



Testimony of State Treasurer Timothy A. Reese
Fiscal Year 2016-2017 Executive Budget Proposal for Pennsylvania Treasury
House Appropriations Committee
Tuesday, February 23, 2016

Chairman Adolph, Chairman Markosek, and Committee members, thank you for the opportunity today to discuss Treasury's appropriation for fiscal year 2016-17.

It was just eight months ago that I was confirmed by the Senate to become the 37th State Treasurer. During my confirmation process, I made it clear I would independently carry out the duties of Treasury and act in a manner that best serves the Commonwealth and its citizens. I am proud to serve.

It is a pleasure to provide an update on Treasury and highlight its key accomplishments over the past year. Before I start, I would like to thank the 350 Treasury employees for welcoming me and for their hard work and service to the Commonwealth.

As an independent office that serves as steward of the state's financial assets, Treasury plays an important, if often unrecognized, role in the lives of every citizen. We are responsible for paying the state's bills, and safeguarding and investing the state's funds, which total more than \$100 billion. Treasury staffs the Board of Finance and Revenue and has seats on the boards of the three state pension systems. While Treasury faces increased costs associated with employee compensation, it recognizes the financial constraints the state is under and believes it can work within the governor's budget request.

Budget Impasse

Normally few constitutional questions or issues arise during the course of exercising Treasury's duties and responsibilities. However, we are not operating in normal times. I was sworn in as Treasurer less than a week before the impasse began, and while Treasury had no role in creating the recent budget impasse, and no ability to end it, the lack of clear statutory spending authority and post-budget enactment issues have created uncertainty for Treasury on a number of issues. These include payment of legislative salaries, making debt payments, providing intercept agreements for schools and paying funds to charter schools from the Gaming Fund.

As a fiduciary and a custodian of public funds, I take these issues very seriously and have a responsibility to act legally and in the public interest without regard to political considerations. My decisions have been consistent with my fiduciary obligation to the citizens of the Commonwealth to act in their best interest and to protect the finances of the Commonwealth from avoidable risk and peril. I made each decision based upon a solid legal foundation. Treasury has done its best to work with both the Legislature and Administration to anticipate issues and present solutions that, whenever possible, avoid damaging the Commonwealth's financial stability.

These and other budget impasse issues have required the attention of many people in the department. Still, Treasury's staff remained focused on our mission and continued to admirably serve the people of Pennsylvania. I'd like to share with you some noteworthy accomplishments.

Pennsylvania 529 College Savings Program

In 2015, the Pennsylvania 529 College Savings Program continued to help families meet the rising costs of higher education. While the lack of a state budget for nearly half the calendar year curtailed marketing efforts, we opened 17,350 new accounts and made nearly \$450 million in contributions, slightly better than the previous year.

Overall the program ended 2015 with \$3.6 billion in assets – the highest year-end amount in the program's history. Of this total, \$1.7 billion was in the Guaranteed Savings Plan and \$1.9 billion was in the Investment Plan.

Importantly, the actuarial status of the Guaranteed Savings Plan improved again in the past year and as of December 31, the Plan is 111 percent funded with an actuarial reserve of \$173.9 million. This continues the impressive turnaround from where the Fund was six years ago when it was only 70 percent funded and had an actuarial deficit of approximately \$400 million.

Bureau of Unclaimed Property

The Unclaimed Property Program had another exceptionally strong year. Due to the reduction in the dormancy period (for the vast majority of property types) from five to three years, approximately \$670 million was reported to Treasury in 2015. During that same time, Treasury returned \$120 million to claimants. In total there was a net benefit to the General Fund of just under \$550 million. 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.

Payments

Under the Fiscal Code, Treasury is responsible for overseeing the expenditure of public funds. Once Treasury receives an expenditure request, it is reviewed to ensure it is lawful and correct and, if so, payment is made. During the last fiscal year Treasury processed 21 million payments worth nearly \$87 billion. Importantly, Treasury's pre-audit review prevented nearly \$29 million of erroneous payments. It is worth pointing out that the number of payments continue to decrease even though the number of transactions and value of payments continue to rise – this is due in part to the enhanced system functionality of Treasury's IT transformation program which allows Treasury to roll up multiple transactions into a single payment.

Investment Performance

Despite turbulent financial market performance and a low interest rate environment, the Commonwealth continued to experience positive growth in its investments across the four primary "pools" managed at Treasury: Pools 198 and 99, the Tuition Account Program, and OPEB, which stands for Other-Post Employment Benefits. In calendar year 2015, the Commonwealth gained \$80.4 million in Treasury-managed funds. Over the past five years, those funds have gained more than \$1.45 billion.

Additionally, Treasury's investments for Pool 198/98 and 99 gained nearly \$30 million more than if the funds had relied on Treasury Bills. Since 2009 the Commonwealth has seen gains of more than \$1.6 billion over those of Treasury Bills.

Significantly, Treasury made those gains while reducing the management fees it pays both in dollars and in the percentage of assets managed. For 2015, fees were \$13 million and represented .07 percent of assets. This represents a savings of more than \$2 million compared to last year and reflects Treasury's increased use of passively-managed investments.

Other Initiatives

Since assuming office I have identified other areas that could improve and expand Treasury's effectiveness.

One in particular is called Treasury University. Nearly 15 percent of Treasury employees are at retirement age, and within the next five years, most senior employees will be eligible to retire. This is a critical issue facing Treasury, especially given the reduction in our employee numbers over the past several years. Treasury University is a series of training courses that seeks to institutionalize the things Treasury does well. It provides classes and workshops to benefit career development, while documenting and capturing best practices. The goals are to provide employees with additional skills and knowledge to facilitate upward advancement and attract new hires by strengthening Treasury's reputation as a great place to work.

We are also launching Treasury's Small Business Initiative. The goal is to increase the state's financial assets by empowering Pennsylvania-based small businesses to grow their revenues and hire employees. To accomplish this, Treasury is teaming with leading corporations and universities to hold a series of meetings across the state to provide small businesses with the knowledge and connections they need to grow. These workshops will provide successful small businesses with information on capital formation, corporate governance, insurance and legal issues. As stewards of Pennsylvania's financial assets, Treasury's responsibility is to maximize a return on investment. Since small business is a key driver of job creation and economic growth in our state, by helping them do well we help all of Pennsylvania do well.

Treasury is also strengthening its investment manager selection process. Throughout my career, I've learned that it is important to constantly challenge the status quo and to collect multiple points of view. To that end, Treasury is partnering with a leading global advisory firm to identify emerging investment managers with proven track records to oversee a portion of Treasury's investment portfolio. By bringing fresh perspectives to its investment team, Treasury expects to benefit from innovative strategies to better protect and grow the state's assets. Importantly, results will matter and we will measure and assess participating managers against identified benchmarks.

Thank you for your bipartisan support.