



Ohio Senate
General Government Subcommittee
Wednesday, May 6, 2015
Budget Testimony from Seth Metcalf, Deputy Treasurer

Chairman Jordan, Vice Chair Gentile and members of the Senate General Government Subcommittee - good morning. My name is Seth Metcalf, I serve as the Deputy Treasurer and Executive Counsel for the Treasurer's office. I am here today on behalf of Ohio Treasurer Josh Mandel. Thank you for the opportunity to appear before you today to ask for your thoughtful consideration of the Treasurer's office budget request for the next biennium.

Overall Functions

The primary function of the Treasurer's office is to protect and invest the state's money with the commitment to do so with the highest ethical standards and transparency. Serving as the state's banker and chief investment officer, the Treasurer's office manages state revenue, serves as the custodian of public assets and provides for investment of public funds. The office also issues bonds on behalf of the state and ensures timely payment of principal and interest. Additionally, we provide continuing education for public funds managers through the Center for Public Investment Management (CPIM).

Treasurer's Office Budget Request

At the close of the State of Ohio's 2014 Fiscal Year, and after four years in office, we are proud to report that we voluntarily returned more than \$6 million in cumulative surplus to Ohio's taxpayers. These reductions are out of an approximately \$14 million annual operating budget. These significant savings are the result of a successful top-bottom review of office operations initially launched in 2011, including streamlined operations, increased efficiencies and fiscal restraint. We continue to implement new processes to further save taxpayer money by leveraging technology and improving the delivery of services.

The Treasurer of State's budget request for each fiscal year in the 2016-2017 biennium is \$43.4 million. It's important to note, however, that over 51% of this amount (\$26.5 million) includes "pass-through" state contributions to the Ohio Police and Fire Pension Fund and certain tax refunds and distributions. Taking this into consideration, the budget for actual Treasury operations is proposed to be \$16.8 million annually. The budget also includes approximately \$1.11 million annually to facilitate debt service for the \$10 million Treasury Management System included in the capital budget last general assembly.

General Revenue Fund

The Operating Expenses GRF line item funds payroll and benefits for the dedicated and highly qualified men and women employed in our office. Our efforts to increase efficiency have allowed us to implement a ten percent reduction in budgeted positions since the prior administration, going from 140 budgeted positions to 126. Streamlined operations have allowed the office to reduce budgeted payroll from nearly \$12.2 million in Fiscal Year 2011 to \$10.4 million in Fiscal Year 2014. Additionally, our GRF budget request covers maintenance, equipment costs and other operational expenses.

The Office of the Sinking Fund line item covers payroll costs and expenses involved with the issuance and administration of state bonds.

The Continuing Education line item partially funds the Center for Public Investment Management (or CPIM), which provides statutorily required financial education to public funds managers. We are very proud of the fact that we have increased the number of online courses available in the CPIM program. This year, we plan to offer five new courses, bringing our total to 12 online courses. The emphasis toward online courses for CPIM is consistent with the office's push toward greater use of technology, saving time and money for our local government officials.

Non-General Revenue Fund Items

Four line items fund the operations of the Treasurer's office in lieu of additional taxpayer dollars. **Securities Lending Income** generally supplements the GRF to cover Treasury expenses. Our Securities Lending Program generates revenue by investing the cash collateral received for loaning securities to approved entities. This line item is funded by the return on that investment.

The Treasurer's office financial education programs are also supported by Securities Lending Income. The office continues to present financial education workshops to Ohioans, in addition to hosting Veteran Smart Money Choices workshops in regions across the state. The Treasurer's office also partnered with school districts and Ohio educators to help them meet financial education curriculum requirements. Since the launch of our Financial Edge initiative, more than 30,000 Ohio students across the state have received financial education resources.

The Investment Pool Reimbursement line item funds costs incurred by the Treasurer's office for administering the STAR Ohio program. The program allows Ohio government subdivisions to invest funds in this highest rated public investment pool. This line item is funded by administrative fees charged to the investment pool. STAR Ohio includes approximately 3,000 accounts totaling roughly \$3.2 billion in assets.

Building upon the success of STAR Ohio, our office launched STAR Plus in June 2012 as a result of the legislature's unanimous approval of enabling legislation. STAR Plus is an innovative new investment option endorsed by our office that provides safe and competitive returns on cash deposits for local governments and aims to help keep public funds in Ohio community banks. This program offers local government subdivisions the security of 100%

federally insured deposits, accompanied by weekly liquidity and a competitive yield. Since the launch of STAR Plus, more than 600 Ohio local government entities have opened accounts and deposited more than \$2 billion earning a total aggregate interest amount of more than \$7 million.

The County Treasurer Education line item provides the other source of funding for the Center for Public Investment Management (CPIM) through registration fees charged to local financial officers.

The TOS Administrative Fund line item funds custodial services provided by the office for the state's retirement systems, the Bureau of Workers' Compensation and the Department of Job and Family Services. The funding for this line item generally comes from fees assessed to process warrants for the previously mentioned entities.

Other Budgets Under the Treasury

The other budgets which fall under the purview of the Treasurer are the Board of Deposit and the Commissioners of the Sinking Fund. The Board of Deposit's function is to designate qualified financial institutions as state depositories, monitor state deposits, approve payment of service charges and provide oversight of state investments. The Board is requesting approximately \$1.8 million for each year of the biennium. The requested funding will pay for the Board of Deposit's banking and custody expenses.

The Commissioners of the Sinking Fund budget covers the payment of debt service on state general obligation bonds. The Commissioners of the Sinking Fund budget is requesting approximately \$1.16 billion for Fiscal Year 2016 and approximately \$1.22 billion for Fiscal Year 2017.

Treasury Initiatives

Treasury Management System

Upon taking office, the Treasurer launched an initiative to improve the information technology infrastructure and operational efficiencies across the Ohio Treasury and to adopt best industry and banking practices. We quickly realized that many of the software, hardware and manual processes of the Treasury were outdated, inefficient and unsecure. In an effort to bring the office into the 21st Century, we initiated a comprehensive review and audit of Treasury infrastructure and operations.

The audit of our systems found that while legacy processes worked technically, there were many opportunities to leverage technology, modernize operations and improve security. We set forth immediately to implement the audit's recommendations and to lay the foundation to enact these needed upgrades.

The goal of this multi-year project, known as the Treasury Management System (TMS), is to improve the Treasury's existing infrastructure and build a more efficient framework for data, financial, banking and security processes. These changes will lead to benefits such as improved cash forecasting and increased responsiveness within a centralized structure. This system will standardize accounting and bank account management to enable the Treasury to better serve its

customers. Furthermore, this upgraded system will help to better protect our state's financial house against the continually growing threat of cyber-attacks.

Last year, with the support of the General Assembly and the Governor, the Treasurer's office received a \$10 million authorization in the Capital Budget to begin implementation of the Treasury Management System. We appreciate this support and look forward to continuing our collaboration in order to transform, streamline and secure core treasury operations while strengthening the state's financial capabilities for years to come.

Treasurer's Transparency Initiatives

Another multi-year project that we are very proud of is the Treasurer's Transparency Project. Since taking office, we have added new features to OhioTreasurer.gov to give the public the first fully searchable state website displaying compensation of state and education employees. We also continue to collect and publicly display county investment reports on our website, as a result of legislation passed in 2011.

In 2012, we launched a new interactive state properties map, allowing Ohioans to view digital images and information on thousands of state owned properties. Our hope is to continue to work with the legislature going forward to help encourage the sale or lease of surplus or underutilized state properties to generate new revenues to the state and increase the local tax base.

OhioCheckbook.com

As previously mentioned, transparency is a top priority for the Treasurer's office. In an effort to build upon a successful track record in this area, the Treasurer launched OhioCheckbook.com in December of last year. This transparency initiative puts checkbook level state spending online for the first time in Ohio history. We believe this is the most sophisticated and comprehensive online database in the country. The U.S. Public Interest Research Group (PIRG) confirmed this when they released their annual "Following the Money 2015" report on March 18. The efforts of the Treasurer's office helped earn Ohio the number one transparency ranking in the nation for providing online access to government spending data. Ohio was prominently featured in the report after climbing from 46th to 1st in the nation in spending transparency as a result of Treasurer Mandel's release of OhioCheckbook.com.

OhioCheckbook.com includes the following:

- More than \$408 billion in spending over seven fiscal years;
- Approximately 112 million transactions;
- Approximately 3.9 billion pieces of spending information.

There have been over 200,000 total searches since the site launched. Ohioans have a right to know how their money is being spent, and the goal OhioCheckbook.com is to create an army of citizen watchdogs who can help make government more open and transparent.

Furthermore, the Treasurer has teamed up with Representatives Mike Dovilla and Jonathan Dever to make the online checkbook a requirement under Ohio law and stipulate that the Treasurer maintain the state's checkbook online ensuring this valuable information is kept

accessible by future Treasurers. We are supportive of this measure and commend Representative Dovilla's and Dever's leadership and are proud to partner with them on this important piece of legislation. The office supports swift passage of **House Bill 46**.

This past April, Treasurer Mandel sent a letter to 18,062 local government and school officials representing 3,962 local governments throughout the state calling on them to partner with his office by placing their checkbook level spending data on OhioCheckbook.com, at no cost to the local governments. The Treasurer's office plans on paying to put the local government checkbooks online without using tax dollars or general revenue funds. These local governments include cities, counties, townships, schools, library districts and other special districts. Since this announcement over 340 local entities have expressed interest in partnering with our office and several entities have committed to posting their checkbooks online including Mahoning County, the City of Findlay and Lorain County.

In Conclusion

In conclusion, the Treasurer's office is moving forward to meet the challenges currently facing our state. We maintained and improved our credit and bond ratings, even as other similar state and local government funds, as well as the federal government were downgraded. We did all this while modernizing banking practices, cutting waste, generating \$6 million in operational savings and increasing government transparency. We remain committed to running a disciplined and financially sound office and we are intent on protecting taxpayer dollars with integrity and transparency.

Thank you for your thoughtful consideration of our requests, and our office looks forward to working with the legislature throughout the budget process. I would be happy to answer any questions you may have.