



**Testimony of Executive Deputy State Treasurer Christopher Craig  
on the Fiscal Year 2015-16 Executive Budget Proposal for Pennsylvania Treasury  
House Appropriations Committee  
Tuesday, March 10, 2015**

Chairman Adolph, Chairman Markosek, and Committee members, thank you for the opportunity today to discuss Treasury's appropriation for fiscal year 2015-16.

**Treasury's Fiscal Year 2015-16 Proposed Budget**

As presented to the Legislature, the proposed FY 2015-16 budget calls for a \$1.23 million reduction in the Department's general government operations as compared to the current fiscal year. This reduction was attributed to the characterization of the reduced amount as non-recurring costs for the unclaimed property program.

That characterization is wrong. These costs are recurring – associated with the significant increase in unclaimed property holder reporting that is a consequence of last year's statutory change in the dormancy period that would trigger property reporting, from five years to three. The change was made by the General Assembly in an effort to accelerate the reporting period, through the elimination of two years of dormancy, and result in increased revenue to the commonwealth through the ensuing 2016-17 fiscal years. The implementing costs are a three-year expense – year one associated with additional reporting; year two associated with additional advertising and owner outreach; and year three associated with significantly higher than normal claims processing.

Last year's increase in the Department's general government operations was an acknowledgment by the Legislature of the added operational costs associated with the accelerated unclaimed property reporting period – an investment of additional operating funds with the objective to increase net general fund deposits by \$150 million. However, Treasury continues to be challenged by flat or reduced funding of general government operations in an environment of increasing salary and benefit costs. The proposed reduction in the Department's general government operations represents a far more serious challenge to meeting our operational mandates and achieving the financial returns necessary to the General Fund.

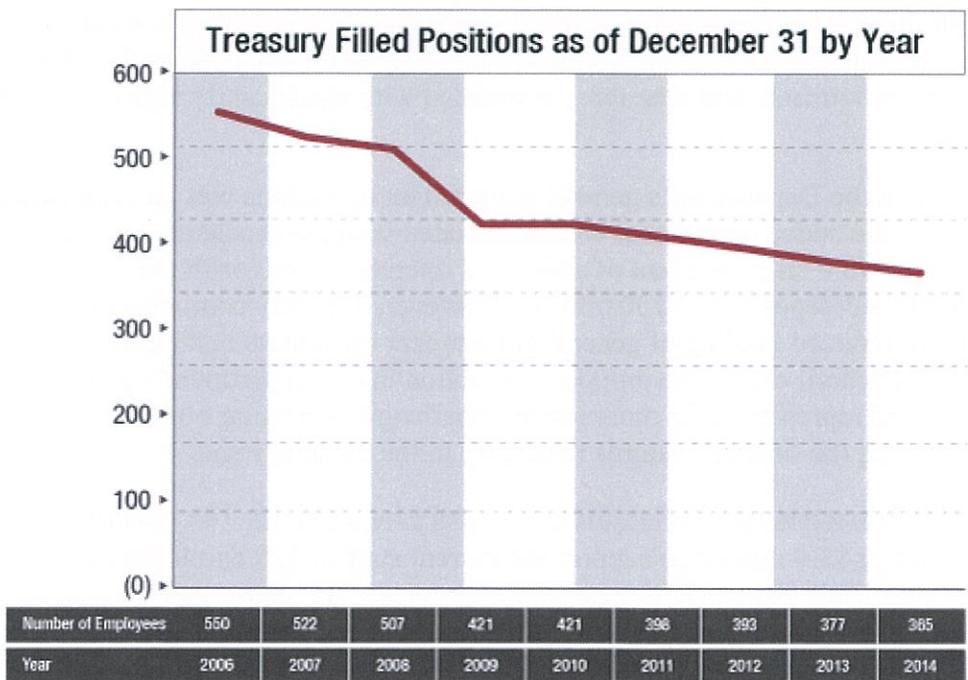
Optimally, Treasury is requesting \$38.2 million for fiscal year 2015-16. The majority of this request is an increase of \$3.4 million to support the current staff of 325 employees and fill 18 vacancies.

Treasury remains an important commonwealth profit center. Though we perform a service function in making payments for other agencies, our real value is that we generate significant amounts of revenue to support other agencies in carrying out their missions.

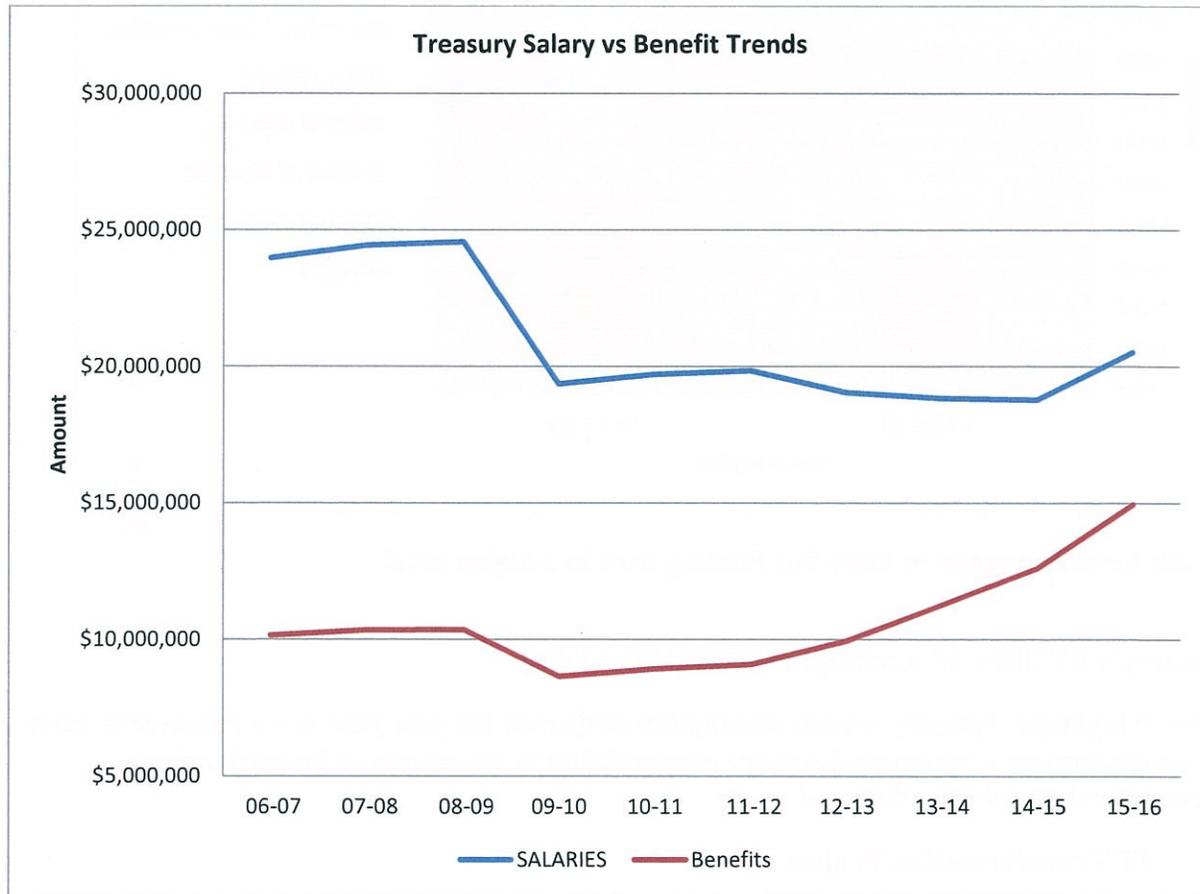
- We generate revenue for the commonwealth through our investment activity. Since January 2009, investment returns have totaled \$2.64 billion.
- We generate revenue for the commonwealth through our fiscal review activities. We are mandated by the Fiscal Code to pre-audit each proposed payment, and to make only those we find lawful and correct. In the last five fiscal years, our auditors have blocked \$512 million in improper payments. That is, of course, the same as generating \$512 million in revenue for the commonwealth.
- Our efforts to get holders of unclaimed property to submit it to Treasury generate large numbers: in the last six calendar years, we have collected property worth \$1.432 billion. We returned \$634 million back to the rightful owners, meaning almost \$800 million went to the General Fund.

All told, just these activities have generated about \$3.78 billion in revenue for the commonwealth over the past five years. The total cost to operate our office during that time was less than \$210 million, or roughly 1/20th of what we produced.

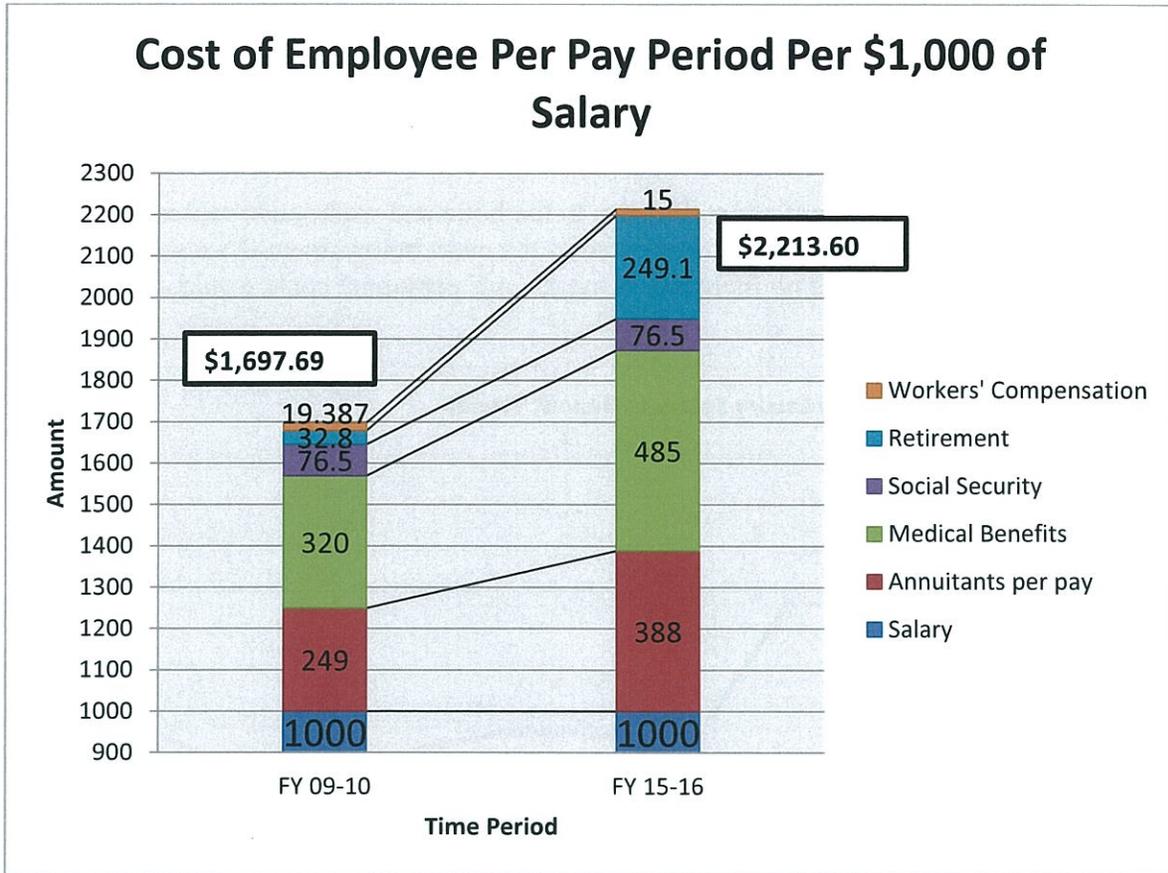
You can see the financial benefits our functions provide to the commonwealth, but it is a labor-intensive process. This is why we respectfully request an increase to our budget of \$1.694 million over last year. The number of Treasury employees is down 34% (185), as displayed in the chart below. Despite this reduction, we have worked smarter with less and increased the financial benefits we produce for the commonwealth.



At this point, however, we have cut our staff down to the bone and we hope to replenish some of these money-generating positions. As demonstrated in the chart below, even if we were to keep all vacancies unfilled and provide no increases in salary, our personnel costs would continue to increase.



In fact, Treasury faces higher personnel costs each year tied to collective bargaining agreements, union salary increases, and the increased costs for health care benefits, retirement contributions, and, to a lesser extent, unemployment compensation. You can see in the below chart the breakdown of these costs for each employee.



We ask for your support to bring this funding back to a higher level.

**Treasury’s FY 2014-15 Accomplishments / Highlights**

I wish to highlight Treasury’s main accomplishments over the past year as we continue to carry out the department’s important fiduciary responsibility to the people of Pennsylvania to safeguard and invest their financial assets.

**IT Transformation Project**

Treasury is putting finishing touches on a comprehensive multi-year transformation and modernization of its information technology system, a massive infrastructure and application upgrade that will ensure reliable financial service to citizens of the commonwealth for years to come. The program will end on time and millions of dollars below a budget that was already lower than those of comparable efforts. It is anticipated that this will be the last year we will seek legislative appropriations for the project.

I thank the Legislature for recognizing Treasury's urgent need to upgrade our woefully outdated information technology systems and for the appropriations you have provided over the past several years for this IT transformation project (\$31.3 million). The transformation program contained many projects, including networking, infrastructure, data center, and the ERP project to replace the failing mainframe platform. ERP project planning began early in 2010, and Treasury began making payments on the new system in July 2014.

In addition to safeguarding the reliability of commonwealth financial operations, we estimate that within five years, efficiencies will produce more in cost benefits than the sum expended on the project. Treasury will be able to improve its prepayment auditing capacity to catch erroneous payments, take better advantage of early payment discounts, better manage cash and investments to realize increased gains, and redeploy some employees previously engaged in manual data entry and data review to areas of greater need. Again, I thank you for your support of this important investment.

### **Board of Finance and Revenue**

Another area in which we can boast achievement is the increase in the openness and transparency of the Board of Finance and Revenue. Treasury led a bipartisan reform effort in consultation with business, legal and tax accounting professionals, culminating in the enactment of pro-taxpayer legislation in July 2013 (Act 52 of 2013) to alter the composition of the board to provide greater independence and modernize its operation.

Since then, Treasury has worked diligently to execute the law and identify additional ways to increase access to information, including revamping the BF&R website, which resides under the Treasury site at [www.patreasury.gov](http://www.patreasury.gov). The new site has a more user-friendly layout, additional resources and enhanced research tools, including Board tax decisions and opinions available to the public for the first time on a searchable database. Additionally, new BF&R regulations have been submitted to the Legislature for consideration to formalize the operating policies of the board.

### **Bureau of Unclaimed Property**

Changes made to the Fiscal Code bill last year impacted the operations of Treasury's Bureau of Unclaimed Property, particularly with regard to "finders," or those who for a fee assist others in locating and recovering unclaimed property. At Treasury's urging, the legislative changes will protect Pennsylvanians against fraud and deceptive practices by subjecting finders to the approval and oversight of the Department. New provisions including finder registration and increased penalties and fines for violations have been established and Treasury publicized these new procedures through email, standard mail and online communications.

Another recent change to the unclaimed property program in Pennsylvania is a reduction in the dormancy period (for the vast majority of property types) from five to three years. The Governor's budget office projected \$443 million to be reported in the current fiscal year, with a net benefit to the General Fund of \$318 million. What this means for "holders" of unclaimed property is that dormant property from 2009 through 2011 is due by April 15, 2015 – which means three years' worth of property instead of one is now being reported to Treasury. We have been in contact over the past six months with commonwealth employers and those who do business with Pennsylvania residents to notify them of this change via numerous forms of outreach including interactive webinars with our holder compliance professionals.

Based on the tremendous response from Pennsylvania employers to participate in our webinars and information sessions, we believe it is possible to exceed \$500 million in gross revenues this year and to pay out \$115 million in claims to the rightful owners or heirs.

## **ABLE Act**

One final comment I wish to make on the record today is about the Achieve a Better Life Experience (ABLE) Act. With the enactment of the ABLE Act in December 2014, Pennsylvania has an opportunity to help hundreds of thousands of Pennsylvanians with disabilities better meet the financial challenges resulting from their disabilities.

This federal law provides 529-style savings accounts with tax advantages and federal benefit protections. Pennsylvania needs to enact legislation that will allow individuals with disabilities to take advantage of these significant benefits.

Parents of children, even adult children, with severe disabilities worry about their children's financial future, especially after their own deaths. Families face challenges in meeting the day-to-day financial cost of providing needed services. The ABLE program can provide an easy and inexpensive way for families to provide for their current and future financial needs.

Treasury has been administering the Pennsylvania 529 program since 1993. We stand ready to use that expertise to leverage existing infrastructure and to work with disability advocacy networks and families in order to quickly create and administer an effective user-friendly ABLE savings program in Pennsylvania.

Chairman Adolph, Chairman Markosek, and members of the Committee, as you know, Treasury operates a number of other programs in addition to the ones I have highlighted in my testimony today. I would be happy to discuss them with you at any time and answer any questions. We will continue our best efforts to generate positive returns on the public's investments, to drive up revenue from operations, and generally, to do all we can to improve the prosperity and economic security of all Pennsylvanians.

Again, I want to end where I began, by thanking you for bipartisan understanding and support.

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