

**77th OREGON LEGISLATIVE ASSEMBLY – 2014 Session
BUDGET REPORT AND MEASURE SUMMARY**

MEASURE: HB 4144--16

**Carrier – House: Rep.
Carrier – Senate: Sen.**

JOINT COMMITTEE ON WAYS AND MEANS

Action:

Vote:

House

Yeas:

Nays:

Exc:

Senate

Yeas:

Nays:

Exc:

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Reviewed By: Ken Rocco and Daron Hill, Legislative Fiscal Office

Meeting Date: March 5, 2014

Agency

Oregon State Treasury

Biennium

2013-15

Budget Summary⁽¹⁾

	2013-15 Legislatively Approved Level ⁽²⁾	2014 Committee Recommendation	Committee Change from 2013-15 Leg. Approved	
			\$ Change	% Change
Other Funds	\$ 45,149,748	\$ -\$3,521,252	\$ -\$3,521,252	-7.8%

(1) Excludes Capital Construction expenditures

(2) Includes approved expenditures through November 2013 and administrative actions

Revenue Summary

The measure has a revenue impact related to: (a) investment administrative fees; (b) portfolio management fees; (c) investment fees, commissions, and other expenses for private third-party investment managers, brokerage commissions charged against state-invested funds; (d) revenue transfers between agencies; and (e) the transfer of investment function cash balances.

Oregon Investment Department

The Oregon Investment Department (OID) may deduct each month a maximum of 0.25 basis points (0.0025%) for the most recent market value of assets under management for each of the investment funds, which include: the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, Higher Education Endowment Fund, Oregon Intermediate Term Pool, and various other funds. The value of these funds totaled \$87.5 billion as of December 31, 2013.

Another source of revenue for OID could be from the department's management of the Oregon Short Term Fund.

Revenue transfers from OID to other state agencies, in particular the State Treasurer, for specific services are indeterminate at this time.

Any unexpended balances of the State Treasurer or the Oregon Investment Council related to administering and enforcing the investment functions is transferred to and available for expenditure by the OID for the current 2013-15 biennium.

Other Investment Expenses

OID will be responsible for negotiating investment fees, commissions, other expenses for private third-party investment managers, and brokerage commissions. Under current accounting practice, these are expenses charged each state-held investment fund rather than appear as an expense of OID. For example, the Oregon Public Employees Retirement Fund (OPERF) was charged \$405 million for fiscal year 2013 for expense negotiated by the State Treasurer. Under the State Treasurer's assumptions, these expenses are expected to decline just for the OPERF by \$63 million, or 0.10 basis points (0.0010%), per year. Commensurate savings would be expected for other state-held funds invested by OID.

State Treasurer

The investment administrative fee and portfolio management fee for the State Treasurer would be eliminated. The State Treasurer may continue to deduct amounts for expenses of investing the Oregon Short Term Fund up to 0.435 basis points (0.00435%), as is current law.

The State Treasurer, OIC, and the OID may take action prior to the operative date of the measure in order to allow OID to operate on January 1, 2015, which includes the State Treasurer being able to transfer or loan assets or moneys to the department. The impact of these transition costs are indeterminate as this time.

Summary of Capital Construction Subcommittee Action

The measure creates the Oregon Investment Department (OID) under the supervision of a director who is appointed by the Oregon Investment Council (OIC). The State Treasurer is to serve as vice chairperson of OIC until becoming chair on January 1, 2017. The Legislature in 2021 is to conduct a comprehensive review of the results of the implementation of this act. The measure is effective on passage with key provisions becoming operative on January 1, 2015.

OID is to adopt a biennial budget for revenues and expenditures based on generally accepted accounting principles. By February 15 of each odd numbered year, OID is to submit its budget to the Legislature for review. The budget takes effect on July 1 of each odd numbered year unless the Legislative Assembly enacts changes to the budget by June 1 of each odd numbered year. OID may modify its biennial budget during the course of a biennium only after first providing at least 30-days advance notice of any changes to Legislative Leadership and the co-chairs of the Joint Committee on Ways and Means or the Interim co-chairs of the Joint Committee on Ways and Means.

The council may appoint the Director of the OID who may take certain actions before the January 1, 2015 operative to implement the measure.

The measure creates the Oregon Investment Department Fund, separate and distinct from the General Fund, for payment of expenses of the department. Interest earnings are retained by the fund.

Oregon Investment Department

OID is not subject to expenditure limitation and therefore its budget and position authority will not be included in the state's overall budget. An initial budget for this biennium and next has yet to be established. To the extent OID will contract with other state agencies and governmental entities in Oregon and other states is also unknown at this time. Employees of OID will be considered employees of the state.

State Treasurer – Treasury Services

The measure directs the State Treasurer to transfer those employees engaged primarily in the exercise of the investment functions to the OID.

The Subcommittee approved a reduction to the State Treasurer's 2013-15 legislatively adopted budget of \$2,404,753 Other Funds Personal Services and \$1,116,499 Other Funds Services and Supplies. This includes a 7.00 full-time equivalents reduction to 28 positions. The 28 positions will remain in the agency's budget for the remainder of the 2013-15 biennium. The 2015-17 roll-up of the reduction totals \$14,470,173 and 28 positions (28.00 FTE).

Treasury may continue shared services support for the new agency, as well as investment accounting functions, through inter-agency agreements. In addition, OID will provide investment services for the Cash Management function within OST.

Other State Agencies

The budgetary impact of this measure to other state agencies, such as the Public Employees Retirement System, Department of Administrative Services, and Department of Justice is indeterminate at this time. OID will pay its share of costs of the Employment Relations Board.