

Oregon State Treasury

	2019-21 Actual	2021-23 Legislatively Adopted	2021-23 Legislatively Approved	2023-25 Current Service Level	2023-25 Governor's Budget
Other Funds	85,129,096	115,832,025	118,930,410	126,748,301	130,944,434
Other Funds (NL)	-	2,900,000	2,900,000	2,900,000	2,900,000
Total Funds	85,129,096	118,732,025	121,830,410	129,648,301	133,844,434
Positions	169	210	210	208	228
FTE	165.17	200.36	200.36	199.91	219.64

* Includes Emergency Board and administrative actions through December 2022

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 2023-25 current service level (CSL) budget of \$129.6 million is \$7.8 million, or 6.4%, more than the 2021-23 legislatively approved budget of \$121.8 million. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures, net of \$726,087 that was phased-out for one-time costs associated with positions approved in the 2021-23 budget.

There is one adjustment to CSL to get to modified CSL in the form of a revenue shortfall. This package modifies the current service level as described in the budget instructions to reduce current service level expenditures by \$2,195,466 to accommodate actual patterns in spending and revenues for the ABLE and OregonSaves programs. Both programs have transitioned from the start-up phase to more routine ongoing operations in recent biennia, actual programmatic expenses have proven to be substantially less than budgeted when the programs were implemented. This is expected to be part of a slow, deliberative process to continue refining budget levels for these relatively new programs since they have few models to serve as guides nationwide for forecasting long-term operational expenses.

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. The passage of HB 2158 (2021) made the statutory changes necessary for Treasury to operate the Trust Property programs, including the establishment of OST funds.

OST developed its 2021-23, budget based on direction from LFO, using a revised budget structure. The new structure was designed to improve transparency and oversight, administrative complexity, and alignment of programmatic and operational units. The agency will retain the same structure in the 2023-25 biennium.

OST's 2021-23 key performance measures (KPMs) report for 2022 consisted of eight measures, two of which had multiple parts, as approved by the legislature in the 2021 Session. This structure represents multiple approved changes from the prior biennium, including measure #6 for the newly acquired Trust Property program.

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. Current rate maximums 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.

Governor's Budget Summary

As noted earlier, the Executive Branch makes no recommendation on the State Treasury budget. The Governor's budget funds OST at \$130.9 million Other Funds and \$2.9 million Other Fund nonlimited, which includes adjustments to reflect the 2021-23 impact of actions approved in the June 2022 Emergency Board. The Governor's budget is \$4.2 million (or 3.2%) more than the CSL budget of \$129.6 million and includes 20 additional positions (19.73 FTE). The entire increase is Other Funds and is attributable to an Emergency Board action and five policy option packages.

During the June 2022 Emergency Board an increase totaling \$177,320 Other Funds was approved to fund the reclassification of four positions and the addition of months to two existing positions (0.59 FTE) for the Trust Property Program. The full biennium impact of the changes in 2023-25 are \$439,894 Other Funds and 1.25 FTE.

The details of the five 2023-25 OST Governor's budget policy option packages (POPs) are below:

Ready, Resilient Operations: IT (\$1,310,440 and 3.68 FTE) POP 101 - Other Funds limitation is requested for four positions for Administrative Services. Over the last 10 years, OST has more than doubled in size. While that increase is partially attributable to new programs, the lion's share of the growth comes from efforts to modernize operations, improve resiliency, reduce fees absorbed by Treasury's investment portfolios, and move more investment management expertise in-house. All these efforts are necessarily supported by growing the scope, capabilities, and responsibilities of Treasury's Information Technology team. Two of the new positions are Executive Managers with division wide responsibilities. The Deputy Chief Information Officer is designed to support the existing CIO and have a broad understanding of the entire department in the event of turnover in the top position. The Chief Data Officer will assist the division in continuing to improve management of data as a corporate resource, expand website offerings, work towards more transparency, and deal with both security/privacy concerns. The other two positions are an Application Security Analyst and a Web Communications Analyst which will assist the Information Security and Application Services areas.

Performance & Service Improvements: Trust Property (\$1,210,367 and 4.60 FTE) POP 102 - Other Funds limitation is requested for five positions for Trust Property Services. In the last five years, yearly receipts grew by more than 55% and the claims team has a significant number of claims waiting to be processed. ORS 98.402 directs OST to "respond to unclaimed property claims within 120 days." The benchmark was last met in 2017 and current approval time is 8 months. The new positions will allow Trust Property Services to strategically build capacity to utilize advanced research and analytic tools to locate property owners, raise awareness about the unclaimed property program, and approve claims within statutory deadlines.

Capacity & Resilience: Government Services (\$1,531,802 and 5.60 FTE) POP 103 - Other Funds limitation is requested for six positions to improve Treasury's ability to meet the daily operational and long-term strategic needs of its State and Local Government Financial Services stakeholders by hiring, training, and deploying subject matter experts to better support critical banking, cash, and debt management programs. Five positions will be under the State & Local Government Financial Services with the other under Administrative Services.

Portfolio Governance: Investments (\$391,225 and 0.92 FTE) POP 104 - Other Funds limitation is requested for one Senior Investment Analyst for Investment Services. Over the last 5 years, the Investment Division has seen State managed investments grow by about fifty percent. The new analyst will provide comprehensive oversight to ensure portfolio structure, policy, and member service needs are met and ultimately help to fulfill fiduciary responsibilities of the office of the State Treasurer.

Internal Controls & Support: Legal (\$1,507,871 and 3.68 FTE) POP 105 - Other Funds limitation is requested for four positions for Investment Services. Two positions are new Associate General Counsel positions to assist with its expanding legal workload. Treasury and the Oregon Department of Justice have had discussions regarding amending the interagency agreement to increase the number of attorneys at Treasury and to expand their scope of work. Two positions are in the areas of internal controls and compliance. They will support enhanced and improved executive level compliance reporting, due diligence practices and oversight in the private and public markets, oversight over investments related vendors, development of new controls across multiple systems, trading oversight, and regulatory filings.

Other Significant Issues and Background

OST accrued General Fund loans during the 2015-17 and 2017-19 biennia for OregonSaves and the ABLE program. The agency will begin repaying the loans at some point, but currently, there is insufficient historical data to generate a reasonable estimate for when the program could begin repayment. The outstanding General Fund loan balance for OregonSaves and the ABLE programs 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/APPR_OST_2022-10-04.pdf