State Treasurers: Guardians of the Public's Purse

By The National Association of State Treasurers

State treasurers are the chief financial officers of the states who assume the duties of assuring the absolute safety of all taxpayer dollars as well as guaranteeing the prudent use of public resources that fund vital government programs. In several states, treasurers also improve the financial security of our citizens by providing college savings opportunities, financial education and returning unclaimed property.

From management of state investments in a time of profound budgetary grief to taking an active and central role in defining what is greater corporate governance, state treasurers are vital players in the healthy management of not only state budgets, but federal policy on a multitude of issues that impact citizens in each and every state of the union.

State treasurers also play a unique role in policy setting at both the state and federal levels. On issues ranging from corporate governance to accounting standards, state treasurers are at the forefront of policy discussions and initiatives that attempt to safeguard investments made by and on behalf of the residents of their states.

Through this fiscal oversight and policy setting, state treasurers work daily to protect and benefit their individual states and the nation as a whole.

Selection and Term of Service

State treasurers are elected by the people in 37 states, elected by the legislature in four states and appointed by the governor in nine states. Forty state treasurers serve four-year terms in office, while the state treasurers of Maine, New Hampshire, Tennessee and Vermont serve two-year terms. The remaining state treasurers serve at the discretion and pleasure of the state official making the appointment.

Responsibilities of State Treasurers

All state treasurers are responsible for cash management, a fundamental duty of the states' chief financial officers. All but three state treasurers are responsible for banking services and in 37 states, state treasurers are responsible for some aspect of debt management—issuance, service or both. Thirty-two state treasurers are administrators of unclaimed property programs and 29 invest retirement or trust funds for their respective state. Several examples—though certainly not an exhaustive listing—are given below and touch on the wide array of responsibilities held by state treasurers.

Managing State Budgets

During the tight budget restrictions facing states over the past three years, even the squandering of a dime can raise constituent concerns. Therefore, it is especially important for treasurers in every state to make due with what they have. Managing shortfalls in state budgets, while largely viewed by the public as an issue for their state's governor and state legislature, also relies heavily on the guidance of the state's treasurer. Today's treasurers must learn to stretch every dollar and adopt an "out of the box" approach to financing.

While the task of investing available state funds may seem fairly straightforward to the public, the process is quite complex and requires specialized knowledge and skill. Treasurers must invest using the safest, most efficient methods available while earning the highest possible return. State treasurers' performance and record of investment income critically affects the bottom line of the states' fiscal fitness, which in turn can have a measurable impact on the well being of the states' budgetary status in any given year.

State treasurers, in particular, have fiduciary responsibility not only for pension plans and general state funds, but also for other investment vehicles, such as state college savings plans. The state treasurers, who collectively have fiduciary responsibility for more than one trillion dollars in public funds, contend that greater corporate responsibility is vital, since the business practices of U.S. corporations have a profound effect on public monies ranging from pension funds to state tax revenue investments.

Corporate Governance Reform

The management and oversight of state investments are key functions of the state treasurers. Based on their unique investment role, the state treasurers also are among the most powerful entities speaking out and taking action to promote the development and implementation of corporate standards and prac-

tices designed to restore and maintain investor confidence in the capital markets and protect shareholder rights. This will ultimately preserve, protect and grow the public fund assets under the management and custody of state treasurers across the nation.

Since 2001, the state treasurers have undertaken a broad review of investment management and policy issues surrounding corporate governance in the U.S. equity markets. Through the National Association of State Treasurers (NAST) Committee on Corporate Governance, the state treasurers have developed innovative policies to enhance and improve corporate governance. In addition, many treasurers have taken an active role in improving corporate governance and financial reporting practices, calling upon corporations they do business with to verify that their accounting procedures are sound and that the money the state invests on behalf of its residents is safe.

An example of one improvement is the development of the "Investor Protection Principles" for investments made with public funds. The principles set out the following obligations, among others:

- Investment banks shall sever the link between compensation for analysts and investment banking;
- Investment banks shall prohibit investment banking input into analyst compensation;
- Money management firms shall disclose client relationships, including management of corporate 401(k) plans, where the money management firm could invest state or pension fund monies in the securities of a client;
- Money management firms shall, in making investment decisions, consider the quality and integrity of a company's accounting and financial data, as well as whether the company's outside auditors also provide consulting or other services to the company; and
- Money management firms shall, in deciding whether to invest state or pension fund monies in a company, consider the corporate governance policies and practices of the company.

The principles have been adopted by many state and national organizations as a prime way to hold businesses accountable to the shareholders and other investors who have a stake in their companies.

In 2003, NAST adopted a set of major policy objectives designed to enhance general corporate governance structures. The policies established minimum standards corporations should follow to enhance corporate performance, including standards relating to corporate board structure and performance, access to the proxy process which allows shareholders to meaningfully engage in improving corporate performance, and improved director qualification requirements to increase board member independence and diversity, and new director compensations measures.

Recently, NAST approved a policy resolution designed to make mutual funds disclose more information to shareholders. The resolution calls upon institutional investors, including all state and local public fund investors, to adopt into their investment practices and procedures the Mutual Fund Protection Principles.

The policy resolution calls for reforms to mutual fund business practices including higher standards of disclosure directed at fund holdings, trading costs and soft dollar practices. The principles require enhanced disclosure of portfolio manager compensation, fund ownership and holding period requirements. Mutual fund board reform measures include requirements that approval of fund management fees only be conducted by independent directors; require that at least three-quarters of the mutual fund board and the chairman shall be independent; and assurances that the independent directors meet at least annually with the chief compliance officer of the fund as well as the independent auditor without management present.

Treasurers and other public investors are also encouraged to give significant weight to mutual fund managers who embrace the principles and to encourage other defined benefit, deferred contribution and other savings plans to adopt them into their investment management practices.

College Savings Plans

One of the greatest financial worries of many American families is, "How will I be able to afford a college education for my children?" All 50 states°and the District of Columbia have created innovative college savings programs designed to meet the savings needs of their citizens.

In 44 states and the District of Columbia, the state treasurer plays a vital role in the administration of the program, including oversight of all program operations, serving as the board chair or board member, and investment manager or committee member.

The mission of the state plans is to increase access to higher education by offering families a simple, safe, affordable and dedicated way to save for college tuition. Section 529 plans come in two forms, prepaid tuition programs and savings plans. The prepaid tuition program offers families a method to prepay tuition based on current college tuition rates and

provides a guarantee to keep pace with tuition inflation. The savings plans offer dedicated qualified state college savings accounts, which provide families a variable rate of return in a tax advantaged college savings account.

To date, more than 7 million children across the country have been enrolled in state college tuition or savings plan. These programs seek to make saving for college easier for the average family. These programs represent positive, productive and affordable options that can ensure the education of our most precious resources: the children of America. State sponsored savings plans promote:

- Planning for education expenses;
- Saving for education expenses instead of relying on debt;
- Reliance on family resources instead of total reliance on government aid programs; and
- State-level planning designed to meet the differing needs in each state instead of a "one size fits all" national approach.

Parents and other individuals have saved more than $64 billion to help their children and loved ones pay for future college costs. More importantly, in excess of 750,000 students have used more than $5.6 billion from these plans to fund their college education.

Participants in both types of programs receive a federal tax exemption on the investment earnings of the accounts, when the funds are used to pay for qualified higher education expenses, which include tuition, room and board, books and fees, and any other expenses that students are required to pay to attend any accredited college or university in the United States.

In 2004, state treasurers led a review of Section 529 plan disclosure documents in order to develop a set of disclosure principles that would allow consumers to make objective comparisons of fees and expenses for qualified tuition programs. By the end of 2004, all 50 states and the District of Columbia were implementing these disclosure principles in Section 529 college savings plans. The disclosure principles include tables and charts that provide a clear, concise and consistent description of fees and expenses. Additionally, the principles specify information that should be prominently stated for each program, such as the risk involved in investing in the plan, the need to consider state tax treatment and other benefits, and the availability of other state 529 programs.

State treasurers are committed to the goal of providing opportunities for families to save to send their children to college and will continue to strive to make Section 529 plans the most effective way for families to meet their college savings goals. NAST will monitor the implementation of the disclosure principles and will make revisions to the principles as necessary to improve the information available to participants and the public.

Unclaimed Property

State treasurers are responsible for the administration of unclaimed property programs in 32 states and the District of Columbia. Unclaimed property (sometimes referred to as abandoned property) refers to accounts in financial institutions and companies that have had no activity generated or contact with the owner for one year or a longer period. Common forms of unclaimed property include savings or checking accounts, stocks, uncashed dividends or payroll checks, refunds, traveler's checks, trust distributions, unredeemed money orders or gift certificates, insurance payments and life insurance policies, annuities, certificates of deposit, customer overpayments, utility security deposits, mineral royalty payments and contents of safe deposit boxes.

Acting in the best interest of consumers, each state has enacted an unclaimed property statute that protects funds from reverting back to the company if it has lost contact with the owner. These laws instruct companies to turn forgotten funds over to a state official who will then make a diligent effort to find owners or their heirs. Most states hold lost funds until owners are found, returning them at no cost or for a nominal handling fee upon filing a claim form and verification of your identity. Since it is impossible to store and maintain all of the contents that are turned over from safe deposit boxes, most states hold periodic auctions and hold the funds obtained from the sale of the items for the owner. Some states also sell stocks and bonds and return the proceeds to the owner in the same manner.

In order to return this money to owners, state unclaimed property programs publish names of owners in newspapers, set up displays at state fairs, malls, and other public events, work with other public officials such as legislators and local librarians, and make searchable databases available via the Internet including www.missingmoney.com. Each year through these activities hundreds of millions of lost dollars are returned to owners.

State treasurers remain active in advocating improvements in unclaimed property statutes and regulations that further protect and return Americans' forgotten assets. Recent developments in this arena have included lowering dormancy periods for funds

to be reported from demutualized insurance companies and eliminating dormancy fees and expiration dates for gift certificates and prepaid gift cards. Treasurers are also trending toward stricter enforcement of unclaimed property laws by employing more auditors and levying interest and penalties for overdue funds that are discovered.

Financial Literacy Initiatives

State treasurers are viewed as trusted and credible sources of sound financial advice and have long recognized the need for responsible fiscal decision-making for the management of both public funds and personal finances. Over the past few decades, state treasurers have taken an active role in promoting financial literacy to the residents of their state.

State treasurers operate financial education programs for the benefit of the citizens of the states, drawing upon their substantial expertise in the financial management of both personal and public funds to provide opportunities to educate the citizens of the states on savings, from birth to retirement.

Thirty-five state treasurers presently offer some type of program ranging from "Bank at School" programs designed to teach students basic monetary concepts to women's conferences that help adults gain control of their personal finances.

Under the leadership of the state treasurer's office, Delaware has been a pioneer in improving "financial literacy" since the late 1990s. *The Delaware Money School* was established to bring community based financial education to participants in a stress free setting. More than 400 *Money School* classes have reached close to 5,200 participants. Taught by volunteer analysts, financial planners, economists and other financial professionals, this program continues to be conducted with assistance from corporate sponsorships. *Money School* topics range from homeown-ership, debt management and investments to estate planning. Several states have adopted Delaware's program molding it to fit their individual needs, with great success.

Conclusion

The roles and responsibilities of state treasurers are countless and critically important to the fiscal well being of their respective states. Sound and profitable investments made by state treasurers make it possible for budgets to be balanced, for taxpayer-supported programs to be maintained and grown, and for a positive and equitable level of investment growth for public funds to be achieved.

About the Author

The National Association of State Treasurers, an organization of state financial leaders, encourages the highest ethical standards, promotes education and the exchange of ideas, builds professional relationships, develops standards of excellence and influences public policy for the benefit of the citizens of the states. NAST is composed of all state treasurers, or state financial officials with comparable responsibilities from the United States, its commonwealths, territories and the District of Columbia.