



PENNSYLVANIA
.....
TREASURY

**Testimony of State Treasurer Joseph M. Torsella
Fiscal Year 2017-2018 Executive Budget Proposal for Pennsylvania Treasury
House Appropriations Committee
February 23, 2017**

Chairman Saylor, Chairman Markosek, and Committee members, I appreciate the opportunity to appear before you in these early days of my term as State Treasurer to discuss the proposed appropriation for the Treasury Department. It is a privilege to be here, too, on behalf of the talented and dedicated employees of Treasury. We look forward to working with you in taking on the challenge of developing this year's budget and collectively seeking ways to help Pennsylvania deal with its long-term financial health and stability.

As an independent office, the Treasury's role is to provide stewardship of Commonwealth assets and to help increase the economic security and prosperity of both the Commonwealth and its citizens. This mission has become very critical over the past several years as the state continues to face serious budget shortfalls with increased frequency, resulting from its recurring structural deficit. This year Treasury has provided a \$2.5 billion line of credit, of which \$2.2 billion has been used, to prevent the General Fund from falling into negative territory.

Treasury is responsible for paying the Commonwealth's bills, as well as safeguarding and in some cases investing Commonwealth funds that 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, along with 12 other boards.

I want to convey my commitment to be a partner in seeking real solutions far beyond adoption of the Commonwealth's new budget, and to building our common wealth and financial strength.

As Treasurer, everything I do will support one of three goals:

1. To operate Treasury at the highest levels of integrity, ethics, transparency and accountability;
2. To be a responsible steward of the taxpayers' money, creating savings and efficiencies whenever possible; and
3. To empower Pennsylvanians to earn, save and invest their own money to build their own financial security.

As the custodian of our public funds, my top concern is for the Commonwealth's General Fund balance and the ability of our state to pay its bills. The \$2.5 billion line of credit that Treasury extended to the Commonwealth this year is the largest in its history. The state's ongoing fiscal difficulties affect Treasury operations and require the attention of many Treasury staff.

Integrity, Ethics, Transparency and Accountability

- We have already banned middleman fees for all Treasury investment contracts. We have instituted a formal ban on all investment contracts that include third-party agreements that pay a middleman finder's fee as a reward for acquiring Treasury investment contracts. This ban, which went into effect on January 17, 2017, my first day in office, covers all current and future agreements. Any current investment manager that has an agreement containing a finder's fee must end that provision within 30 days to continue to manage public funds on behalf of Treasury.
- In January, Treasury also implemented its first ever code of conduct on investment activities. The new policy identifies and prohibits actual and perceived conflicts of interest for Treasury investment staff and other personnel. Treasury's investment decisions should be free from outside considerations and influences and only be made in the best interest of the Commonwealth.
- In the first of many stages of making the Commonwealth's finances more visible to the public, we are posting the General Fund's real time balance, every day. The portal (www.patreasury.gov/transparency) tracks the current balance of the General Fund, compares monthly and annual revenues and expenditures and illustrates how Treasury's line of credit prevents the fund from falling into the negative. The website features a chart illustrating how Treasury bolsters the state's General Fund balance by extending a line of credit to allow the Commonwealth to satisfy its liquidity needs during extended periods of shortfalls.

Fiscal Efficiency

- In 2017, Treasury has already reduced its costs in cutting its automotive fleet in half and streamlining its advertising budget for unclaimed property. In 2016, Treasury reorganized work responsibilities in peak times and began the use of new human resource software to streamline operations.
- During the last fiscal year, Treasury processed 21.1 million payments worth nearly \$92.2 billion. Importantly, Treasury's pre-audit review prevented nearly \$74.2 million of erroneous payments.
- Treasury's Bureau of Unemployment Compensation Disbursements processed an additional 8.2 million payments totaling over \$2.45 billion in benefits. These payments included \$2.1 billion in unemployment payments, \$97 million in Supplemental Social Security payments and \$237 million in State Workers' Insurance Fund payments, helping hundreds of thousands of families.

- It is worth pointing out that the number of payments continues 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 involving the same vendor into a single payment.
- Treasury has begun the process of transferring the investment management of three special insurance funds (Workers' Compensation Security Fund, Underground Storage Tank Indemnification Fund and State Workers' Insurance Fund) into Treasury, with the objective of more efficiently executing the investment directives of all three funds, providing annual savings of as much as \$6 million across all of the funds.

Economic Security and Investing for Our Future

- The Pennsylvania Treasury is responsible for managing the Commonwealth's financial assets. Today, we are the custodian of approximately \$100.6 billion, and we are the sole fiduciary for \$16.6 billion in investments.
- Despite turbulent financial market performance and a low interest rate environment, the Commonwealth continued to experience growth in its investments across the four primary "pools" managed at Treasury: Long-term Investment Pool 198, Short-term Investment Pool 99, the Tuition Account Program, and Other-Post Employment Benefits. Over the past five years, those pools have gained more than \$3.09 billion. In 2016, they gained \$400 million as we reduced manager fees by approximately \$500,000 from 2015.
- Our Bureau of Unclaimed Property has contributed more than \$1.5 billion in net revenue to the General Fund since January 2009. Treasury has returned approximately \$961 million to its rightful owners since 2009, including families, businesses and community nonprofits.

Consumer Programs

COLLEGE SAVINGS PROGRAM

- In calendar year 2016, Treasury helped families contribute over \$490.2 million into their Pennsylvania 529 College Savings Program accounts and opened over 20,000 new accounts. We will continue to build this program.
- Importantly, the actuarial status of the Guaranteed Savings Plan improved again in the past year and as of December 31, the plan is 118 percent fully funded with an actuarial reserve of \$276.7 million.
- Overall, the program ended 2016 with \$3.9 billion in assets – the highest year-end amount in the program's history. Of this total, \$1.8 billion was in the Guaranteed Savings Plan and \$2.1 billion was in the Investment Plan.

- This continues the impressive turnaround from where the Fund was seven years ago when it was at its low, at only 70.36% funded and had an actuarial deficit of approximately \$400 million in March 2009.

ABLE

- In the months ahead, Treasury will introduce the Achieving a Better Life Experience (ABLE) program to help Pennsylvanians improve their long-term financial security for loved ones with disabilities or blindness.
- In preparing disclosure and enrollment materials, we are currently preparing to accept accounts, which will give individuals with a qualifying disability a tax-free way to save for future expenses.
- We will work with various stakeholder groups and have already begun providing information on ABLE to targeted audiences in preparation for an aggressive campaign to reach as many individuals and families as possible.

KEYSTONE ACCOUNTS

- New research suggests that children with a college savings account at birth are seven times more likely to go to college, which for one of the 150,000 Pennsylvania children born every year could mean up to a million dollars more in lifetime income.
- Several states have moved towards creating universal college savings accounts (using, for example, philanthropic funds), seeding accounts with a modest opening deposit to encourage a lifetime of financial literacy and college savings. Building on the successes of and lessons learned from other states, Treasury would develop a short-term pilot program around this idea. The ultimate goal is to have a college savings account for every Pennsylvania child to use for future college or vocational expenses.

In the next four years, we look forward to growing these important initiatives as well as promoting programs in other areas. We are committed to maintaining the high level of service we currently provide to the Commonwealth's citizens and agencies and look forward to reaching beyond our current services into new areas.

Personnel and Staffing

I would be remiss if I did not raise a serious concern that Treasury faces this year. One of our greatest challenges will be maintaining adequate personnel to carry out our core functions, a task complicated by the fact that we face mandatory increases in salaries and benefits that will raise our costs by almost \$1 million next year.

- Treasury's complement will be 322 employees in general government operations, down from 470 employees as of January 1, 2007.
- We are proud of what we have been able to accomplish, despite the decline in the number of employees working within our department, and we will continue to be

an entrepreneurial department that strives for continuous improvements in how we do business. While we have been able to absorb these losses, it is clear that any further personnel reductions will threaten our ability to fulfill our core duties. Additional reductions in staffing will jeopardize functions such as managing the Commonwealth's cash balances, pre-auditing of expenditures, accurate execution and settlement of transactions, and collecting and returning unclaimed property to our residents.

- Treasury is asking for funding for such crucial positions as a chief investment officer and director of cash management to provide oversight for the \$100 billion in Commonwealth funds. Treasury accounted for over \$170 million of gains in Treasury managed funds in fiscal year 2015-2016. We also have essential needs for staffing in the Bureaus of Information Technology, Fiscal Review, and Communications that are currently vacant because of retirements and attrition.
- Treasury also seeks to fill one position in its 529 College Savings Program and four positions in its Board of Finance and Revenue. All of these positions are currently in the budget, but Treasury needs to ensure that the new budget can sustain these positions.

Conclusion

In summary, we will strive to operate at the highest levels of transparency and accountability, to save the taxpayers as much as we can, and to implement programs that empower the Commonwealth and its citizens economically. I am proud of Treasury's accomplishments on behalf of the Commonwealth's citizens, even with a serious decline in its workforce.

I am grateful for the trust that Pennsylvanians have placed in me to work with the dedicated professionals at Treasury to discharge our many vital functions for the benefit of the Commonwealth.

I pledge to work closely and constructively with the General Assembly and the Governor to find solutions that allow Pennsylvania's government to continue to serve our citizens as we face looming budget challenges. I will work to ensure that Treasury embodies the values of integrity, transparency, accountability and good stewardship of our tax dollars every day.

I hope the Commonwealth will continue to value the high level of service Treasury provides to our citizens and will work with us to address our funding needs to prevent any interruptions to that service.

Chairmen Saylor and Markosek, Committee members, thank you for this opportunity to present our work at Treasury. I look forward to finding ways we can work together for the Commonwealth and citizens in the months and years to come.

Thank you for your support.

###