SUMMER
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LOOK TO THE STATES

State Financial Officers FOUNDATION

THE Fiscal Note

Securities Exchange Commission Policies Harmful to States and Taxpayers

By Derek Kreifels

For more than four decades, money market funds (MMFs) have been used for investment and cash management by millions of individuals, businesses and even governments. They've all relied on MMFs for liquidity, stability, efficiency and returns. But if Security Exchange Commission (SEC) bureaucrats have their way, all of that will change.

The SEC in July 2014 passed Rule 2a-7, which is slated to take effect in October. The rule changes the way public entities are supposed to account for the net asset value of money market funds. Under the rule, certain categories of MMFs may no longer be offered at a stable $1 per share. Instead, the SEC would require investment brokers to offer and redeem shares on a "floating" net asset value basis.

For those that aren't familiar with the SEC and its impact on the public investment industry, the change is potentially disastrous for state and local governments. And if the rule isn't fixed, taxpayers will pay a price.

Already, several money market mutual funds are closing ahead of the rule taking effect. That means municipalities and other government agencies will need to find other, potentially more expensive forms of credit. So what might seem like a fairly benign issue between government bureaucrats and the finance industry is actually a larger issue that will change the way government uses bond financing to fund public projects.

Nationwide, 90 percent of municipal bond financing over the past 10 years paid for core

From the President

I hope the Summer issue of *The Fiscal Note* finds you well! In this inaugural issue we talk about Rule 2a-7 passed by the Securities Exchange Commission and it's harmful impact on states and taxpayers. We are also focusing on one of the biggest financial issues our nation is facing – but has yet to feel the impact. The issue: individual retirement savings. Inside are two different articles that dive into comparing the idea of state-sponsored retirement savings accounts with 529 college savings plans.

Our goal is to continue to work with the private sector to develop best-practices and help our state financial officers implement them. As SFOF continues to grow we invite you to join us and be a part of the work we are doing. We thank our private sector partners and corporate members for all they do to support SFOF!

If you have any questions on how to join SFOF or topic suggestions for future issues please don't hesitate to contact me.

From the Chair

On behalf of my colleagues and our State Financial Officers Foundation members I want to personally thank you for taking the time to read our newest communication tool, *The Fiscal Note*.

We hope that you will consider getting involved with SFOF, as many of our members have found our time together to be productive and educational. We value the opportunity to have an open dialogue –public AND private sector members working together to create **free-market solutions** to some of our nation's largest financial issues.

The Fiscal Note is being sent to a financial officer in every state in our country, as well as many partnering organizations, and private sector members. Please mark your calendar for our 2016 Fall National Meeting & Investment Summit in Chicago, IL, October 5-7. We hope you'll consider joining us.

State Financial Officers FOUNDATION

LOOK TO THE STATES

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public infrastructure projects such as schools, hospitals, water and sewer facilities, roads and bridges and other utilities.

Given the potential disruption in public financing, Congress has taken an interest in the rule change.

In May, the U.S. Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Securities, Insurance, and Investment held a hearing on S. 1802, "The Consumer Financial Choice and Capital Markets Protection Act of 2015." The bill co-sponsored by Sens. Pat Toomey (R-Penn.) and Bob Menendez (D-N.J.) restores the fixed $1 per share value for money market funds, while maintaining the other regulations the SEC adopted.

The bill is backed by the Coalition for Investor Choice, a bipartisan group of government officials, businesses and state and local leaders from around the country.

Idaho State Treasurer Ron Crane testified at the hearing and reiterated the importance of efficient access to capital funding.

"By banning state and local government investors from using stable value prime money market funds for cash management, we are deprived of a simple, convenient and effective tool for achieving higher yields on cash," Crane said. "We will be required to instead use government money market funds, bank deposits, invest directly in individual securities, or invest in less transparent, less regulated alternative cash management vehicles."

In response to a question about the potential impact of floating net asset values, Crane explained that Idaho borrows $500 million in tax anticipation notes every year. (Those are short-term bonds states purchase with expectation of paying them off upon the receipt of tax revenues.)

"Last year the cost of the investment was 29 basis points," he told the committee. "This year we estimate the cost of investment to have doubled to 58 to 60 basis points. The rule change is doubling the cost to our taxpayers."

In addition to Crane, state treasurers from Illinois, Massachusetts, Alabama, Mississippi and West Virginia are also supporting the bill.

State financial officers have a legal, fiduciary duty to be the best stewards of taxpayers' dollars. Most states use these funds that will be effectively ruled out by the SEC as one tool among many. The regulators are attempting to substitute their judgment for that of experienced finance professionals. The burden of proof for such a disruption of capital markets is now on the SEC. So far, the commission has failed to meet it.

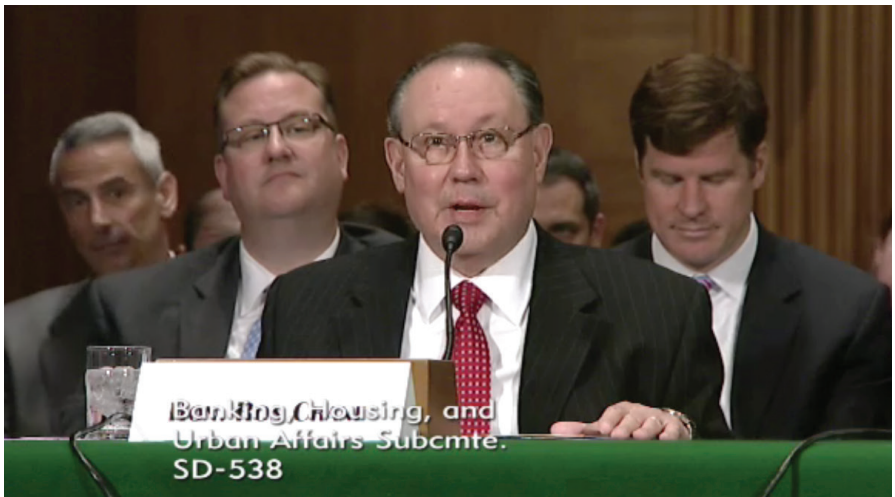
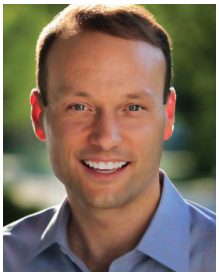


Photo: Idaho State Treasurer Ron Crane testifies in front of a U.S. Senate Banking Subcomittee hearing on S. 1802.



A 'Minimum Wage' of $100,000 for 50,000 Illinois Public Employees

By Adam Andrzejewski

In Illinois politics, anything happens for the good of the people, it's entirely by accident. Public service has little to do with serving the public and everything to do with using the public's money to serve politicians.

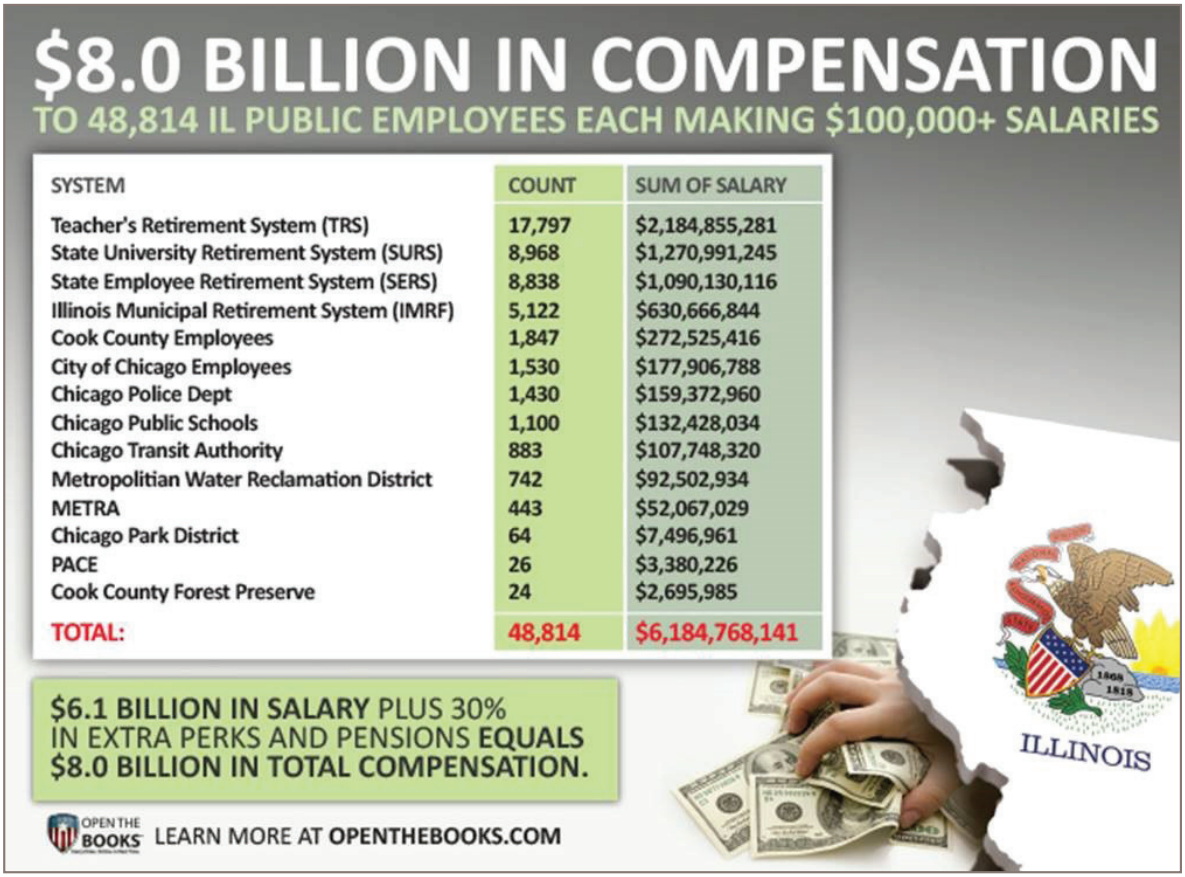
In a recent look at government salaries by our organization at OpenTheBooks.com for Forbes ('Minimum Wage' Of $100,000+ For 50,000 Highly-Compensated Illinois Public Employees), we discovered a new 'minimum wage' of $100,000+ for 50,000 Illinois public employees costing taxpayers $8.0 billion per year.

We found nearly 9,000 state employees, 5,000 City of Chicago employees, and nearly 2,000 Cook County employees earning more than six-figures per year. We also discovered park district managers out earning the state director of parks; school treasurers out-earning the state treasurer; 72 small-town 'managers' out-earning every governor of the 50 states; and an University of Illinois at Chicago doctor making $1.3 million as the highest paid public employee.

Illinois, like many states, is in trouble. Data and analysis at OpenTheBooks.com show that Illinois has 1 million public employees either active (650,000) or retired (350,000 receiving a pension check). Yet, there's only 6.2 million total jobs. Therefore, roughly one of every six 'paychecks' goes to a government employee or retiree.

Here are a few examples of what you'll uncover by zip code:

- 18,900 teachers and school administrators – including $503,200 for Mohsin Dada, an administrator at North Shore School District 112 who earned $248,510 salary, plus a teacher's retirement pension of $254,700 (ZIP – 60035).
- 9,000 college and university employees – including Dr. Fady



SYSTEM	COUNT	SUM OF SALARY
Teacher's Retirement System (TRS)	17,797	$2,184,855,281
State University Retirement System (SURS)	8,968	$1,270,991,245
State Employee Retirement System (SERS)	8,838	$1,090,130,116
Illinois Municipal Retirement System (IMRF)	5,122	$630,666,844
Cook County Employees	1,847	$272,525,416
City of Chicago Employees	1,530	$177,906,788
Chicago Police Dept	1,430	$159,372,960
Chicago Public Schools	1,100	$132,428,034
Chicago Transit Authority	883	$107,748,320
Metropolitan Water Reclamation District	742	$92,502,934
METRA	443	$52,067,029
Chicago Park District	64	$7,496,961
PACE	26	$3,380,226
Cook County Forest Preserve	24	$2,695,985
TOTAL:	48,814	$6,184,768,141

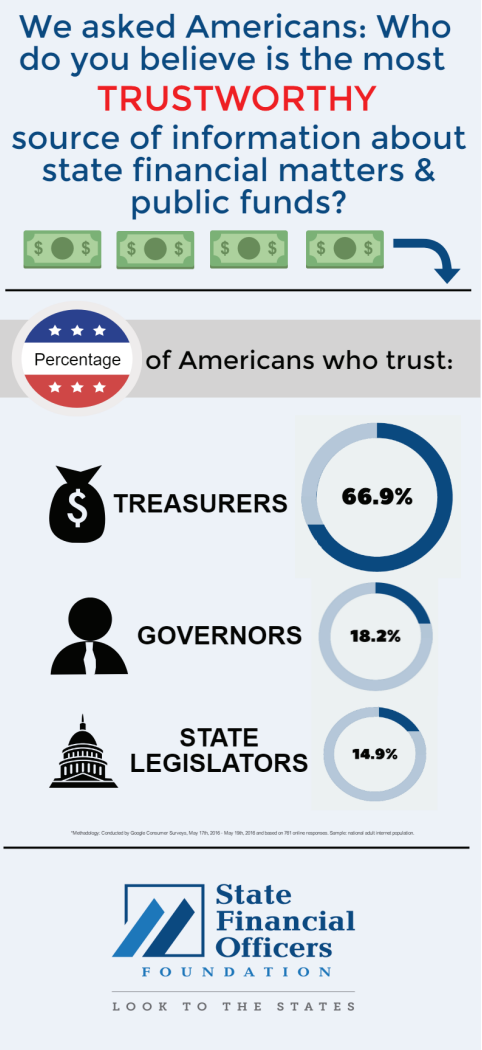
Toufic Charbel at the University of Illinois at Chicago who earned $1.38 million (ZIP – 60601).

- 8,838 State of Illinois employees – including Steven Valasek, a $218,519 'contractual worker' employed by Illinois Comptroller Leslie Munger (R) (ZIP – 62704).
- 5,122 small-town city and village employees – including 72 municipal managers who out-earn every governor of the 50 states at $180,000 per year.
- 5,007 City of Chicago rank-and-file managers and workers – including $216,000 for embattled Chicago Mayor Rahm Emanuel (D).

In 2,500 units of Illinois government, at least one public employees makes six-figures or more…

So who are the highly compensated public employees in your hometown and neighborhood across Illinois? Using our new interactive mapping tool, you can quickly review the public employees across Illinois who earn more than $100,000.

Adam Andrzejewski is the CEO of OpenTheBooks.com, the largest publically accessible, private repository of government spending in the world.



States Should Look to 529 College Savings Plans for Retirement Crisis Solution

By Derek Kreifels

Much has been written about the retirement crisis in America. According to the Center for Retirement Research at Boston College, the typical retirement account for a worker nearing the end of his work life is a stunning $42,000. And even worse, 55 percent of current workers don't have any employment-based savings at all.

Many companies, as well as state and local governments, have realized that traditional retirement pensions or defined benefit plans of the past just simply are not financially viable in a 21st century economy. As a result, leaders in the private and public sectors have begun working together to devise solutions to entice employees across America to begin to save for their retirements on their own.

The fear: if we cannot get people to start saving now, all American taxpayers eventually will pay more for social services to care for those without a retirement.

And while conservatives tend to dislike most ideas that include a new government bureaucracy, the idea of State Sponsored Individual Retirement Accounts (IRAs) for small employers and individuals that don't have access to a traditional pension or 401(k) retirement savings plan just might be the best idea on the market today to help alleviate some of the looming retirement crisis.

The Center for Retirement Initiatives at Georgetown University reports that seven states have passed legislation creating programs. The problem is that on top of the hefty start-up costs to the taxpayer, the states that have passed legislation — California, Massachusetts, Illinois, Washington, Oregon, New Jersey and Maryland — have done it in a way that could potentially hurt small business owners. That's because they include a mandate that small businesses must participate by providing a state sponsored plan.

In an age of "Obama-reach economics" that includes a federal invasion into almost all aspects of business, banking and finance, and an utter distain for corporate America and the individual business owner, the administration has stymied the growth of the economy over the past eight years. Liberals still do not understand that businesses are the key to getting our economic engine started again. Now is not the time for states to be creating new mandates for small businesses.

The fear: if we cannot get people to start saving now, all American taxpayers eventually will pay more for social services to care for those without a retirement.

In Illinois, for example, if you're a business owner with fewer than 25 employees and you do not offer a retirement savings plan of some kind, the penalty is steep. The legislation passed in the land of Lincoln includes a $250 penalty per employee if the small business hasn't implemented an employer-sponsored retirement plan.

One idea that merits further exploration: develop these state-sponsored retirement savings similar to ways that many states launched their 529 college savings accounts. Usually administered by a state treasurer, the funds are managed by an independent contractor after going through a vigorous state procurement process. Fees earned on the various investment options cover many of the administrative costs.

A state should create a vehicle similar to the 529 college savings model. Many of these plans had low or short-term start-up costs, and like the 529 plans, would not be a mandate to anyone. The plans could be established in such a way that individuals could even have a menu of options to choose from in terms of type of investments. Many state-run 529 plans are run successfully with minimal staff thanks to the partnerships they enjoy with the private sector.

In the meantime, we should continue to push for policies that empower and encourage personal responsibility when it comes to retirement savings.

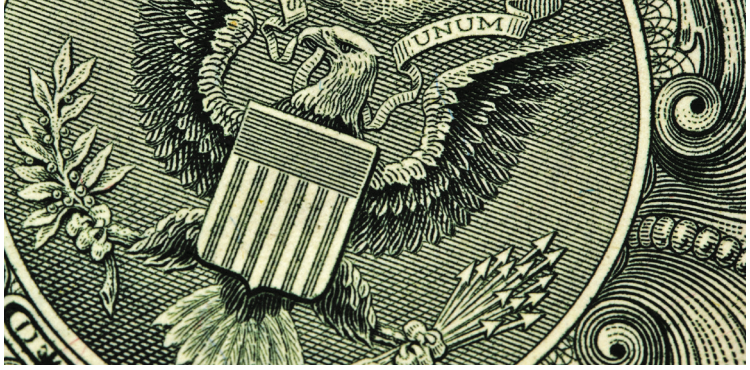
529 College Savings Plans: Lessons for State Sponsored Private Sector Retirement Plans

By Andrea Feirstein

Each day for the next 19 years 10,000 baby boomers will retire. According to the Census Bureau, the population age 65 and over in 2030 is projected to be more than 74 million, representing more than 20 percent of the total population. One of the greatest financial challenges facing our nation today is that more than half of households age 55 and older lack retirement savings in either a defined contribution savings plan or an Individual Retirement Account (IRA), and Social Security provides most of the retirement income for about half of households age 65 and older.

Today, more than half of all private sector employees do not have access to retirement savings programs through their employer. Many small businesses do not provide retirement programs either because the cost is too high or the resource burden is too great for a small company. As a result, many private sector employees are left without access to the simplest ways to save for retirement and thus end up not taking any steps to begin saving on their own.

Given the potential future costs presented by this retirement savings gap, many state governments have begun to explore state-sponsored initiatives for private sector employees. Over the last three years, at least 30 states have introduced legislation to either establish a state-sponsored retirement option or to study the feasibility of doing so, and six states have actually enacted legislation intended to expand accessibility and effectiveness of retirement savings for private sector workers. These state-led initiatives are consistent with the role the public sector has played in tackling other savings challenges, most notably the need to save for higher education, and the creation more than twenty years ago of prepaid tuition plans, the forerunner of today's $260 billion Section 529 industry.



Most recently, the California Secure Choice Retirement Savings Investment Board received a Final Report from its feasibility consulting team indicating that a streamlined operational model, with a single recordkeeper, would be the most effective way to operate its state-sponsored retirement system. In light of the operational similarity to Section 529 plans, a closer examination of the development of Section 529 qualified tuition programs and the growth of the college savings market will show the parallels and lessons for federal and state policymakers to address today's retirement savings challenges.

States as Policy Leaders. States first created tax advantaged vehicles for higher education to help moderate-income families make college more affordable at a time of rampant tuition inflation. The states accomplished this by allowing families to save for future tuition costs at near-current rates. States were viewed as the appropriate level of government to most effectively and successfully address this challenge in light of their natural roles in public higher education. Without the federal government filling the tuition savings gap, states stepped in, just as they now contemplate doing so for private sector employees lacking employer-provided retirement plans.

Existing Operational Frameworks. Almost every state had a student loan authority or other higher education services organization, the main focus for which was making college affordable and attainable. With a mission toward financing higher education, these entities – many of which had State Treasurers as Board members or Board Chairs – lent themselves automatically to oversight and management of college savings programs, including administrative operations, customer service and consumer outreach. State-run pension systems or similarly structured entities that offer separate accounts for pooled investments and related services would provide a similar framework for state-supported private sector pension initiatives.

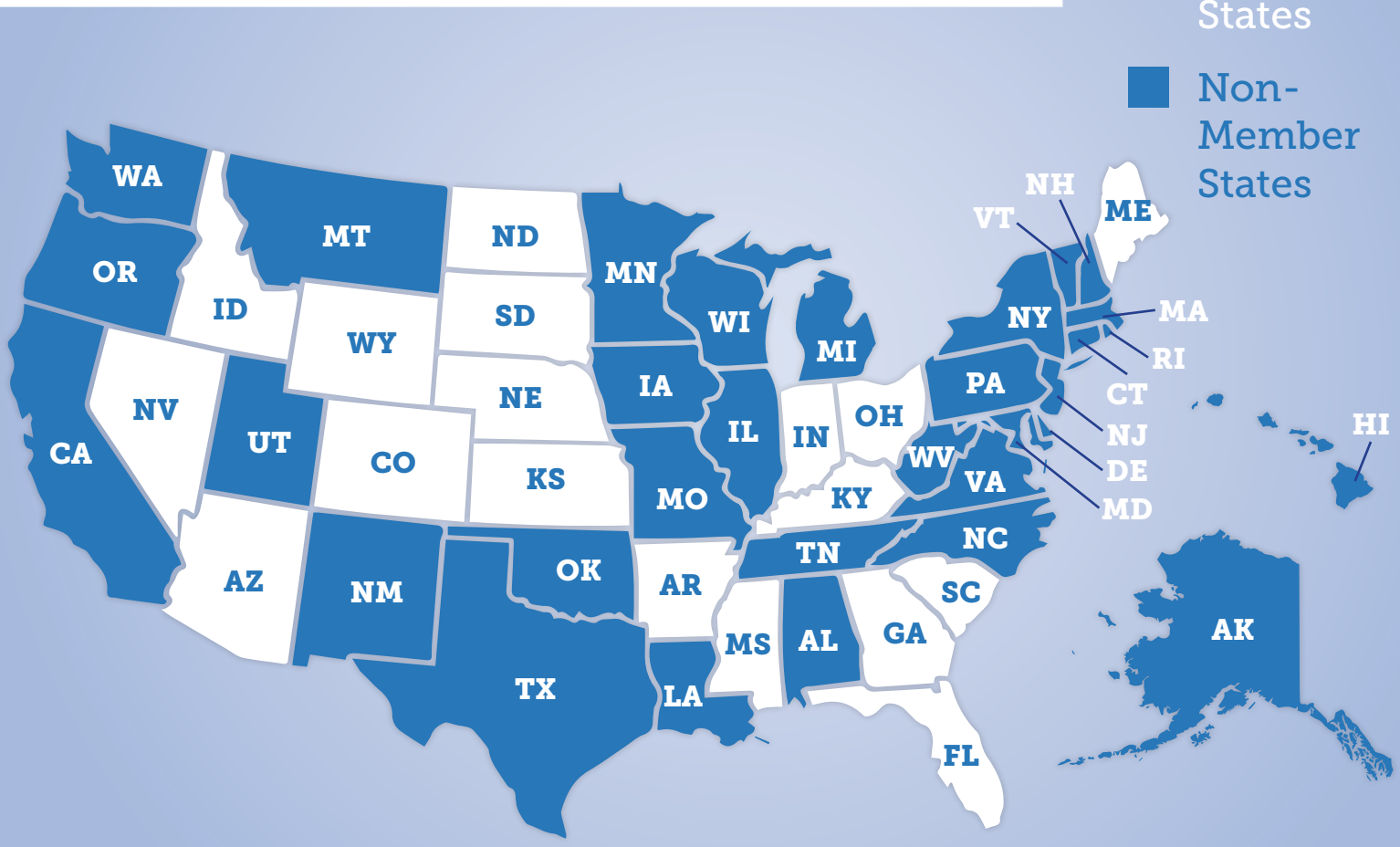
Investment and Risk Management Experience. When first establishing prepaid tuition plans, the state authorities relied upon internal investment expertise gained, most often, from professionally managed, pooled investments for defined benefit public pension plans. The similarities in structure and risk management were striking and thus state college savings entities were able to draw upon internal experts alongside nationally recognized independent advisors such as actuaries and investment consultants. The investment management expertise currently in place for public pension systems and college savings plans will provide a ready-made analytic framework for state-sponsored private sector retirement plans.

Highlighting the Federal Challenges. With well-developed prepaid plans offered only in a handful of states and significant federal tax

challenges, the federal government provided the legislative and regulatory relief needed to propel the adoption of state-sponsored college savings plans across the nation. Federal tax advantages, coupled with additional state incentives, enhanced the visibility of and consequent demand for Section 529 college savings plans. As we now see, the federal government is clarifying ERISA rules for state-sponsored private sector retirement initiatives in order to help drive similar growth.

With these four parallels in mind, we believe that as states evaluate state-sponsored retirement options for private sector workers, the 529 college savings industry demonstrates that states can be very successful administering and managing savings tools for private sector workers.

Andrea Feirstein is the founder and Managing Director of AKF Consulting Group, a New York City-based municipal advisory firm that provides strategic advice to State administrators of Section 529 and 529A Plans.



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