

Oregon State Treasury

Policy Option Packages

State Treasurer
Ted Wheeler and staff

Ways & Means
General Government Subcommittee
May 6, 2015 – Phase II



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Presentation Overview

- Discussion of Policy Option Packages
- Policy Measures in Support of Policy Packages
- Technical Adjustments
- Reduction Options
- Questions

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Policy Option Packages

Package 103 – Coordination of Higher Education Debt

GRB = \$1,100,000 Other Funds – 0 Positions, 0.00 FTE

- Provides funds to hire bond professionals that assist in the structuring and sale of Article XI-F(1) and XI-G general obligation bonds
- With the passage of SB 270 in 2013, the status of the various public universities in the state changed to one of independence from the state
- Proceeds from General Obligation bonds can no longer be appropriated to the universities and a new administering agency needs to be designated
- In the absence of a new administering agency, the Emergency Board at its December 2014 meeting increased OST's expenditure limitation by \$550,000 Other Funds to secure bond council and financial advisor services for upcoming bond sales
- This request continues that funding
- It is hoped another administering agency is identified in HB 3199 and these funds will no longer be needed at OST

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Policy Option Packages

Package 102 – Cash Management Improvement & Renewal Program (CMIRP)

GRB = \$1 Other Funds – 0 Positions, 0.00 FTE

Modified Request = \$4,490,000 Other Funds – 0 Pos., 0 FTE

- Supports a range of cash management services that add value to our internal and external customers by balancing innovation opportunities against risk awareness and resource capacity
- Focused on adapting cash management services to meet changing stakeholder needs, including:
 - Changing customer, vendor, or other stakeholder business requirements
 - Industry, technical, and regulatory changes
 - Customer requests for new cash management services
- Uses a continuous improvement approach focused on the renewal, replacement, and refinement of processes and technology, resulting in a series of ongoing projects, supporting continuous improvement approach to achieve program results

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Policy Option Packages

Cash Management Systems: Risks and Challenges

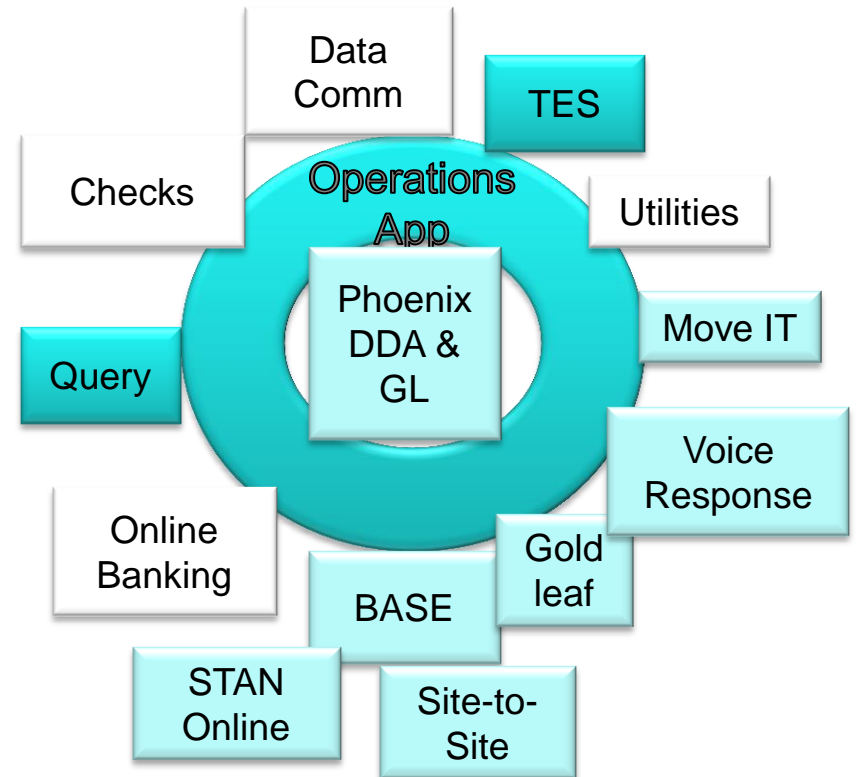
- System failures and lack of vendor support due to aging technology
- Business processes designed around legacy systems
- Growth in transaction volume and diversity due to increasing automation
- Programming language support challenges
- Long-term staff retirements
- Increasing customer expectations
- Inability to quickly adapt to industry trends and implement desired services

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Cash Management Systems

- Mix of purchased and internally built systems
- 16+ years of service
- Highly integrated
- Time-sensitive requirements
- High security demands



Custom developed
C#.Net

Commercial Off-the-Shelf (COTS)

Custom developed
PowerBuilder

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2013-15, POP 102: Approved

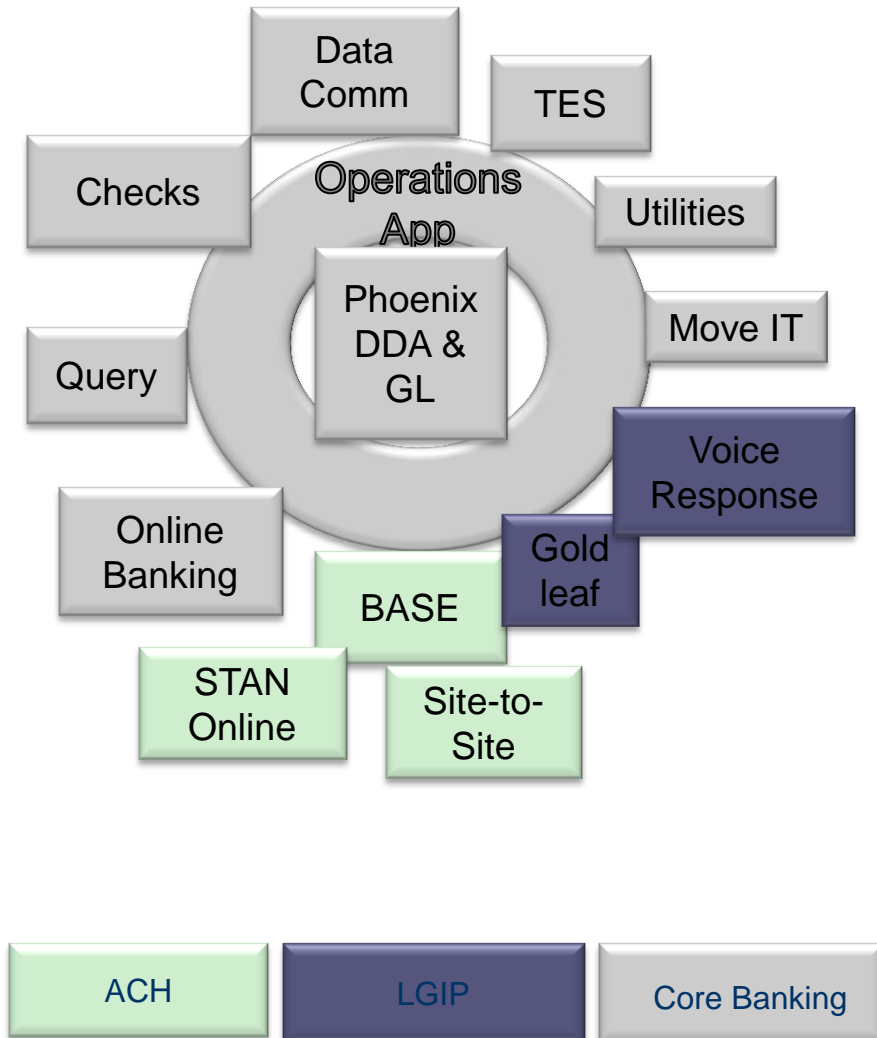
- The 2013 Legislative Assembly approved a related policy package that:
 - Continued a cash management business process mapping project that was previously addressed internally with one-time savings and a single, limited-duration position.
 - Allowed for development of a more detailed business case for ACH and LGIP Business System Renewal projects.
 - Bolstered critical daily operational needs, so that subject matter experts could necessarily participate in project efforts.
 - Made CMIRP a permanent, ongoing “renewal” program, rather than continuing to wait for that critical “end-of-life” state for future systems.

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2015-17, POP 102: Current CMIRP Projects

- ACH Business Systems Renewal (BSR) Implementation Project
- LGIP Business Systems Renewal (BSR) Implementation Project
- Core Banking Business Systems Renewal (BSR) Business Case Project

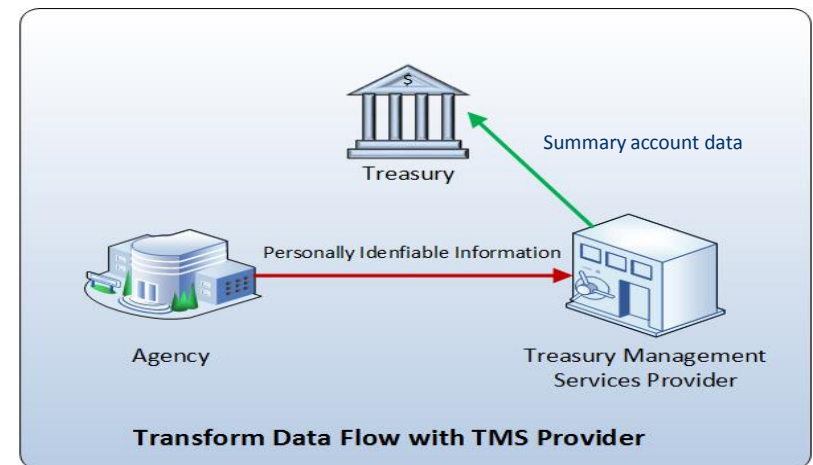
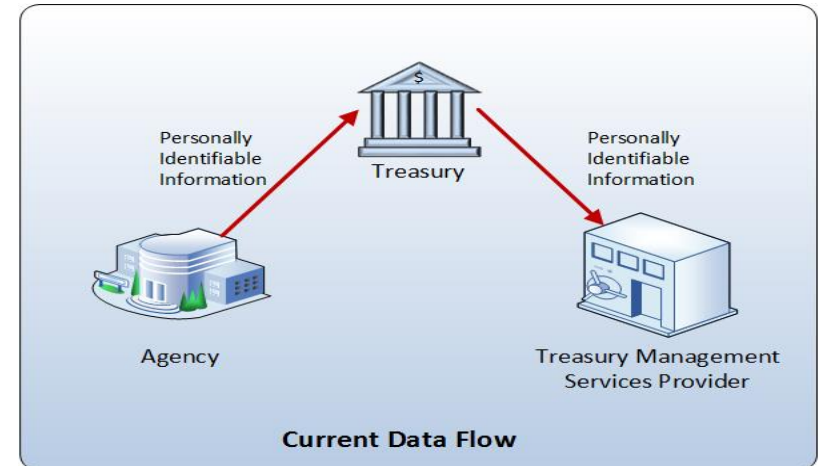


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ACH Business Systems Renewal Project

- Business case complete August 2014
- “Transform” alternative selected – service vendor hybrid model
 - Reduces data security risks
 - Removes Treasury as single-point-of-failure
 - Improves ability to adapt services to meet changing stakeholder and regulatory needs
- Implementation planned by end of 2015



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ACH Business Systems Renewal Implementation Project

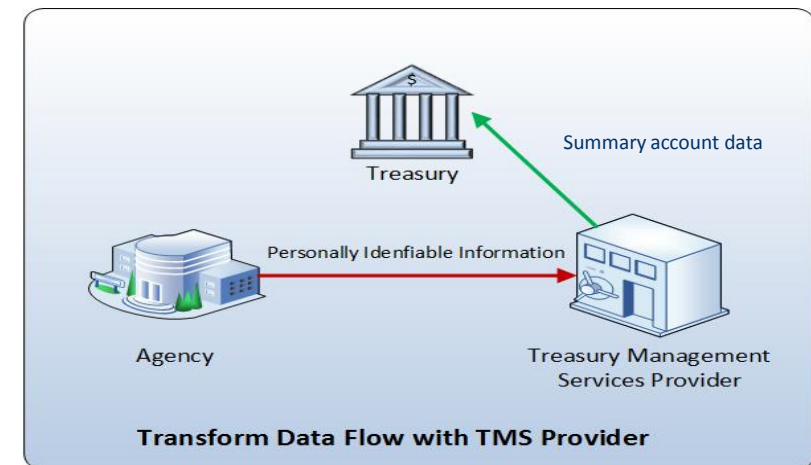
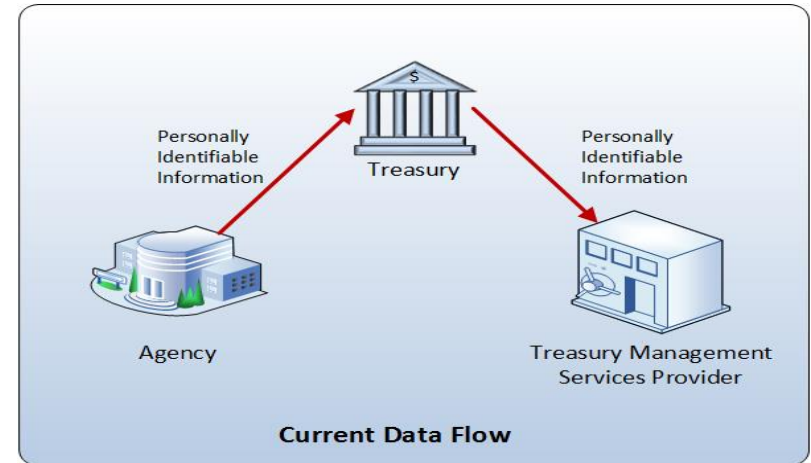
- Implementation planning, service and pricing negotiation with vendor
- Implementation planned by end of CY 2015
- Implementation costs minimal
- Increase in ongoing monthly ACH vendor costs
- Eventual decrease in related internal costs and long-term cost avoidance

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Local Government Investment Pool (LGIP) Business Systems Renewal Project

- Business case completed August 2014
- “Transform” alternative selected – service vendor hybrid model
 - Reduces data security risks
 - Removes Treasury as single-point-of-failure
 - Improves ability to adapt services to meet changing stakeholder and regulatory needs
 - Improves user experience, online vs. voice response system
- Implementation planned by early 2016



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LGIP Business Systems Renewal Implementation Project

- Implementation planning, service and pricing negotiation with vendor
- Implementation planned by early CY 2016
- Implementation costs more than ACH because of move to online service delivery
- Increase in ongoing monthly LGIP vendor costs
- Eventual decrease in related internal costs and long-term cost avoidance

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Core Banking Systems Renewal Project

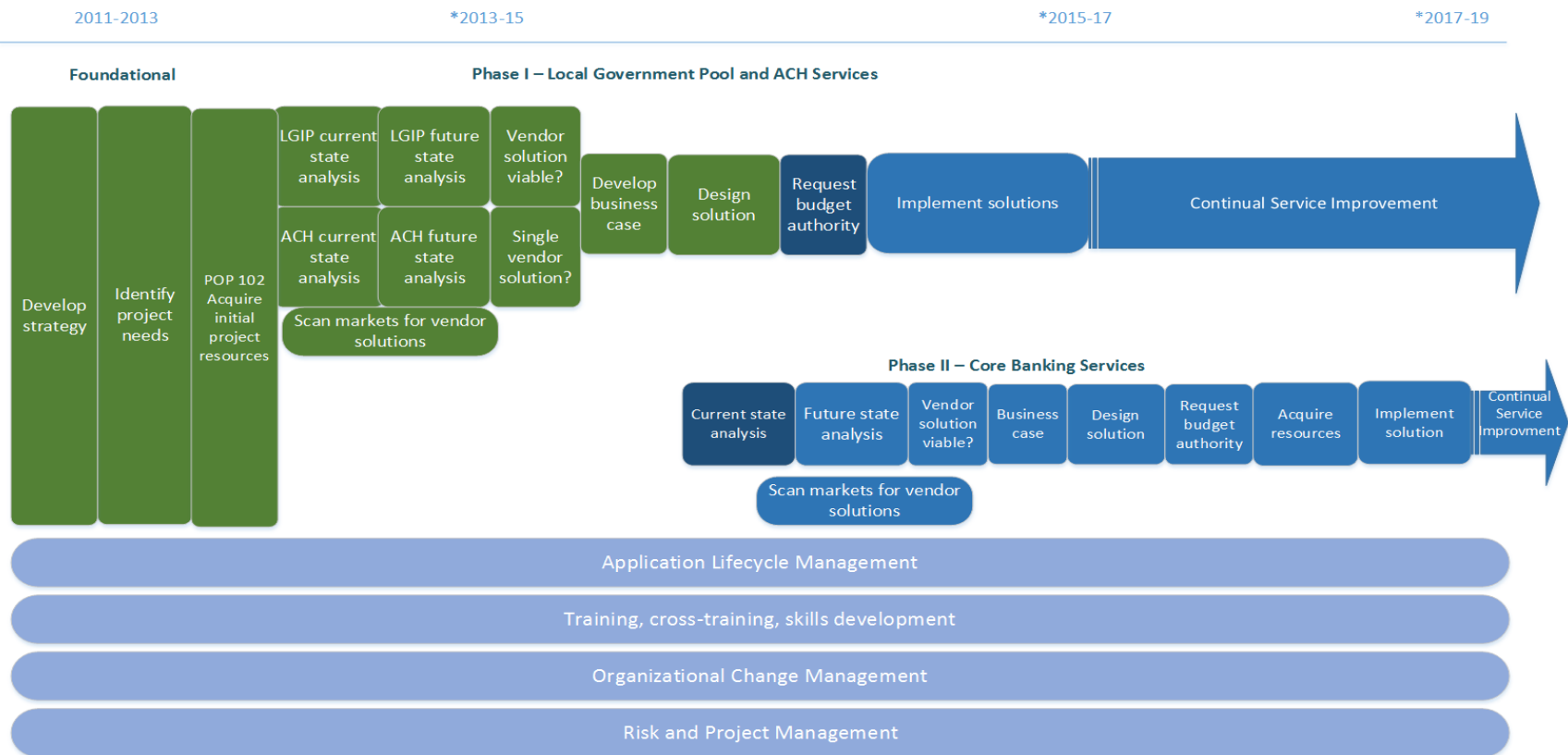
2015-17 Activities to include:

- Business Case development
 - Software as a service and COTS alternatives will be considered, but a hybrid solution likely as some custom components required
- Ongoing risk mitigation activities
- Implementation may also be initiated during the 2015-17 biennium

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Cash Management Projects: Phases I & II



* - Dates are rough estimates based on information available March 2015. Actual project date estimates will be determined when detailed project planning is completed, based on business analysis results. Note that shape size does not indicate scope or timeframe.

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2015 – 17, POP 102: Current CMIRP Projects

- ACH Business Systems Renewal (BSR) Implementation Project
 - \$200k for implementation (includes QA/QC) – one time
 - \$750k for ongoing biennial costs
- LGIP Business Systems Renewal (BSR) Implementation Project
 - Up to \$2.2m for implementation (includes QA/QC) – one time
 - Expected to be less due to potential cost sharing with vendor
 - \$880k for ongoing biennial costs
- Core Banking Business Systems Renewal (BSR) Business Case Project
 - \$150k for business case development (includes QA/QC) – one time
 - \$310k for mitigating activities

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Package 101 – Investment Solutions

GRB = \$6,011,273 Other Funds – 19 Positions, 17.48 FTE

Modified Request = \$7,389,043 OF – 23 Pos., 21.56 FTE

- ORS 293.776 requires the Oregon Investment Council (OIC) to provide for an audit of the investment function every four years
- The last review had several findings in four categories:
 - Governance
 - Investment Policies
 - Investment Risk Management
 - Investment Operations Management

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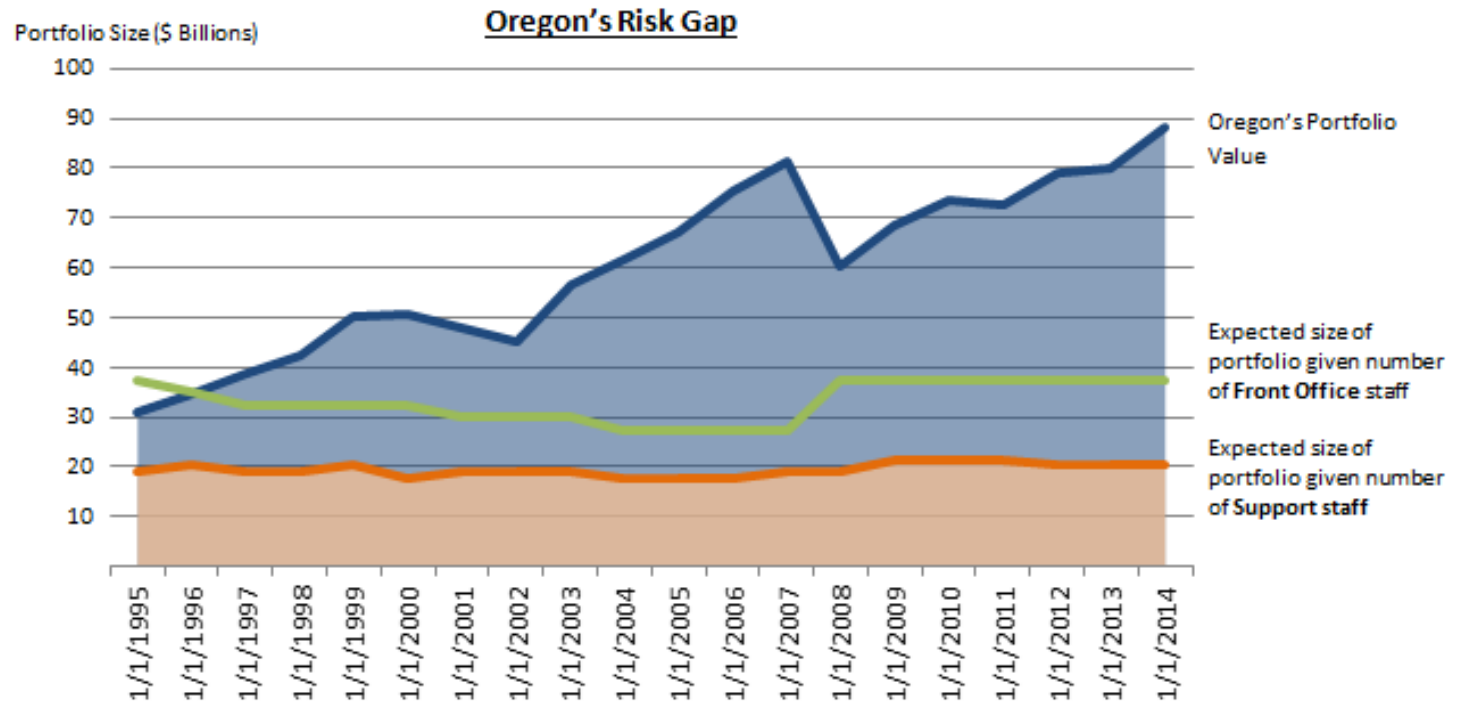
Staffing: Treasury Current State to Peers : Average FTE's by Functional Area

Functional Area	Public Sector Firms		OST \$88B	Private Sector Firms	
	Medium 30B-100B	Large > 100 B		Medium 30B-100B	Large > 100 B
Investments: Research, Portfolio Management & Trading	30	69	19	116	208
Investment Risk Management	3	10	0	6	36
Accounting and Operations	36	43	6	120	216
Business Analysts	4	11	0	12	63
Information Services	23	63	3	22	581
Total	96	196	28	275	1104

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Staffing over time versus size of portfolio



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The request is split into five different categories:

- *Operations – 4 positions*
- *Compliance – 6 positions*
- *Information Services – 4 positions*
- *Administrative Services – 3 positions*
- *General Investment Positions – 6 positions*

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The request for additional staff and the governance changes in SB 134 and HB 2733 are informed by numerous consultants' reports and audits.

Cutter Associates 2011: *“Low staffing levels present many challenges. Inhibits growth into new areas/strategies, limits the ability to perform due diligence, oversight, and monitor investment risks, (and) exposes OST to operational and reputational risks.”*

Funston Advisory Services 2012: *“Risk, both investment and operational, is increasing due to a very aggressive portfolio strategy combined with insufficient resources to continue to adequately provide due diligence and oversight; however, the cost of risk prevention can be hard to sell.”*

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Funston Advisory Services 2012: *“OST and OIC appear to have done a good job to date given the constraints of the current model but the lack of resources, lack of autonomy, and the lack of clear alignment of authorities and accountability with fiduciary responsibilities brings the OIC and OST to a governance crossroads.”*

CEM Benchmarking 2013: *“Your (OPERF) fund was 4% internally managed. This was below the peer average of 45%. Private equity and real assets were 38% of your total fund assets. This was above your peer average of 23%.”*

Investment Functions/Costs	Oregon	Peers
Governance & Support	0.4 bps	6.4 bps
Investment Front Office	1.3 bps	3.6 bps
External Manager Fees	76.8 bps	43.6 bps

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Cortex 2012: *“Both the OIC and the OST have limited authority with respect to the compensation of OST staff...In comparison, the other governing bodies, with the exception of New Jersey, have the authority to select their own staff, and set compensation policies and practices.”*

Cortex 2012: *“Consistent with published standards, including two model laws UMPERSA and UPIA, the OIC should have greater autonomy over the administration of the Oregon Funds. Ideally, this would include autonomy and authority:*

- *To select and direct staff;*
- *To set staff compensations;*
- *Over resource allocation (establishing the budget); and*
- *To retain advisory and other services, such as legal counsel, the investment custodian and the external financial auditor.”*

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Cortex 2012: *“The OIC should recommend to the State Legislature that the Council be structured as an independent government agency, with its own supporting staff, in a manner similar to that of most peer group members and other public investment boards in the United States and Canada.”*

Wilshire 2014: *“Wilshire’s scores...primarily reflect Wilshire’s concerns about OST’s investment technology and resource deficiencies and the adverse impacts these deficiencies have on the respective fixed income and equity investment processes...Despite these deficiencies, OST investment teams have demonstrated success in their respective internal management activities. In summary, Wilshire’s overall team scores would be higher with improvements to the teams’ technology and systems Infrastructure.”*

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Technical Adjustments

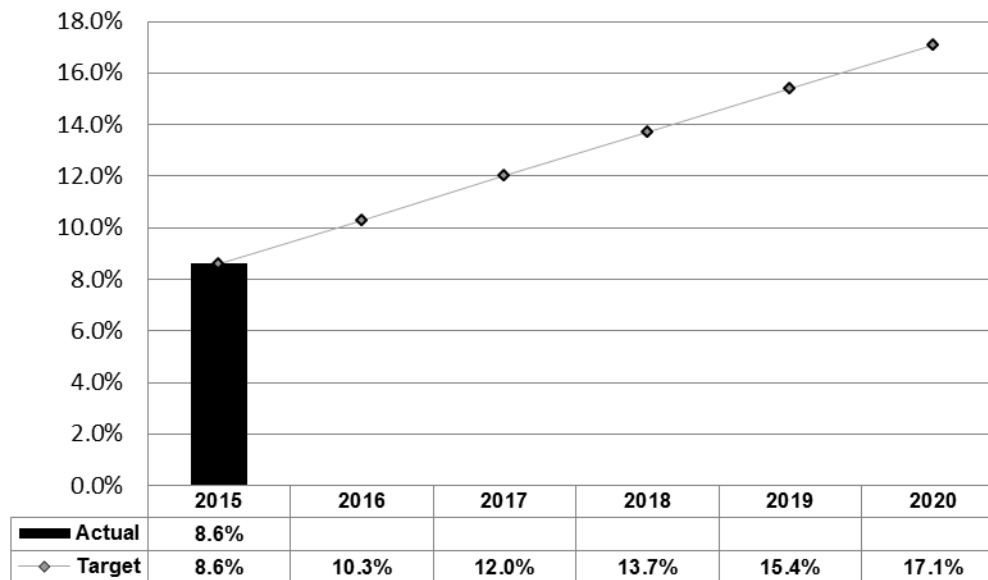
- As previously noted, OST requests the addition of 5 positions and 5.00 FTE that were deferred from the December 2014 meeting of the Emergency Board and increase the Other Funds expenditure limitation in POP 101 by \$1,571,017.
- Also noted earlier, OST requests an Other Funds expenditure increase of \$4,490,000 for POP 102 for the replacement of the ACH, LGIP systems and development of the business case for the replacement of the core banking systems.
- HB 2748 -4 moves the funding for the Public Infrastructure Commission and the West Coast Infrastructure Exchange to the Department of Administrative Services. OST requests a reduction of Other Funds expenditure limitation of \$1,115,640 (\$1,080,000 plus inflation included in the budget).

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Technical Adjustments

- OST requests the replacement of KPM #9 with the participation rate of minors (under 25 years of age) in the 529 College Savings Network.

Oregon 529 College Savings Network Statewide Participation Rate of Minors (under age 25)



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Agency Budget Reduction Options

5 % Reduction Options:

- **Elimination of the Public Funds Collateralization Program**
 - An Other Funds expenditure reduction of \$526,000 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 \$2,235,815 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.

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Agency Budget Reduction Options

10 % Reduction Option:

- **Elimination of the Oregon 529 College Savings Network**
 - An additional Other Funds expenditure reduction of \$2,279,769 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.

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Questions

Questions?