



Ohio Senate

Finance Subcommittee on General Government and Agency Review

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Budget Testimony from Seth Metcalf, Deputy Treasurer

Chairman Jordan, Ranking Member O'Brien, and members of the Senate Finance Subcommittee on General Government and Agency Review – good morning. My name is Seth Metcalf and I serve as the Deputy Treasurer and Executive Counsel for the Treasurer's office and 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.

First, I will briefly describe the overall functions of the Treasurer's office. Second, I will discuss the Treasurer's plans to allocate the resources we are requesting from the legislature. Throughout, I will discuss some of the progress Treasurer Mandel's administration has made since taking office and the initiatives that will be undertaken in this budget cycle.

Overall Functions

The primary function of the Treasurer's office is to protect and invest the state's money, and it is our 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, provides for its investment, and serves as the custodian of public assets. The office also issues bonds on behalf of the state and ensures timely payment of principal and interest. The Treasurer's Transparency Project, which includes OhioCheckbook.com, has taken the state's transparency ranking from 46th to 1st in the nation. Additionally, we provide continuing education for public funds managers through the Center for Public Investment Management (CPIM) and administer Ohio's ABLÉ plan, STABLE Account, so that Ohioans with disabilities can save for their future.

Treasurer's Office Budget Request

The Treasurer of State's budget request for fiscal year 2018 is \$54.28 million and for fiscal year 2019 is \$31.03 million. It is important to note, however, that \$47.25 million of the total request includes certain tax refunds and distributions and the OhioMeansJobs Workforce Development Revolving Loan Fund. Taking this into consideration, the budget for actual Treasury operations is proposed to be \$16.06 million in each fiscal year. The request also includes \$1.85 million each fiscal year for the STABLE Account Plan and \$1.1 million each year in lease rental payments for the Treasury Management System.

There are eleven line items that comprise the operating expenses of the Treasurer of State; six of which are general revenue fund (GRF) and five of which are non-GRF. I will begin with the six GRF line items.

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.

Our GRF budget request additionally 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, which provides statutorily required financial education to public funds managers. We are proud of the fact that we have increased the number of online courses available in the CPIM program. In 2016 we expanded our CPIM Online course library from 14 classes to 21 classes, making these valuable courses more accessible and saving local tax dollars for travel expenses. The office also developed and implemented MyCPIM, a one-stop shop online portal to service all CPIM requirements. This system has eliminated the manual processing of over 5,000 physical documents annually. The emphasis toward online courses and the online portal for CPIM is consistent with the office's push toward greater use of technology, which saves time and money for our local government officials.

Treasury Management System Lease Rental Payments line item is used to finance the costs associated with the acquisition and implementation of the Treasury Management System (TMS). In 2015, 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.

The goal of this multi-year project 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.

ABLE Promotion and ABLE Account Administration line items fund STABLE accounts in Ohio. A STABLE Account is an investment account available to eligible individuals with disabilities. These accounts are made possible by the federal Achieving a Better Life Experience ("ABLE") Act and House Bill 155 of the 131st General Assembly sponsored by Representatives Dever and Conditt. STABLE Accounts allow individuals with disabilities to save and invest

money without losing eligibility for certain benefits, like Medicaid, SSI, or SSDI. Earnings in a STABLE Account are not subject to federal income tax, so long as they are spent on qualified disability expenses.

STABLE Accounts have some similar features to normal bank accounts, but they are not checking or savings accounts. STABLE Accounts are investment accounts, similar to 529 college savings accounts or 401(k) retirement accounts. When money is deposited into a STABLE Account, the money will be invested in different options chosen by the account holder. While an account holder can still withdraw and spend the money whenever they need it, a STABLE Account also allows the money to grow and be saved for disability expenses.

Setting up an account online is free and easy. There are minimal costs associated with maintaining the account. Ohio residents pay \$2.50 per month (\$30 annually) and residents of other states pay \$3.50 per month (\$42 annually). Both have an asset-based fee depending on their chosen investment options. It is important to note that the money provided for in this line item is used in part to administer STABLE Accounts and is also used to keep the fees for Ohioans low, but Ohio tax dollars are not used to subsidize the fees for out of state residents.

The House did reduce the ABL Promotions line item from \$250,000 per fiscal year to \$100,000 per fiscal year. In our opinion, it seems like a sensible reduction given the current budget situation.

Non-General Revenue Fund Items

Five 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 including payroll and operating 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 Investment Pool Reimbursement line item funds costs incurred by the Treasurer's office for administering the STAR Ohio program. STAR Ohio allows Ohio local governments 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 2400 accounts and over \$6 billion in assets.

Building upon the success of STAR Ohio, our office launched STAR Plus in June 2012. STAR Plus is an innovative 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 650 Ohio schools, libraries, cities, townships, counties, and local government entities have opened accounts and deposited more than \$5.7 billion earning a total aggregate interest amount of more than \$17.6 million.

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

The OhioMeansJobs Workforce Development line item funds the revolving loan fund for the OhioMeansJobs Workforce Development Revolving Loan Program through the Ohio Department of Higher Education. The program provides loans to Ohioans to promote and encourage Ohio's workforce development and job growth through educational training and retraining in programs related to employment opportunities in growing fields. Our office serves as the loan issuer for the program and the Ohio Department of Higher Education determines which institutions are eligible for the program. Since fiscal year 2016, the state has issued 223 loans totaling over \$1.11 million.

It is important to note that the budget appropriates the full amount for this loan program in fiscal year 2018 and permits the unexpended, unencumbered portion to be used in fiscal year 2019. This accounts for the large swing in our budget from fiscal year 2018 to fiscal year 2019.

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.

This concludes my comments regarding our operating budget request.

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 \$1,876,000 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 \$1,170,974,775 for Fiscal Year 2018 and \$1,248,464,200 for Fiscal Year 2019.

Treasury Initiatives

I would also like to walk through briefly a few of the initiatives that the Treasurer's office has taken on in the last couple biennium and others that we are working on going forward.

Modernizing Ohio's Pooled Collateral Law

In House Bill 64 of the 131st General Assembly, the Treasurer's office was tasked with creating and implementing the Ohio Pooled Collateral System (OPCS). Prior law did not fully protect government deposits collateralized by pooled securities. To correct the defects, OPCS allows for an eligible Ohio-based bank to pool collateral for depositing public entities and establishes the Treasurer's Office as the sole administrator and monitor of the program. OPCS will reduce

administrative burdens for local governments and financial institutions and, most importantly, guard against fraud.

We are required to have OPCS up and running by July 1, 2017 and we are confident that we will meet our statutory deadline. I would like to take a moment to thank the local governments and financial institutions that have been working with our office on this issue for the last two years.

Treasurer's Transparency Initiatives

Another multi-year project that we are proud of is the Treasurer's Transparency Project. Since taking office, we have added new features to OhioTreasurer.gov to give Ohio taxpayers 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 2014. This is the most sophisticated and comprehensive online database in the country.

In 2014, Ohio was ranked 46th in the country for transparency by the US Public Interest Research Group (US PIRG). After the launch of OhioCheckbook.com, Ohio was ranked number 1 in the country for transparency in both 2015 and 2016.

Local.OhioCheckbook.com

Treasurer Mandel believes that transparency should be available to all local governments and citizens and the office set out to share our transparency initiative. This program is voluntary and free to all entities that choose to join. To date we have 1,104 local government partners on or committed to OhioCheckbook.com:

- 335 Townships
- 262 Villages
- 220 Schools
- 142 Cities
- 97 Special Districts
- 48 Counties

In Conclusion

In conclusion, the Treasurer's office is moving forward to meet the challenges currently facing our state.

We maintained our high credit and bond ratings. We did this while modernizing banking practices, cutting waste, 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.

This concludes my prepared testimony. 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.