to initiate transactions, obtain transaction history, and receive balance information.

Treasury also has had high-level discussions with a number of service vendors that currently support the administration of investment pools across the country. Treasury will continue to explore those alternate service vendor solutions in the next few months with the goal of either selecting a service vendor or launching a procurement effort.

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).

### INTEREST RATES

The average annualized yield for December was:  
**0.5884 percent**

The rate for December was as follows:

December 1-6  
**0.54 percent**

December 7-31  
**0.60 percent**

## OREGON MUNICIPAL DEBT ADVISORY COMMISSION REPORTING REQUIREMENTS

Bank, state, and federal loans, capital leases, and lines of credit represent a growing category of indebtedness for local governments nationwide. To ensure that both investors and the general citizenry have access to all relevant information and to promote a better understanding of all potential demands on local revenues, the annual reporting of these categories of debt is of growing importance to the municipal bond community.

The Municipal Securities Rulemaking Board (MSRB) has a Recommended Procedure encouraging local governments to provide this information through the MSRB's EMMA website, stating "Voluntary bank loan disclosures can provide bondholders, potential investors and other market participants access to key information useful in assessing their current holdings...or in making investment decisions."

<http://www.msrb.org/~media/Files/Regulatory-Notices/Announcements/2015-03.ashx>

The Government Finance Officers Association (GFOA) Executive Board recently approved a Best Practice recommending that state and local governments provide full disclosure of direct placements, loans, and other credit arrangements with private lenders or commercial banks when preparing their offering statements and in their filings with EMMA.

<http://gfoa.org/sites/default/files/UnderstandingYourContinuingDisclosureResponsibilitiesBP.pdf>

The Oregon Municipal Debt Advisory Commission (MDAC) addressed this topic at their October 6, 2015, meeting held during the Oregon Government Finance Officers Association (OGFOA) Fall Conference, creating a task force to further discuss, research, and make recommendations to the MDAC with regard to the scope of reporting of long-term loans to MDAC that will now be required for Oregon local governments.

In preparation for its biennial local government debt verification exercise, MDAC staff gathered outstanding principal balances for all full-faith and credit state loans to Oregon local jurisdictions. Your government will need to verify the accuracy of this information, as well as provide some basic information on several new categories of full faith and credit debt: private bank loans and lines of credit; capital leases; lease/installment purchase agreements; and federal USDA loans. Expanding MDAC's debt tracking database to include all Oregon local government loans will enhance transparency, generate more accurate overlapping debt reports, and provide investors and citizens with pertinent information about your jurisdiction.

The MDAC also encourages local governments to post bank loan information on the EMMA website; see *Posting Bank Loan Disclosures on EMMA*: <http://msrb.org/msrb1/EMMA/pdfs/CDSubmissions.pdf>.

## OSTF STAFF CHANGES

Long-time staff member Norma Harvey retired at the end of December. We are grateful for her many contributions over her more than 18 years of service and we will, indeed, miss her sunny disposition.

Angela Schaffers-Valdez recently transferred from the public equities team to the fixed income team as an Investment Analyst. In her new role, she will support the team's daily trading activities and serve as its primary liaison with both external partners such as BRS/Aladdin and State Street Bank, and Treasury banking personnel. Angela also will conduct directed securities research in the U.S. investment grade universe, and provide back-up trading and portfolio management capabilities for the Oregon Short Term Fund as well as Treasury's additional internally-managed fixed income mandates.

## 2016 HOLIDAY SCHEDULE

Day	Date	Holiday
Friday	January 1	New Year's Day
Monday	January 18	Martin Luther King, Jr. Day
Monday	February 15	Presidents Day
Monday	May 30	Memorial Day
Monday	July 4	Independence Day
Monday	September 5	Labor Day
<b>Monday</b>	<b>October 10</b>	<b>Columbus Day</b> *Treasury Open & Banks/Credit Unions Closed
Friday	November 11	Veterans Day
Thursday	November 24	Thanksgiving Day
<b>Friday</b>	<b>November 25</b>	<b>Day After Thanksgiving</b> *Treasury Closed & Banks/Credit Unions Open
Monday	December 26	Christmas Day-Observed

**ACH** transactions called in prior to 1:00 p.m. on the business day preceding a holiday will settle on the business day following the holiday.

Any **ACH** transactions called in **between** 1:00 p.m. on the business day preceding a holiday and 1:00 p.m. on the business day following a holiday will settle at your bank the **second** business day following the holiday.

**There will be an exception to the transaction settlement pattern for the Thanksgiving and Day After Thanksgiving holidays. Transactions called in prior to 1:00 p.m. on Wednesday, November 23, will settle at your bank on Friday, November 25. Transactions called in between 1:00 p.m. on Wednesday, November 23 and 1:00 p.m. on Monday, November 28 will settle at your bank on Tuesday, November 29.**

## CREDIT MARKET REVIEW

The Federal Reserve Open Market Committee (FOMC) raised rates at its December 2015 meeting, which marks the first rate hike in nearly 10 years. The FOMC noted considerable progress on its dual mandate of maximum employment and price stability such that it was warranted to move the target range of the federal funds rate from 0.0–0.25 percent to 0.25–0.50 percent. There is much debate in the market on the actual path of inflation (price stability) given the continued slump in commodity prices and currency pressures from overseas, mainly China. According to its December meeting press release, the FOMC views the downward pressures on inflation as transitory and hence was comfortable raising rates despite any meaningful uptick in inflation. Interest rate markets widely expected the move and took the action in stride. With the first hike behind us, attention now will shift to how far and how fast the FOMC may go as it continues to remove the emergency-level accommodation put in place to alleviate the pain from the 2008/2009 global financial crisis.

*(Continued on page 4)*

## CREDIT MARKET REVIEW

(Continued from page 3)

The December payroll report was released Friday, January 8. The jobs report was stronger than expected as the economy added 292k nonfarm jobs, more than the Bloomberg-reported median economist expectation of 200k. The headline unemployment remained steady at 5.0 percent while the labor force participation rate moved from 62.5 percent to 62.6 percent. The report contained upward revisions as November nonfarm payroll additions were increased from 211k to 252k jobs while October was revised higher from 298k additions to 307k. Average hourly earnings advanced 2.5 percent year-over-year, less than the expected 2.7 percent. While the headline jobs number and upward revisions to previous months were impressive, the low level of wage growth and tick up in the participation rate signal that slack still remains in what appears to be a tight labor market.

Front-end interest rate markets have settled into higher rates on the back of the Fed's hike in rates. As of December month-end, the three-month Treasury Bill is trading at 0.19 percent while the six-month Treasury Bill is trading at 0.48 percent. Corporate credit spreads, as measured by the Barclays 1-3 Year Corporate index (tracked below), widened during December as sentiment soured and investors shuffled portfolios to adjust to a new interest rate world.

## MARKET DATA TABLE

	12/31/2015	1 Month	3 Months	12 Months		12/31/2015	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.17	0.04	0.00	0.07	Barclays 1-3 Year Corporate YTW*	2.01	1.78	1.64	1.39
30-Day Agency Note Discount**	0.19	0.10	0.04	0.07	Barclays 1-3 Year Corporate OAS*	0.88	0.77	0.90	0.66
90-Day Agency Note Discount**	0.28	0.22	0.12	0.07	Barclays 1-3 Year Corporate Modified Duration*	1.90	1.96	1.97	1.93
180-Day Agency Note Discount**	0.45	0.35	0.19	0.11	JPM 1-3 Year Floating Rate Note Index Yield***	0.67	0.67	0.67	0.80
360-Day Agency Note Discount**	0.63	0.56	0.32	0.21	JPM 1-3 Year Floating Rate Note Index Discount Margin***	41.88	41.88	41.88	49.85
30-Day Treasury Bill**	0.12	0.16	0.04	0.02	7-Day Muni VRDN Yield**	0.01	0.01	0.02	0.04
60-Day Treasury Bill**	0.10	0.11	0.01	0.00	O/N GGC Repo Yield**	0.73	0.18	0.35	0.14
90-Day Treasury Bill**	0.19	0.16	0.01	0.01	1-Day CP (A1/P1)**	0.32	0.10	0.16	0.16
6-Month Treasury Yield**	0.48	0.42	0.07	0.11	7-Day CP (A1/P1)**	0.37	0.13	0.22	0.16
1-Year Treasury Yield**	0.60	0.48	0.31	0.20	30-Day CP (A1/P1)**	0.46	0.21	0.21	0.18
2-Year Treasury Yield**	1.050	0.91	0.63	0.69	1-Month LIBOR**	0.43	0.24	0.19	0.17
3-Year Treasury Yield**	1.31	1.18	0.90	1.10	3-Month LIBOR**	0.61	0.42	0.33	0.26
					6-Month LIBOR**	0.85	0.66	0.53	0.36
					12-Month LIBOR**	1.18	0.98	0.85	0.63
					1-Year CD (A1/P1)**	1.04	0.85	0.77	0.44
US 1 Year Inflation Break-Even**	0.85	0.71	(1.75)	(0.26)					
US 2 Year Inflation Break-Even**	0.60	0.62	0.21	0.01					
US 3 Year Inflation Break-Even**	0.99	0.99	0.67	0.71					

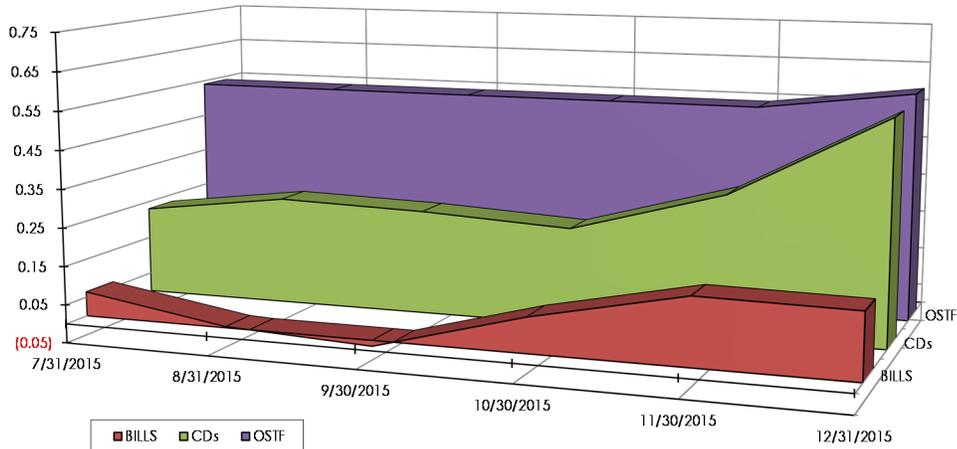
Sources: \*Barclays, \*\*Bloomberg, \*\*\*JP Morgan

## INTEREST EARNINGS FOR 2016

If you are verifying your Local Government Investment Pool interest earnings each month, please be sure to use 366 days in your calculation, as 2016 is a leap year.



## OREGON SHORT TERM FUND ANALYSIS AS OF 12-31-15



	7/31/2015	8/31/2015	9/30/2015	10/30/2015	11/30/2015	12/31/2015
LGIP AV DOLLARS INVESTED (MM)	5,612	5,728	5,723	5,515	7,424	7,798
STATE AGENCY AV DOLLARS INVESTED (MM)	7,424	6,931	7,087	7,762	8,128	7,701
TOTAL OSTF AV DOLLARS INVESTED (MM)	13,035	12,659	12,810	13,277	15,552	15,499
OST ANNUAL YIELD (ACT/ACT)	0.54	0.54	0.54	0.54	0.54	0.59
3-MO UST BILLS (BOND EQ YLD)	0.06	0.00	(0.02)	0.09	0.17	0.17
3-MO US CD (ACT/360)*	0.23	0.28	0.27	0.25	0.36	0.57

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to account holders 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. 3-MO US CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectively) bank certificates of deposit and are quoted on a CD equivalent yield basis.

\*Note that the above graph has been modified to correct an error related to the historical 3-MO US CD rate that was previously reported. Please contact the Treasury Fixed Income team if you have any questions on this modification.

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

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### Local Government News List

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