

## **HB 2208 Testimony Outline**

Chair Gelser, Members of the Committee, for the record, my name is Mike Green, Associate Vice Chancellor for Finance and Administration and Controller for the Oregon University System

I am pleased to be here today to discuss HB 2208

### Pertinent Background Information:

- Currently, OUS maintains in excess of 100 cash accounts in accordance with statutory stipulations;
- Cash balances in these accounts are currently invested by the State Treasurer in its Short-term fund;
- OUS retains the investment earnings on 59% of these balances and the investment earnings on the other 41%, including cash received from student tuition and fees, accrue to the State's General Fund.
- The funds comprised within this 41% of OUS cash balances currently earn \$13.9 million per biennium (excluding any State General Fund Appropriations);
- The current statutory structure of OUS's bank accounts does not allow the State Treasurer to consider pooled investment strategies that may improve investment earnings.

### HB 2208 Does Three Things:

- It serves to consolidate the multiple cash accounts into two main accounts;
- It directs investment earnings on all OUS cash accounts to OUS, excluding the account that would contain State General Fund appropriations, which will continue to accrue to the State's General Fund; and
- It includes housekeeping provisions to refer to the Oregon University System consistently throughout state statutes.

Passage of HB 2208 will Benefit OUS in the following ways:

- Working together with the State Treasurer, OUS would be able to streamline our banking processes and improve operational efficiencies and effectiveness. Having a simplified banking structure will, among other things:
  - reduce reconciliation time and complexity;
  - improve cash flow projections;
  - reduce the number of banking transactions; and
  - reduce the number of accounting software modifications maintained
  
- The consolidation of OUS' cash balances would provide the opportunity to:
  - achieve economies of scale in investment purchases;
  - reduce volatility in operating cash flows;
  - stratify the balances based on liquidity needs; and
  - invest these monies more effectively to improve investment earnings without exposing the state to undue investment risk.
  
- Estimates indicate that OUS could realize millions of dollars in incremental investment earnings through the use of this pooling concept.
  
- Incremental investment earnings that result from these changes will be used to reduce costs and improve student services, which are vital to improving access, affordability, and student success within OUS.
  
- In a study undertaken at the direction of the 2007 legislature, the Legislative Fiscal Office and the State Treasurer's Office validated this proposed cash management and investment approach. This was reported to the Joint Committee on Ways and Means in December 2007.
  
- Retaining the investment earnings on all cash balances will also provide a natural budgetary hedge for OUS to utilize lower cost variable rate debt for financing the construction and major renovations of higher education facilities once the capital markets stabilize.

- Estimates indicate that OUS could save millions of dollars in interest costs by issuing a portion of its long-term debt at variable interest rates.
- HB 2208 has the support of the Governor, current State Treasurer Ben Westlund, former State Treasurer Randall Edwards, the Oregon Student Association, the State Board of Higher Education and all the University Presidents.
- The Governor's Recommended Budget currently includes a \$13.9 million reduction in the OUS base budget to compensate the State for the loss of these investment revenues to the General Fund. That amount was based on an estimated interest earnings rate of approx. 3.9%. As we are all aware, interest rates are significantly lower today and, based on that new lower rate, the impact to the General Fund will only be approximately \$7 million.
- We are very excited at the opportunity that these changes would provide for OUS to help our students, improve our processes, and generate incremental revenues for our universities.
- I would be happy to answer any questions you may have.
- We are hoping to schedule times to visit with each of you individually to discuss this bill over the next several weeks