

Agency Overview and Priorities

2017-2019 Biennium

Joint Committee on Ways & Means
General Government Subcommittee
March 20, 2017



Oregon State Treasury

Tobias Read, State Treasurer

SAVING MILLIONS



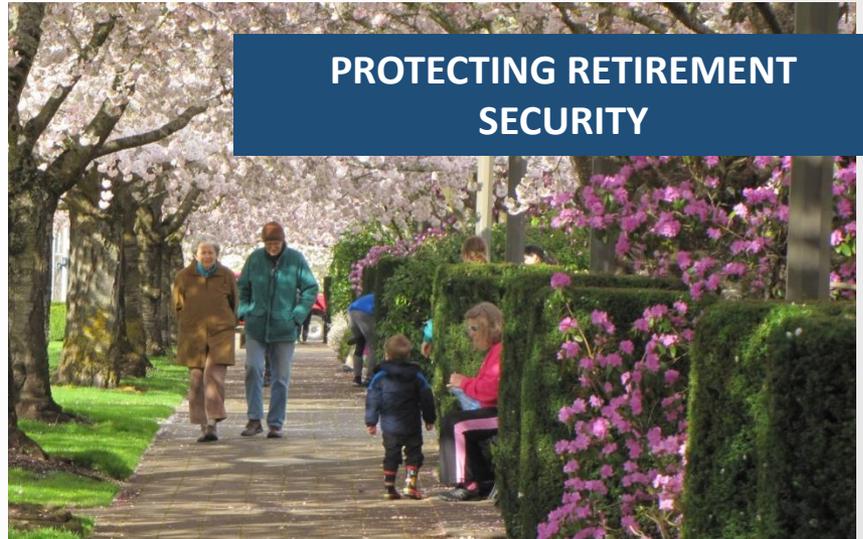
EMPOWERING FAMILIES



HELPING GOVERNMENTS SUCCEED



PROTECTING RETIREMENT SECURITY



Financial Empowerment

VISION STATEMENT

Financial leadership today for Oregon's tomorrow.

MISSION STATEMENT

To provide financial stewardship for Oregon.

PROTECTING OREGON'S FINANCES

\$92 B

Assets under management

\$230 B

Bank transactions supported annually

\$13 B

State bonds outstanding issued and tracked

\$2.7 B

Oregon 529 Savings assets

\$2.2 B

Public funds protected at qualified depositories



Financial Empowerment

DOING BUSINESS THE RIGHT WAY

- Reducing the costs of management and investment services
- Improving corporate governance to build better returns for Oregonians
- Advocating for more board and management diversity
- Protecting Oregon public funds

INVESTING IN OURSELVES

- Allowing working Oregonians a option to save for retirement (OregonSaves)
- Helping families save for college and job training (Oregon 529 Network)
- Enabling families to save for disability-related costs (Oregon ABLE)

LONG TERM THINKING

- Facilitating low-cost financing for critical infrastructure needs in our schools
- Achieving sustainable and strong returns for Oregon's trust fund portfolio
- Negotiating millions in savings for agencies and Oregonians



Highlights from 2015-17



- + 6.9% returns in 2016 for OPERF; SAIF fund reached new record
- Launched new intermediate-term pool for local governments
- Expanded investment staff and capacity to better manage risk



- Saved millions for Short Term Fund depositors such as cities and schools
- Realized bond refinancing savings of \$384 million (present value, 2010-17)
- Cast thousands of proxy votes as a responsible investor



- Expanded into new office in Tigard to better serve Oregonians
- Led financing for new school facilities matching grants
- Improved cash management functionality and capacity



- Launched new Oregon ABLE Savings plan in December 2016
- 529 College Savings Plans reached record \$2.7 billion in assets
- Designed OregonSaves with public engagement (pilot launch in July)



Budget Priorities for 2017-19 Biennium



- Increase investment capacity toward industry standards (POP 101)
- Promote sustainability with corporate governance and added Environmental, Social, and Governance (ESG) risk-mitigation capacity
- Continue investment in cybersecurity to protect sensitive financial information (POP 103)



- Continue modernization and renewal project for critical cash management systems and diversified contracts for banking and finance programs (POPs 106, 107, 108, 109)



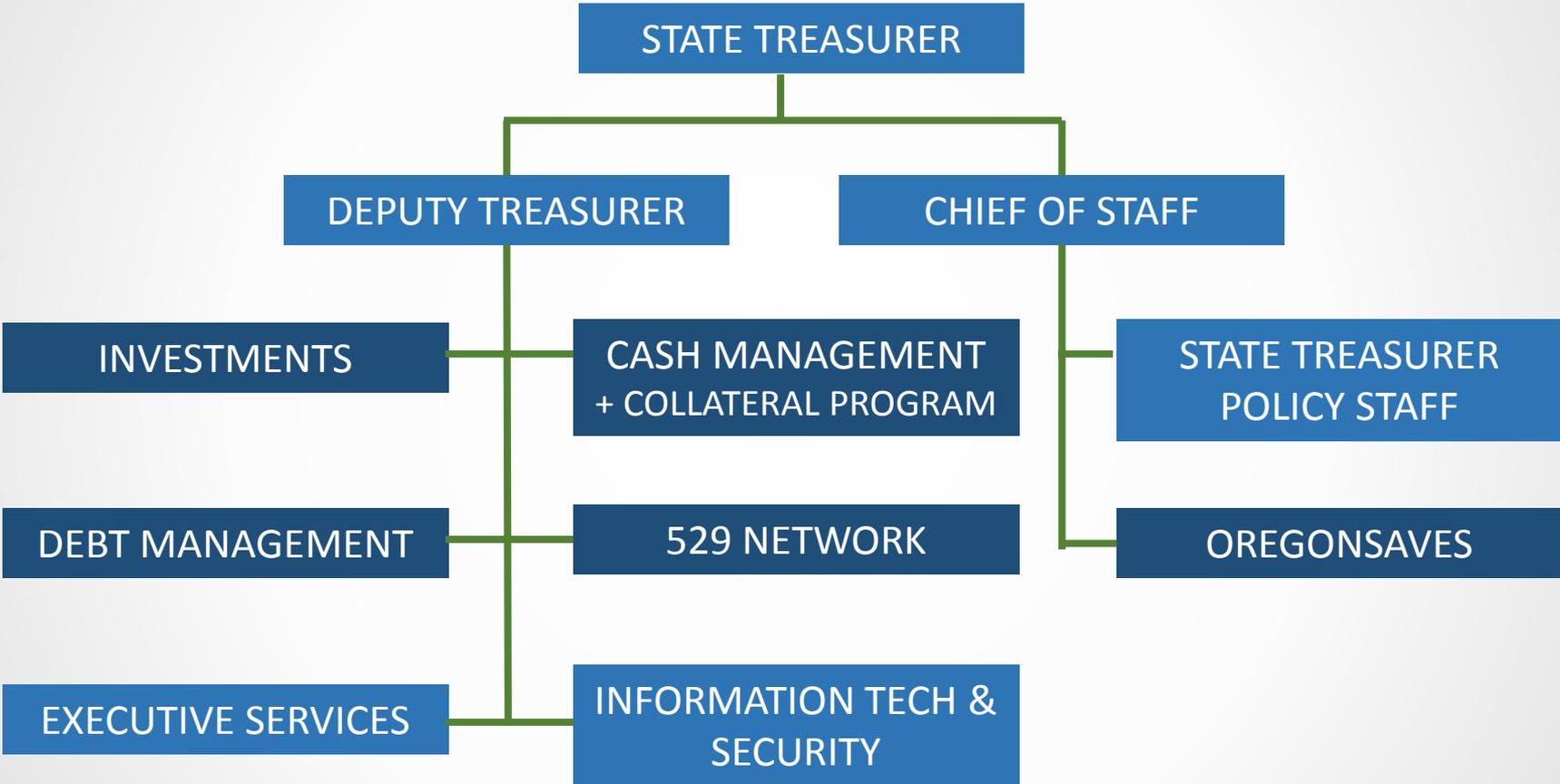
- Protect state credit ratings by advocating for restrained and prioritized use of public debt
- Facilitate accelerated infrastructure investments



- Successfully expand Oregon ABLE (POP 105), and launch OregonSaves (POP 104) with General Fund loans until programs have significant assets and become self-sustaining

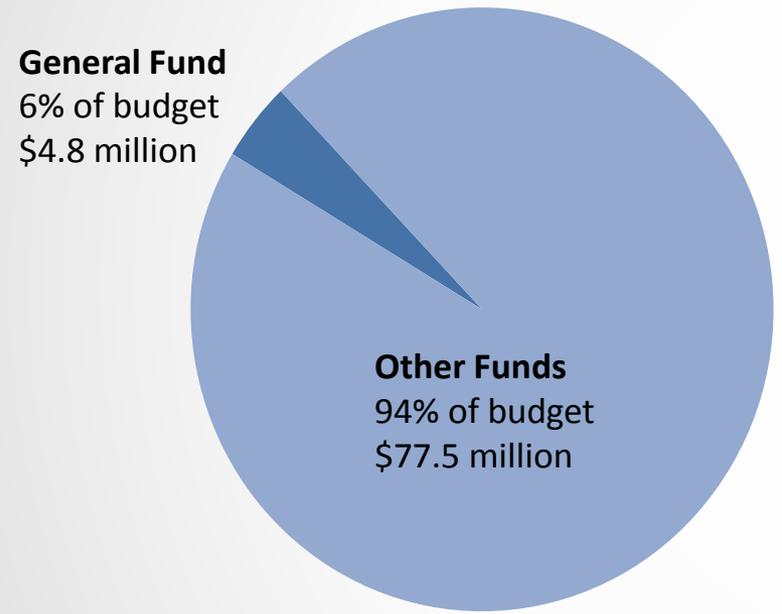


Oregon's Financial Services Hub

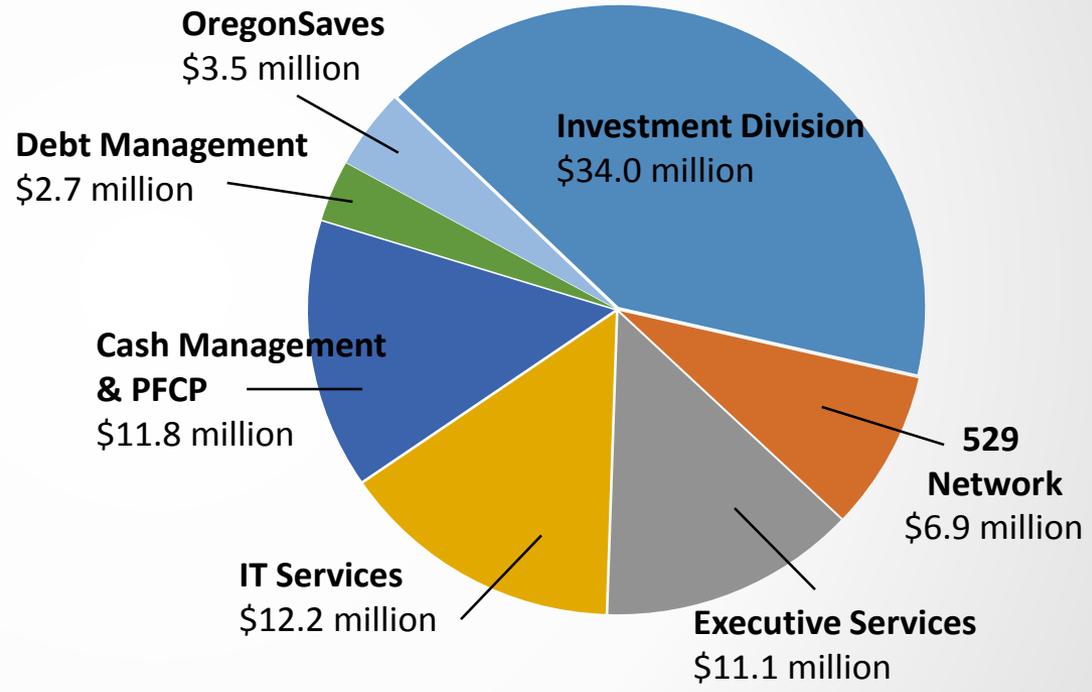


Budget Blueprint 2017-19

SOURCES OF OPERATING REVENUE



HOW IT IS DEPLOYED



- Most Treasury costs are covered via fees for services to customers
- General Fund allocation is in the form of loans for startup costs associated with OregonSaves and Oregon ABLE



Key Performance Measures

1 5-YR OPERF Investment Performance

+9.11%

Benchmark +10.07% (2016)

2 5-YR Common School Fund Performance

+9.13%

Benchmark +8.85% (2016)

3 Annual Short Term Fund Performance

+.53%

Benchmark +0.03% (2016)

4 Short Term Fund Expense Ratio

0.06%

Benchmark 0.18% (2016)

5 Local Government Participation in Short Term Fund / LGIP

79%

Target 75% (2016)

6 Average Cost per Banking Transaction

\$0.04

Target \$0.11 (2016)



Key Performance Measures

7 Oregon School Bonds Guaranty
Bonds Outstanding

\$3.68 B

No target data (2016)

8 Oregon 529 College Savings Accounts

174,000

Target 7% growth
171,735 (Dec 2016)

9 Counties with at least 10% of
Residents Age 25 and Younger with
529 College Accounts

11%

Target 100% (2016)

10 State and Local Outstanding Debt Tracked

\$13.1 B

State Debt Outstanding – no target (2016)

\$20.4 B

Local Debt Outstanding – no target (2016)

2,205

Active Bond Issues tracked – no target (2016)

11 Positive Customer Service Rating

100%

Target 100% (2016)



Cost Containment and Improved Service Delivery

FOR TAXPAYERS

\$384 M

Present value savings
“Advance refunding”
debt refinancing
2010 to date

36%

Reduction in merchant
card processing fee for
agencies

FOR BENEFICIARIES

\$5.2 M

Reduced annual
investment fees
through insourcing
public equity

\$24 M

Value added:
Associated public equity
performance advantage

FOR CUSTOMERS

50%

Oregon 529
College Savings
state admin fee
reduction

\$137.4 M

Performance and fee
advantage to OSTF
participants

- Treasury more than offsets the entire cost of annual operations with negotiated savings, volume pricing, and higher-than-benchmark returns for customers



Budget Drivers and Risks

DRIVERS

- **Stronger demand** for Treasury-facilitated investing, bonding, banking, and empowerment services, including OregonSaves and Oregon ABLE
- **Data security requirements** and standards and evolving technology
- In response to increasingly volatile global markets, greater need for **up-to-date research tools, investing tools, and knowledge capacity** to better balance opportunities against risks

RISKS

- **Changes in federal regulations**, tax policy, or other factors with potential to impact Treasury and its private-sector partners
- **Aging technology infrastructure** and related business processes
- **Inadequate staffing and resources** at Treasury as well as with state agency, public university, and local government partners
- Growing political unease and potential impact on **market stability**



Agency Changes 2011-17

2011-13

- West Coast Infrastructure Exchange established
- Oregon Investment Act implemented

2013-15

- Cash Management Improvement and Renewal Program (ongoing)
- Shifted Oregon Growth Board to Business Oregon (economic development)

2015-17

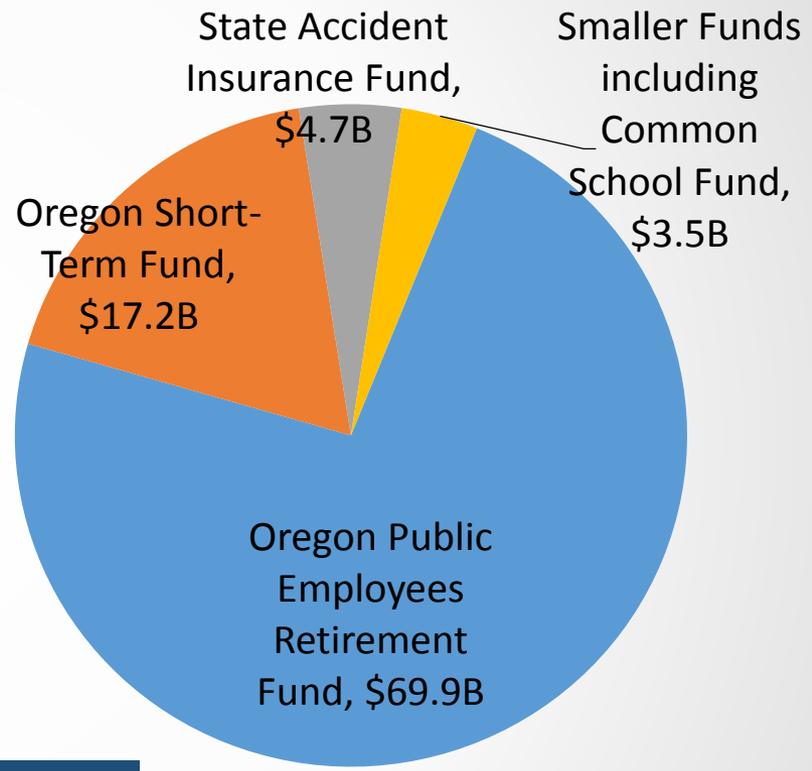
- Investment Division technology, compliance, and first-phase capacity expansion
- Facility expansion to accommodate additional staff capacity (Tigard)
- Oregon ABLE Savings Plan development and launch
- OregonSaves development (Oregon Retirement Savings)



Investment Management

MAXIMIZING RETURNS and MANAGING RISK

- Manages \$92 billion in globally-diversified portfolios including the pension fund, for the highest risk-adjusted returns and consistent with policies set by the Oregon Investment Council
- In the midst of a multiyear effort to increase staff and oversight capacity to adequately manage one of the nation’s largest public investment portfolios



BUDGET SNAPSHOT

- Self-supported with fees associated with portfolio management activities (ORS 293.718)
- 2017-19 Recommendation = \$34 million, 64 positions
- Includes \$7.9 million related to POP 101 - Investment Solutions



Investment Management

- Long-term pension fund performance ranked first in its public peer group (10 year)
- Benchmark study: Oregon has a higher cost fund relative to its peer group. Two key reasons:
 - 1) Heavy reliance on outsourced services
 - 2) An investment mix that includes higher cost assets. This mix has translated to higher long-term net returns, which benefits the fund beneficiaries and taxpayers
- Key goal: Reduce costs and thus increase net returns by insourcing more asset management activities



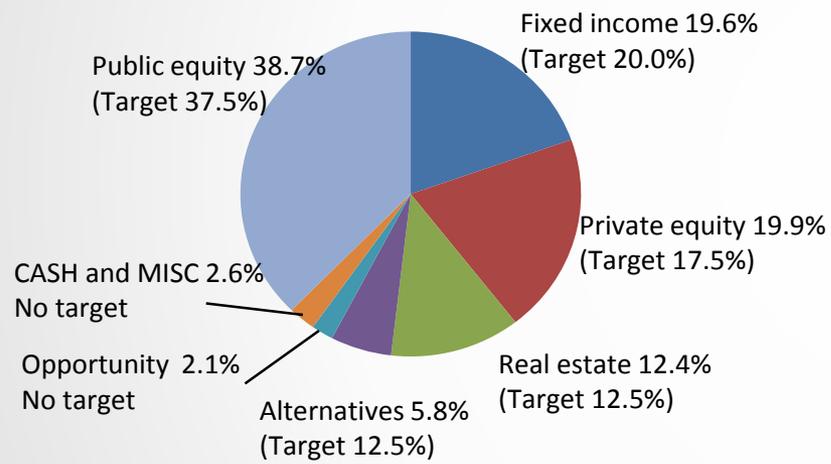
RETURNS

Fund	1-year	5-year	10-year
OPERF Regular	+6.88%	+9.11%	+5.47%
SAIF	+6.38%	+4.80%	+5.33%
Common School	+6.09%	+9.13%	+4.49%

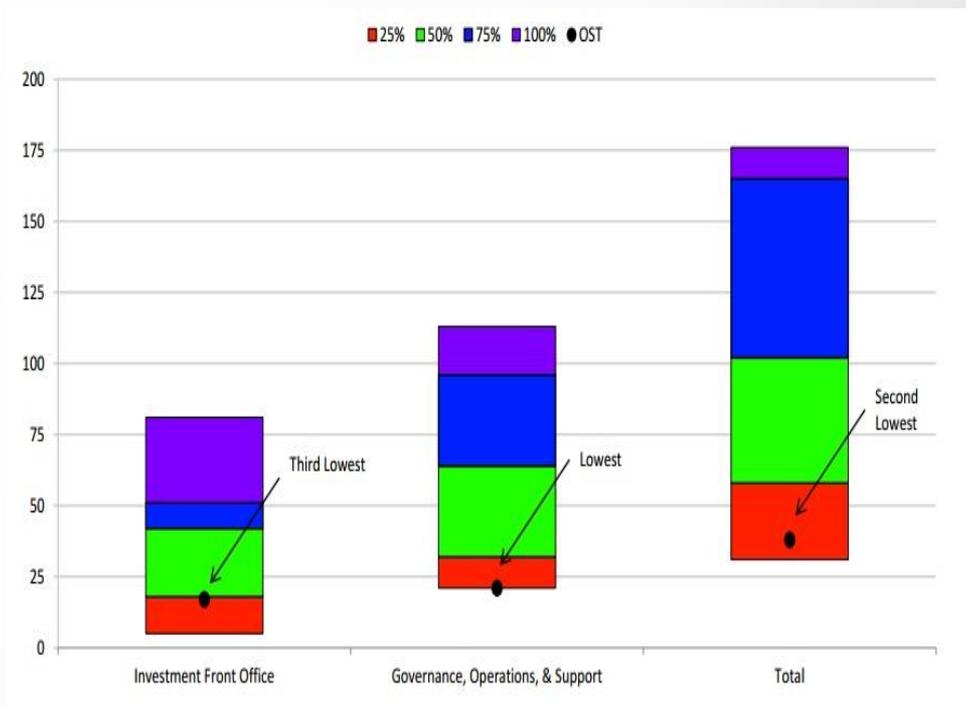


Investment Management

OPERF INVESTMENT MIX



PERSONNEL VS PEERS



Rankings based on custom peer group of 13 global asset owners with portfolios of similar size and portfolio composition.

Source: CEM Benchmarking, November 2016 report



Investing Responsibly and Sustainably

PROXY VOTING

7,515

Annual meetings at which Oregon funds voted, 2015

12,295

Total ballots, 2015

SECURITIES LITIGATION

\$12.4 M

Losses recouped through securities cases 2011-16

- Treasury engages with companies and regulatory bodies to enhance long-term value and promote sustainable market conditions. If companies act in ways that impair value, the Treasurer can authorize securities lawsuits
- **Corporate governance** advocacy covers a range of ESG factors (Environmental, Social, and Governance) such as climate risk disclosure and transparency, shareholder access, board diversity, and executive compensation
- Oregon is part of a high-profile, international effort to create uniform ESG reporting standards, facilitated by the Sustainability Accounting Standards Board
- These standards will lead to better-informed investing decisions. Oregon is poised to capitalize on the new data with a formal **ESG risk function**



Debt Management

STATE DEBT OVERSIGHT

- Centrally coordinates issuance of all agency and authority bonds for Oregon
- Liaison to three bond rating agencies (state ratings remain strong and stable)
- Saves millions with advance refunding / refinancing in favorable market conditions
- Staffs the Debt Policy Advisory Commission and Private Activity Bond Committee

LOCAL GOVERNMENTS and NONPROFITS

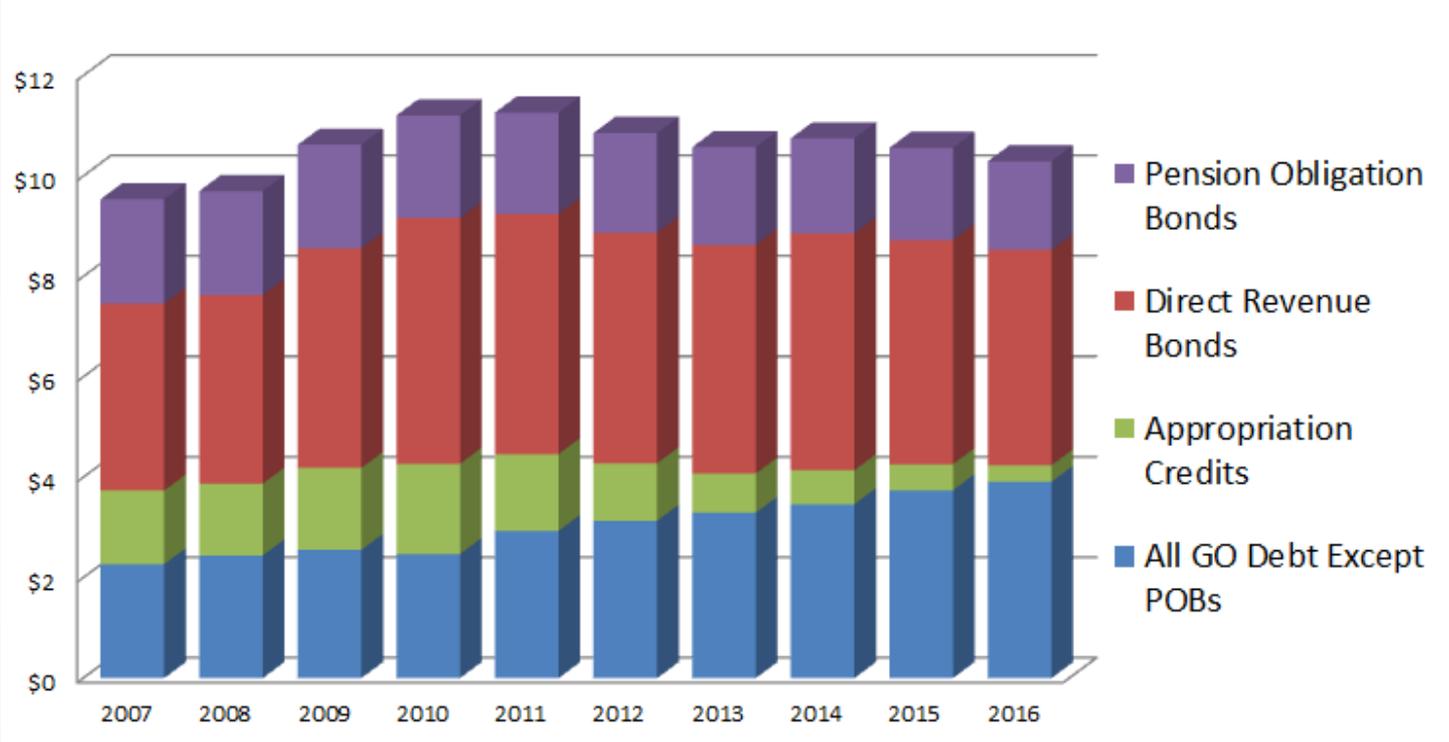
- Staffs the Municipal Debt Advisory Commission, Oregon Facilities Authority, and Oregon School Bond Guaranty program
- Tracks and reports on every state and local bond issued, and publishes Oregon Bond Calendar to ensure orderly sales and better marketability

BUDGET SNAPSHOT

- Self-supported with revenue from bond issuance, tracking, and other fees for services by state agencies and local governments (ORS 286A.014)
- 2017-19 Recommendation: \$2.7 million, 7 positions



Total State-Backed Indebtedness



- State-backed, long-term debt outstanding was roughly \$10.2 billion (June 2016)
- Does not include \$3 billion in conduit, state-issued bonds (not state-backed)
- Recent refunding of GO bonds linked to Small-scale Energy Loan Program saved \$5.7 million. Additional refundings planned later this spring.
- SDPAC recommended debt limits: \$1.1 billion General Obligation, \$209 million Lottery



Helping Oregon Nonprofits Save



Peacehealth Sacred Heart Medical Center - Riverbend Hospital, Springfield, and Ridgeline Montessori School, Eugene

- With expertise from Debt Management Division, **Oregon Facilities Authority** connects nonprofits large and small statewide with tax-exempt “conduit” bonds for real estate acquisition, refinancing, construction, or remodeling
- Interest savings allow nonprofits to better achieve their missions
- Bonds are repaid by the nonprofits, not the state
- OFA has issued more than \$3.9 billion for Oregon’s nonprofit community since 1989.



Finance Division

CASH MANAGEMENT (BANKING)

- Provides banking services for state agencies and participating public universities. Includes depository, check redemption, and electronic payment services.
- Protects data and generates account statements and reports
- Facilitates use of Local Government Investment Pool
- Oversees Public Funds Collateralization Program

\$230 B
Total transaction
financial volume

14.1 M
Total 2016
transactions

BUDGET SNAPSHOT

- Revenues derived primarily from banking service charges (ORS 293.353) and OSTF management fees (ORS 293.718)
- 2017-19 Recommendation: \$11.8 million, 18 positions
- Includes \$1 placeholders related to POPs 106, 107, 108, and 109 related to Cash Management Improvement and Renewal Program



Local Government Services

- 996 cities, counties, school districts, and other local governments participate in the Local Government Investment Pool, which is part of the Oregon Short Term Fund
- Treasury launched the Local Government Intermediate Fund in 2016 for longer-duration deposits
- The Oregon Short Term Fund makes money available to local lenders through the Time Certificates of Deposit Program, and those assets can then be loaned to small businesses



LOCAL GOVERNMENT FUNDS

Fund	size	rate
Short Term	\$17.2 B	1.15%
Intermediate	\$201.2 M	-1.28%



Cash Management Improvement & Renewal

IT INFRASTRUCTURE UPGRADES

- 2015 Legislative Assembly approved funds for replacement of failing electronic funds transfer systems. (POP 107)
- Core transaction and balance reporting systems sit at the center of Treasury's banking infrastructure. Business case being developed for replacement. (POP 108)

VENDOR RELATIONSHIPS

- Treasury relies heavily on a single provider for the bulk of its bank-related services. Diversifying that portfolio to better serve state and mitigate operational risks. (POP 109)

LOCAL GOVERNMENT INVESTMENT POOL

- 2015 Legislative Assembly approved funds for replacement of failing systems for the Local Government Investment Pool. (POP 106)



Public Funds Collateralization

SAFEGUARDING PUBLIC FUNDS

- Local governments with balances above insurance thresholds can bank with qualified public funds depositories
- Collateral pledges protect public fund deposits at banks and credit unions as a safeguard if a participating financial institution fails

BY THE NUMBERS

34/12

Participating
banks / credit unions

\$2.2 B

Public funds held
by banks

\$26.7 M

Public funds held
by credit unions

\$1.6 B

Total pledged
collateral

BUDGET SNAPSHOT

- Revenues derived entirely from program charges (ORS 295.106)
- Organizationally staffed within the Finance Division



Securing Oregon's Finances

FIREWALLS

- Technology firewalls and cybersecurity safeguards must meet or exceed industry standards to protect billions in financial transactions and client data. A major breach could financially devastate the state.
- Because of the financial and sensitive nature of Treasury's secure network, it must be maintained separately from other public data.

89%

Cybersecurity attacks with finance or espionage motivations
(Verizon research, 2016)

8.1 B

Global malware attacks, 2016
(Dell Security Annual Threat Report)

BUDGET SNAPSHOT

- 2017-19 Recommendation (Shared Services) : \$23.3 million, 58 positions
- Includes two positions in POP 103 - Cyber Security



Oregon 529 Savings Network

EMPOWERING FAMILIES

- Allows families to build savings toward higher education, job training, and disability-related costs. Each plan offers a mix of investment options and access to tax benefits.
- Steady growth has allowed for fee reductions as there is no profit motive. Statewide outreach efforts include contests, sponsorships, library programs, and “Be College Ready” in public schools.
- Record number of savers and assets invested as of December 2016.

174,000
Oregon 529 Savings Network
total accounts

\$2.7 B
Total value of accounts

\$930 K
Value of Oregon ABLE Savings
(Feb 2017)

BUDGET SNAPSHOT

- Revenues derived from account administrative fees and payments from plan providers for Network promotional activities (ORS 178.335)
- 2017-19 Recommendation: \$6.9 million, 5 Positions
- Includes \$1.3 million General Fund loan for POP 105 – 529 ABLE Program



Oregon ABLE Savings

- Oregon ABLE Savings launched in December 2016
- Beneficiaries can save as much as \$100,000 without impacting vital means-tested public benefits
- Two connected programs were launched: Oregon ABLE and ABLE for All, which is available to savers nationwide
- To keep fees reasonable, the program is using a general fund loan that will be repaid. This is similar to the startup costs for the Oregon 529 College Savings Plan.



ABLE ACT

Senate Bill 777 (2015) adheres to the federal Stephen Beck, Jr., Achieving a Better Life Experience (ABLE) Act, which added disability-related costs as qualified expenses under Section 529 laws.



OregonSaves

RETIREMENT SECURITY

- Authorized by 2015 Legislative Assembly to help address retirement savings crisis. The goal is to be a simple option for employers and employees.
- The Oregon Retirement Savings Board created an open, inclusive, and interactive process to develop OregonSaves.
- Pilot rollout in July 2017 with a small group of employers.
- Phased rollout to begin in January 2018, based on employer size. There is no guaranteed return or fiduciary risk to employers or state.

1 M

Oregonians without access to a savings option at work

\$6 B

Estimated combined savings at plan year 15

BUDGET SNAPSHOT

- Revenues will be derived from account administrative fees
- 2017-19 Recommendation: \$3.5 million, 6 Positions
- Fully funded by General Fund loan for OregonSaves startup costs (POP 104)



OregonSaves



DOING BUSINESS THE RIGHT WAY

- Open process: OregonSaves has been debated and constructed in public meetings, public hearings, and roundtables across the state, including sessions with industry – specific groups such as farmers and homecare workers
- Draft rules were revised three times to take into account suggestions
- A key goal of OregonSaves is helping to improve financial literacy
- Accounts will be pooled, professionally managed, portable, and belong to the saver. Investments will be in mutual funds.

DOL SAFE HARBOR

- A move by Congress to limit auto-enrolled state-based retirement savings efforts could add a layer of complexity to OregonSaves. A legal opinion shows that Oregon businesses are still protected under the 1975 ERISA law. OregonSaves remains on track for pilot launch this year.



General Fund Reduction Options

5% Reduce loan by \$102,000

Reduce amount available to OregonSaves for employer and employee awareness and training activities during initial launch period, increasing risks associated with mandatory program rollout and implementation.

10% Reduce loan by \$204,000

Further reduce professional services directed at OregonSaves outreach activities during initial launch period, increasing risks associated with mandatory program rollout and implementation.

15% Reduce loan by \$306,000

Treasury would need to evaluate whether reductions to staffing or additional professional/contracted services cuts would have the least additional impact. Reductions of this size in either area would undermine the implementation of the OregonSaves program.



Transparency and Accountability

DOING BUSINESS THE RIGHT WAY

- **FOR THE PUBLIC:** Developing a new and accessible format to display performance and debt data
- **PUBLIC RECORDS:** Creating online platform to post all public records requests and responses
- **FINANCIAL LITERACY:** Connecting Oregonians to resources to better guard their money and make smarter decisions
- **FOR BENEFICIARIES:** Developing a new publication to better inform beneficiaries about fund performance, corporate governance, and investment priorities
- **FOR CUSTOMERS:** Producing newsletters about government banking, investing issues, and trends





Oregon State Treasury

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