

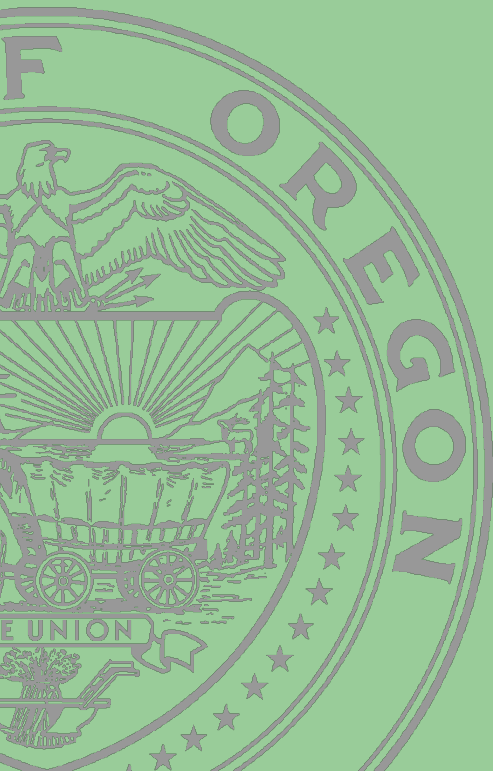


# Oregon State Treasury

## Priorities and Performance

Deputy State Treasurer  
Darren Bond

Ways & Means  
General Government Subcommittee  
April 22, 2013 – Phase II



# Oregon State Treasury

## *Agency Overview*

### **Mission Statement**

Provide financial stewardship for Oregon.

### **Constitutional Authority**

- Article VI, Section 1, of the Oregon Constitution creates the Office of the State Treasurer. Powers and duties are established by law.
- Article VIII, Section 5, of the Oregon Constitution places the State Treasurer on the State Land Board along with the Governor and the Secretary of State.

### **Statutory Authority**

Investment Responsibilities – Primarily ORS 293 and ORS 348

Cash Management Responsibilities – Primarily ORS 291, ORS 293, and ORS 295

Debt Management Responsibilities – Primarily ORS 286A, ORS 283, ORS 285B, ORS 287A, ORS 289, and ORS 328

Oregon College Savings Network – ORS 348

Public Funds – ORS 295



# Oregon State Treasury

## *Presentation Overview*

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- Discussion of Essential and Policy Option Packages
- Reduction Options
- Revenue sources
- Long-term Vacancy Report
- Questions



# Oregon State Treasury

## *Treasury Services -- Essential Packages*

### **Package 010 – Non-PICS Personal Services/Vacancy Factor**

- Includes items not directly calculated by the PICS system
  - Temporary appointments
  - Overtime payments
  - Mass Transit Taxes
  - Differential pay /incentive compensation
  - Vacancy Savings
- Package total is \$755,640 Other Funds

### **Package 021 – Phase-in**

- Includes the biennialization of the Rockefeller Foundation Grant for the West Coast Infrastructure Exchange. The grant was for one year in the current biennium and is expected to continue for two years in the 2015-17 biennium. It is not expected to continue beyond 2015-17.
- Package total is \$250,000 Other Funds



# Oregon State Treasury

## *Treasury Services -- Essential Packages*

### **Package 031 – Standard Inflation**

- Includes standard inflation for Services & Supplies as prescribed in the DAS Budget Instructions
  - For most line items, the inflation rate is 2.4 percent
  - For Professional Services, the inflation rate is 2.8 percent
  - For Attorney General services, the inflation rate is 14.9 percent
- Package total is \$261,786 Other Funds limited and \$84,000 Other Funds non-limited

### **Package 032 – Above Standard Inflation**

- Includes changes to price list services from shared services agencies
  - State Government Service Charges \$181,843
  - Facilities Rental and Taxes (\$35,560)
- Package total is \$146,283 Other Funds



# Oregon State Treasury

## *Treasury Services -- Essential Packages*

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### **Package 092 – PERS Taxation Policy**

- Represents the impact of changing the tax policy for out-of-state PERS retirees.
- Package total is (\$88,135) Other Funds

### **Package 093 – Other PERS Adjustments**

- Represents the impact of COLA changes for PERS retirees.
- Package total is (\$704,242) Other Funds



# Oregon State Treasury

## *529 Network – Essential Packages*

### **Package 010 – Non-PICS Personal Services/Vacancy Factor**

- Includes items not directly calculated by the PICS system
  - Temporary appointments
  - Overtime payments
  - Mass Transit Taxes
  - Differential pay
  - Vacancy Savings
- Package total is \$3,608 Other Funds

### **Package 031 – Standard Inflation**

- Includes standard inflation for Services & Supplies as prescribed in the DAS Budget Instructions
  - For most line items, the inflation rate is 2.4 percent
  - For Professional Services, the inflation rate is 2.8 percent
  - For Attorney General services, the inflation rate is 14.9 percent
- Package total is \$95,390 Other Funds limited



# Oregon State Treasury

## *529 Network – Essential Packages*

### **Package 032 – Above Standard Inflation**

- Includes changes to price list services from shared services agencies
  - State Government Service Charges \$6,825
  - Facilities Rental and Taxes (\$1,234)
- Package total is \$5,591 Other Funds

### **Package 092 – PERS Taxation Policy**

- Represents the impact of changing the tax policy for out-of-state PERS retirees.
- Package total is (\$1,316) Other Funds

### **Package 093 – Other PERS Adjustments**

- Represents the impact of COLA changes for PERS retirees.
- Package total is (\$10,519) Other Funds





# Oregon State Treasury

## *Policy Option Packages*

### **Package 101 – Investment Division Risk Mitigation**

GBB = \$6,336,089 Other Funds – 21 Positions, 21.00 FTE

Modified Request = \$6,190,340 Other Funds – 20 Pos., 20.00 FTE

The package begins to address risk management and compliance deficiencies within the Investment Division. Funston Advisory Services found that Oregon:

- Has the lowest number of full time employees relative to its assets under management
- Has the lowest percentage of staff deployed to governance and support
- Is the only fund without a risk management function
- Has the highest absolute investment cost and the highest cost on a percentage of assets under management basis
- Has the second lowest percentage of assets managed internally



# Oregon State Treasury

## *Policy Option Packages*

### **Package 102 – Cash Management Modernization**

GBB = \$1,192,728 Other Funds – 6 Positions, 6.00 FTE

Modified Request = \$1,192,728 Other Funds – 7 Pos., 5.80 FTE

- This package will bolster critical daily operational needs and allow for detailed planning for the strategic replacement of the agency's cash management systems, starting with LGIP-related systems due to high-risk of infrastructure failure.
- It will also allow for development of a permanent “renewal” program, rather than continuing to wait for that critical “end-of-life” state for future systems – as by that point, urgency and short-term requirements can add risk and cost to such projects.
- Treasury will continue to use industry best practices and standards through all phases of the renewal program.



# Oregon State Treasury

## *Policy Option Packages*

### **Package 102 – Cash Management Modernization, continued**

These systems:

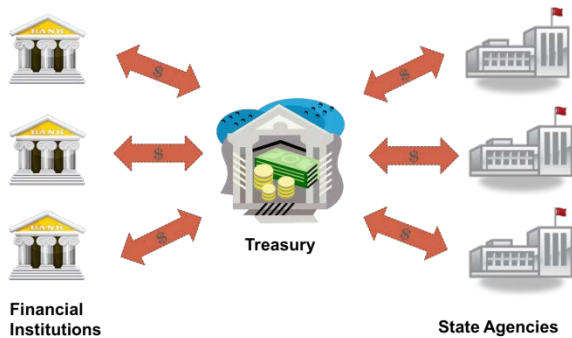
- Manage nearly 20 million transactions per year
- These transactions represent \$172 billion flowing in and out of the division
- Transactions are for:
  - Unemployment benefits
  - Child Support
  - Provider payments
  - Tax collections and refunds
  - DHS benefits
  - Retirement benefits
  - Payroll
  - And more...

# Oregon State Treasury

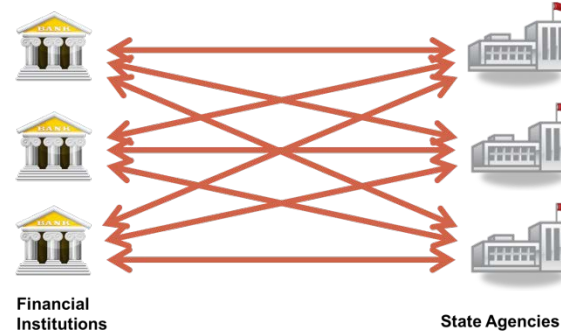
## Policy Option Packages

### Package 102 – Cash Management Modernization, continued

#### Transaction Flows w/ Treasury



#### Transaction Flow w/o Treasury



These systems allow for the efficient use of funds held by the state and allow the state to negotiate exceptionally low bank fees.



# Oregon State Treasury

## *Policy Option Packages*

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### **Package 102 – Cash Management Modernization, continued**

As we discussed in phase I, these systems contribute to the state's ability to:

- Provide centralized banking services that save money for state agencies and local governments by taking advantage of enterprise pricing.
  - Saved an estimated \$4.7 million in 2012.
- Provide a conduit to the Oregon Short Term Fund which is a cost-effective investment vehicle for state and local government at a significant cost savings.
  - To purchase this service from the private sector would have cost an estimated \$40.3 million more in 2012.
- If state agencies and the 1,186 local governments who use the Oregon Short Term Fund had invested in 90-Day Treasury Bills (the benchmark OSTF performance is measured against), their interest income for 2012 would have been \$166.4 million less.



# Oregon State Treasury

## *Policy Option Packages*

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### **Package 103 – Pension Reporting**

This is a place-holder package to respond to potential changes in Governmental Accounting Standards Board (GASB) requirements. This package is not needed at this time. However, there is a chance that OST may have to return to an Emergency Board or the 2014 Session if certain issues on the horizon reach fruition. These include:

- The before mentioned GASB Pension Reporting Changes
- Potential SEC money market fund changes
- A potential move to centralized derivatives clearing
- A potential move by the SEC to regulate the municipal bond market



# Oregon State Treasury

## *Policy Option Packages*

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### **Package 201 – 529 College Savings Network Outreach**

GBB = \$1,200,000 Other Funds – 0 Positions, 0.00 FTE

Via an infusion of outreach and education dollars from TIAA-CREF, the program's third party administrator for the state administered plan, this package seeks to increase awareness and participation in the state's 529 College Savings Program.

Of the total amount of the package, \$1,000,000 will come from TIAA-CREF and \$200,000 from the program's current fund balance.



# Oregon State Treasury

## *Agency Budget Reduction Options*

### 5 % Reduction Options:

- **Elimination of the Public Funds Collateralization Program**
  - An Other Funds expenditure reduction of \$300,000 would eliminate Treasury's oversight of public funds collateralization and would require modification of ORS 295, which currently mandates this oversight.
- **Reduction of the Oregon 529 College Savings Network Professional Services Budget**
  - An Other Funds expenditure reduction of \$1,528,295 would eliminate the Network's Statewide Investor Education Campaign, all 529 account awards programs, and reduce monitoring and oversight services available from the Network's investment consultant.





# Oregon State Treasury

## *Agency Budget Reduction Options*

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### 10 % Reduction Option:

- **Elimination of the Oregon 529 College Savings Network**
  - An additional Other Funds expenditure reduction of \$2,570,793 would eliminate this program. Statutory changes would be required to affect this elimination, as well as changes to Oregon's tax law. All current 529 accounts would be liquidated and the proceeds returned to the account holders, creating a potential tax liability.



# Oregon State Treasury

## *Agency Revenue Sources*

### Investment Division Revenue Sources:

- **Per ORS 293.718**
  - The investment program may deduct monthly a maximum of .25 basis points (.0025 percent) of the most recent market value of assets under management. Fees are calculated on a sliding scale.
  - The investment fee for the Oregon Intermediate Term Fund is set at 0.435 basis points (.00435 percent) of the most recent market value of assets under management.



# Oregon State Treasury

## *Agency Revenue Sources*

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### Cash Management Revenue Sources:

- **Per ORS 293.718**
  - Supported by banking fees charged to state agencies and local governments, which are based on the number and type of banking transactions processed on their behalf.
  - An investment administrative fee of 0.3 basis points (0.003 percent) of the most recent market value of assets under management in the Oregon Short Term Fund. The statutory cap on this fee is 0.435 basis points.



# Oregon State Treasury

## *Agency Revenue Sources*

### Debt Management Revenue Sources:

- **Per ORS 286A.014**
  - Local governments pay an Administrative Tracking and Reporting Fee for new local government bond issues based on the par value of the issue.
  - Fees charged to state agencies for bond-related services related to new bond issues, conduit bond sales, review and approval of advanced refunding plans, and interest rate exchange agreements, and the issuance of Tax Anticipation Notes.
  - Any costs not recovered by these revenue streams are recovered through quarterly billings to state agencies with outstanding general obligation bonds, revenue bonds, and certificates of participation.



# Oregon State Treasury

## *Agency Revenue Sources*

### **Oregon 529 College Savings Network Revenue Sources:**

- **Per ORS 348.856**
  - Revenues include annual program administrative fees (currently set at .05 percent), funding for education and outreach activities provided by Network plan managers, and interest earnings.

### **Public Funds Collateralization Program Revenue Sources:**

- **PER ORS 295.106**
  - Funded by quarterly charges to banks and credit unions participating in the program.



# Oregon State Treasury

## *Agency Long-term Vacancies*

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### **March 31, 2013 Long-term Vacancy Report:**

#### **Position 0074.003 – Senior Real Estate Investment Officer**

- The recently hired state Chief Investment Officer is evaluating the Real Estate Investment Portfolio and the current staff prior to filling the position to ensure program needs will be met through the hiring process.

#### **Position 0079.001 – Senior Investment Compliance Officer**

- This position has been filled since the last report.



# Oregon State Treasury

## *Questions*

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**Please let us know if there are additional questions or follow-up we can provide for you.**

**Thank you for your time and attention,**

**Darren Bond, Deputy State Treasurer**