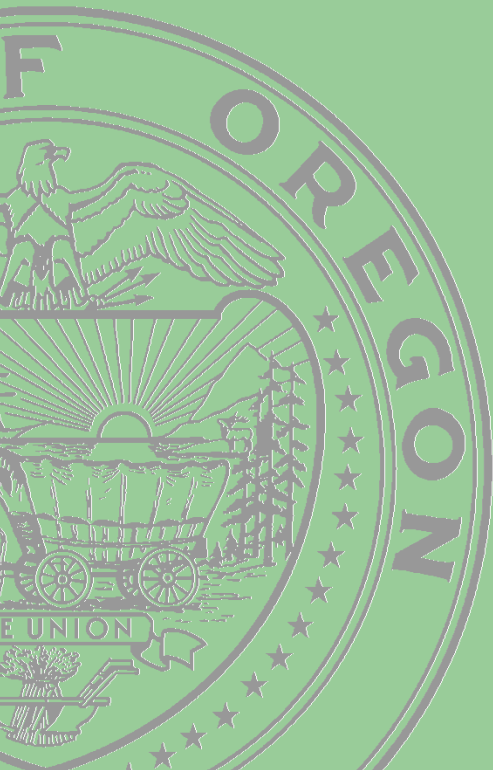


Oregon State Treasury

Priorities and Performance

State Treasurer Ted Wheeler

Ways & Means
General Government Subcommittee
March 31, 2015



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

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Presentation Overview

- Program Priorities
 - Program Overviews
 - Prioritization Considerations
- Reduction Options
- Key Performance Measures
 - Brief Performance Overview
 - Recommended Revisions
- Conclusions

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Program Priorities

Budgetary programs prioritized based on the following factors:

- The financial impact of the program on state operations, taking into account the magnitude of dollars earned or saved for the state.
- The number of customers and stakeholders served by the program.
- The impact to state agency, local government, and/or non-government customers and stakeholders of program expansion, reduction or elimination.

Treasury programs from highest to lowest priority are as follows:

1. Investment Program
2. Cash Management Program
3. Debt Management Program
4. Oregon 529 College Savings Network
5. Public Funds Collateralization Program

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Investment Program: Overview

The Investment Program manages over \$89 billion in State assets and is a key component of Oregon's financial future. The Wilshire Trust Universe Comparison Service found that the performance of the Oregon pension fund was among the best for public funds over the 1-, 3-, and 10- year periods with top 19th, 1st, and 2nd percentile performances, respectively.

The Program manages investments of:

- Oregon Public Employees Retirement Fund
- State Accident Insurance Fund
- Common School Fund and Others

Provides operational/staff support to:

- Oregon Investment Council
- Oregon Growth Account Board

Self-supported fees associated with portfolio management activities (ORS 293.718).

2015-17 Governor's Recommended Budget: \$ 23,054,583

- 5** ■ Includes \$6,011,273 related to Package 101: Investment Solutions

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Investment Program: Prioritization Considerations

- Various annual returns over the past years for funds under management are:

Fund	1-year	3-year	5-year
OPERF Regular	7.29	12.33	10.28
SAIF	6.74	6.08	6.86
CSF	6.65	13.25	9.94

- Had the Division performed at the median public fund peer level over the past five years, OPERF's portfolio value would be lower by over \$3.5 billion.
- Oregon pays less for investment management compared to its peers - \$182.5 million less over the past five years.

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Cash Management Program: Overview

Responsible for oversight of all cash management functions of state agencies.

- During CY 2014, more than \$210 billion banking and investment transactions.

Operates the Oregon Short-Term Fund (OSTF)

- Includes both state agency and local government participants .
- Market value of \$14.4 billion as of December 31, 2014.

Provides operational/staff support to Oregon Short Term Fund Board.

Revenues derived primarily from banking service charges (ORS 293.353) and OSTF investment management fees (ORS 293.718).

2015-17 Governor's Recommended Budget: \$ 10,710,402

- Includes \$1 related to Package 102: Cash Management Business Systems Renewal Project

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Cash Management Program: Prioritization Considerations

- The Oregon Short Term Fund 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 \$15.2 million more in 2014.
- Centralized banking services save money for state agencies and local governments by taking advantage of enterprise pricing.
 - Saved an estimated \$5.9 million in 2014.

Combined program savings for just 1 year exceeds the entire biennial current service level budget for the Oregon State Treasury

- 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 2014 would have been \$66.7 million less.

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Debt Management Program: Overview

Centrally coordinates issuance of all state agency and authority bonds for Oregon.

- Gross long-term debt outstanding, exclusive of conduit revenue bonds, totaled approximately \$10.7 billion as of June 30, 2014.

Liaison to three bond rating agencies.

Provide operational/staff support to:

- Municipal Debt Advisory Commission
- State Debt Policy Advisory Commission
- Private Activity Bond Committee
- Oregon Facilities Authority

Revenues derived from bond issuance, tracking and reporting fees paid by state agencies and local governments (ORS 286A.014).

2015-17 Governor's Recommended Budget: \$ 3,775,273.

- Includes \$1,100,000 related to Package 103: Coordination of Higher Ed Debt Issuance

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Debt Management Program: Prioritization Considerations

- Debt Management professionals have the knowledge and experience to identify and take advantage of opportunities for Oregon.
 - Refunding of ODOT, Lottery, and GO bonds during FY 2015 alone will save the state \$121 million in interest costs over time.
- With the continued support of the Oregon Legislature, the Debt Management program issues XI-Q General Obligation bonds as an alternative to COPs, which saves money for Oregon.
 - DMD efforts to date have produced \$80 million in cash flow savings from refinancing COPs to lower cost XI-Q bonds.
- Oregon has maintained a superior general obligation bond rating of AA+/Aa1 over the past several years, at a time that many other state and local ratings have deteriorated due to on-going financial and economic challenges.

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Oregon 529 College Savings Network: Overview

The Oregon 529 College Savings Network provides a valuable opportunity for Oregon families to build adequate savings for the rising costs of higher education. Network college savings plans provide significant state and federal tax advantages and more flexibility than many other college savings tools.

Changes in Program Managers, new investment options and a reduction in fees have renewed public confidence in this 12-year old program.

The Network is growing - \$2.28 billion in approximately 150,000 accounts as of December 31, 2014.

Revenues derived from account administrative fees and payments from plan providers for Network promotional activities (ORS 348.857).

2015-17 Governor's Recommended Budget: \$ 5,287,418

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Oregon 529 College Savings Network: Prioritization Considerations

- Operations are entirely supported by participant fees and program manager contributions. Not a penny of Oregon tax dollars are used.
- The state plan received a top rating of “5 caps” in an independent state-by-state evaluation of 529 plans by *SavingForCollege.com* in 2014.
- That same survey ranked the state’s advisor-sold plan’s performance versus other states as 18th over 3-years, 8th over 5-years, and 7th over 10-years.
- The Network reduced its administrative fee by half in 2011 from 0.1% down to 0.05%.

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Public Funds Collateralization Program: Overview

This program protects public funds at financial institutions. Protection of these funds is in the best interest of every Oregonian.

As of December 31, 2014:

- 33 participating banks and 13 credit unions
- Public funds held by banks is \$2.7 billion
- Public funds held by credit unions is \$46.5 million
- Pledged collateral by banks with a market value of \$1.6 billion
- Pledged collateral by credit unions with a market value of \$70.9 million

Revenues are derived from collateral pool charges to participating banks (ORS 295.106).

2015-17 Governor's Recommended Budget: \$ 526,476

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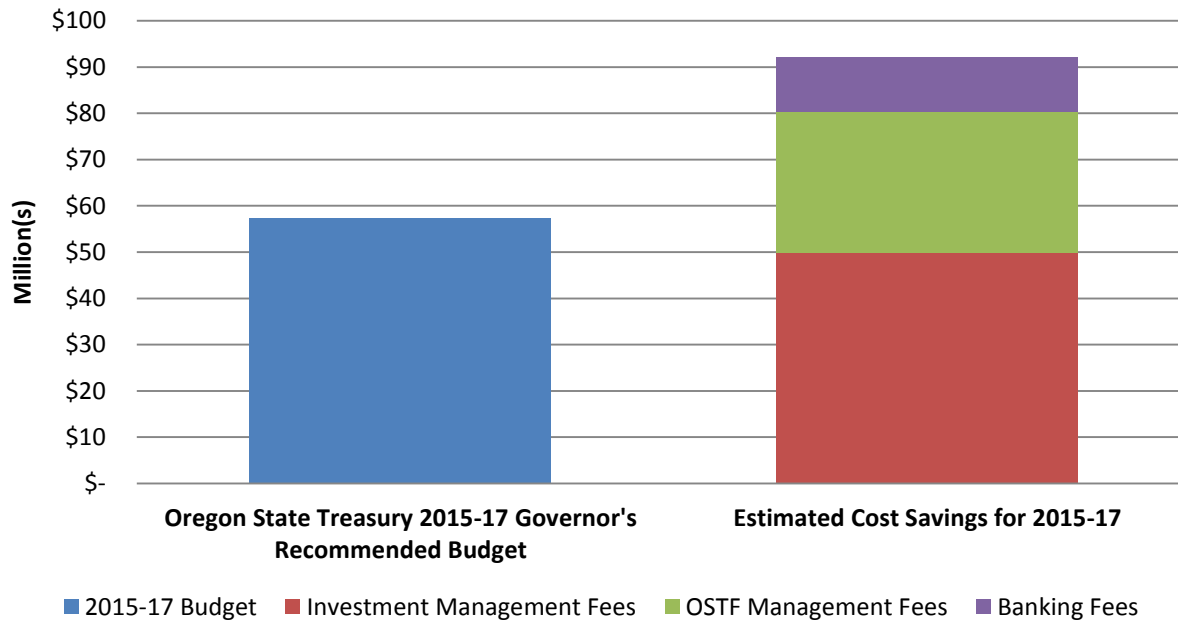
Public Funds Collateralization Program: Prioritization Considerations

- Public Funds Collateralization Program operations are entirely supported by payments from participating financial institutions. Not a penny of Oregon tax dollars are used.
- This program supports 33 banks and their 1,500+ local government customers who would otherwise need to contract for these services individually.
- On April 1, 2013, local government financial services expanded with the addition of 10 (now 13) credit unions. Currently, the credit unions are over-collateralized in anticipation of taking on more public funds.
- Treasury charges are designed to recover only the cost of operating this program (i.e. no built in profit margin). Financial institutions would pay more if this program was eliminated.

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Adding Up the Savings

Treasury's Budget vs Estimated Cost Savings



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Challenges and Improvements

- Oregon Investment Council governance and operations improvements
- Cash management replacement of systems and processes
- Information security program enhancement

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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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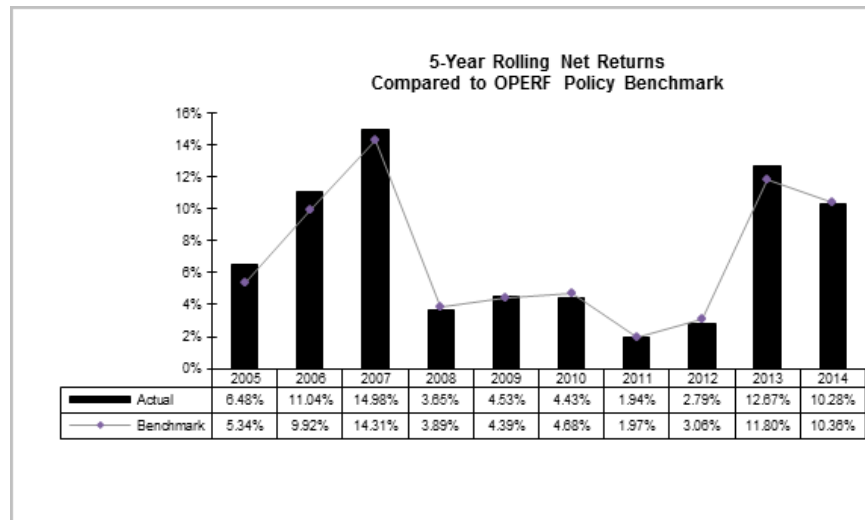
Key Performance Measures

- Performance-based budgeting is vital to guide the efficient deployment of Treasury resources.
- As a data-driven organization, Oregon State Treasury continually evaluates the most cost-effective manner to structure service delivery.
- As the state's centralized service provider for investment and banking services, Treasury looks for ways to leverage buying power from large dollars under management and number of transactions to keep costs as low as possible, thus freeing the maximum amount of funds for program use.
- Banking service charges are consistently lower than are available on a direct basis and investment management costs for our internally managed short term investment fund (OSTF) remain lower than competing private market funds with a similar investment objective.

Investments Performance Measures

KPM #1 - Oregon Public Employees Retirement Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark

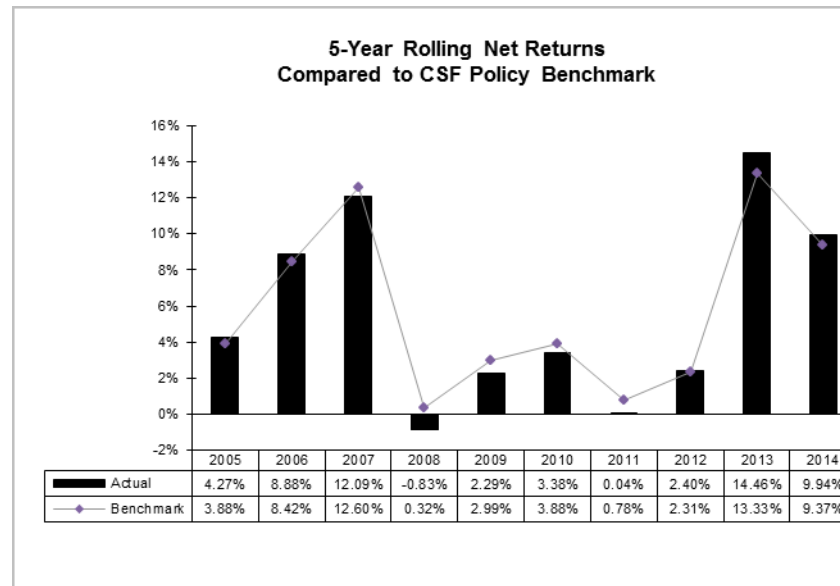
OPERF investment performance essentially matched its policy benchmark for the five years ended 12/31/14, net of all fees (10.3% vs. 10.4%).



Investments Performance Measures

KPM #2 - Common School Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark

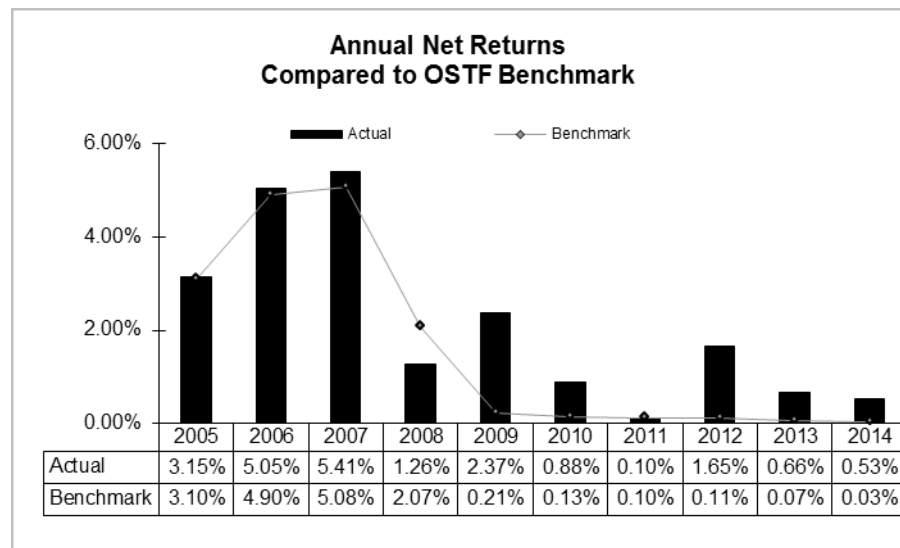
CSF performance results, as measured by the Trust Universe Comparison Service (TUCS), have been near top decile for the three years ended 12/31/14 (12th percentile). The fund's 5-year performance results are near the TUCS top quartile (26th percentile). The fund's rolling five-year investment performance exceeded its policy benchmark by 0.57%, net of fees.



Cash Management Performance Measures

KPM #3 - Oregon Short-Term Fund Returns Compared to Benchmark

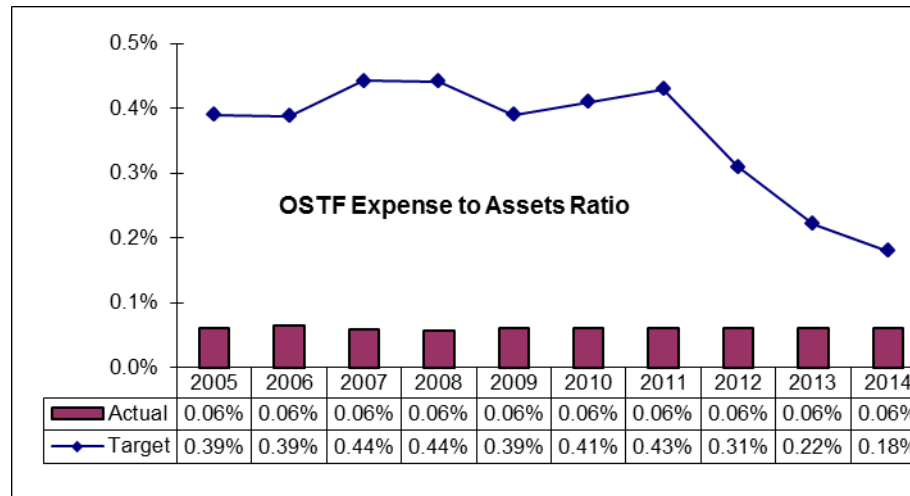
In 2014, OSTF investment performance exceeded the fund's benchmark (rolling 91-day Treasury bill returns), while the fund's five-year annualized return outperformed that same benchmark by 0.67% for the period ended December 31, 2014.



Cash Management Performance Measures

KPM #4 - Expense to Assets Ratio for the Oregon Short-Term Fund

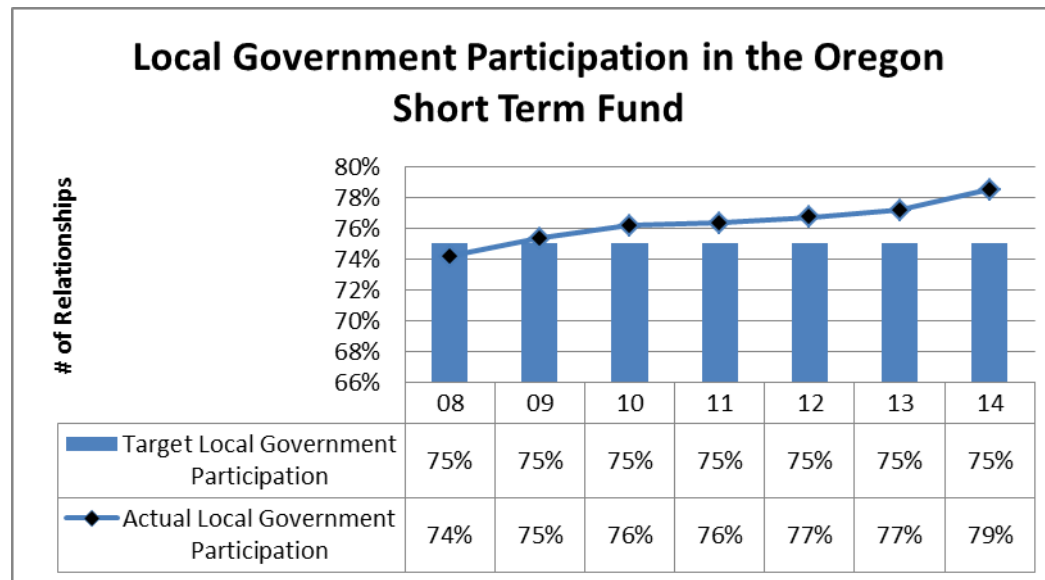
In 2014, annual expense ratios for over 190 institutional money market mutual funds ranged from 0.06% to 0.27% with an average of 0.18%. Last year, the OSTF expense ratio was 0.06%.



Cash Management Performance Measures

KPM #5 - Local Government Participation in the Oregon Short-Term Fund (OSTF)

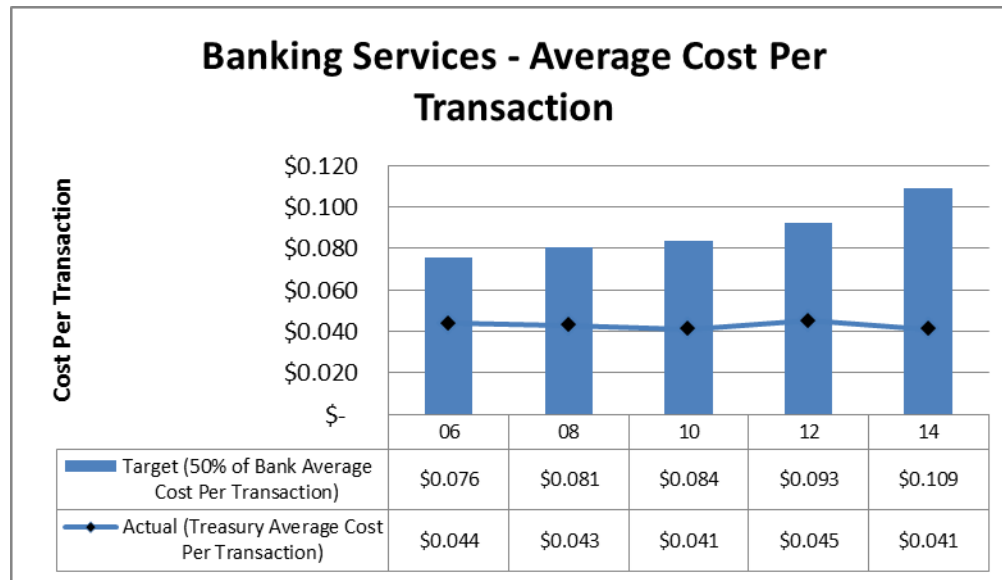
State agencies are statutorily required to use the OSTF, but local government participation is optional. Over the last 10 years, participation has grown from 69% of all Oregon local governments to 79%, with small gains in each year.



Cash Management Performance Measures

KPM #6 - Banking Services - Average Cost per Transaction

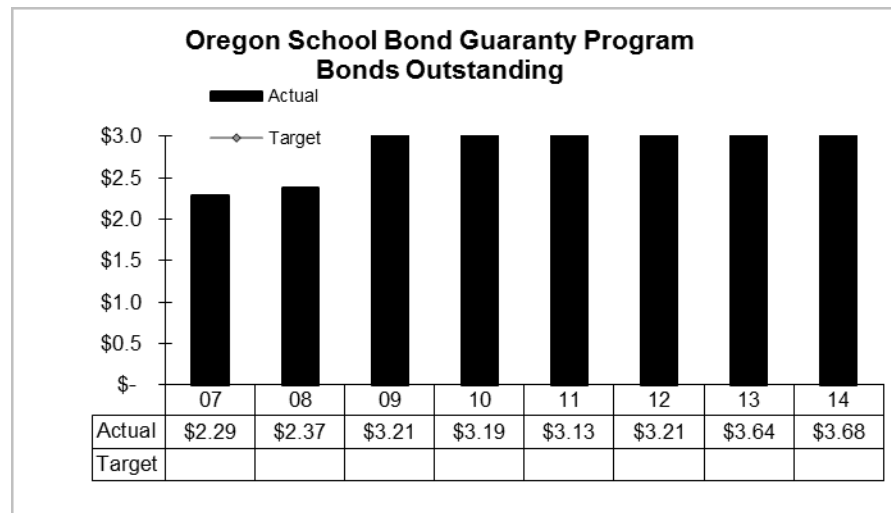
Treasury's goal is to ensure that our banking services fees are a significant discount to average bank pricing – in this case, less than half (50%) of the average bank pricing.



Debt Management Performance Measures

KPM #7 - Oregon School Bond Guaranty Program Bonds Outstanding

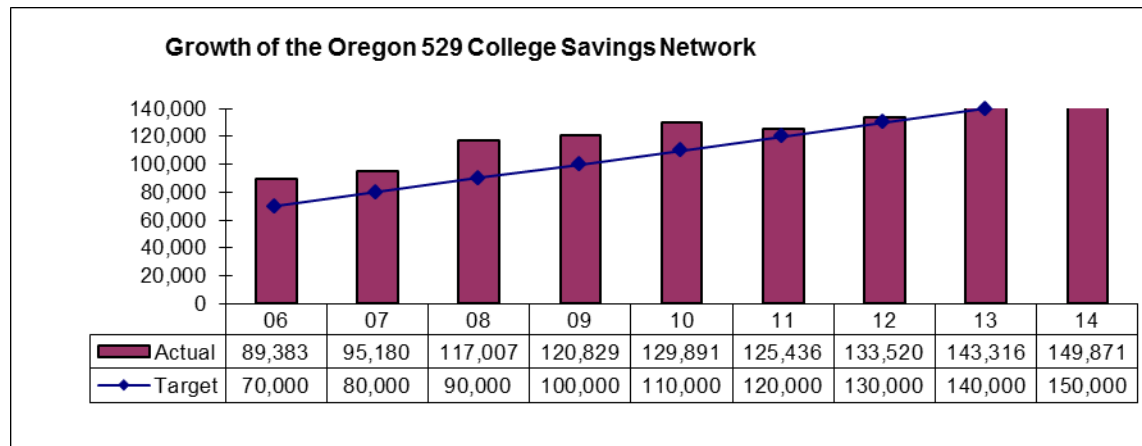
The strength of the State's bond rating allows school districts, education service districts and community colleges to borrow much-needed funds at interest rates below what they could achieve on their own.



529 Program Performance Measures

KPM #8 - Number of Oregon 529 College Savings Network Accounts

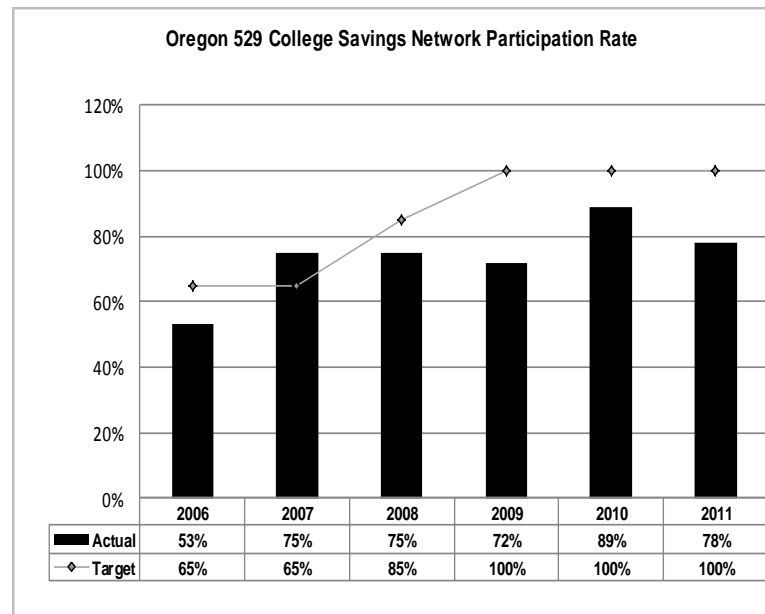
The Program continues to grow at a steady pace, and the expectation, based on the Program's recent gains, is for continued growth in the 2015-17 biennium.



529 Program Performance Measures

KPM #9 - Number of Oregon Counties with an Oregon 529 College Savings Network Participation Rate of at Least 1% of County Adults

OST proposes changing this measure to the participation rate of minors (those under age 25) in each county and proposes a target that doubles the participation rate of each county in 5 years.

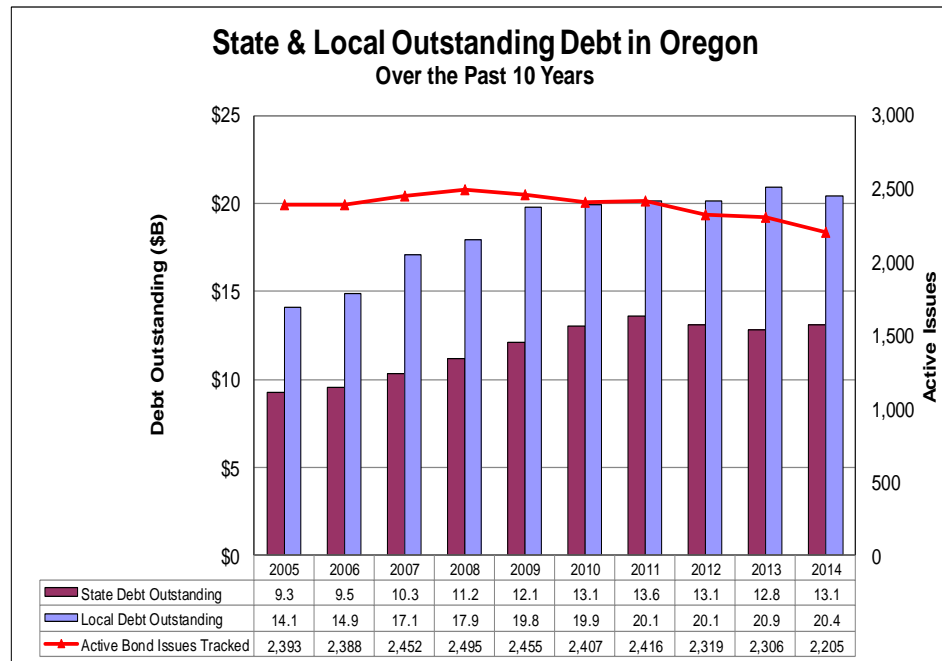


Note: Data reported by third-party program manager in 2010 used different methodology that arbitrarily inflated total number of accounts.

Debt Management Performance Measures

KPM #10 - Oregon Debt Issuance Activity: Levels of Transaction Volume and Total State and Local Government Debt Outstanding by Fiscal Year

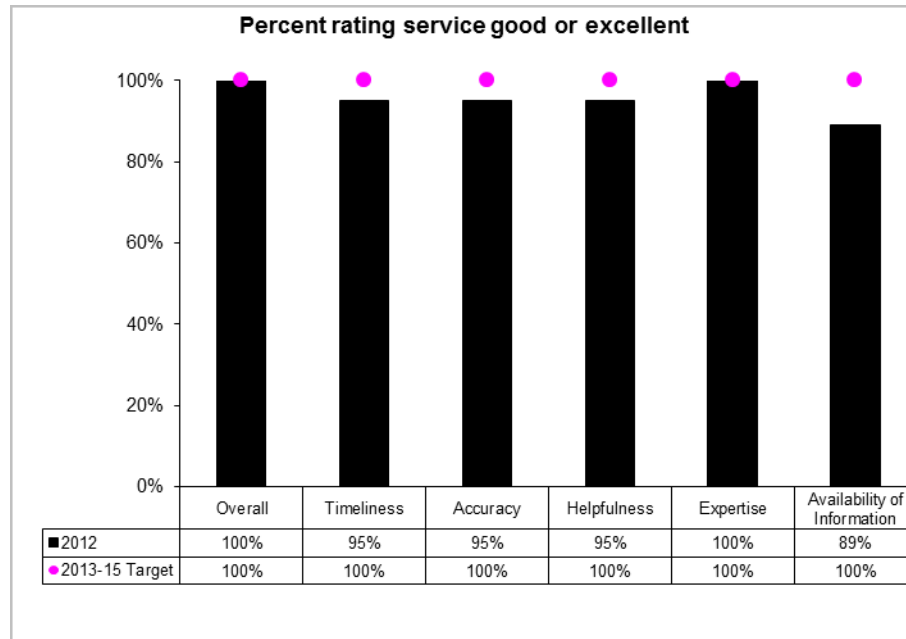
While the number of bond transactions tracked by OST and the amount of state and local debt issued and outstanding increased substantially in the early 2000s, in recent years, new bond issuances have declined and outstanding debt of state and local governments has levelled out.



Oregon State Treasury Performance Measure

KPM #11 - CUSTOMER SERVICE : Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent"

Treasury staff strive to provide excellent customer service. Our ratings are consistently high, but we are always working to improve.



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Conclusions

Questions?