

Oregon State Treasury

	2017-19 Actual	2019-21 Legislatively Adopted	2019-21 Legislatively Approved *	2021-23 Current Service Level	2021-23 Governor's Budget
General Fund	5,190,688	--	--	--	--
Other Funds	73,987,511	92,726,560	95,461,860	100,841,626	125,145,836
Other Funds (NL)	--	--	--	--	2,900,000
Total Funds	79,178,199	92,726,560	95,461,860	100,841,626	128,045,836
Positions	162	166	166	165	212
FTE	152.15	164.47	164.47	164.16	202.45

* Includes Emergency Board and administrative actions through January 2021.

Program Description

Oregon State Treasury (OST) provides banking, investment, and debt management services for the State of Oregon. The Oregon Constitution establishes the Office of the State Treasurer and the Treasurer is statutorily designated as the state's investment officer and sole banking and cash management officer. OST maintains all state agency financial accounts and invests state funds that are not needed to meet current expenditure demands, including the state's Trust Funds. OST coordinates and issues state bonds, provides oversight of local government bonding, and manages the public funds collateralization program for all financial institutions holding public funds. Additionally, OST invests excess funds for participating local governments. OST is also responsible for administration of the Oregon 529 Savings plans, which include 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, ABLE, and OregonSaves programs also have tax expenditure components.

Although considered an executive branch agency, as a separately elected constitutional office, OST operates independently 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 exempt from many statutes that apply to executive branch agencies, such as those governing human resources, procurement, and information technology policies.

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. Expenses incurred by the OIC are netted against investment earnings and not subject to legislative budgetary control (i.e. expenditure limitation).

OST has broad statutory authority to generate revenue from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions processed, account fees, debt management charges and fees on new issuances, charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels.

CSL Summary and Issues

The 2021-23 current service level (CSL) budget of \$100.8 million is \$5.4 million (or 5.6%) more than the 2019-21 legislatively approved budget of \$95.5 million. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures, net of \$602,734 that was phased-out for one-time costs associated with positions approved in the 2019-21 budget. A net-zero technical adjustment package is also included to align services and supplies between line item accounts and budgeted programs.

An increase to the CSL budget totaling \$670,865 Other Funds and three positions (2.50 FTE) is also required to roll-up the 2021-23 cost of actions approved in the 2020 second special session. The Legislature approved the establishment of three positions and reclassification of one position to transition accounting and budget services from the Department of Administrative Services to OST. Reclassification of five positions within the Investment Services budget was also approved.

Policy Issues

The passage of SB 454 (2019) transferred administration of the Uniform Disposition of Unclaimed Property Act, unclaimed estates, and escheated property from the Oregon Department of State Lands (DSL) to the State Treasurer effective July 1, 2021. Given the operative date, both OST and DSL developed policy option packages as part of the 2021-23 budget development process for the necessary budget adjustments to implement the transfer. OST has included the following three policy option packages related to the Unclaimed Property and Estates and Escheated Property Programs:

Trust Property Transition (\$7.3 million OF/ \$2.9 million OF NL) - This policy package transitions the Trust Property programs budgeted expenditure limitation and positions from DSL to OST and corresponds to a policy package included DSL's budget. A total of 14 positions (14.00 FTE) that directly support the programs are transferred to OST, including incumbent employees. In addition, 13 partial positions (3.00 FTE) that provide indirect shared services support are included in the package. The position authority for the 13 indirect positions is established within OST; however, only the fractional FTE of each position is transferred from DSL. Services and supplies expenditures totaling \$3.7 million Other Funds, as well as \$2.9 million in nonlimited authority are also shifted between the agencies.

Trust Property Adjustments (\$1.2 million) - Adjustments included in this package move the partial shared services positions to the Administrative Services budgeted program area and reclassify and increase the FTE of specified positions to ensure sufficient support operations for the Trust Property programs. The package reclassifies eight positions to the appropriate classification within Treasury, transfers 12 positions to Administrative Services, and collectively increases the transferred positions by 3.75 FTE. Additionally,

\$664,584 is added for services and supplies expenditures, including rent for Trust Property employees that will be located in the State Lands Building through spring 2022.

Trust Property Improvements (\$927,857) - OST is requesting additional funding to improve Trust Program operations, including additional staff to address increased workload associated with continued program growth. The package requests an Estate Coordinator (Program Analyst 1) position (0.88 FTE) to provide timely response to intestate cases and administer estates; a Claims Examiner (Public Services Representative 4) position (0.83 FTE) to process claims within statutory timelines; an Unclaimed Property Compliance Coordinator (Program Analyst 2) position (0.88 FTE) that will focus on increasing holder compliance; and a Trust Property Executive Specialist (Executive Support Specialist 2) position (0.92 FTE) to provide direct administrative support for the Trust Property programs. Additionally, an increase in a partial Principal Executive Manager D position from 0.25 FTE to 1.00 FTE is included to create a dedicated unclaimed property subordinate manager that can focus on program effectiveness.

HB 2158 (2021) has been introduced to make the statutory changes necessary for Treasury to operate the Trust Property programs, including the establishment of OST funds.

A budget note approved in the 2019 session directed OST to establish Summary Cross References (SCRs) in the Oregon Budget Information Tracking System (ORBITS) for agency divisions or programs to improve transparency and understanding of their budget. Per the budget note direction, OST submitted a comprehensive report to the Joint Committee on Ways and Means in the 2020 session on potential barriers to implementing the budget structure changes. The report also included a proposed budget structure that considered multiple criteria, including improved transparency and oversight, administrative complexity, and alignment of programmatic and operational units. OST developed its 2021-23 budget using this structure, with SCRs established for State and Local Government Financial Services, Public Savings Services, Investment Services, Trust Property Services, and Administrative Services.

The approval of OST's 2019-21 key performance measures (KPMs) included direction that the agency work with the Legislative Fiscal Office (LFO) to conduct a comprehensive review of existing KPMs, data, and targets, and report back to the Legislature in 2020 with proposed changes. OST submitted a KPM report to the Joint Committee on Ways and Means in the 2020 session, which included a review of seven of its 11 KPMs and a proposal to revise two and delete four of its existing KPMs. Consideration of legislative feedback and review of remaining KPMs was to continue during development of the 2021-23 budget. OST's 2020 Annual Performance Progress Report (APPR) includes replacing four existing KPMs that measure actual returns for the Oregon Public Employees Retirement Fund (OPERF), Common School Fund (CSF), OSTF, and OSTF expense to assets ratio with a new KPM measuring OPERF's historical 20-year net performance. OST is also proposing to delete the two existing KPMs related to debt management activities with a new measure on the level of General Fund debt outstanding per year. The report also includes the addition of a standard KPM for board best practices. Although not included in the agency's APPR, addition of a KPM related to the Trust Property programs should be considered.

ORS 293.718 authorizes the State Treasurer to deduct monthly investment fund management fees based on the value of assets under management from each of the investment funds. A maximum of 0.25 basis points (0.0025%) of the most recent value of assets under management may be deducted from all funds each month, except commingled investment funds, which may be charged a monthly maximum of 0.435 basis points (0.00435%). Commingled investment funds include the Oregon Short Term Fund (OSTF), Oregon Intermediate Term Pool, and Oregon Local Government Intermediate Fund. Investment fund management fees support OST's investment operations and support programs, which have grown over the last several biennia, due in part to insourcing investment management activities. OST has introduced HB 2157 (2021), which would raise the statutory caps on investment management fees (the increase in basis point fees on assets under management is currently unspecified). Current rates were set in 1995 (0.25 basis points on investment funds) and 1999 (0.435 basis points on comingled investment funds), though it's important to note that the level of fee revenue that may be generated increases as the value of managed investment portfolios grow.

Other Significant Issues and Background

In addition to the three policy packages related to the Trust Property Programs described earlier, the OST 2021-23 budget includes additional requests totaling \$14.7 million Other Funds and 13 positions (10.78 FTE).

Treasury Resiliency (\$2.5 million) - Other Funds limitation is requested to improve OST's resilience and ensure that the state's core financial activities are operational at all times, including natural disasters and other adverse events. The largest portion of the request is \$1.9 million for increased rent on a new Treasury Resiliency Building. OST has entered into a lease agreement for a new resilient facility that is anticipated to be completed in spring 2022. Treasury operations and staff that are currently located in the Labor and Industries Building on the Capitol Mall will be housed in the new facility, as well as Trust Property Programs staff currently in the State Lands Building. The request also includes moving costs, funding for temporary backup facilities that can be quickly established at alternate locations, a Continuity of Operations Plan (COOP) Coordinator position (0.92 FTE), purchase of an emergency communications tool, emergency supplies, and a limited duration Financial Preparedness Outreach Coordinator position (0.50 FTE) to create materials on how to be financially prepared for an emergency.

Cash Management Modernization and Resiliency (\$10.4 million) - As part of its ongoing Cash Management Improvement and Renewal Program (CMIRP), OST is requesting funding for the Core Banking Business Systems Renewal (BSR) project. The Core Banking BSR project will modernize Treasury's cash management systems and processes through replacement of the infrastructure that supports the state's banking activities, including account structure, transaction posting, interest and fee calculation, and general ledger accounting and reporting for all funds in the OSTF. The current product (Phoenix International) was purchased in the late 1990s and ongoing support is transitioning to an international vendor. Treasury has also internally developed several middleware applications to address needed functions not available in the current product. OST is currently in the initiation phase of the project and anticipates it will reach the second stage of analysis and planning in the 2021-23 biennium but could even move to the final execution phase depending on the alternative selected. Final selection of alternative (purchased product, internally developed, software as a service)

will determine the ultimate project scope, cost, and timing. The package also includes four additional positions (3.51 FTE) to support the core banking system modernization implementation, as well as other CMIRP activities.

Investment Program Workload (\$854,682) - Three positions are requested to meet the operational needs of Investment Services, which have expanded over the last several biennia. An in-house Attorney (Principal Executive Manager I) position (0.92 FTE) is added to address legal work needs that exceed current capacity. A Compliance Analyst (Operations and Policy Analyst 4) position (0.88 FTE) is added to implement improved processes for compliance reporting, oversight functions, and regulatory filings. The package also includes a Portfolio Risk Analyst (Investment Analyst 2) position (0.83 FTE) to support Investment Officers by reviewing asset allocation and risk management of various asset pools and asset class portfolios.

Additional requests include establishing a Senior Debt Analyst (Program Analyst 4) position (0.92 FTE) within Debt Management Services to accommodate increased housing bond sales (\$285,284); permanently funding a Senior Security Analyst (Information Systems Specialist 8) position (0.92 FTE) that was approved as limited duration in the prior biennium to respond to and prepare for information security threats (\$267,323); reclassifying four positions and establishing a new Operations and Policy Analyst 4 position (0.92 FTE) in the Treasurer's Office to align budgeted positions with actual duties and provide an effective level of staffing (\$293,121); and establishing a permanent part-time Public Affairs Specialist 1 (0.46 FTE) to fulfill public records requests (\$122,308).

As noted earlier, the Executive Branch makes no recommendation on the State Treasury budget. Therefore, the Governor's Budget funds OST at \$125.1 million Other Funds and \$2.9 million Other Fund nonlimited, which is the agency requested budget, including adjustments to reflect the 2021-23 impact of actions approved in the 2020 second special session and statewide reductions in DAS assessments and Attorney General rates. The Governor's Budget is \$27.2 million (or 27%) more than the CSL budget of \$100.8 million and includes 47 additional positions (38.29 FTE). The Unclaimed Property and Estates and Escheated Property programs transfer, support functions, and improvements represent approximately 45% of the Other Funds increase and account for 31 of the new positions.

OST expects to start repaying outstanding General Fund loans accrued during the 2015-17 and 2017-19 biennia for OregonSaves and the ABL program during the 2023-25 or 2025-27 biennium, based on revenue and expenditure forecasts from the initial program launch. Outstanding General Fund loans for OregonSaves and the ABL program total \$5.1 million and \$2 million, respectively.

Key Performance Measures

A copy of the OST Annual Performance Progress Report can be found on the LFO website https://www.oregonlegislature.gov/lfo/APPR/APPRProposed_OST_2020-12-31.pdf