State Treasurers and Public Funds Management

By the National Association of State Treasurers

State treasurers provide professional financial management and accountability for a variety of public funds. These include general operating funds and special funds such as unclaimed property programs. They also borrow money through the municipal debt market to finance state projects.

State treasurers safeguard many types of public funds. These include the general funds that keep state governments operating and special funds such as employee pension programs. Treasurers also help finance capital projects by issuing municipal bonds and managing the repayment of debt. The duties of treasurers vary significantly across the states (see Table A).

One responsibility of almost every treasurer is cash management. In the time between revenue collection and expenditure, treasurers invest general funds to earn interest. This provides income for states rather than letting funds sit idle.

State investment policies typically require use of the principles of safety, liquidity and yield to govern cash management. Safety, the highest priority, means only investing cash in instruments that protect principle. These include U.S. government securities, securities of federally sponsored agencies and repurchase agreements. Liquidity, the second priority, means having funds available on the day they are needed to meet obligations. Yield, or the earnings on an investment, is sought only after the first two priorities are met. Using these broad guidelines, treasurers determine how much excess cash the state has and places it into appropriate investment instruments. When funds are needed to pay expenses, treasurers make sure money is available and distributed properly.

Beyond general funds, states manage a large number of special funds. Public employee retirement funds—pensions—are the largest in terms of dollar value. These retirement systems are managed differently in each state, with the state treasurer often overseeing them in whole or as part of a board of directors.

All of the states and the District of Columbia have college savings programs that help families save for higher education. Treasurers manage the day-to-day operations of these programs in 25 states. Like pension systems, the college savings plans make long-term investments.[1] In 2010, state college savings programs had more than $157 billion in assets under management.

Unclaimed Property Programs

Every state has an unclaimed property program, 35 of which are managed by state treasurers.[2] Unclaimed property is a financial asset a business holds that is owed to an individual or organization when the business has had no documented transactions or contact with the owners for a statutory period of time, usually between one and five years depending upon the type of property. When a business's efforts to locate the owner fail, it must turn over the funds to a state treasurer's office or other state agency, which then becomes responsible for safeguarding the funds, attempting to locate the owners, publicizing the names of apparent owners who cannot be located and returning the assets to the owners as they come forward. Unclaimed property is one of the original consumer protection programs dating back decades.

According to the National Association of Unclaimed Property Administrators, state treasurers and other agencies are safeguarding at least $32 billion in 117 million accounts. Claims can be made into perpetuity in most cases, even by heirs who are able to prove ownership.

Unclaimed property programs provide for a central repository where citizens can seek any lost property that might belong to them. Congress and the U.S. Supreme Court have determined those programs should send unclaimed property to the state of the last known address of the owner. If no address is available, the program should send the property to the responsible state agency in which the business holding the asset is incorporated. All businesses and organizations, except the federal government, must turn over any unclaimed property annually.

Table A
RESPONSIBILITIES OF THE TREASURER'S OFFICE

State or other jurisdiction	Cash management	Investment of retirement funds	Investment of trust funds	Deferred compensation	Management of bonded debt	Bond issuance	Debt service	Arbitrage rebate	Banking services	Unclaimed property	Archives for disbursement of documents	College savings	Collateral programs	Local government investment pool	Other
Alabama	★	. . .	. . .	. . .	★	. . .	★	. . .	★	★	. . .	★	★	. . .	. . .
Alaska	★	★	★	. . .	★	★	★	★	★	★	. . .	. . .	. . .	. . .	(a)
Arizona	★	. . .	★	. . .	. . .	. . .	. . .	★	★	. . .	. . .	. . .	. . .	★	. . .
Arkansas	★	. . .	★	. . .	. . .	. . .	. . .	. . .	★	. . .	. . .	. . .	. . .	★	. . .
California	★	. . .	★	. . .	★	★	★	★	★	. . .	. . .	. . .	★	★	. . .
Colorado	★	. . .	. . .	. . .	. . .	★	. . .	. . .	★	★	. . .	. . .	. . .	. . .	. . .
Connecticut	★	★	★	. . .	★	★	★	★	★	★	. . .	★	. . .	★	(b)
Delaware	★	. . .	. . .	★	. . .	★	★	★	★	. . .	. . .	★	★	★	(c)
Florida	★	. . .	★	★	. . .	. . .	. . .	. . .	★	★	. . .	. . .	★	. . .	(d)
Georgia	★	. . .	. . .	. . .	. . .	. . .	★	. . .	★	. . .	. . .	★	★	★	. . .
Hawaii	★	★	. . .	. . .	★	★	★	★	★	★	. . .	★	★	. . .	. . .
Idaho	★	. . .	. . .	. . .	. . .	. . .	. . .	. . .	★	. . .	. . .	★	. . .	★	. . .
Illinois	★	. . .	★	. . .	. . .	. . .	★	★	★	★	. . .	★	. . .	★	. . .
Indiana	★	. . .	★	. . .	★	. . .	. . .	. . .	★	. . .	★	★	. . .	★	. . .
Iowa	★	★	. . .	. . .	★	★	★	★	★	★	. . .	★	★	. . .	. . .
Kansas	★	. . .	. . .	. . .	. . .	. . .	. . .	. . .	★	★	. . .	★	. . .	. . .	(e)
Kentucky	★	. . .	. . .	. . .	. . .	. . .	. . .	. . .	★	★	★	. . .	. . .	. . .	. . .
Louisiana	★	. . .	★	. . .	★	★	★	★	★	★	. . .	. . .	★	. . .	(f)
Maine	★	. . .	★	. . .	★	★	★	★	★	★	. . .	★	. . .	. . .	(g)
Maryland	★	. . .	. . .	. . .	★	★	★	★	★	. . .	. . .	. . .	★	★	. . .
Massachusetts	★	★	★	★	★	★	★	★	★	★	. . .	. . .	. . .	★	(h)
Michigan	★	★	★	. . .	★	★	★	★	★	★	. . .	★	. . .	. . .	. . .
Minnesota	★	. . .	. . .	. . .	★	★	★	★	★	. . .	. . .	. . .	★	. . .	. . .
Mississippi	★	★	★	. . .	★	★	★	★	★	★	. . .	★	★	. . .	. . .
Missouri	★	. . .	★	. . .	. . .	. . .	. . .	★	★	★	. . .	★	. . .	. . .	(i)
Montana	★	. . .	. . .	. . .	★	★	★	★	★	. . .	. . .	. . .	. . .	. . .	. . .
Nebraska	★	. . .	. . .	. . .	. . .	. . .	. . .	. . .	★	★	. . .	★	. . .	. . .	(j)
Nevada	★	. . .	★	. . .	★	★	★	. . .	★	★	. . .	★	★	★	. . .
New Hampshire	★	. . .	★	. . .	★	★	★	★	★	★	. . .	★	. . .	. . .	. . .
New Jersey	★	★	. . .	★	★	★	★	. . .	★	★	. . .	. . .	. . .	★	. . .
New Mexico	★	. . .	. . .	. . .	★	. . .	. . .	. . .	★	. . .	★	. . .	. . .	★	. . .
New York	★	. . .	. . .	. . .	. . .	. . .	★	. . .	★	★	. . .	. . .	★	. . .	(k)
North Carolina	★	★	★	. . .	★	★	★	★	★	★	. . .	★	. . .	★	. . .
North Dakota	★	. . .	★	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Ohio	★	. . .	★	. . .	★	★	★	. . .	★	. . .	. . .	. . .	. . .	★	. . .
Oklahoma	★	. . .	★	. . .	. . .	. . .	★	. . .	★	★	. . .	★	★	. . .	. . .
Oregon	★	★	★	★	★	★	★	★	★	. . .	. . .	★	★	★	(l)
Pennsylvania	★	★	★	. . .	. . .	★	★	★	★	★	. . .	★	. . .	★	. . .
Rhode Island	★	★	. . .	. . .	. . .	. . .	★	★	. . .	★	★	. . .	. . .	. . .	. . .
South Carolina	★	★	★	★	★	★	★	★	★	★	. . .	★	★	★	. . .
South Dakota	★	★	★	. . .	. . .	. . .	. . .	. . .	★	★	. . .	. . .	★	. . .	(m)
Tennessee	★	★	. . .	★	. . .	. . .	. . .	. . .	★	★	. . .	★	★	★	. . .
Texas	★	. . .	★	. . .	. . .	★	. . .	. . .	★	★	. . .	★	★	★	(n)
Utah	★	. . .	★	. . .	★	★	★	★	★	★	. . .	. . .	. . .	★	. . .
Vermont	★	★	★	★	★	★	★	★	★	★	. . .	. . .	. . .	. . .	. . .
Virginia	★	. . .	★	. . .	★	★	★	★	★	★	. . .	. . .	★	★	(o)
Washington	★	. . .	★	. . .	★	★	★	★	★	. . .	. . .	. . .	. . .	★	. . .
West Virginia	★	. . .	. . .	. . .	. . .	. . .	★	. . .	★	★	. . .	★	★	. . .	. . .
Wisconsin	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	★	. . .	★	. . .	★	. . .
Wyoming	★	. . .	★	. . .	★	★	★	★	★	★	. . .	★	★	★	. . .
Dist. of Columbia	★	★	★	★	★	★	★	★	★	★	. . .	★	★	. . .	. . .

Source: The National Association of State Treasurers, March 2008.
Key:
★ — Responsible for activity.
. . . — Not responsible for activity.
(a) Revenue collection including oil and gas royalties and corporate income taxes; child support enforcement; permanent fund dividend eligibility.
(b) Second Injury Fund.
(c) General Fund account reconcilement; disbursements.
(d) State Accounting Disbursement, Fire Marshall, Insurance and Banking Consumer Services, Insurance Rehabilitation and Liquidation, Risk Management, Workers' Compensation, Insurance Fraud, Insurance Agent and Agency Services.
(e) Municipal bond servicing.
(f) Social Security for Section 218 Agreements.
(g) Municipal Revenue Sharing.
(h) Massachusetts Municipal Depository Trust Funds for Cities and Towns.
(i) Investment of all state funds.
(j) Nebraska Child Support Payment Center.
(k) Linked Deposit Program.
(l) Legislation pending to move Unclaimed Property program to Treasurer's office.
(m) Treasurer is a member of the trust and retirement investment programs.
(n) Tax Administration/Collection.
(o) Risk Management.

Unclaimed property is generally a financial asset (real estate is not covered by unclaimed property statutes). Examples of unclaimed assets are outstanding payroll and vendor checks; matured certificates of deposit; savings and checking accounts; uncashed dividends; unclaimed securities; principal on debt; uncashed money orders, cashier's checks, traveler's checks and official checks; unreturned and unused security deposits; accounts receivable credit balances and discounts due; escrow balances; property held by courts and other governmental entities; and amounts due under terms of insurance policies. Some states also require reporting of the physical contents of abandoned safe deposit boxes.

Assets become unclaimed property for a variety of reasons. Among them: businesses can lose track of owners due to a change of address; an owner can forget about an asset; following the death of the owner, the decedent's family does not know about the asset; business dissolutions and mergers; customers can overpay accounts or send remittances with no indication as to which account the payment applies; or checks can simply be lost in the mail or misplaced.

Most state unclaimed property statutes require businesses to make a good faith effort to locate asset owners before reporting property to the state as unclaimed. After the property is reported, state agencies utilize many methods to locate owners, including publishing the information on state-maintained websites and in newspapers, cross-checking public data, working with other officials such as legislators and county clerks, staging thousands of awareness events at state fairs and other public events, and making the names available on a national website database—MissingMoney.com. Currently, unclaimed property agencies return more than $2 billion to rightful owners annually.

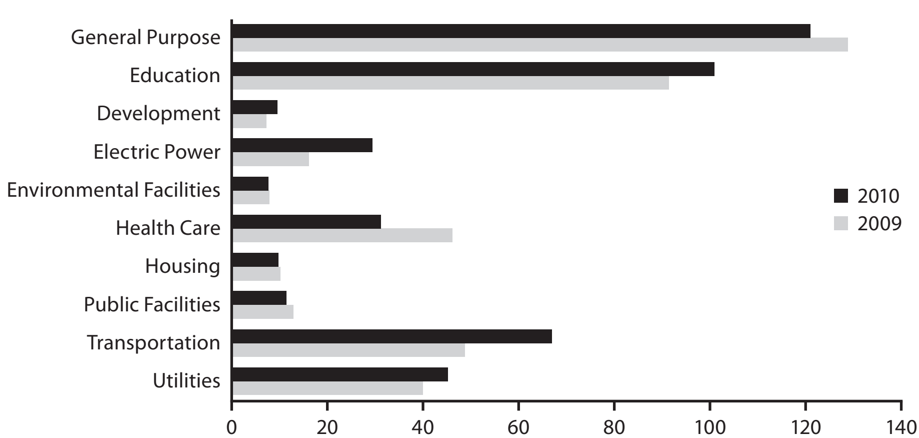
State agencies continually improve the process by which unclaimed property is reported and returned. Many states now accept information via the Internet for increased convenience to businesses and the public.

State Debt

States borrow money to finance a variety of projects. Highways, schools, health care facilities and public utilities are among the undertakings commonly financed over a period of many years. Forty treasurers are involved in the issuance or maintenance of public debt, along with a host of other agencies dedicated to specific types of projects.[3]

Tax-exempt bonds are an important funding tool for states and municipalities. They allow governments to borrow at low rates because purchas-

Figure A: Total Municipal Bond Issuance by Category (in billions)



Source: Thomson Reuters (1/15/11).

ers of the bonds do not have to pay federal—and sometimes state—income taxes on earnings. Governments sometimes issue taxable bonds as well. In 2010, states issued more than $175 billion in bonds. When cities, towns and governmental authorities are included, the total amount of municipal debt issued in 2010 comes to more than $430 billion.[4] (See Figure A for a breakdown of the categories of projects funded through bonds.)

State treasurers and other officials manage the process of selling bonds to investors in the municipal market. Since the sums involved are so large, the process is more complicated than taking out a bank loan.

Officials must assess market conditions, prepare disclosure documents for investors and regulators, market their bonds and ultimately sell them. Treasurers also manage repayment of bonds that are issued. To accomplish all these tasks, treasurers and other agencies engage a variety of financial and legal advisers to help finance projects at the lowest possible cost and to ensure compliance with state and federal laws. State treasurers play a key role in promoting sound financial management practices in order to maintain good credit ratings, thus preserving the ability to borrow at relatively low interest rates.

Tax-exempt bonds are the primary mechanism for governments to fund projects, but in the past two years taxable bonds became another important tool. The 2009 American Recovery and Reinvestment Act created the Build America Bonds program, through which the federal government subsidized the interest costs of taxable state and local bonds. This program helped lower borrowing costs and made new construction projects more affordable for states and municipalities. In 2010, 35 percent of all municipal bonds were taxable, mostly due to the $117 billion in Build America Bonds issued. The program was temporary, however, and expired at the end of 2010. The end of the program likely means taxable bonds will decrease as a share of the overall municipal market in 2011.

Treasurers play an important role in determining how much debt states can afford. Debt affordability reports explain how much debt states carry and what portion of states' budgets must be dedicated to interest payments. This information helps policymakers determine when and how to finance future projects through borrowing.[5]

When viewed collectively, state debt levels have remained fairly constant for the last two decades. In 1986, the states had approximately $250 billion in outstanding long-term (payable more than one year after date of issue) bonds.[6] This total was 65 percent of state general expenditures that year. In 2008, the states had $990 billion in long-term debt outstanding, or about 66 percent of general expenditures.[7]

Investors have historically viewed state governments' debt as very safe. In fact, no state has defaulted on its general obligation bonds since the Great Depression. Prudent financial management is critical to maintaining strong credit ratings and, by extension, the ability to borrow at affordable rates to finance public projects.

Notes

[1] For more information about state college savings programs, see *www.collegesavings.org*, which provides an overview of the programs and links to each state's plan.

[2] For links to every unclaimed property program and more information, see *www.unclaimed.org*.

[3] These include dormitory authorities, highway authorities, universities, water districts and school systems.

[4] "2010 in Statistics." *The Bond Buyer*. February 14, 2011.

[5] For examples, see California Treasurer Bill Lockyer's report: *http://www.treasurer.ca.gov/publications/2010dar.pdf* and the report of the Oregon Debt Policy Advisory Commission: *http://www.ost.state.or.us/About/SDPAC/Report/SDPAC.Report.2011.pdf*.

[6] U.S. Bureau of the Census. *State Government Finances in 1986*.

[7] U.S. Census Bureau. *2008 Annual Survey of State Government Finances*.

About the Author

The National Association of State Treasurers is an organization of the state treasurers, or officials with comparable duties, of the United States, its commonwealths, territories, and the District of Columbia.