

HB 5042 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

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Reviewed By: John Borden, Legislative Fiscal Office

State Treasurer
2019-21

PRELIMINARY

Budget Summary*

	2017-19 Legislatively Approved Budget ⁽¹⁾	2019-21 Current Service Level	2019-21 Committee Recommendation	Committee Change from 2017-19 Leg. Approved	
				\$ Change	% Change
General Fund	\$ 5,361,270	\$ 1,463,607	\$ -	\$ (5,361,270)	(100.0%)
Other Funds Limited	\$ 82,003,898	\$ 88,422,190	\$ 93,512,995	\$ 11,509,097	14.0%
Total	\$ 87,365,168	\$ 89,885,797	\$ 93,512,995	\$ 6,147,827	7.0%

Position Summary

Authorized Positions	160	162	166	6
Full-time Equivalent (FTE) positions	150.09	161.00	164.47	14.38

⁽¹⁾ Includes adjustments through December 2018

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Office of the State Treasurer (OST) is funded 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 Office has broad statutory authority to increase fees, if necessary.

The Other Funds revenue sources within the State Treasurer's office are the Investment Fund Management Fee, Commingled Investment Fund Management Fees, Banking Charges, Debt Management Charges, 529 Administrative Fees, and OregonSaves Administrative Fees.

The Oregon State Treasury expects to start the repayment of outstanding General Fund loans for the Oregon Retirement Savings program during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The 2015-17 General Fund loan for the Oregon Retirement Savings Board was \$1,257,591 and \$647,040 for the Achieving a Better Life program for a combined total of \$1.9 million.

Summary of General Government Subcommittee Action

Article VI, Section 1 of the Oregon Constitution, created 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 Treasury 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 recommended approval for a budget of \$93,512,995 Other Funds, which is a 7.0 percent increase from the 2017-19 Legislatively Approved Budget and includes 166 positions (164.47 FTE).

Treasury Services

The Treasury Services Program Unit provides financial services to state entities and local governments and manages an array of responsibilities including the investment of public funds, issuance of all state bonds, cash management services and the protection of public fund deposits. The Treasury Services Program Unit contains four primary operational programs that align with statutory program authority: Finance, Debt Management, Investment, and Executive Services.

Within the four operational programs, OST undertakes 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 manages; (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 to 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 accounting and payroll services from the Department of Administration Services.

The Subcommittee approved of the following Budget Note:

Budget Note:

In order to improve the public transparency and understanding of the State Treasury budget, the agency is directed to establish Summary Cross References in the Oregon Budget Information Tracking System for the following divisions or programs: Finance; Debt Management; Investment Management; Executive Services Division; Oregon 529 College Savings Program; Oregon 529 Achieving a Better Life Program; and the Oregon Retirement Savings Board; as well as any newly proposed or established program-activity or division. This structure is to be in place for the 2021-23 biennium, the Legislature will establish line-item appropriations for each major State Treasury division or program.

State Treasury is to report to the Legislature in 2020 on how the agency has overcome any potential barriers related to implementing this change.

The Subcommittee recommended a budget of \$81,795,837 total funds, which is an 8.2 percent increase from the 2017-19 Legislatively Approved Budget and includes 157 positions (155.47 FTE). The Subcommittee recommended approval of the following packages:

Package 101, Investment Solutions. This package increases Other Funds expenditure limitation by \$1,525,191, establishes four positions (3.55 FTE), and reclassifies one position. The package funds Phase-III of a multi-phase expansion of the Investment Division staff. This is the final phase of a State Treasury plan (2015, 2017, and 2019) to significantly increase staffing and resources devoted to the Investment Division, which addresses long-standing deficiencies within the Division, and reduces external investment costs through in-sourcing of certain investment management activities. The Subcommittee recommended the establishment of the following positions:

- Chief Investment Officer: One permanent full-time Investment Officer-3 at step 9 (0.92 FTE) for the Alternative Markets section;
- Director of Investment Operations: One permanent full-time Investment Analyst 2 at step 5 (1.00 FTE);
- One permanent full-time Investment Analyst 2 at step 5 (0.88 FTE); and
- One permanent full-time Investment Analyst 2 at step 5 (0.75 FTE) for a newly established "Trading Operations" section.

The Subcommittee also recommend reclassifying the Director of Investment Operations from salary range 48 (step 9) to salary range 57 (step 1). Finally, the package increases incentive compensation by \$164,334. The amount includes \$131,868 of incentive compensation and \$22,378 of PERS and \$10,088 of Social Security line-item expenses for the Investment Officer 3 position. The revenue to support this package is from charges based on the value of managed portfolios.

Package 103, Information Security. This package makes a one-time increase in Other Funds expenditure limitation of \$780,691 to establish one limited duration Information Systems Specialist 8 position (0.92 FTE) and to purchase and implement additional information security tools and services.

Package 812, Vacant Position Elimination. This package abolishes one permanent full-time Principal Executive Manager D position (1.00 FTE), which has been vacant since October 2017. Abolishing the position reduces the Other Funds expenditure limitation by \$212,877.

Oregon 529 Savings Network

The Oregon 529 Savings Network offers tax-advantages, flexible investment options for Oregon families. This Oregon 529 Savings Network program consists of two programs: (a) the Oregon 529 College Savings Network, with a goal 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 recommended a budget of \$7,531,317 total funds, which is a 2.0 percent decrease from the 2017-19 Legislatively Approved Budget and includes five positions (5.75 FTE). The Subcommittee recommended the following package:

Package 104, Oregon Savings Network. The package reduces General Fund by \$441,787, increases Other Funds expenditure limitation by \$1,379,682, and increases existing positions allocated to the program by 0.75 FTE in aggregate. The package also reclassifies the Director and Deputy Director positions upward from salary ranges 40X to 45 and 32 to 38, respectively. The package (1) restores the entire Oregon ABLE Savings Plan biennial budget; (2) makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; (3) shifts the OregonSaves budget from General Fund to Other Funds; and (4) shifts the ABLE Savings Plan budget from General Fund to Other Funds.

Oregon Retirement Savings Program

The Oregon Retirement Savings Program provides retirement saving opportunities for Oregonians. The Oregon Retirement Savings Program provides eligible employees with automatic enrollment, payroll deduction, and automatic annual contribution escalation in a retirement savings plan (OregonSaves), all on a flexible, opt-out basis. The Subcommittee recommended approval for a budget of \$4,185,841 total funds, which is a 3.3 percent increase from the 2017-19 Legislatively Approved Budget and includes four positions (3.25 FTE). The Subcommittee recommended the following package:

Package 104, Oregon Savings Network. The package reduces General Fund by \$1,021,820, increases Other Funds expenditure limitation by \$1,618,118, and reduces existing positions allocated to the program by 0.75 FTE in aggregate. The package (1) restores the entire OregonSaves biennial budget; (2) makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; (3) shifts the OregonSaves budgets from General Fund to Other Funds; and (4) shifts the ABLE Savings Plan budget from General Fund to Other Funds.

Summary of Performance Measure Action

See attached “Legislatively Approved 2019-2021 Key Performance Measures.”

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Oregon State Treasury
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DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2017-19 Legislatively Approved Budget at Dec 2018 *	\$ 5,361,270	\$ -	\$ 82,003,898	\$ -	\$ -	\$ -	87,365,168	160	150.09
2019-21 Current Service Level (CSL)*	\$ 1,463,607	\$ -	\$ 88,422,190	\$ -	\$ -	\$ -	89,885,797	162	161.00
SUBCOMMITTEE ADJUSTMENTS (from CSL)									
SCR 17000-001 - Treasury Services									
Package 101: Investment Solutions									
Personal Services	\$ -	\$ -	\$ 1,311,673	\$ -	\$ -	\$ -	1,311,673	4	3.55
Services and Supplies	\$ -	\$ -	\$ 213,518	\$ -	\$ -	\$ -	213,518		
Package 103: Information Security									
Personal Services	\$ -	\$ -	\$ 209,361	\$ -	\$ -	\$ -	209,361	1	0.92
Services and Supplies	\$ -	\$ -	\$ 414,330	\$ -	\$ -	\$ -	414,330		
Capital Outlay	\$ -	\$ -	\$ 157,000	\$ -	\$ -	\$ -	157,000		
Package 103: Information Security									
Personal Services	\$ -	\$ -	\$ (212,877)	\$ -	\$ -	\$ -	(212,877)	(1)	(1.00)
SCR 17000-002 - Oregon 529 Savings Network									
Package 104: Oregon Saving Network									
Personal Services	\$ (441,787)	\$ -	\$ 597,911	\$ -	\$ -	\$ -	156,124	0	0.75
Services and Supplies	\$ -	\$ -	\$ 781,771	\$ -	\$ -	\$ -	781,771		
SCR 17000-003 - Oregon Retirement Savings Program									
Package 104: Oregon Saving Network									
Personal Services	\$ (1,021,820)	\$ -	\$ 892,396	\$ -	\$ -	\$ -	(129,424)	0	(0.75)
Services and Supplies	\$ -	\$ -	\$ 725,722	\$ -	\$ -	\$ -	725,722		
TOTAL ADJUSTMENTS	\$ (1,463,607)	\$ -	\$ 5,090,805	\$ -	\$ -	\$ -	3,627,198	4	3.47
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ -	\$ 93,512,995	\$ -	\$ -	\$ -	93,512,995	166	164.47
% Change from 2017-19 Leg Approved Budget	(100.0%)	0.0%	14.0%	0.0%	0.0%	0.0%	7.0%	3.8%	9.6%
% Change from 2019-21 Current Service Level	(100.0%)	0.0%	5.8%	0.0%	0.0%	0.0%	4.0%	2.5%	2.2%

*Excludes Capital Construction Expenditures

Legislatively Approved 2019 - 2021 Key Performance Measures

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Agency: Treasury, Oregon State

Mission Statement:

Improving Oregon Governments' and citizens' financial capabilities.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2020	Target 2021
1. Oregon Public Employees Retirement Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark		Approved	9.35%	8.50%	8.50%
2. Common School Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark.		Approved	9.46%	7.50%	7.50%
3. Oregon Short-Term Fund Returns Compared to Benchmark		Approved	1.34%	0.50%	0.50%
4. Expense to Assets Ratio for the Oregon Short-Term Fund		Approved	0.05%	0.50%	0.50%
5. Local Government Participation in the Oregon Short-Term Fund		Approved	64%	75%	75%
6. Banking Services - Average Cost per Transaction		Approved	\$0.042	\$0.035	\$0.035
7. Oregon School Bond Guaranty Program Bonds Outstanding		Approved	\$6,852,600,000.00	\$45,600,000,000.00	\$45,600,000,000.00
8. Number of Oregon 529 College Savings Network Accounts		Approved	215,955	170,000	170,000
9. Percentage of Minors (under age 25) with 529 College Savings Network Accounts		Approved	9.70%	11%	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	\$10,879,120,579.00	\$12,800,000,000.00	\$12,800,000,000.00
	b) Local Outstanding Debt in Oregon		\$23,117,139,073.00	\$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	99%	100%	100%
	Timeliness		98%	100%	100%
	Availability of Information		98%	100%	100%
	Expertise		99%	100%	100%
	Helpfulness		98%	100%	100%
	Overall		99%	100%	100%

LFO Recommendation:

The Legislative Fiscal Office recommends approval the Key Performance Measures and targets with direction that the agency work with the Legislative Fiscal Office to conduct a comprehensive review of existing Key Performance Measures, data, and targets, and report back to the Legislature in 2020 with proposed changes to KPMs and targets.

SubCommittee Action:

The General Government Subcommittee the Legislative Fiscal Office recommendatons.