



STATE OF INDIANA
OFFICE OF THE TREASURER
INDIANAPOLIS
46204

KELLY M. MITCHELL
TREASURER OF STATE

October 12, 2016

Brian Bailey, Budget Director
State of Indiana
Room 212 Statehouse
Indianapolis, IN 46204

Dear Mr. Bailey,

The Office of the State Treasurer will soon submit its 2018-2019 biennial budget request. This budget has been prepared to cover the operating expenses necessary to maintain, and improve, the current level of services for the operations which are prescribed for this office by the Indiana Constitution and the Indiana General Assembly.

The primary responsibility of the Treasurer of State is the safekeeping and investment of moneys paid into the state treasury. By meeting this responsibility and many others given to this office via statute, the Treasurer of State's office serves the citizens of the state of Indiana, as well as state agencies and local units of government.

Summary of Activities:

My staff and I take pride in providing high quality service to Hoosier taxpayers in an efficient and cost effective manner. The Treasurer's Office is responsible for the investment and accounting of the state's portfolio, including the state's general fund and over 70 trust funds. In addition, we are responsible for providing cash management and banking services for the state and its agencies. All of these responsibilities are executed by a staff of thirteen (13) full time employees.

Aside from those two core functions, the Treasurer of State has many additional duties that require administrative skills, investment skills, and a great deal of time. Those duties include but are not limited to: serving as trustee of the Indiana State Police Pension Fund and the Next Generation Trust Fund; serving as chair of the Indiana Bond Bank, the Indiana Education Savings Authority and the Indiana Statewide 911 Board; and administering and investing the Indiana Grain Indemnity Fund, the Common School Fund, the Public Deposit Insurance Fund and the Major Moves Construction Fund. The Treasurer of State also serves as a member of over a dozen state boards and commissions. Finally, the State Treasurer serves as the Administrator of the state's local government investment pool, TrustIndiana, a vehicle to assist entities of local government in achieving a greater rate of return on their funds.

Evaluation, Accomplishments and Risk:

Although I will be providing a much more comprehensive report on the activities and accomplishments of the Treasurer's Office in my annual report to the Governor in November, I wanted to share with you a snapshot of the state's investment portfolio, a few of the highlights from the past two years, and a risk assessment of the Treasurer's Office.

The financial climate continues to be challenging due to historically low interest rates, and the continued turmoil in the global financial markets. However, I am heartened by what our office has been able to accomplish, even in these difficult times. Over the last two fiscal years, the Treasurer's Office has earned over \$81 million in investment earnings for the State of Indiana.

The last biennium has been an extremely productive one for the Indiana State Police Pension Trust (ISPPT). Its customized investment structure and oversight has been a key contributor to maintaining its healthy 85% funding status, and a vital tool for recruiting and retaining dedicated State Troopers. As Trust Fiduciaries, my team and I focused heavily on continuous improvements during fiscal year 2016 with great success. The focus of our improvements efforts fall into two major categories: Member Services and Board Education. To better support ISPPT members and the Board, we established a more collaborative administrative review process to address member concerns and developed a comprehensive Pension Education Curriculum for the Trustee and members of the Pension Advisory Board. In its 78-year history, the ISPPT has met all statutory requirements and fulfilled the unique needs of its member base with efficient and sound operations.

The Indiana Bond Bank celebrated milestones as well. The total volume of issuance during Fiscal Year 2015 was \$164,323,848 and \$270,275,537 during Fiscal Year 2016. The Bond Bank's programs provided significant interest savings for Indiana's local government entities that will continue for years to come.

The CollegeChoice 529 Savings Plan, which is overseen by the Indiana Education Savings Authority, has also experienced tremendous growth over the past two years, with more Hoosiers saving than ever before. With total assets for the plan topping \$3.4 billion, we have experienced over 51% growth in assets over the last two years. More importantly, we now have over 300,000 Hoosier families saving for higher education. The CollegeChoice Plan has made a conscious effort to increase the number of ways Hoosiers can save. During 2016, we reduced fees twice and are close to cutting fees yet again. Moreover, participants of the College Choice CD Plan have seen the annual percentage yield of Fixed Rate CDs increase significantly.

Indiana has the largest public safety IP enabled ESInet network in the country for wireless E9-1-1 service and continues to be the model for other states to emulate. As chair of the Statewide 9-1-1 Board ("Board"), I am pleased to report that Indiana became the second state in the United States with statewide "Text to 911" services and is the largest deployment of this service in the world. The Board also began a partnership with Indiana Youth Services Association in a campaign to promote the Lifeline Law utilizing "Text to 911" services across university, college, and high school campuses around Indiana for the school year of 2016-2017.

I am proud of the work my staff and I have done on behalf of Hoosier taxpayers, especially under the conditions in which we perform our statutory duties. My team of thirteen have demonstrated extreme creativity and faithfulness while being the least compensated professionals in the Indiana Statehouse.

42% of the staff serve in two or more professional roles. Eight of these positions are delegated to four members of the Treasurer's team. In other Indiana state offices, these functions are executed by separate individuals. As a result, other government organizations dedicate at least 37.5 hours to each of these positions each week. Due to limited human resources in the Treasurer's Office, areas regarding policy, legal matters, operations, accounting, portfolio management, and communications are not afforded adequate attention.

With billions of dollars being managed every day by my office, I recognize that our current structure poses risk to my team and the State of Indiana. Without the adoption of our biennium budget request, the office will continue to operate with potentially significant risk to funds, revenues, investments, operations, cash management, and fiduciary responsibilities.

I will uphold my fiduciary duties while investing and safeguarding public funds, overseeing the management of the state's financial assets, and providing accurate and timely funding to state and local stakeholders.

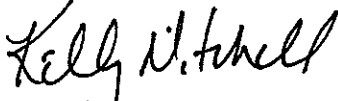
Plans for the Biennium:

The Treasurer of State's Office continues to work toward providing Hoosiers with more efficient and effective state government. The following objectives will be the focus of the office over the next biennium:

- Continue its strong investment performance, while emphasizing safety and liquidity.
- Further develop and implement a comprehensive enterprise risk program for the Office of the State Treasurer.
- Continually promote the existence and benefits of the Local Government Investment Pool to local government entities.
- Increase our interactions with all state agencies to monitor cash flow needs in order to maximize interest earnings in this environment of decreasing tax revenues.
- Launch Indiana's Achieving a Better Life Experience (ABLE) Program for disabled Hoosiers.
- Maintain our newly implemented vendor compliance model that maximizes operation efficiency and effectiveness.

I know that every dollar my office earns in interest income for the State is one less dollar that taxpayers will have to pay in taxes to fund government services. My team and I will put forth our best efforts to maximize the money entrusted to my office by the citizens of Indiana.

Respectfully,



Kelly Mitchell
Treasurer of State