

SUBJECT: Abolishing the office of state treasurer

COMMITTEE: State Affairs — committee substitute recommended

VOTE: 9 ayes — Seidlits, Black, Bosse, Carter, Danburg, Hochberg, McCall,
Ramsay, Wolens

3 nays — Hilbert, B. Hunter, D. Jones

3 absent — S. Turner, Alvarado, Craddick

SENATE VOTE: On final passage, March 16 — voice vote (Leedom recorded nay)

WITNESSES: For — Martha Whitehead

Against — James E. Cooley

On — Mike Doyle

BACKGROUND: The office of the state treasurer, authorized in the Texas Constitution, is charged with protecting, managing and investing state cash and securities, paying state warrants, administering the state's unclaimed property laws, and administering and enforcing the state's cigarette and tobacco products laws. In fiscal 1994 the treasury had a staff of 262 full-time equivalent employees and an operating budget of \$11.2 million. The program divisions include:

Investments. The investments division is responsible for maximizing the earnings on temporary surpluses of state revenue. The treasury earned \$378 million in interest for the state in fiscal year 1994. The investments division also administers TexPool, a short-term investment fund that allows over 1,350 local governments to pool investments to increase the yield on earnings.

Cash and securities management. This division moves money in and out of depository banks and monitors the securities that banks must set aside as collateral for state revenue deposited with them. In addition, the division is the paying agent on bond issues for many local governments.

Cash management program. This division expedites the flow of state revenues into interest-bearing accounts. A major tool of this division is TEXNET, the largest electronic tax collection program in the United States in terms of dollars collected. Individual taxpayers and companies that owe more than \$500,000 in taxes, fees, fines and penalties must pay electronically via TEXNET.

Item processing. The item processing division ensures that legitimate state warrants are paid expeditiously and that all checks from and on behalf of state agencies are deposited quickly to maximize interest earnings and minimize collection overhead for the state.

Trust operations. This division operates the Texas Treasury Safekeeping Trust Company, a separate entity created by the treasury to give it a direct account with the Federal Reserve System and enable it to provide state agencies with virtually all the major services of a private financial institution.

Unclaimed property. This division collects unclaimed property, advertises the names of unclaimed property owners, returns property to those owners upon request and verification of ownership, and conducts audits and enforcement activities to ensure compliance with the state's unclaimed property laws.

Cigarette and tobacco tax. The treasury is the sole vendor of cigarette tax stamps, which must be affixed to each package of cigarettes sold in Texas. The treasury also manages the cigarette tax recovery trust fund, used to protect the state from financial loss if a tobacco vendor defaults on a credit extension for cigarette stamps. An interagency agreement effective January 1994 transferred enforcement and collection of cigarette and tobacco taxes to the comptroller's office.

DIGEST:

CSSB 20 would transfer the duties of the office of the state treasurer to the comptroller, contingent on approval by the voters of the constitutional amendment proposed by SJR 1. The transfer would become effective on September 1, 1997.

The bill would specify that the comptroller could contract with a private entity to perform a transferred activity. If the treasurer and comptroller were ex officio members of a body, or both had powers to make appointments to a body, the transfer would not allow the comptroller to exercise appointment powers of two offices or have two votes.

**SUPPORTERS
SAY:**

The office of the state treasurer is unnecessary. The functions provided by that office could be handled by other state agencies, particularly, the Comptroller's Office, at a substantial savings to the state. It is estimated that the abolishment of the office of state treasurer could save the state as much as \$12 million over the next five years.

The treasury has outgrown its usefulness. When the office was created the treasury operated as the bank for the state, it approved every payment made by the state and accepted all incoming money. Now that technology has automated all of those functions, the treasury's role is substantially diminished. By transferring these functions to the comptroller, who must collect and certify state revenue, the state would avoid duplicating services.

There would be no loss of the unique functions administered by the Treasurer's Office as those functions, and the people who have the expertise at running them, would be transferred to other agencies. The checks and balances provided by the Comptroller's Office would continue under another agency.

The current state treasurer, Martha Whitehead, based her election campaign on a promise to abolish the office of state treasurer. Her election may be seen as ratification by the voters of Texas of her proposal to abolish the office.

The proposal would not affect any county treasurers; it would only authorize the abolishment of the office of state treasurer. In order to abolish any county treasurer office, a separate constitutional amendment would be required. However, the fact that several county treasurers' offices have been abolished is strong indication that the state should follow suit.

Opponents of the abolishment of the office of the state treasurer point to a recent run on the TexPool fund managed by the treasury. It was claimed that this fund was as badly mismanaged as the one in Orange County that lost billions of dollars. This fund, however, is stable. Most of the losses cited by opponents were paper losses only; there were no actual losses to the investments of members in TexPool. The functions of TexPool would be transferred in its entirety to the Comptroller's Office with no loss in the functions of TexPool.

OPPONENTS
SAY:

Abolishing the State Treasurer's Office would not save money. There has been no proof that the savings touted by supporters of this legislation would be realized. Additional money might actually need to be spent in order to move the functions from one office to another, to train new employees and to correct problems that have not yet been foreseen.

The state treasurer is a constitutionally created office that provides necessary checks and balances for the operation of the finances of state government. It is a basic financial principal that the person who actually handles the money should be separate from the person who does the accounting. No financial institution or corporation would operate with only one person handling both of these functions. Another reason to have checks and balances is to alleviate any problems if there is an unqualified person in one of the offices. Texas has enjoyed the benefit of having well qualified people in the comptroller and treasurer offices in recent years, but that might change, and without the balance of the other office, the state might suffer.

If the Comptroller's Office has enough unused capacity to assume 75 percent of the responsibility of the Treasurer's Office, what may be needed is to cut down on waste in both of these offices rather than combining them.

In January 1994 the treasury transferred the enforcement of the tobacco and cigarette tax to the Comptroller's Office. During that first quarter, there was a 61 percent drop in revenues collected. While some of this drop could be explained by the biennial nature of the tax, at least part of it must be attributed to the transition from the treasury to the comptroller.

In December the investment fund managed by the treasury, TexPool, had serious questions raised about its stability. That fund had losses estimated as much as \$58 million last year. All of this occurred with the extra checks and balances provided by two offices. If only one office is left after this change, greater losses might occur in the future.

NOTES:

SJR 1 by Ellis, also on today's calendar, would propose to voters a constitutional amendment abolishing the office of the state treasurer.

The committee substitute for SB 20 moved the effective date of the transfer from September 1, 1996, to September 1, 1997, and deleted a section that would transfer the management of TexPool to the Employees Retirement System of Texas. Under the committee substitute TexPool would be transferred to the Comptroller's Office with the other functions of the treasury.

The fiscal note estimated savings of \$5 million in 1999 and about \$7.4 million in 2000.