



Office of the State Treasurer Strategic Plan

The Office of the State Treasurer (OST) performs a number of vital functions for Washington citizens and agencies of state government. These include issuing state bonds, issuing state certificates of participation (COPs), coordinating daily cash flow, portfolio investment, warrant processing, and accounting services. The agency also provides a variety of services for local governments through the Local Government Investment Pool, the Public Deposit Protection Commission, the Local Option Capital Asset Lending program, the School Bond Guarantee Program and the distribution of tax revenues.

Mission

To manage the financial resources within our purview effectively and efficiently and to promote prudent practices in government.

Statutory Authority

- Article III, State Constitution.
- RCW 39.42, 39.58, 39.94, 39.98, 43.08, 43.33, 43.79A, 43.84, 43.86A, 43.163, 43.180, and 43.250.
- WAC 210, 262, and 389.

The State Treasurer, a constitutional officer elected to serve a four-year term, is responsible for receiving and disbursing all monies within the state treasury and all monies in trust funds outside the treasury, except local funds which are administered by other agencies as prescribed by law.

In accordance with the statutes listed above, the Treasurer is also responsible for: (1) disbursing, redeeming, and accounting for warrants drawn on state funds; (2) the physical safekeeping and interest collection for state investments; (3) administering state and federal revenues distributed to local governments in the state; (4) investing Treasury and Treasury Trust funds in authorized short-term securities; (5) accounting for and making payments on state debt; (6) serving as a member of the State Investment Board; (7) serving as chairperson of the State Finance Committee; (8) serving as chairperson of the Public Deposit Protection Commission; (9) administering the Public Deposit Act (Chapter 39.58 RCW); (10) serving as ex-officio member and secretary of the Washington State Housing Finance Commission; (11) serving as ex-officio member of the Washington Economic Development Finance Authority; and (12) serving on other boards and commissions.

Goals

2007 – 2009 Biennium and beyond

Goals – Agency-wide:

- Promote and exercise sound professional judgment coupled with effective communications to foster accuracy and transparency in financial reporting;
- Promote and maintain public trust and confidence through the consistent application of responsible practices;
- Promote prudent practices in partnership with other governmental entities;
- Provide quality services to our customers in an accurate, efficient and timely manner;
- Communicate our vision, mission, goals and objectives to our customers;
- Assure the continuance of vital financial services to our customers, employing the best of whatever tools and resources are available, in the event of a disaster or other business interruption;
- Provide a supportive work environment that promotes employee growth and morale, and encourages free-flowing communication;
- Improve the efficiency and productivity of agency operations through the application of innovative ideas and cost-effective technology; and
- Provide continuing financial and legal disclosure to investors, regulatory agencies and citizens.

Goals specific to performance measures:

- Provide customers the best possible investment options through prudent, active management of investment portfolios.
- Issue state debt in an efficient and cost-effective manner at the lowest possible risk in accordance with federal and state regulations; and respond to inquiries and provide assistance to anyone interested in matters pertaining to state debt.
- Use the most efficient and cost-effective means, including state of the art electronic applications, for receipting, depositing, and disbursing money, and advise customers of best practices for these transactions.

Objectives

2007 – 2009 Biennium and beyond

The following are agency objectives by organizational unit:

Operations

- Enhance and improve processing of financial transactions processed in a secure environment within the Office of the State Treasurer and throughout state government through implementation of electronic cash management and payment alternatives and improved processing systems, ensuring continued safety of public funds while enabling new business practices.
- Employ responsible financial practices and procedures to ensure the effective and efficient management of the state's financial resources from the initiation of a financial transaction through posting of the financial activity to agency detail and summary statewide records, and reporting of all activity.
- Accurately account for and report the cash activity of all funds in the custody of the state treasurer, and provide state agencies ready access to current information.
- Expand the Treasury Management System (TMS) to include both the tracking of the School Bond Guarantee program and monitoring of compliance issues, and modify the system as users request to provide a more integrated business view and operate more efficiently.
- Enhance the Treasury Management System (TMS) to improve internal operational efficiencies and allow the Office of the State Treasurer to share resources with other state agencies to maximize efficiencies (i.e. ACH reversal screen, reporting, etc.).
- Maintain vital financial services to our customers in the event of a disaster or other business interruption.

Debt management

- Provide for the issuance of debt at the lowest possible cost and risk;
- Determine the available debt capacity; provide certification of the state debt limit via an annual report to the Legislature for its use in authorizing future debt issues;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures (including the state's lease/purchase program);

- Recommend to the State Finance Committee the manner of sale of debt; submit to the State Finance Committee all recommendations to issue debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate;
- Comply with all Internal Revenue Service (IRS), Securities and Exchange Commission (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt;
- Provide for the timely payment of principal of and interest on all debt; ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
- Prepare and review preliminary and final official statements;
- Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- Distribute to appropriate repositories information about financial condition and affairs at such times and in the form required by law, regulation and general practice, including Rule 15c2-12 regarding continuing disclosure; provide continuing financial and legal disclosure;
- Provide for the distribution of pertinent information to rating agencies;
- Prepare and formulate data related to bond sales, debt payments, and refundings to update the Treasury Management System (TMS);
- Work with IS staff to expand the current TMS database to track the School Bond Guarantee Program and to monitor compliance issues;
- Work with IS staff to expand and modify reporting of historical and outstanding debt issuance and debt servicing data as required;
- Coordinate the issuance of debt with the investment of the state's cash to minimize net interest costs;
- Administer the state's fiscal agent contract;
- Administer the Local Option Capital Lending (LOCAL) Program: Monitor the progress of the program, in part through outreach programs to local governments, and suggest modifications to LOCAL;

- Administer the School Bond Guarantee Program to voter-approved general obligation school district bonds;
- Continue oversight of financial service providers;
- Partner with state agencies in tax compliance;
- Housing Finance Commission/Washington Economic Development Finance Authority: Raise community consciousness about housing, nonprofit, and economic development issues and, at the same time, be alert for activities that might negatively affect the missions of the agencies, the Office of the State Treasurer, or state government; and
- Apply and promote prudent fiscal practices.

Investments

- Actively manage the OST portfolios to achieve maximum earnings within the constraints of the appropriate investment policy.
- Provide ongoing education/training for portfolio managers to ensure full utilization of available tools and technology.
- Maintain regular communication between portfolio managers with regards to the market and strategies being implemented.
- Annually review investment policies for the Treasury/Trust and LGIP portfolios.
- Continue to refine cash-flow forecasting to ensure the amount allocated to the higher-yielding core portfolio is maximized.
- Produce and distribute a regular reporting package of investment activity, performance, and holdings.
- Monitor the compliance and performance of the OST custody and security lending provider.
- Monitor the performance of the statewide custody provider.
- Take a proactive approach to investment training and education for local governments.

Strategies

2007 – 2009 Biennium and beyond

Investments

Invest the state's short-term cash reserves for maximum prudent return.

Cash management

Promote responsible financial practices and coordinate education of agencies about best practices through letters, seminars and presentations, to ensure that agencies are informed and have ready access to this information:

- to ensure the unimpeded inflow of monies to the state's bank accounts and the timely outflow of monies to state and local governments, vendors, beneficiaries, claimants, and employees;
- to increase the daily amount of money available for investment;
- to ensure investment officers are supplied with the most accurate cash flow figures for forecasting/investing; and
- to ensure the protection of public funds in their custody.

Secure master agreements for financial services to take advantage of economies of scale when appropriate and possible.

Promote staff training and participation in organizations and committees to ensure that staff has access to current training in best practices used throughout the financial industry.

Accounting and fiscal services

Maintain internal controls, policies, procedures and keep abreast of accounting pronouncements from GASB, FASB and other authoritative sources to ensure the integrity and accurate reporting of accounting transactions.

Debt management

Provide and encourage prudent debt management practices, financing recommendations and operational services to the State Finance Committee to support the state's capital budget through efficient, cost-effective borrowing.

Agency information

Efficiently and effectively provide the information necessary to operate the agency. Maintain and enhance an architecture that promotes data and application sharing, connectivity, and security. Keep technology current and in alignment with the Information Services Board's (ISB) technology policies and standards.

Establish, maintain and test procedures for timely, organized response to potential business interruptions to provide vital financial services to our customers.

Appraisal of external environment

- **The public** - Taxpayers and citizens, tourists and visitors, bondholders and investors, warrant recipients, and self-insured motorists.
- **Private industry** - Commercial banks, savings banks, savings and loan associations, and minority and women-owned businesses.
- **Regulatory/oversight/authorizing environment** – MSRB, SEC, IRS, GASB, federal legislation, the Federal Reserve, VISA and MasterCard, and external auditors. Recognizing increased IRS auditing of municipal finance move to more frequent and comprehensive disclosure reports, and GASB’s direction to include tobacco securitization bonds in state debt.
- **State government** - The executive, legislative, and judicial branches; elected officials; and universities, four-year colleges, and community/technical colleges.
- **Local government** - Elected officials such as city/county treasurers, assessors, auditors, and prosecuting attorneys; local government associations; Local Government Investment Pool participants; law enforcement agencies; and public service districts such as school districts, health districts, fire districts, public transit authorities, and other political subdivisions of the state.
- **Rating agencies** – Continuing assessment of state economic vitality and fiscal management. Potential negative impact on the state credit rating because of perceived insufficient reserves.
- **Fiscal agency** – Manage fiscal agent to meet desired economics of scale for statewide obligors.
- **National economy** – Increasing interest rate environment may reduce opportunities for debt refinancings to reduce costs. Reduced federal assistance to state and local governments may result in increased borrowing.
- **State economy** – The improving economy may impact the cost of borrowing money, while at the same time putting pressure on the need for capital projects to meet state government growth.
- **Legislature** – Increasing bonding authority and debt limit issues.
- **Demographic changes** – Indirect effects through client agencies, i.e., additional schools, jails, etc. to be financed and constructed.

Trends in customer characteristics

- **The public** – Citizens look to the Internet for conducting business and making payments and look to government to embrace standard private sector business practices. Ballot initiatives could limit state revenues or restrict sources for debt repayment, which might affect credit ratings.
- **Private industry** – Bank mergers and acquisitions – relocating headquarters and centralizing processing out of Washington – present challenges for customer service and ensuring public funds are protected as provided by law. New bank products are often not supported in Washington state. Banks are generally reluctant to process warrants – state’s concentration account banking services agreement will be rebid in this environment.
- **Regulatory/oversight/authorizing environment** – GASB continues to look at ways to make government accounting and reporting more like the private sector. As a result of recent high profile frauds, various authoritative bodies are closely examining internal controls and accounting practices.

Federal legislation affecting banking (Check 21 and Regulation Q) will impact state and local government banking practices.

VISA and MasterCard decisions regarding rate classifications and fees impact state agency budgets and OST agreement for bankcard services.

- **State government**
Information technology decisions are guided by changes promoted through the ISB and legislative actions.

Movement toward enterprise systems in state government (i.e. HRMS, Roadmap).

Increased use of credit cards, debit cards, internet checks, and other electronic payments present challenges to tracking and accounting for moneys deposited.

- **Local government**
Increased desire to conduct intergovernmental business and make payments via the internet and through other electronic means.
- **Client agencies** – Nearly all client agencies are dealing with actual or predicted declines in revenues. State agency lease purchase financings (COP’s) increased 11.6 percent in the past year. The number of LOCAL program participants grew 18 percent in the past year with the amount of financings increasing by 28 percent.
- **Customers in general**
Customers expect and deserve quality service. Quality customer service is an integral part of all Office of the State Treasurer activities. We are committed to ensuring that our customers receive the best service possible and have identified the qualities and attributes important to meeting the needs of our customers.

Strategy and Capacity Assessment

The Office of the State Treasurer's operations and technology strategies should remain constant throughout the 07–09 biennium. Some of our technology strategies are governed by the Information Services Board; if necessary, our strategies will be modified to incorporate future policies and standards enhancements.

Our staffing and organizational capacity is currently in alignment with our duties and tasks. However, more than 40 percent of our current workforce will be eligible for state retirement within the 07-09 biennium. While it is unknown if the majority will choose retirement during this period, aggressive cross-training, procedures documentation and succession planning efforts will mitigate the potential impacts of any workforce turnover.

Performance Assessment

The Office of the State Treasurer will use performance measures and the completion of agency tasks to gauge the progress of our strategic plan. Performance measures will be used as a management tool to focus energy and resources on the achievement of our goals. Our measures are:

- *Treasury and Trust Funds – Incremental value of active internal investment compared to overnight investment of all available funds.*

We had estimated a value added of \$0.3 million for FY 2006. Through February 2006 we had achieved a value added of \$(9.2) million. This performance measure is a reflection of the value added of having an active investment program versus overnight investment of all cash. Due to the positive slope of the yield curve, we would typically expect that over a market cycle the state would enjoy a significant increase in earnings. In fact, over the last 12 fiscal years the yield pick-up averaged 85 basis points (bp). This represents additional earnings of \$228 million, or \$19 million per year. However, this is an average. The correct time frame to examine the value added is a market cycle, i.e., interest rate increases and then decreases, which usually spans several years. Using a fiscal year results in an inaccurate measure of the value added, as the amount of value added varies significantly depending on what phase of the cycle you are in. There will be years where the value added is quite large, and years where it will be quite small, or even negative. This is normal and should be expected. The FY 2006 performance is worse than estimated because short-term rates have gone up more than expected over the last 19 months, from 1.00 percent to 4.75 percent.

This performance measure is an appropriate one for the investment of Treasury and Trust Funds. However, due to differences in cash flow characteristics and in statutorily eligible investments from state to state, there are no appropriate industry standards with which to compare.

- *Local Government Investment Pool (LGIP) – Incremental value of LGIP vs. comparable privately managed money funds.*
This performance measure is an indication of the added value of investing funds in the LGIP as opposed to a comparably managed private money market fund. This makes the performance measure an appropriate one. Since 1994 the LGIP has outperformed the average money market fund by an average of 47 bp. Through February 2006, we have generated an additional \$14.5 million in earnings for local governments, which is about 65 percent higher than our original estimate. This represents an increased earnings rate of 48 bp. The additional earnings are generated from a combination of higher average daily balances and beating the benchmark by a greater margin.
- *General obligation bond rates as a percentage of the securities industry – Bond Buyer Index.*
This performance measure provides a mechanism to compare the price performance of State of Washington general obligation bonds with the prices achieved by other municipal market issuers. Specifically, the measure is a ratio of the true interest cost (TIC) – or the internal rate of return – of an issue compared to the Bond Buyer Index (BBI). The BBI is a weekly municipal bond index published in the Bond Buyer, a daily publication for the municipal bond market. The index consists of 20 general obligation bonds that mature in 20 years with an average rating roughly equivalent to Moody's Investors Service's Aa2 rating and Standard and Poor's AA. The better the price for state general obligation bonds, the lower the percentage. The result for fiscal year 2004 is expected to be 95.1 percent, which exceeds the target of 98.5 percent.
- *Bond refunding savings as a percentage of total bond issue.*
The “Savings/Issue Size” performance measure provides a way to assess savings from refundings. A refunding is a procedure whereby an outstanding bond issue is refinanced by a new issue. The measure is a ratio of the net present value (NPV) of the savings – after discounts and all cost of issuance – compared to the total par value of the new issue. The debt policy of the State Finance Committee requires a present value savings of 5 percent for an “advance refunding” to be executed. The result for fiscal year 2004 is expected to be around 7.65 percent, which exceeds the target of 5 percent. Over the past 20 years, the State Finance Committee has undertaken refunding operations to reduce interest costs on outstanding state indebtedness. Gross savings from all refunding transactions to date have amounted to \$591.681 million, or \$403.977 million on a present value basis.
- *State payment transaction average cost and state receipt transaction average cost.*
OST has no control over the number of payment and receipt transactions it processes on behalf of state agencies. Therefore these performance measures depend primarily on OST’s ability to negotiate low fees with financial institutions for these transactions and the utilization of the most cost efficient bank products available. The contract for the state’s concentration banking services is competitively bid and fees compared with industry surveys of prices for these services. Basic fees negotiated in the existing contract are discounted an average of 35 percent below the discounted prices for these services paid by corporations for 2003-2005. This contract will be rebid in the 05-07 biennium.

- *Cash in-balance between the state accounting document records and treasury bank transactions.*

OST is responsible for receiving, maintaining, disbursing, and transferring all public monies of the state not required by law to be received, maintained, and disbursed by other state agencies. In addition, OST must account for all monies received, disbursed, and transferred by fund. OST has no control over the volume of transactions and money received, disbursed, and transferred. However, we do control the state accounting document records and treasury bank transactions. Therefore, this performance measure depends on OST's ability to reconcile cash on a daily basis and balance the state accounting document records with the treasury bank transactions. Our goal is to achieve and maintain, at least 95 percent of the time, a cash in-balance condition within two days of the close of business throughout the entire fiscal year. The results for FY 06 and FY 07 are expected to meet or exceed our goal.

Financial Health Assessment

Funding our agency

The State Treasurer's Service Fund provides financing for the Office of the State Treasurer. The service fund is supported by a maximum of 1 percent of the Treasury and Treasury Trust average daily cash balances and is paid from earnings generated from the short-term investment of Treasury and Treasury Trust cash balances. The office currently operates at a one-half percent level. Barring significant changes in Treasury and Treasury Trust balances, one-half percent will support the agency and our strategic plans. Service fund balances have historically been transferred to the state general fund and we plan to continue our support to the extent our cash balance will allow.

Cost Reduction Strategies

Continued enhancements to the Treasury Management System will minimize the need for additional resources. One focus will be efforts to facilitate increased entries and/or automated file transfers from client agencies.

The passage of federal legislation, Check 21, may provide opportunities for efficiencies in processing agency deposits.

The low interest-rate environment has provided opportunities for debt refinancings to minimize/reduce interest costs.

Activity Links and Major Partners

State agencies and local governments

- Continued education programs to promote prudent cash management, debt management and investment practices.
- Continued communication and outreach to client agencies to determine future borrowing needs.
- Continued coordination to provide financing and outreach for GA's energy project which provides energy conservation services to state agencies, municipalities and schools.