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OHIO TREASURER

FY 22-23 State Operating Budget
Senate Finance Committee
Ohio Treasurer Robert Sprague
Thursday, April 15, 2021

Chairman Dolan, Ranking Member Sykes, and members of the Senate Finance Committee, thank you for allowing me to outline our office's biennial budget request.

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 financial assets. The office also issues bonds on behalf of the state and ensures timely payment of principal and interest. Additionally, the Treasurer's office administers numerous programs that support Ohio's residents, local governments, and state policymakers.

Five General Revenue Fund (GRF) line items and six Dedicated Purpose Fund line items support the administration and operation of the Treasurer's office. Our budget request also includes a Fiduciary Fund and two budgets that we administer on behalf of other entities. For purposes of today's testimony, I'll start with an overview of our budget request and then touch on some of the office's initiatives, including ResultsOHIO.

Budget Request Overview

As you know, the onset of COVID-19 resulted in mid-fiscal year revisions to state agency budgets. While not required of us as an independently elected executive office, we voluntarily complied and reduced costs in an effort to redirect GRF dollars to the greatest and most immediate needs facing Ohio. Because of fiscally responsible actions taken early in my administration, we were able to quickly return nearly \$500,000 to the GRF in March 2020 without backfilling our budget with other revenue. Additionally, the Treasurer's office voluntarily set aside 20% of its nonpayroll GRF into a holding account for FY 2021 and implemented other cost containment measures as the pandemic progressed.

This budget request contains flat funding of the office's Dedicated Purpose Funds and a reduction in GRF (from our fiscal year 2021 appropriation) in an amount equal to 20% of our agency-controlled nonpayroll GRF. The reduced budget request absorbs projected cost of living adjustments, longevity increases, contractual step increases, contractual increases in the employer cost for employee benefits, and agency chargeback fees.

The total budget request for the Treasurer's office -- including GRF, Dedicated Purpose Funds and Fiduciary Funds -- is \$33.4 million annually in both FY 2022 and 2023.

Increasing Efficiency, Transparency, and Sustainability

Upon entering office, my administration began evaluating internal operations to identify areas for improvement. While that process is ongoing, it has already resulted in several strategic reforms that

have enhanced the overall efficiency, transparency, and sustainability of our office's operations. Today, I'd like to highlight just a few of these efforts.

OhioCheckbook.gov

In 2019, the Treasurer's office partnered with Lt. Governor Husted and the Office of Budget and Management to reimagine the Ohio Checkbook and ensure government transparency remains at Ohio's fingertips. The collaboration resulted in the new and much-improved OhioCheckbook.gov. Today, the website not only includes spending data from hundreds of local governments across Ohio, but also features state revenue and expenditure information that is updated daily.

It's not often that separate government offices play well together in the sandbox. But when that happens, the people are better served. Most importantly, the Ohio Checkbook partnership has eliminated duplication, while creating greater efficiency and cutting overall operating costs.

Modernization of Operations

Technology continues to greatly change every day banking services. Paper checks and cash are being replaced by electronic transactions and credit cards, and ATMs and mobile apps have reduced the need to stand in teller lines. The same holds true for the Treasurer's office, as our cashier window in the Rhodes Tower has seen a continuous and steady decline in traffic.

As a result, we officially closed the cashier window on December 31 of last year. This action not only brought the Treasurer's office into alignment with contemporary financial operations and trending indicators nationwide, but it also prevented costly investments needed to replace an antiquated check scanning system and other aging technology.

Buckeye Tobacco Bonds Refinancing

Last March, in our capacity as a member of the Buckeye Tobacco Settlement Financing Authority, the Treasurer's office led an effort to refinance \$5.2 billion of tobacco settlement asset-backed bonds. By taking advantage of a record-low interest rate environment, we created a more resilient bond structure that preserves the opportunity for Ohio to benefit further from the original settlement in coming years. The deal even garnered national attention late last year, as *The Bond Buyer* newspaper named it the "Midwest Deal of the Year."

ResultsOHIO

The ResultsOHIO program draws on bold, new ideas from the private sector to address the persistent public policy challenges facing our state each year. Through ResultsOHIO policymakers have a unique opportunity to pursue alternative policy solutions by way of a pay for success framework.

As you'll recall, in a pay for success framework, private funding is used to pay the costs of delivering a project, while public dollars are used to reimburse the private funder **only if** pre-determined outcomes are met.

In September, we held our first request for applications period and saw tremendous interest in the program, as 19 projects submitted applications.

Applications were assessed using the uniform ResultsOHIO screening process. This screening process is key, as it assesses upfront if a project contains the components needed to be launched through a pay for success model. Typically, projects that are suitable for a pay for success model have secured upfront private sector funding, received support from the local community, and have a history of utilizing data systems and can set measurable outcomes based on such data.

Projects that were found to be "Pay for Success Appropriate and Ready" were issued ResultsOHIO feasibility reports. A Feasibility Report serves as a "seal of approval," validating that a project possesses the components necessary to be launched under a pay for success framework – should the project ultimately earn the support of the General Assembly.

There are currently five "Pay for Success Appropriate and Ready" projects seeking an appropriation in the state budget. Feasibility reports explaining each project have been provided to you for reference.

The five projects are:

The Foundation for Appalachian Ohio plans to partner with Vision To Learn and the Ohio Optometric Foundation to launch a mobile vision clinic. This clinic will travel to schools with the intent of eliminating barriers to accessing and receiving vision services and helping thousands of children across Appalachian Ohio's 32 counties. (\$1,630,000)

Cincinnati Works seeks to move individuals from poverty to self-sufficiency by providing job readiness services, career coaching, and individualized supports, including financial wellness trainings. This approach differs from other workforce development programs that only supply job training and placement. (\$10,200,000)

Columbus Works seeks to move individuals out of poverty through employment by providing career-related coaching and wraparound services to adults living below 200% of the Federal Poverty Level. The organization's model differs because of its long-term period of engagement and use of wraparound supports. (\$2,800,000)

Every Child Succeeds seeks to reduce preterm births and its adverse impacts, including infant mortality, by expanding its delivery of evidence-based home visiting to high-risk pregnant women in Hamilton County. Every Child Succeeds has provided statistics that 88% of babies who receive services through the program are born full-term. (\$4,500,000)

OneFifteen Recovery seeks to pilot its PROGRESS program in Montgomery County. The program aims to create a comprehensive safety net for individuals with substance use disorders in the criminal justice system in order to receive treatment, achieve sustained recovery, and reduce recidivism and length of stay in jails. OneFifteen plans to better integrate services by

linking together Samaritan Behavioral Health, Inc. (SBHI), various Montgomery County government offices, and data systems. (\$9,600,000)

However, we believe it is your decision – as Ohio’s elected policymakers – to determine whether a specific project makes sense for Ohio and if it warrants funding. The Treasurer’s office did not include appropriations for these projects as part of our budget request, as it is the responsibility of the individual organizations to advocate for their projects and articulate why their work is worthy of your support.

Should any of the aforementioned projects earn your approval, any public dollars appropriated for a particular project will be held by the Treasurer’s office and used to reimburse private funders only if the project manages to meet previously agreed-to performance metrics upon its conclusion. If a project fails to meet its define performance metrics, the appropriated funds revert back to the GRF; in turn, sparing Ohio’s taxpayers from financing a failed policy initiative.

My office is committed to helping you and your staff fully understand the ResultsOHIO process and the benefits of a pay for success approach. With that said, I welcome you to reach out to us at any time should you have questions about the initiative or the projects that received a Feasibility Report.

Again, Mr. Chairman and members of the committee, thank you for inviting me to be here today. I am happy to answer any questions you may have.

General Revenue Fund Support

Operating Expenses – This line item funds staff payroll and benefits.

Treasury Management System Lease Rental Payments – This line item funds principal and interest payments used to finance the acquisition and implementation of the Treasury Management System. In 2015, the establishment of the new system modernized the Treasurer’s Office’s infrastructure for accounting, investing, revenue management, and debt.

The Office of the Sinking Fund – These funds cover payroll costs and expenses involved with the issuance and administration of state debt.

Continuing Education – This line item partially funds the Center for Public Investment Management (CPIM), which provides statutorily required financial education to public funds managers.

STABLE Account Administration – This fund supports the payroll and expenses involved with the administration of the STABLE Accounts and helps provide for a reduced account maintenance fee for Ohio beneficiaries.

Dedicated Purpose Fund Items

Securities Lending Income – 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.

Political Subdivision Obligation - This helps fund the Ohio Market Access Program (OMAP), which is a credit enhancement program offered through the Treasurer's office that is designed to lower borrowing cost on short-term notes issued by Ohio schools, cities, and local governments. The revenue stream for this fund comes from a reasonable fee paid by political subdivisions who utilize the program.

Investment Pool Reimbursement – This line item primarily funds costs incurred for administering the STAR Ohio Local Government Investment Pool. The revenue stream for this fund comes from an investment pool administration fee paid by local governments who wish to participate in the program.

Treasurer of State Administrative Fund – These funds come from fees charged to entities receiving custodial services from the Treasurer's Office, as well as fees collected through the Ohio Pooled Collateral Program. The Treasury collects fees for providing custodial services for the state’s retirement systems, the Bureau of Workers’ Compensation, and Department of Jobs and Family Services. The funds are primarily used for the administration of those functions within the office.

County Treasurer Education – These funds come from revenue generated by registration fees from the Center for Public Investment Management and, in addition to the GRF support, are used to operate the program.

State Pay for Success Contract Fund – This fund was created in the previous operating budget for the purpose of holding funds for pay for success contracts facilitated by the ResultsOHIO program.

Fiduciary Funds and Other Budgets Under the Treasury: Fiduciary funds are cash receipts held by the state as a custodian or agent. The Treasurer's office also is responsible for monitoring and reporting the revenues and expenditures of two other budgets separate from the Ohio Treasury Operating budget.

Fiduciary Funds

Tax Refunds - The Treasurer's office handles the collection of premium taxes for the Ohio Department of Insurance. This fund is used to issue refunds in the event the Department of Insurance determines an insurance company has overpaid its tax liability.

Other Budgets under the Treasury

Board of Deposit – Comprised of the Treasurer of State, Auditor of State and Attorney General, the panel is tasked with designating qualified financial institutions as state depositories, monitoring state deposits, approving payment of service charges, and providing oversight of state investments. The Board is requesting \$1,688,400 for each year of the biennium. The requested funding will cover banking and custody expenses.

Pension Subsidy – This appropriation 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 the Treasurer's Office on agency operations. GRF funding for fiscal year 2022 is \$35.2 million and \$35.5 million for fiscal year 2023.