

HB 2218 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

Prepared By: Mazen Malik, Senior Economist

Meeting Dates: 3/28, 4/4

WHAT THE MEASURE DOES:

Modifies maximum allowable deduction from assets under management for expenses of State Treasurer as investment officer.

ISSUES DISCUSSED:

- Cash management requirements by OST
- internal management of Funds by OST
- Economic Volatility and preparing for eventualities
- Role of W&M in setting the budget for OST and the investment division

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Oregon State Treasurer is in the final phase of a three-phase plan (2015, 2017, and 2019) to significantly increase the staffing and resources devoted to the Investment Division to address long-standing deficiencies within the Division and to reduce external investment costs through the in-sourcing of some investment management activities. Internally managed assets now comprise approximately 30% of the more than \$100 billion in assets under OST management. The in-house management of assets were reported to reduce external management fee and increase returns exceeding those produced by external management. OST produced and reported these estimates by comparing actual to benchmark returns. The assets under the management of OST subject to this legislation grew in size from \$100 billion in 2018 to more than \$134 billion in 2022. As for the rate charged, all commingled funds have been at the 0.435 basis point cap for the time in question. All other accounts except SAIF have been at the 0.25bps cap. SAIF has been at 0.15bps due to the lower costs of administering their portfolio.

The amounts used by OST to manage the funds are ultimately controlled by the limitations imposed by the committee on Ways and Means through the budget approval process (\$47 million in 23-25). As the current rates seem to be currently sufficient, the increase in the statutory fees recognizes the possibility of contingencies where OST might need to continue managing the funds if conditions cause the base to shrink while the management costs need to continue until fund balances rebound.