

ROBERT SPRAGUE

OHIO TREASURER

Executive Budget Testimony Ohio Treasurer of State Robert Sprague Tuesday, April 30, 2019

Good morning Chairman Terhar, Vice Chair Lehner, Ranking Member Fedor, and members of the Senate Finance Subcommittee on Primary and Secondary Education. Thank you for allowing me to outline our office's biennial budget request.

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. Additionally, our office provides continuing education for public funds managers and offers local governments safe investment alternatives through the State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool and the STAR Plus program.

I am committed to continuously evaluating the operations and functions of our office to ensure we are effectively protecting tax dollars and securing a firm financial footing for Ohio's future.

Treasurer's Office Budget Request Overview

My office's total budget request, including General Revenue Funds (GRF), Dedicated Purpose Funds and Fiduciary Funds, is \$46.1 million for fiscal year 2020 and is \$33.3 million for fiscal year 2021. This proposal includes flat funding of \$11.5 million for our GRF funding levels.

You will note there is an overall reduction in our all funds budget across both years of the biennium. These reductions are made mostly to non-operational funds that pass through our office.

The vast amount of the all funds reduction from FY19 to FY20 is accounted for in an \$18,000,000 reduction in the Tax Refunds line item. The Treasurer's office also handles the collection of premium taxes for the Ohio Department of Insurance. The tax refunds line item is used to issue refunds in the event the Department of Insurance determines an insurance company has overpaid its tax liability. It's important to note that the budget contains uncodified language to allow additional funding to be appropriated to this line, if required. Smaller reductions are made to the Treasury Management System (\$981) and the County Treasurer Education (\$80,000) line items.

The reduction in FY21 can be attributed to the fact that the entirety of the funding for the OhioMeansJobs Revolving Loan program is appropriated in the first year of the biennium with none being budgeted in the second year. That accounts for a difference of \$13,107,584 between those two fiscal years. It is also important to note that the budget bill includes language that allows for any unused funding from FY20 to be carried forward to FY21 for this program.

Five GRF line items support operation of the Treasurer's Office. Those line items support administrative and operating expenses, the Office of the Sinking Fund, continuing education programs for local government fiscal agents, and administration of STABLE accounts. Our budget also includes six dedicated purpose fund line items. These fund groups include a variety of funding sources, such as income generated through the securities lending program and administrative fees collected through the StarOhio and Ohio Pooled Collateral programs.

I would like to address our request related to the Securities Lending Income line item. These funds generally supplement GRF funding that 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.

It is important to note that while we are requesting an increase in spending authority from this dedicated purpose fund, there is a cash balance and an ongoing revenue stream sufficient to responsibly do so. Upon taking office, it became evident this request was necessary when we evaluated obligations for cost of living increases, longevity increases, contractual step increases and contractual increases in the employer cost for employee benefits. Furthermore, this request will allow the office to sustain current programs, while my administration continues its thorough assessment of those programs' effectiveness and seeks to achieve greater efficiencies without asking for additional GRF support.

Other Budgets and Fiduciary Funds under the Treasury

There are several other funds that are managed by the Treasury on behalf of other entities including pension subsidies on behalf of the Ohio Police and Fire Pension Fund and Tax Refunds on behalf of the Department of Insurance.

The appropriation for pension subsidies is to support several Ohio Police and Fire Retirement System funds, including the Police and Fire Death Benefits fund. Although these funds are administered by the Office of the Treasurer, they are not spent by our office on agency operations. GRF funding for fiscal year 2020 is \$33.8 million and \$34.1 million for fiscal year 2021.

Treasury Initiatives

I would like to take a few moments to highlight some of our priority initiatives.

ResultsOHIO

Crises like infant mortality and addiction have devastated our communities, costing thousands of lives and billions of dollars for healthcare, foster care, jails, and other services. Too often when addressing these problems, we pay for services – not results. By leveraging private sector resources and ingenuity through innovative investment approaches, we can ensure our resources are better used to improve outcomes and save lives.

Last month, I announced a plan to establish a consistent and transparent method for issuing pay for success contracts here in Ohio. In response, two of your colleagues, Sen. Steve Wilson and Rep. Don Manning have since introduced SB 122 and HB 170, which would create the ResultsOHIO fund within the Treasury.

In the pay for success model, private sector dollars are leveraged to initiate a project rather than public sector dollars. That private sector investment is backed by a performance contract with the government. Policymakers' goals become performance objectives that are included in those performance contracts with project participants. The performance contracts stipulate what results must be achieved during a set period of time in order to grant public sector funding support. An independent third party data validator serves to ensure that project results meet the requirements of the performance contract.

If project results meet the performance objectives, contracts generally stipulate that public sector dollars will pay back the project participants at a level that would allow some return on investment be paid to the private sector investors. If a project fails to meet the contracted objectives, taxpayers do not pay for the project and the private sector partner is left to bear the project's costs.

In the end, the model diverts risk away from taxpayers by first ensuring measurable outcomes are achieved. It helps us allocate scarce resources to projects that we know get results. Many times, objectives in the contract stipulate that results must lead to government savings, which help pay for the projects themselves and generally help build efficiencies in government.

Under ResultsOHIO, the role of the Treasurer is two-fold. First, the initiative establishes an independent fund where state and local governments can appropriate dollars specifically for backing pay for success contracts. Second, the Treasurer's office serves as an independent facilitator and fiscal agent for issuing contracts based on policymaker objectives. This latter component ensures that independent and transparent data validation of successful outcomes can take place.

The effective stewardship and investment of public money are cornerstones of the Treasury. Applying those principles to a pay for success model will create confidence among private sector investors and taxpayers alike.

Establishing this tool to encourage more innovation and accountability in the way we approach public policy concerns is one of the highest priorities of my administration. The ResultsOHIO proposal has already earned the support of stakeholder groups across the state, including the Ohio Business Roundtable, the Ohio Farm Bureau, the Buckeye Institute, the Ohio Children's Hospital Association, Groundwork Ohio, and the Ohio Association of County Behavioral Health Authorities.

I thank Senator Wilson and Rep. Manning for introducing legislation to start discussions on the merits of this model. I would encourage the committee to consider their legislation as a potential budgeting tool that may also be included in HB 166.

STABLE Accounts

STABLE Accounts are investment accounts available to individuals living with disabilities. The accounts were made possible by the federal Achieving a Better Life Experience ("ABLE") Act and House Bill 155 of the 131st General Assembly. STABLE empowers participants to save and invest money without losing eligibility for certain benefits like Medicaid and SSI. Earnings in a STABLE Account are not subject to federal income tax, so long as they are spent on qualified disability expenses.

Ohio is the national leader for its work related to the ABLE act, and the Ohio-based STABLE accounts are available to eligible individuals nationwide. Because of the hard work and dedication of our STABLE staff, who are supported in part by money provided for in this line item, fees for Ohio account holders are among the lowest in the country.

Recently, Department of Administrative Services (DAS) Director Matthew Damschroder and I announced a new collaboration that will make it easier for State of Ohio employees and their families to take advantage of STABLE accounts. Qualified State of Ohio employees can now visit www.myOhio.gov to set up recurring direct-deposits from their paychecks into STABLE accounts. I

thank Governor DeWine and Director Damschroder for helping Ohio continue to be a leader in the growth and promotion of this program. In the coming months, I look forward to announcing additional innovative partnerships with private sector entities that will further expand on this effort.

Ohio Checkbook

OhioCheckbook.com tracks expenditures at the state and local levels to provide taxpayers with greater transparency in government. Today, 78% of Ohioans have a window into local government spending at the county level and thousands more can drill down even further to their home communities. The Treasurer’s office is focused on identifying program improvements and operational efficiencies that drive down costs and create better user experience for both taxpayers and local governments.

Center for Public Investment Management (CPIM)

The Center for Public Investment Management (CPIM) provides statutorily required financial education to public funds managers. Regional conferences are offered along with an online course library currently offering 17 classes. In addition to revenue generated through registration fees charged to local financial officers that utilize the program, CPIM does receive continuing GRF support in this budget.

In closing, I would like to thank the committee for the opportunity to outline our budget, and how it supports the operation of our office. I am happy to answer any questions committee members may have.