Louisiana Department of the Treasury

Survey Response to the Commission on Streamlining Government
September 2, 2009

SECTION ONE: AGENCY OVERVIEW

The Louisiana Department of the Treasury (Treasury) recognizes that part of the purpose of this survey is to help the Streamlining Commission members (and its Advisory Groups' members) quickly understand the general role and major operations of each state agency without getting into exhaustive detail.

To that end, we have tried to be as succinct as possible in our department's response. If areas of interest are identified by the Commission or Advisory Groups, we will be pleased to provide more detailed information on those specific issues.

AGENCY OVERVIEW

It is important to understand that the primary statutory and constitutional role of the Treasury is to support the functions of state government as a whole. This includes activities such as banking, investments, bond sales and credit review. Dig a little deeper, and you'll find that certain functions of state financial support are also extended to local governments and non-governmental entities (NGOs). Treasury also interacts directly with the public by assisting citizens, businesses and governments locate and claim their unclaimed property (UCP).

Treasury has several core operational areas:

1. Checking:

The Treasury operates as the state's bank. Most tax dollars, fees, federal funds and state revenues flow in and out of the Treasury for the operation of state government. So, while Treasury doesn't actually collect taxes or fees, or decide the amount of each state agency's budget, we are responsible for the safekeeping and tracking of most monies. The Treasury balances the checkbook for the state and manages money for state agencies like you would manage your checking account. The Treasury transfers money to various agencies and departments so they can provide services to the public.

2. Loans:

The Treasury, through the State Bond Commission, approves the issuance of public debt for the state and for local governments and organizations (like your bank approves consumer loans). This money is used to build roads, public buildings and other capital projects statewide. When a local or state public entity issues bonds in order to borrow money, the Bond Commission makes sure all of the financial statements are in order, that the project will cash flow, and that all of the legal requirements have been met.

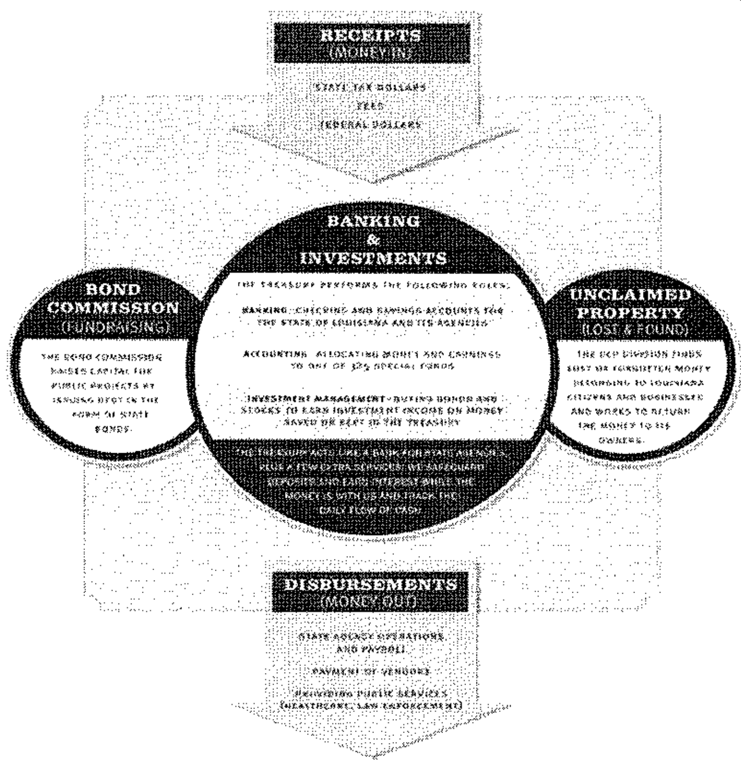
3. Savings/Investing:

The Treasury protects taxpayer dollars in various trust funds and investments. The Treasury oversees most state investments, including trust funds for healthcare, education, the TOPS scholarship program and START college savings accounts. Just as a banker or a financial planner oversees your retirement and various savings accounts, the Treasury invests in stocks, bonds and fixed income investments to earn money on state capital. In this way, the Treasury protects state capital while using it to generate cash flow for taxpayers.

4. Lost and Found:

Another job function of the Treasury that was added in the year 2000 is Unclaimed Property. This division collects lost or forgotten money belonging to Louisiana residents (and sometimes businesses or organizations) and attempts to return it to its rightful owner. Returning the money to its owners helps stimulate the economy by putting funds directly in the hands of consumers.

The flow chart below depicts our core business functions at Treasury:



BUDGETARY PROGRAMS AND ACTIVITIES

When looking at Treasury strictly in terms of its budget, we are organized around four programs that are comprised of a total of six activities:

1. Program: Administration

Activities (Divisions or Sections):
- Administration
- Unclaimed Property

2. Program: Financial Accountability and Control

Activities (Divisions or Sections):
- Fiscal Control
- Audit and Compliance

3. Program: Debt Management

Activity (Division):
- State Bond Commission

4. Program: Investment Management

Activity (Division):
- Investments

Section One, Part One: Identify your overarching reform goal:

Even with its limited staff and resources, Treasury already strives to be cutting edge in banking and fraud prevention advances, safe but innovative investment strategies in the second most difficult financial market in history, adequate debt assistance during one of the worst credit markets in history, and using technology to help reunite citizens with their lost money.

Treasury is the smallest state department in Louisiana government with 63 authorized positions. Our operational budget for the current fiscal year is $12,475,786. Only four percent of that comes from the State General Fund.

We run a lean operation, especially when you compare our employee total with the amount of funds that flow into and out of our agency. Please see Section Eight (Agency Best Practices) for specific examples.

Because of Treasury's primary role as a support agency, the most appropriate reform goal for Treasury would be to focus on its mission and effectively and efficiently accommodate the possible changes occurring in other state departments as a result of Streamlining Commission recommendations.

VISION, MISSION & PHILOSOPHY

VISION

To perform and be recognized as the preeminent provider of the highest quality, innovative financial services and performance in a user-friendly atmosphere.

MISSION

The mission of the Department of the Treasury is to manage state funds by promoting prudent cash management and investment strategies as well as monitoring, regulating and coordinating state and local debt obligations as mandated by the Constitution and the laws of the State of Louisiana.

PHILOSOPHY

The Treasury shall serve the citizens of the state and the components of state and local governments with honesty, integrity and fairness.

Treasury is committed to accomplishing this through efficient and innovative management of its functions with a proactive, future-oriented perspective.

Section One, Part Two: Review and outline the constitutional and statutory mandates for your agency:

Treasury is governed by numerous constitutional and statutory mandates. Below are listed the major authorizations along with the departmental goals that relate to them. We will be pleased to provide the listing of secondary level statutes (such as those that govern each of the nearly 400 special funds in Treasury) should the Commission require them.

Article IV, Section 9 of the Louisiana Constitution of 1974 creates the Department of the Treasury, and L.R.S. 36:761, et seq. defines the department's offices and general operations.

DEPARTMENT LEVEL GOALS AND MAJOR CONSTITUTIONAL AND STATUTORY MANDATES

I. Effectively manage taxpayers' money in a prudent manner which will provide for the safety of cash in accordance with Article IV, Section 9 of the Louisiana Constitution of 1974 and L.R.S. 49:321.

II. Invest the funds on deposit in the Treasury in a manner that provides a reasonable return on investment while protecting principal in accordance with Article IV, Section 9 of the Louisiana Constitution of 1974 and L.R.S. 49:327.

III. Disburse monies on deposit in the Treasury in accordance with Article III, Section 16 and Article IV, Section 9 of the Louisiana Constitution of 1974 and L.R.S. 49:314. (Article VII, Section 9 of the Louisiana Constitution of 1974 also regulates all monies on deposit in the Treasury.)

IV. Monitor, regulate and coordinate state and local debt, provide for the issuance of debt and arrange for notice and sale of bonds by and through the State Bond Commission, in a manner to obtain a reasonable rate of interest, in accordance with Article VII, Section 6 and 8 of the Louisiana Constitution of 1974 and L.R.S. 39:1401-1472. (It should be noted that there are many statutes throughout other parts of Title 39 that affect the operations of the State Bond Commission.)

V. Aggressively work to locate unclaimed property and the owners thereof in Louisiana and to return this property to the rightful owners pursuant to L.R.S. 9:151, et seq.

VI. Invest and manage the annual receipts from the state's "tobacco settlement" (the Millennium Trust Fund) to achieve the highest earnings reasonably and prudently possible pursuant to Article 7, Section 10.8 of the Louisiana Constitution of 1974 and L.R.S. 39:98.1 et seq. Work with the State Bond Commission, the Tobacco Settlement Financing Corporation, and the Joint Legislative Committee on the Budget to securitize, when appropriate, the remaining 40 % of Louisiana's multi-billion dollar tobacco settlement pursuant to Act 1136 of the 2003 Regular Session of the Legislature.

VII. Continue to grow START accounts (Louisiana's 529 College Savings Program) and invest the funds in START accounts to earn the highest earnings possible consistent with safety of principal pursuant to L.R.S. 17:3091, et seq.

VIII. Effectively manage the safekeeping, custody and investment of monies in the Medicaid Trust Fund for the elderly and ensure that all disbursements are properly made from the Fund pursuant to L.R.S. 46:2691 et seq.

IX. Effectively manage the safekeeping, custody and investment of monies in the Louisiana Education Quality Trust Fund and ensure that all disbursements are properly made from the Fund pursuant to Article 7, Sect. 10.1 of the Louisiana Constitution of 1974 and L.R.S. 17:3801 et seq.

X. Work with the Governor, members of the Legislature and other officials to continue raising Louisiana's credit rating.

Section One, Part Three: List mandates which impede attaining agency goals and suggestions for changes in laws:

Our interpretation: some laws create unnecessary impediments to operating more efficiently. These restrictions can be removed without diminishing accountability.

1. In general, the state's institutional borrowing statutes (pertaining to bonds) have not kept up with the constant innovations and evolution of the private credit market. Title 39 statutes should be revised to be more flexible and general, leaving the Treasury to more quickly update administrative law/rules to adjust to the private market.

2. Over the years, too many local variances and exceptions have been written into Title 39 statutes. The quagmire has become so thick that it is slowing the process of Treasury's effective determination and approval of local political subdivision borrowing.

3. Statutes such as those in Title 49 that govern Treasury's investments should be more flexible to allow us to invest in the modern, safe securities that exist in the market today. Revisions should reflect appropriate risk parameters, including the ability to invest larger amounts in equities where appropriate.

4. L.R.S. 31:2811 needs to be clarified as it pertains to the ability of hospitals to sell patients' abandoned property. It appears some hospitals are using the unintentional vagueness of the law to not report any unclaimed property to the state. This is not just limited to patients, but to employees and all hospital operations. Additionally there have been a number of other exemptions written into the unclaimed property statutes. More uniformity is needed, as there is no reason for any entity to be exempted from the unclaimed property law.

5. Act 766 of the 2008 Regular Legislative Session (L.R.S. 6:1371-1375) created within Treasury the Louisiana Financial Literacy and Education Commission to promote financial literacy to the citizens of Louisiana. While the goals of the commission are commendable, Treasury does not have the staff to operate the commission once, or if, it is funded.

6. The legislature has created nearly 400 specialized funds within Treasury that must be accounted for separately. Cumbersome and complicated methods of allocation are required for many of these funds.

7. The required annual advertising of new unclaimed property in newspapers throughout the state has become extremely expensive and time consuming. With the decline of the dominance of print media that is evident today, perhaps this law should be revisited to allow a more modern and efficient notification method.

SECTION TWO: EFFICIENCY AND BENCHMARKING

Section Two, Part One: Identify under-performing programs that should be overhauled or eliminated:

Not everything that underperforms needs to be eliminated or overhauled. Sometimes good, effective programs suffer from a lack of adequate resources.

The budget process often impedes Treasury. We can't spend most of the money we generate, so we don't have access to better technology and software that would generate even more money for the state. This also prevents us from attracting and retaining the most highly qualified staff (or paying for training for our current staff).

There are no programs or activities at Treasury that should be eliminated or overhauled due to underperformance.

1.1 Administrative Program, Administration Activity:

This activity uses an aggregate indicator that is comprised of all the other individual Treasury performance indicators. This activity outperformed its target and would have achieved even higher performance levels were it not negatively affected by factors outside the control of Treasury. In particular, this is attributed to some investment results (and indicators) due to the stock market downtown and financial industry collapse of late 2008.

1.2 Administrative Program, Unclaimed Property Activity:

This activity outperformed two out of three of its indicators. It underperformed in one indicator: the percentage of written inquiries researched within 30 days. This is due simply to a lack of personnel. Most of the delay comes in the fall, when we have both the annual holder reports coming in and the advertising of names going out. We have not identified any technology or synergy with another department/agency that could improve this, but there may possibly be an outsourcing solution. On a related note, we do use private auditing firms to help us collect unclaimed property, which has substantially increased collections.

2.1 Financial Accountability and Control, Fiscal Control Activity:

This activity met or outperformed all of its indicators. One reason for the excellent performance is because Treasury continues to use a centralized banking system to provide an optimum level of cash management. This structure creates a complex accounting environment, but it also provides the maximum potential for safekeeping and return on money invested at Treasury.

2.2 Financial Accountability and Control, Audit and Compliance Activity:

This activity is new and has not yet had an indicator assigned, but it is not able to stay completely current on the audit and cost reports associated with cooperative endeavor agreements required for legislative earmarks, because of the volume of the earmarks. We have not identified any technology that could improve this function.

3.1 Debt Management, State Bond Commission Activity:

This activity met or outperformed all its indicators, which is excellent considering the myriad new debt vehicles the state has taken advantage of due to hurricane recovery and federal stimulus initiatives. Working in a frozen credit market has been difficult, as well.

4.1 Investment Management, Investment Activity:

This activity underperformed on a couple of its indicators, but that is not surprising considering that the performance is based largely on external market factors beyond Treasury's control. Other reasons include the fact that sometimes the indicators measure market return, whereas the investment goals are geared more towards protection of principle and maximization of income. In a difficult investment market like we've had the last 18 months, it is challenging to keep all indicators in the positive range. All of Treasury's investments are handled "in-house." There is no technology that could improve this situation as it is mostly driven by market forces.

SECTION THREE: OUTSOURCING AND PRIVATIZATION

Section Three, Part One: List programs, functions or activities that can be privatized or outsourced:

Treasury regularly studies which of its programs might benefit from private sector assistance or total outsourcing.

1. We are often asked about in-house versus contracted investment of state funds. While we do have a small percentage (3.5 %) of state funds that are managed outside of Treasury, the bulk of the state's money is managed in house by our staff because the performance returns are better, often because the investing costs are lower (we do not

charge a management fee). We would recommend more in-house investment of all state funds.

2. Outsourcing is not always the correct answer, either operationally or fiscally (or both). If a department is able to keep qualified, trained and appropriately compensated staff, it can actually bring some currently-outsourced functions *back* into the agency. For example, the State Bond Commission would like to train staff to do its own refunding determination through the Munease software program. This function is currently outsourced, as are arbitrage calculations.

3. Treasury is evaluating a possible outsourcing solution to speed up the researching of written unclaimed property inquiries and report processing.

4. Our Unclaimed Property Division is also evaluating the outsourcing of a "locator expert" function and a desk auditor function. The locator function would be an expert dedicated to completing the larger and more complicated claims, and the desk auditor function would work with holders to achieve more regular and consistent reporting (and therefore more unclaimed property receipts).

SECTION FOUR: INFORMATION TECHNOLOGY INTEGRATION:

Section Four, Part One: List IT projects already underway (or potential projects) designed to improve the department's efficiency and effectiveness:

1. Treasury is currently evaluating VM-Ware (Virtual Manage Ware) as a way to optimize its network and reduce the level of equipment needed. VM-Ware allows IT to reduce the amount of equipment used, which helps reduce maintenance and electrical costs. VM-Ware also creates a more stable network, which makes disaster planning and recovery easier.

2. Treasury is evaluating a new hard site for our back-up IT equipment for emergencies.

3. Treasury just launched its completely redesigned website that is much easier to navigate.

4. Treasury is actively using Papervision software and hardware to image current and archival documents. Papervision has an excellent indexing system, and our Fiscal division is the next group to fully implement Papervision.

It is our understanding, however, that the Secretary of State will still not consider a digital image as an acceptable permanent copy of a paper file. By law, microfilm is the only medium that is accepted, and we hope that this mandate will be expanded to include digital images.

5. The State Bond Commission is continuing to upgrade DTARS (Debt Tracking Application Support) software, and plans a large revision to integrate it fully with our Papervision imaging system.

6. The State Bond Commission would like to move away from paper copies of agenda items at commission meeting presentations, and would like to present everything digitally on laptops for the commission members.

7. The Fiscal Division is considering new printing methods and equipment for unclaimed property claim checks that will result in faster and more secure printing.

8. Fiscal, through its central banking services, is already taking advantage of the latest in fraud prevention technology.

9. Unclaimed Property uses Wagers proprietary software, and Treasury recently moved that application to a faster and more modern server. This enables us to receive more timely and sophisticated software updates. Future upgrades will probably link our Papervision imaging system with the Wagers database.

10. IT is considering moving the QED server back to the software company's headquarters in an effort to save money and make maintenance faster and easier. If ERP becomes a reality, QED will need to be upgraded so reports can be linked between the two. However, there are better software systems than QED that could improve the efficiency of Investments. (QED is Investments' portfolio accounting and management tool.)

11. Treasury does not understand how the new ERP platform will improve our department's operations, and does not believe that it will. Just one example would be the payment and fund tracking operations (modules that support capital outlay, lines of credit, etc.). There is no way to do arbitrage in preliminary ERP designs.

SECTION FIVE: ELIMINATION OF DUPLICATIVE AND UNNECESSARY SERVICES:

Section Five, Part One: List the activities of your agency that fall outside your constitutional and statutory mandates:

1. The entire operation of the private activity bond function (volume cap) should be centralized within the State Bond Commission of the Treasury. The responsibility is currently split between Treasury and the Governor's Office.

2. As stated in Section One, Act 766 of the 2008 Regular Legislative Session (L.R.S. 6:1371-1375) created within Treasury the Louisiana Financial Literacy and Education Commission to promote financial literacy to the citizens of Louisiana. While the goals of

the commission are commendable, Treasury does not have the staff to operate the commission once, or if, it is funded.

3. If the legislature ended the practice of appropriating earmarks, Treasury would not need to perform the Compliance and Audit function.

4. Any time words like "surety bonds" appear in the law, Investments has to deal with it. These bonds are simply insurance. This function should be transferred back to the appropriate state entities overseeing the particular program requiring the surety (or "performance") bond.

Section Five, Part Two: Identify outdated activities that should no longer be part of the mission of your department:

There are no activities at Treasury that qualify for termination based on the criteria of being outdated.

Section Five, Part Three: Identify duplication or overlap with other state agencies, with the federal government, or with public or private stakeholder groups:

Treasury has not identified any duplication or overlap with other entities.

SECTION SIX: CIVIL SERVICE AND EMPLOYEE BENEFITS

Section Six, Part One: List and identify any current initiatives or ideas related to employee benefits, hiring and promotion, and other employee regulations.

1. Succession planning proposals should be funded by Civil Service or the Division of Administration because of the many state employees who will be retiring in the next decade.

2. Salaries for similar jobs (and program functions) across agencies should be equalized.

3. The state should investigate telecommuting, hoteling and more flex time (4 day workweeks). The State of Utah has moved to a four-day work week for state workers.

SECTION SEVEN: STUDIES AND OTHER RESOURCES

Section Seven, Part One: Please list any studies or national organizations that might be of relevance to the goals of the Streamlining Commission:

1. New York State Commission on Local Government Efficiency & Competitiveness.
http://www.nyslocalgov.org/

2. "Louisiana in the Economic Vortex – A Blueprint for Escape." Prepared by John Rombach, Legislative Fiscal Officer, February 2002.

3. SECURE final report.

4. Blueprint Louisiana recommendations.
http://blueprintlouisiana.org/

5. Council of Development Finance Agencies (CDFA).
http://www.cdfa.net/

6. National Association of State Treasurers (NAST).
http://www.nast.org/

7. National Association of State Unclaimed Property Administrators (NAUPA).
http://www.unclaimed.org/

8. Senate Bill 827 has been introduced in the current United States Congress. It will require the United States Treasury to turn over information about dormant U.S. Savings Bonds. This will allow states to finally start reuniting the dormant bonds with their owners, and could put a tremendous amount of money back into the economy. This bill is called the "Unclaimed Savings Bond Act of 2009."

SECTION EIGHT: AGENCY BEST PRACTICES

Section Eight, Part One: List and identify any current successful streamlining initiatives taking place (or that have taken place) within your agency:

1. From Fiscal Year (FY) 99-00 to the current fiscal year (09-10), the number of Treasury full-time staff members has grown from 60 to 63. The increase is due to a new program established by gubernatorial Executive Order in 2003. Treasury lost three positions at the beginning of this fiscal year due to statewide budget reductions.

2. Over that same time period, the volume of work and amount of funds handled by Treasury increased dramatically. Treasury has not sought additional personnel, and Treasury has not identified any operation within the department where we can eliminate employees.

3. Treasury's average investment portfolio has increased over 526 % since FY 99-00, when our portfolio was only $1.9 billion. It is $11.9 billion for the current fiscal year (08-09). Since FY 05-06 alone, the average investment portfolio has grown 61 % ($7.4 billion to $11.9 billion).

4. It takes less than one basis point to manage the $11.9 billion in invested funds. As discussed in previous sections, no outsourced contract can manage the funds invested in Treasury at the minimal price we do (or do it as effectively). To outsource more fund management would produce greater overhead costs or reduced overall yield, or both.

5. Treasury awarded over $306 million of CDs to 95 banks statewide through BidLouisiana during FY 08-09. This created $123,143 in additional earnings for the state.

6. Treasury earned $435.3 million on state investments last fiscal year (08-09).

7. State cash flow has more than doubled since FY 05-06 to FY 07-08, from $24.9 billion to $53.5 billion.

8. In FY 99-00, we had 308 special funds under management at Treasury. By FY 07-08, the number had grown to 385, and it has increased to 392 for the current fiscal year.

9. Last fiscal year (08-09), Treasury serviced 19 outstanding General Obligation Debt issues with payments totaling $283.7 million.

10. The State Bond Commission reviewed and approved 559 bond issues and refinancings during FY 07-08.

11. Last fiscal year (08-09), Treasury collected a near-record $52.5 million in unclaimed property and returned a record $22 million.

12. Growth in the amount of unclaimed property processed by Treasury has been exponential. From the beginning of the "modern" era of unclaimed property (which was around FY 86-87), the amount of collections has increased 294 %, and the amount of refunds has increased 4,790 %. (Yes, those are correct figures.) Since FY 99-00, annual collections have increased 147 % and refunds have increased 179 %.