2009 Regular Session FISCAL ANALYSIS OF PROPOSED LEGISLATION Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2208 STATUS: B Engrossed GOVERNMENT UNIT AFFECTED: Department of Higher Education PREPARED BY: Erica Kleiner REVIEWED BY: Paul Siebert DATE: June 19, 2009

<u>2009-2011</u>

<u>2011-2013</u>

EXPENDITURES: Department of Higher Education: See Comments

REVENUES: See Revenue Impact Statement

EFFECTIVE DATE: July 1, 2009

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

ANALYSIS: The measure would consolidate all Department of Higher Education accounts at the State Treasury and pool its cash balances for investment purposes to streamline banking and generate an increased investment earnings through stratified investing. The measure also changes in statute the name of the Oregon Department of Higher Education (DHED) to the Oregon University System (OUS). The measure would also retain for the state interest earnings on Department cash balances from tuition and fees, cost recoveries, sales and services revenue, housing fees, food service fees, parking fees, and General Fund appropriation to the Department, which currently accrue to the state General Fund.

Currently, all DHED cash balances are invested in the Oregon Short-Term Fund (OSTF), which generates relatively low interest earnings due to the very nature of the Fund. Under this measure, the Department could reduce the portion of its cash balances that are invested in the OSTF by placing a portion of these balances into alternative investments with higher returns such as federal Treasury bills. Under the envisioned investment strategy, DHED anticipates continuing to invest approximately 30% of its balances in the OSTF, with the remaining 70% invested in T-bills with varying lengths of maturity. The Department estimates this would result in an increase in interest earnings accruing to the General Fund of \$3,172,000 for the 2009-11 biennium and \$4,016,000 for the 2011-13 biennium. The resulting increase in investment earnings which would be retained by DHED would be \$5,216,000 for the 2009-11 biennium and \$6,602,000 for the 2011-13 biennium.

DHED reports that it would require the addition of one full-time, permanent position to manage this new investment process. The Department reports this position would cost approximately \$400,000 biennially. DHED proposes having the General Fund pay for this position. The Legislative Fiscal Office believes this position could be funded with Other Funds from the increased interest earning that are retained by the Department through some type of cost recovery mechanism.