

Oregon Calling on CDARS

by Sue Cutsogeorge, Financial Analysis Manager, City of Eugene

When I reviewed the 2005 legislative session bills involving cash and investments, I was excited to learn that a bill authorizing the CDARS program (Certificate of Deposit Account Registry Service) was being sponsored by the State Treasurer. GFOA had published an article about this program in *Government Finance Review* in October 2004 and the article had piqued my interest. This service held out the promise of making my life as a government financial manager easier and providing additional safety for our public funds. Fortunately, House Bill 2034 was passed and became ORS 295.027, effective January 1, 2006.

In short, CDARS is a program that removes the need for collateral by providing full FDIC insurance for certificate of deposits — currently up to \$25 million — through the CDARS placement system. The main appeal of this program is that it is much safer than the collateral system provided for under Oregon statutes. In addition, the paperwork is easier because it does not require tracking and maintenance of collateral certificates to cover the deposits.

When a government places a CD with a local bank, that bank can participate in the CDARS program and, through a sophisticated matching system, the local bank can place the funds into CDs issued by banks around the country. Funds are placed



in denominations of less than \$100,000 per bank in the CDARS network so that the deposits are fully FDIC insured. The local bank exchanges deposits with other banks on an equal dollar basis, so that the local bank retains the ability to use the deposit for local lending purposes. At the time of writing this article, 19 Oregon banks were participating in the program, with new banks signing up all the time.

As the Treasury Officer for the City of Eugene, I was anxious to give the program a try. After successfully placing three deposits using the CDARS system, I am happy to report that the system has worked well for the City of Eugene. When we first started down the road to implementing a CDARS program, however, we had a relatively short learning curve in adapting to this new service. By describing Eugene's experience, I hope to help other Oregon municipalities enjoy an even smoother experience implementing their own CDARS program.

There were three areas where we learned through experience how to navigate some of the issues that came up with using this program for the first time: timeline, short-term collateral, and interim interest payments. I've described each of these areas and our recommendations below.

Timeline:

To prepare for our first foray into the CDARS world, we met with representatives from a local bank and from the CDARS program. Eugene uses a competitive bid process to procure our CDs, and we wanted to ensure that our bid timeline would integrate with the CDARS timeline. We stepped through the events we believed that needed to occur from bid to deposit and mapped it all out.

To make the process run more smoothly, we pre-qualified the institutions that would be allowed to bid on our CDs and decided to only accept bids from banking institutions participating in the CDARS program. All local banks with branches in Eugene were invited to indicate whether they would be interested in bidding. Banks were asked to send a CDARS Deposit Placement Agreement for the City to sign ahead of any bid date. This streamlined the process by eliminating one step between the bid and placement of the deposit.

Once all the agreements were in place, we sent out our first bid document, requesting bids by Tuesday

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morning. Of the five banks that were pre-qualified, we received four bids. Immediately, however, we ran into an issue we needed to address. The winning bank's internal deadline for placing CDARS orders was earlier than we had anticipated in our carefully crafted timeline. The bank was willing to work with us, however, and we agreed to place the CD the following week, using the same terms they indicated in their bid document. Our solution to this timeline issue has been to move up our CD bid process to Monday morning. This allows the winning bank time to meet their internal deadlines for submitting CDARS orders.

Short-Term Collateral:

Our next issue with placing a CDARS deposit was around short-term collateral requirements. Under the CDARS timeline, the funds would be transferred from our bank through the CDARS system on Thursday morning. Our local bank wanted to have funds in hand by Tuesday morning when they placed the CDARS order. They were concerned about the risk of a failed settlement, or that the City would fail to wire the money to the bank in time for the bank to wire the funds to CDARS.

While the bank was worried about settlement risk, I was very concerned about the period of time between when we wired funds to our local bank, and when the bank wired funds to CDARS. As you know, ORS 295.025(3) states that a public official will not be personally liable for the loss of public funds as long as they comply with collateral requirements. Only one other Oregon municipality had used the



CDARS program at that time, and they had run into the same issue. We both came to the conclusion that to be on the extra safe side, we should require the bank to issue a collateral certificate to cover those two days prior to transmitting the funds to the CDARS system.

Once our first deposit was successfully placed, however, I asked our City Attorney for an opinion on whether we needed to require collateral for the two day time period. Our City Attorney looked carefully at the issue and advised us that Oregon statutes did not require us to obtain collateral for that interim period. They did point out, however, that the City would have some risk from depositing uncollateralized, uninsured funds in a bank for two days. After a discussion with the Finance Director, we decided that this was a very small risk, and one that the City was willing to take under the circumstances. If other municipalities are concerned about this issue, I would recommend consulting with your City Attorney.

Interim Interest Payment:

The last remaining issue was the interest on the City's funds for those pesky two days. The City requested

that banks pay interest on those interim two days between the CDARS order and placement in the CDARS system. We've had banks offer up different approaches to deal with this small interest payment. One bank offered to roll the interest for those two days into the CDARS deposit. Another bank sent us a check for those two days of interest immediately after the funds were earned. For

our third try at a CDARS placement, we wired funds to the winning bank net of the interest that would be earned for those two days. This last solution seems to work well for both us and the bank.

If you use CDs as a way to earn interest on your surplus funds, I definitely recommend that you look into the CDARS program. It's safer than the existing collateral system and it results in less paperwork to fill out and track on a regular basis. Based on our experience, the learning curve is short, and once you are at the top of it you will find that it is an investment of time well spent.

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For more information on the CDARS program, be sure to check in with Chris Spilsbury, the Business Development Advisor for the CDARS program, who will attend the Northwest Government Finance Institute in October. You can also go to their web site at www.cdars.com. □