

SB 5541 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

Prepared By: Robert Otero, Department of Administrative Services

Reviewed By: John Borden, Legislative Fiscal Office

**State Treasurer
2017-19**

PRELIMINARY

Budget Summary*

	2015-17 Legislatively Approved Budget ⁽¹⁾	2017-19 Current Service Level	2017-19 Committee Recommendation	Committee Change from 2015-17 Leg. Approved	
				\$ Change	% Change
General Fund	\$ 1,687,988	\$ 2,043,089	\$ 2,477,055	\$ 789,067	46.7%
Other Funds Limited	\$ 62,192,111	\$ 65,851,074	\$ 81,975,382	\$ 19,783,271	31.8%
Total	\$ 63,880,099	\$ 67,894,163	\$ 84,452,437	\$ 20,572,338	32.2%

Position Summary

Authorized Positions	123	121	158	35
Full-time Equivalent (FTE) positions	117.45	119.60	147.75	30.30

⁽¹⁾ Includes adjustments through December 2016

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Office of the State Treasurer (OST) is financed with Other Funds revenues from the following sources: investment administrative fees, payments from state agencies and banks for banking services, reimbursements from state agencies for bond and coupon redemption and bond issuance costs and fees from program participants. The agency has broad statutory authority to increase fees, if necessary.

In addition, the Office of the State Treasurer will continue, for the second biennium in a row, to be appropriated General Fund for the start-up costs associated with the Oregon 529 Savings Network - Achieving a Better Life program and the Oregon Retirement Savings Board. These are loans from the General Fund to be repaid by the program.

Summary of General Government Subcommittee Action

Article VI, Section 1 of the Oregon Constitution, created the OST, which is a statewide elected official. State law establishes the powers and duties of the office. The State Treasurer is the investment officer for the Oregon Investment Council, which is responsible for establishing the state’s investment policy. The State Treasurer serves on the State Land Board and chairs the State Debt Policy Advisory Commission, among other duties and responsibilities. The mission of the agency is to provide financial stewardship for Oregon. The State Treasurer acts as the banker for the State of Oregon by maintaining all state agency financial accounts and by investing state funds not needed to meet current expenditure demands, including the state’s Trust Funds and bond fund proceeds.

The Subcommittee approved a budget of \$84,452,437 total funds, which is a 32.2 percent increase from the 2015-17 Legislatively Approved Budget and includes 158 positions (147.75 FTE).

Treasury Services

Treasury Services houses the following activities: (1) Investment Management Program/Investment Operations/Investment Compliance/Incentive Compensation: invests short, intermediate, and long-term state-held funds. Investment Officer compensation has a performance-based component, which ties a portion of Investment Officer maximum compensation to the performance of the investment portfolios that Investment Officer's manage; (2) Cash Management Program/Oregon Short-Term Fund/Financial Institution Banking Fees: processes monetary transactions for all state agencies and over 1,500 local government accounts and pays the cost of banking services provided the state; (3) Debt Management Program: coordinates and approves issuance of state agency and authority bonds. The program also issues Tax Anticipation Notes; (4) Public Funds Collateralization Program: assures that public funds held in more than 40 participating Oregon banks and credit unions are properly collateralized; and (5) Executive Services/Information Technology: provides the general administrative functions of the agency, including information technology, information technology security, human resources, project management, procurement, and the State Treasurer's salary and staff. The agency procures budget and accounting services from the Department of Administration Services.

The following is a summary of the budgetary changes:

Package 101, Investment Solutions. This package requests a total of \$9,946,093 for 32 permanent, full-time positions (23.81 FTE) for a total Personal Services cost of \$8.2 million Other Funds limitation, \$1.6 million Other Funds limitation for Services and Supplies and \$156,900 Other Funds limitation for capital outlay, to continue to address deficiencies within the Investment Division and general administration of the agency. The revenue to support this request is from charges based on the value of managed portfolios. The agency has broad statutory authority to increase such fees, if necessary.

- Chief Investment Officer: The request is for 11 front office positions (8.40 FTE): One permanent, full-time Senior Investment Officer for fixed income (0.92 FTE); one permanent, full-time Investment Officer 2 for alternative investments (0.79 FTE); one permanent, full-time Investment Officer 2 for real estate investments (0.92 FTE); one permanent, full-time Investment Officer 2 for capital market investments (0.50 FTE); one permanent, full-time Investment Officer 2 for capital market investments (0.17 FTE); one permanent, full-time Investment Officer 3 for real estate investments (0.92 FTE); one permanent, full-time Investment Officer 3 for private equity investments (0.92 FTE); and one permanent, full-time Investment Officer 3 for alternative investments (0.92 FTE). These eight positions would be the only positions eligible for incentive pay, which would be in addition to their budgeted salary and wages (\$400,000). The cost of incentive pay was not requested by the agency and therefore is not included in this request. This expense will be absorbed by the agency. This request also includes: one permanent, full-time Senior Investment Analyst for fixed income investment (0.92 FTE); one permanent, full-time Investment Analyst for capital markets investment (0.92 FTE); and one permanent, full-time Investment Analyst for alternative investments (0.50 FTE).
- Director of Investment Operations: The request is for eight mid-office staff (4.81 FTE): one permanent full-time Investment Officer as a Performance and Analytics Manager (0.92 FTE); one permanent, full-time Investment Analyst 2 as an Operations Analyst (0.25 FTE); one permanent, full-time Investment Analyst 2 as an Operations Analyst (0.92 FTE); one permanent, full-time Investment Analyst 2 as an

Operations Analyst (0.25 FTE); one permanent, full-time Investment Analyst 2 as a Senior Investment Accountant (0.92 FTE); one permanent, full-time Investment Analyst 1 as a Data Analyst (0.38 FTE); one permanent, full-time Investment Analyst 1 as a Data Analyst (0.25 FTE). The request also includes: one permanent, full-time Investment Analyst 3 for Governmental Accounting Standards Board accounting (0.92 FTE). A portion of this position's full-time equivalent (0.25 FTE) will also be responsible for the Oregon Retirement Savings Program Governmental Accounting Standards Board reporting and will be funded by the Oregon Retirement Savings Program.

- Chief Compliance Officer: The request is for six back-office staff (4.26 FTE): one permanent, full-time Senior Investment Officer as a Compliance Manager (0.75 FTE); one permanent, full-time Principal Executive Manager F as an Investment Compliance Officer (0.75 FTE); one permanent, full-time Principal Executive Manager D as a Corporate Governance and Policy Officer (0.50 FTE); one permanent, full-time Principal Executive Manager D as a Compliance Analyst (0.63 FTE); one permanent, full-time Principal Executive Manager D as a Compliance Analyst (0.88 FTE); and one permanent, full-time Executive Support Specialist (0.75 FTE).
- Chief Information Services: The request is for three back-office positions (2.42 FTE): One permanent, full-time Information Systems Specialist 5 for Desktop Support (0.50 FTE); one permanent, full-time Information Systems Specialist 7 for Citrix Desktop Support (1.00 FTE); and one permanent, full-time Information Systems Specialist 7 for a Network Administrator (0.92 FTE).
- Chief Administrative Officer: The request is for four back-office staff (3.92 FTE): One permanent, full-time Project Manager 3 (1.00 FTE); one permanent, full-time Principal Executive Manager E for a Human Resources Manager (1.00 FTE); and one permanent, full-time Operations and Policy Analyst 3 as a Business Analyst (0.92 FTE). The original policy package request has been modified to include: one permanent, full-time Operations and Policy Analyst 2 (1.00 FTE).

Budget Note

The State Treasury reported to the Legislature in 2017 "Enabling more internal management by investing in Investment Management Program resources will reduce overall costs and likely provide improved net return to the funds under management." State Treasury is directed to report to the Legislature in 2019 on the actual cost savings and increased net investment returns derived from the Legislature's investments in the Investment Division and the general administration of the agency as well as produce a feasibility study supporting continued investment in the Investment Division.

Package 802, Governance and Operations. This package requests the addition of one permanent, full-time Fiscal Analyst 3 (1.00 FTE) to serve as the agency's Budget Officer; one permanent, full-time Principal Executive Manager I (0.92 FTE) to serve as the agency's Chief Operating Officer; and one permanent full-time Investment Officer 2 for unspecified Investment Management Program purposes (0.92 FTE). This package also includes associated Services and Supplies.

Package 103, Cyber Security. This package requests additional resources for the agency's Information Security Program and Cyber Security resources. Two additional staff are requested for implementing the agency's comprehensive Cyber Security Plan, including: data loss prevention systems; identify and access management; threat detection systems; and other technical security controls and infrastructure monitoring and protection. The request also includes the purchase of additional security tools and security services, including: data monitoring; access management; and malware detection systems. The revenue to support this request is from charges based on the value of managed portfolios, banking transactions fees, debt charges held, and other miscellaneous revenue sources. The agency has broad statutory authority to increase such fees, if necessary.

- Chief Information Services - Cyber Security: The request is for two staff (1.50 FTE): One permanent, full-time Information Systems Specialist 7 for Security Operations (0.50 FTE); and one permanent, full-time Information Systems Specialist 8 for a Senior Security Analyst (1.00 FTE).

Package 106, LGIP Business Systems Renewal. This package is related to the Cash Management Improvement and Renewal Program (CMIRP), a continuous improvement program launched by OST in 2012, and focused on the renewal, replacement, and refinement of processes and technology supporting OST's cash management services. This package relates specifically to the Local Government Investment Pool Business Systems Renewal (LGIP BSR) project, which will modernize how local governments transact and make account inquiries on short-term investments.

After initial project funding was approved by the Legislature in 2015 (\$2,200,000 for the implementation phase, including quality assurance and control, and \$880,000 for ongoing biennial costs), the project was prudently reassessed, due to changes in the state's primary vendor contract for banking. The LGIP BSR project would move current processing from an internal application to a service vendor hybrid implementation model, where transactions and account information will become Web-based and data will flow directly from the local governments to the service vendor. A new vendor contract was signed in September 2016. The project has a targeted go-live date of February 2018. The project has an internal dedicated project manager, as well as an independent quality assurance vendor. While not subject to Executive Branch control and the joint Department of Administrative Services - Chief Information Office and Legislative Fiscal Office Stage Gate Review process, the agency is generally following the process requirements.

This request is for \$1.32 million Other Funds limitation in additional operational costs of the program for vendor payments. The funds are budgeted as Services and Supplies. The revenue to support this package is from charges to participating local governments on the value of short-term cash balances as well as banking transaction fees.

Package 107, ACH Business Systems Renewal. This package is related to CMIRP, a continuous improvement program launched by OST, in 2012, and focused on the renewal, replacement and refinement of processes and technology supporting OST's cash management services. This package relates specifically to the Automated Clearing House Business Systems Renewal (ACH BSR) project, which will modernize how state agencies transact ACH payments.

After initial project funding was approved by the Legislature in 2015 (\$200,000 for the implementation phase, including quality assurance and control, and \$750,000 for ongoing biennial costs), the project was prudently reassessed, due to changes in the state's primary vendor contract for banking.

The ACH BSR project would move current processing from an internal application to a service vendor hybrid implementation model, where OST continues to maintain the "book of record" or source of accounting of the state's financial transactions, but transactional data would be handled by a second major banking contractor. A contract with the second banking vendor is in the process of being finalized. With detailed project planning just starting, the project is anticipated to be largely completed, during the 2017-19 biennium. The project has an internal project manager and the agency is planning to engage an independent quality assurance vendor. While not subject to Executive Branch control and the joint Department of Administrative Services - Chief Information Office and Legislative Fiscal Office Stage Gate Review process, the agency is generally following the requirements of that process.

This request is for \$600,000 Other Funds limitation in additional operational costs of the program, including vendor payments (\$400,000), implementation costs (\$90,000), and an independent quality assurance vendor (\$110,000), which would bring total operational costs to \$1.15 million Other Funds. The funds are budgeted as services and supplies. The revenue to support this package is from charges to participating state agencies on the value of short-term cash balances as well as banking transaction fees.

Package 108, Core Banking Business Systems Renewal. This package is related to the Cash Management Improvement and Renewal Program (CMIRP), a continuous improvement program launched by OST in 2012 and focused on the renewal, replacement and refinement of processes and technology supporting OST's cash management services. This package relates specifically to the Core BSR project, which will modernize the systems and applications at the heart of OST's cash management technological infrastructure.

After initial project funding was approved by the Legislature in 2015 (\$150,000 for business case development, including quality assurance and control, and \$310,000 for mitigation activities) business case development was put on hold due to the reassessments of the LGIP, ACH, and BSR projects while OST did complete various mitigation activities.

This package relates specifically to Core Banking System Renewal, which will address the Phoenix application and middleware that is the state's core banking application. The project is in the initial planning stages. This request is funding for a business case development and an independent quality assurance vendor, as well as for additional mitigation activities due to the delay in project activities. The project has an internal project manager. While not subject to the Executive Branch control and the joint Department of Administrative Services - Chief Information Office and Legislative Fiscal Office Stage Gate Review process, the agency is generally following the process requirements.

This request is for \$375,000 Other Funds limitation for mitigation costs (\$214,000), business case development (\$91,000), and an independent quality assurance vendor (\$70,000). The funds are budgeted as services and supplies. The revenue to support this package is from charges to participating state agencies on the value of short-term cash balances as well as banking transaction fees.

Oregon 529 Savings Network

The Oregon 529 Savings Network program consists of two programs: (a) the Oregon 529 College Savings Network whose goal is to increase the ability of Oregon families and individuals to save for qualified higher education expenses through flexible investment options with both state and federal tax benefits; and (b) the Achieving a Better Life Experience Act (ABLE) program that permits the creation of tax-free, state-based savings accounts to pay for disability-related expenses. The Subcommittee approved a 2017-19 budget of \$7,705,957 total funds and five positions (5.00 FTE). The Subcommittee approved the following changes for this program:

Package 801, LFO Analyst Adjustments. The Legislature, in 2015, provided one-time funding for the start-up of the ABLE program. This funding was to be phased out of the agency's 2017-19 current service level budget; however, this was not done during either the agency request budget process or later during the Governor's Budget process. This package appropriately phases out the one-time program funding in the amount of \$310,250 General Fund.

Package 105, 529 ABLE Program. This package restores \$310,250 General Fund to bring the program to current service level and then adds \$433,966 General Fund to fully fund the program's operational. The Subcommittee approved this package as a one-time adjustment and loan from the General Fund to be repaid by the program.

Package 803, Washington State ABLE Contract. This request is to add \$700,000 Other Funds limitation for the Oregon ABLE program to provide marketing and outreach activities for a contract with the State of Washington ABLE program. The contract has not been finalized and the limitation provided with this policy package has been estimated by the agency. This package was approved as a one-time adjustment.

Oregon Retirement Savings Program

The Oregon Retirement Savings Program provides retirement saving opportunities for Oregonians. The Subcommittee approved a 2017-19 budget of \$1,149,558 General Fund and two positions (1.50 FTE). The Subcommittee approved the following changes for this program:

Package 801, LFO Analyst Adjustments. The Legislature, in 2015, provided one-time funding for the start-up of the ABLE program. This funding was to be phase out of the agency's 2017-19 current service level budget; however, this was not done during the agency request budget process or later during the Governor's Budget process. This package appropriately phases out the one-time program funding in the amount of \$696,470 General Fund.

Package 104, Oregon Retirement Savings Program. This package restores current service level funding for the program by adding \$696,470 General Fund. The Subcommittee approved this package as a one-time adjustment and loan from the General Fund to be repaid by the program.

Summary of Performance Measure Action

See attached Legislatively Adopted 2017-19 Key Performance Measures form.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Office of the State Treasurer
Robert Otero -- 503-986-8670

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2015-17 Legislatively Approved Budget at Dec 2016 *	\$ 1,687,988	\$ -	\$ 62,192,111	\$ -	\$ -	\$ -	63,880,099	123	117.45
2017-19 Current Service Level (CSL)*	\$ 2,043,089	\$ -	\$ 65,851,074	\$ -	\$ -	\$ -	67,894,163	121	119.60
<u>SUBCOMMITTEE ADJUSTMENTS (from CSL)</u>									
SCR 001 - Treasury Services									
Package 101 Investment Solutions									
Personal Services	\$ -	\$ -	\$ 8,181,626	\$ -	\$ -	\$ -	8,181,626	32	23.81
Services and Supplies	\$ -	\$ -	\$ 1,607,567	\$ -	\$ -	\$ -	1,607,567		
Capital Outlay	\$ -	\$ -	\$ 156,900	\$ -	\$ -	\$ -	156,900		
Package 103 Cyber Security									
Personal Services	\$ -	\$ -	\$ 360,318	\$ -	\$ -	\$ -	360,318	2	1.50
Services and Supplies	\$ -	\$ -	\$ 1,500,464	\$ -	\$ -	\$ -	1,500,464		
Capital Outlay	\$ -	\$ -	\$ 90,000	\$ -	\$ -	\$ -	90,000		
Package 106 LGIP Business Systems Renewal									
Services and Supplies	\$ -	\$ -	\$ 1,320,000	\$ -	\$ -	\$ -	1,320,000		
Package 107: ACH Business Systems Renewal									
Services and Supplies	\$ -	\$ -	\$ 600,000	\$ -	\$ -	\$ -	600,000		
Package 108: Core Banking Business Systems Renewal									
Services and Supplies	\$ -	\$ -	\$ 375,000	\$ -	\$ -	\$ -	375,000		
Package 802: Governance and Operations									
Personal Services	\$ -	\$ -	\$ 1,145,912	\$ -	\$ -	\$ -	1,145,912	3	2.84
Services and Supplies	\$ -	\$ -	\$ 86,521	\$ -	\$ -	\$ -	86,521		
SCR 002 - Oregon 529 Savings Network									
Package 105: 529 ABLE Program									
Services and Supplies	\$ 744,216	\$ -	\$ -	\$ -	\$ -	\$ -	744,216		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ (310,250)	\$ -	\$ -	\$ -	\$ -	\$ -	(310,250)		
Package 803: Washington State ABLE Contract									
Services and Supplies	\$ -	\$ -	\$ 700,000	\$ -	\$ -	\$ -	700,000		
SCR 003 - Oregon Retirement Savings Program									
Package 104: Oregon Retirement Savings Program									
Services and Supplies	\$ 696,470	\$ -	\$ -	\$ -	\$ -	\$ -	696,470		
Package 801 LFO Analyst Adjustments									
Services and Supplies	\$ (696,470)	\$ -	\$ -	\$ -	\$ -	\$ -	(696,470)		
TOTAL ADJUSTMENTS	\$ 433,966	\$ -	\$ 16,124,308	\$ -	\$ -	\$ -	16,558,274	37	28.15
SUBCOMMITTEE RECOMMENDATION *	\$ 2,477,055	\$ -	\$ 81,975,382	\$ -	\$ -	\$ -	84,452,437	158	147.75
% Change from 2015-17 Leg Approved Budget	46.75%	0.00%	31.81%	0.00%	0.00%	0.00%	32.20%	28.46%	25.80%
% Change from 2017-19 Current Service Level	21.24%	0.00%	24.49%	0.00%	0.00%	0.00%	24.39%	30.58%	23.54%

*Excludes Capital Construction Expenditures

Legislatively Approved 2017 - 2019 Key Performance Measures

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Agency: Treasury, Oregon State

Mission Statement:

To provide financial stewardship for Oregon.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2018	Target 2019
1. Oregon Public Employees Retirement Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark		Approved	8.15%	8.50%	8.50%
2. Common School Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark.		Approved	7.39%	7.50%	7.50%
3. Oregon Short-Term Fund Returns Compared to Benchmark		Approved	0.50%	0.50%	0.50%
4. Expense to Assets Ratio for the Oregon Short-Term Fund		Approved	0.06%	0.05%	0.05%
5. Local Government Participation in the Oregon Short-Term Fund		Approved	64%	70%	75%
6. Banking Services - Average Cost per Transaction		Approved	\$0.038	\$0.035	\$0.035
7. Oregon School Bond Guaranty Program Bonds Outstanding		Approved	\$45,600,000,000.00	\$45,600,000,000.00	\$45,600,000,000.00
8. Number of Oregon 529 College Savings Network Accounts		Approved	164,723	165,000	170,000
9. Percentage of Minors (under age 25) with 529 College Savings Network Accounts		Approved	8.60%	10%	11%
10. Oregon Debt Issuance Activity - Levels of Transaction Volume and Total State Government Debt Outstanding by Fiscal Year	a) State Outstanding Debt in Oregon	Approved	\$12,800,000,000.00	\$12,800,000,000.00	\$12,800,000,000.00
	b) Local Outstanding Debt in Oregon		\$22,600,000,000.00	\$22,600,000,000.00	\$22,600,000,000.00
11. Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Accuracy	Approved	98%	100%	100%
	Timeliness		97%	100%	100%
	Availability of Information		97%	100%	100%
	Expertise		98%	100%	100%
	Helpfulness		98%	100%	100%
	Overall		98%	100%	100%

LFO Recommendation:

The Legislative Fiscal Office recommends approval of the Key Performance Measures and updated targets. An overall review of the existing Key Performance Measures by the agency is recommended prior to Legislative session in 2019. In addition, Legislative Fiscal Office recommends specifically that the agency propose for the Legislative session in 2019 the following: (a) a new measure for the Oregon Retirement Savings program; (b) a new standard measure for the Oregon Retirement Savings Board - Board of Directors Best Practices; (c) a new measure for the Achieving a Better Life Experience Act (ABLE) program; and (d) a new standard measure for the 529 Savings Plan Board - Board of Directors Best Practices.

SubCommittee Action:

The Subcommittee adopted the Legislative Fiscal Office recommendation.