

State Treasury					
	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	1,904,631	3,490,552	5,361,270	1,463,607	--
Other Funds	54,259,279	80,418,025	82,003,898	88,422,190	94,649,125
Total Funds	56,163,910	83,908,577	87,365,168	89,885,797	94,649,125
Positions	123	160	160	162	172
FTE	117.85	150.09	150.09	161.00	170.07
* Includes Emergency Board and administrative actions through December 2018.					

Program Description

The Oregon State Treasury (OST) acts as the “banker” of the State of Oregon and the State Treasurer is designated by statute as the Chief Investment Officer. OST maintains all state agency financial accounts and invests state funds that are not needed to meet current expenditure demands. OST coordinates and approves state bond sales, manages the public funds collateralization program for all financial institutions holding public funds, and makes payment on bonds submitted by bondholders. Additionally, OST invests excess funds for participating local governments. OST is also responsible for administration of the Oregon 529 Savings plan(s), which includes both the Oregon 529 College Savings Network and 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. Finally, OST has responsibility for the Oregon Retirement Savings Board (“OregonSaves”) that is charged with the establishment of a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. The College Savings, ORSB, and ABLE programs also have tax expenditure components.

Although considered an Executive Branch agency, OST, as a separately elected, constitutional office, operates independent of the Governor and the rest of the Executive Branch. The Executive Branch makes no recommendation and exercises no budgetary control over the State Treasurer’s budget. That responsibility falls solely to the Legislature. In addition, OST is statutorily exempt from many statutes that apply to executive branch agencies, such as human resources, procurement, and information technology.

The Oregon Investment Council (OIC) is the policymaking body that sets investment policy, asset allocation, benchmark return targets, and makes portfolio decisions on investment purchases and sales. State Treasury is responsible for implementing the investment decisions of the OIC. By statute, the State Treasurer is the investment officer for OIC. OIC has broad statutory authority and is not subject to legislative budgetary control (i.e., expenditure limitation). Any expense incurred by the OIC is netted against investment earnings.

OST has broad statutory authority to general revenue from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions it processes, the proportion of outstanding debt held by agencies and fees for new bond issuances and charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels.

CSL Summary and Issues

The 2019-21 current service level budget for the agency total \$89.9 million and includes \$1.5 million General Fund and \$88.4 million Other Funds (162 positions; 161.00 FTE). The CSL is \$2.5 million, or 2.9%, more than the 2017-19 legislatively approved budget of \$87.4 million (160 positions; 150.09 FTE). The CSL includes two additional positions (1.91 FTE). There are no noted differences between the DAS and LFO CSL calculations.

The budget includes the phase-out of \$4.4 million, of which \$1.5 million is General Fund and \$2.9 million is Other Funds, for predominately one-time costs including information technology investments and Washington State ABLE Contract. There is one fund shift package that move \$2.8 million General Fund to Other Funds for the ORSB and ABLE programs. There is one technical adjustment package that shifts Services and Supplies to Personal Services to accommodate incentive compensation expenses related to Investment Officer positions established in the 2017-19 biennium. Other CSL changes include standard adjustments for contractually approved compensation plans, vacancy factor, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, Attorney General line-item, professional services, and rent.

Policy Issues

There are a few budget issues that the Co-Chairs budget will need to consider beyond which the agency may have additional requests.

Investment Division Phase-III (\$1.7 million Other Funds; five positions/4.47 FTE): The State Treasurer is requesting funding for “Phase-III” of multi-phase expansion of the Investment Division staff. This includes staffing for: investment officer (1), investment analysts (3), legal secretary (1), and two high level reclassifications. This is presumably be the final phase of a State Treasury plan (2015, 2017, and 2019) to significantly increased the staffing and resources devoted to the Investment Division to address the long-standing deficiencies within the Division and to reduce external investment costs through the in-sourcing of some investment management activities. The following budget note, approved by the Legislature in 2017, directs the Treasurer to report to with a feasibility study supporting continued investment in this Division:

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.

Nation-wide, with the lowering of assumed earnings rates, investment expenses are facing more scrutiny in an effort to increase net investment returns into pension systems. Whether, and how, the State Treasurer and the OIC will follow this trend is uncertain. For the Oregon Public Employees Retirement Fund, these charges exceed \$680 million, or \$1.4 billion on a biennial basis, based on fiscal year 2018 expenses.

Information Security Management (\$780,691 Other Fund; one position/0.92 FTE): The request includes one new position, whose purpose is unclear, as well as funds to purchase and implement additional security tools and services to help improve the security posture of the organization. Of note, is that State Treasury does not fall under the oversight of the Department of Administrative Services - Office of the Chief Information Officer.

“Oregon Savings Network” (<\$1.5 million General Fund>, \$3 million Other Funds): This package makes four requests: (1) restore the entire Oregon ABLE Savings Plan biennial budget; (2) restore the entire OregonSaves biennial budget; (3) make permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves, that was undertaken administratively during the 2017-19 biennium and without the knowledge of the Legislature or the Emergency Board; and (4) shift the ABLE Savings Plan and OregonSaves budgets from General Fund loans to Other Funds. The 529 College Savings plan’s rocky transition to a new plan administrator will spark discussion.

Shared Services Transition (\$425,669 Other Funds and four positions/3.68 FTE): This package increases Shared Services staffing levels to meet increasing demand for internal services and transition DAS contracted services to internal staff.

Classification Study (\$200,000 Other Funds): Conduct a position classification and compensation study for positions outside of the investment program.

Core Banking Business Systems Renewal (\$1 Other Funds placeholder): State Treasury is requesting to continue an investment to upgrade and modernize the agency’s cash management applications. The amount requested is a placeholder.

IAP Member Choice (LC N/A): PERS and State Treasury have default to Legislature on the issue of drafting legislation to address IAP member choice. The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The Legislature in 2018 enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective on January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018, if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds (“safe harbor” provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change

that was characterized as minor in nature; however, apparently neither OST nor PERS will be proposing such a legislative concept for the legislative session in 2019.HB 4159 (2018) provides for Individual Account Program member choice in investment selection.

Policy Packages: The OST agency request budget includes seven policy packages totaling \$4.8 million, which includes a \$1.5 million fund shift and a requested increase of \$4.8 million Other Funds and 10 positions (9.07 FTE).

The Executive Branch makes no recommendation on the State Treasury budget. Therefore, the Governor's budget simply funds State Treasury at \$94.7 million Other Funds, which is the Agency requested budget, after standard adjustments were made for DAS assessments and the Attorney General line-item. The Governor's budget is \$4.8 million (10 positions/9.07 FTE), or 5.3%, more than the CSL budget of \$90 million.

Other Significant Issues and Background

There are a few policy-type issues for the Co-Chairs to consider.

General Fund Repayment: OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The 2015-17 General Fund loan for the ORSB is \$1,012,497 and \$675,491 for the ABLE program for a combined total of \$1.7 million.

KPM Review: The Legislative session in 2017 directed the OST undertake a KPM review and propose: (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.