



THE FOURTH REPORT ON THE DELAWARE STATE TREASURY

*Submitted to the
People of the State of Delaware*

FEBRUARY 19, 2014

BY STATE TREASURER CHIP FLOWERS

*W*ith a strengthened resolve to serve the People of the State of Delaware through public service as its State Treasurer, it is with great humility that this *Fourth Report on the Delaware State Treasury* (the “People’s Treasury”) is submitted to the citizenry for its consideration and acceptance. The People’s Treasury, limited by those forces that impede the ability of our great state to fulfill its full potential, will continue to put forth ideas that challenge and counter the aforementioned forces in furtherance of our true economic destiny.

The condition of the People’s Treasury during the administration of the current State Treasurer has been and remains strong. No agency of government administered by the hands of mankind is free from adversity and imperfection, including the People’s Treasury. However, in the midst of such adversity and imperfection, the defining spirit and character of those tasked with serving the public emerge through introspection and reflection. It is with pride, bound by the supportive strength of the People, that their treasury emerged from this period strengthened by the wisdom acquired and a strong determination to overcome those forces seeking to detract from the important work of overseeing our state’s finances.

It is within this environment that the People’s Treasury achieved unprecedented accomplishments by overcoming obstacles to improve the financial condition of Delaware. Our discussion continues from *The Third Report on the Delaware State Treasury*, which was preceded by *The Second* and *First Reports on the Delaware State Treasury*, respectively.

As evidenced over the past year, the People’s Treasury will continue its high level of innovation and performance in discharging its service. Unlike prior reports, this Fourth Report serves as a cumulative marker highlighting the numerous accomplishments over the past three years. It provides a historical roadmap for those seeking to understand the challenges posed and the opportunities gained under the current administration. Like previous reports, this report is divided into two parts: (i) *the state of the People’s Treasury (including a discussion of its accomplishments and challenges)* and (ii) *proposed initiatives of the People’s Treasury for the upcoming year.*



Delaware State Treasury

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STATE OF THE PEOPLE'S TREASURY

The condition of the People's Treasury is strong. Despite an anemic national and state economic recovery, the solid performance of our state portfolio (increasing in value over \$43 million the past three years) under quantitative easing and a government shutdown, protection of our public funds from volatility, reduction of check processing volume and innovative financial education initiatives are just a few of the many achievements that have occurred at the People's Treasury. Further, tools such as the Delaware Economic Index, Early Warning System and Delaware Stock Index continue to serve as invaluable resources to the People regarding our economic health. As stated earlier, while no agency of government is absent adversity and imperfection, the previous 12 months have witnessed necessary overhauls to the policies and procedures impacting the daily operations of the agency – which has provided an even higher level of transparency. The People's Treasury under the current administration will never fear change, but will embrace it with the same cautious tenacity and determination that has long defined this nation and state.



Accomplishments of the Delaware State Treasury

During the current administration of the People's Treasury, with the dedication and assistance of its staff, an unprecedented number of achievements occurred as this important agency was redefined to meet the financial challenges of the 21st century. This section provides an overview of these significant accomplishments, including those that were achieved over the past 12 months.

Structural Accomplishments

Implemented a 21st Century Vision and Mission

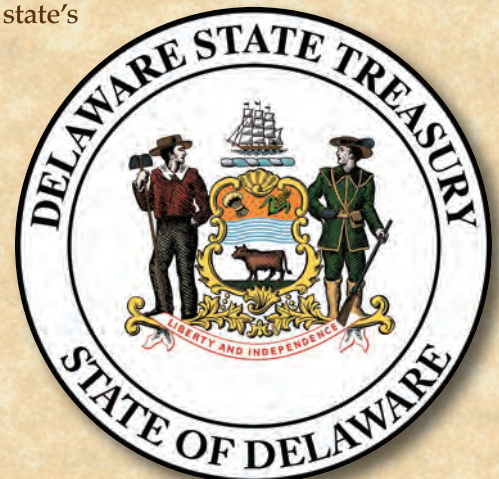
In 2011, the People's Treasury enacted a new mission to capture the proper constitutional role of this office.

The new mission of the People's Treasury, the cornerstone of the state's financial system, is to restore economic prosperity to the First State by providing critical financial services for the People of Delaware.

Under this new mission, the treasury plays a pivotal role in (i) managing the state's financial system and (ii) helping to restore our economic prosperity.

Created a New Name for the People's Treasury

It is proper that the name of a government office focuses on the services that the office provides, not the elected official serving as the head of such office. To this end, the Office of State Treasurer was renamed the Delaware State Treasury. This name change is beneficial as it is in line with names used by those offices in our fellow states having similar functions and responsibilities and adds significant stature to the important financial and economic policies issued by the People's Treasury.





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Created an Effective and Transparent Organizational Structure

To effectively perform the duties in furtherance of the mission of the People's Treasury, a transparent organizational structure must be in effect. The People's Treasury created a new organizational structure that clarified the functions of this office. This chart depicts the new organizational structure of the People's Treasury.

Created the Office of Economic Policy

The People's Treasury must have sufficient information prior to making financial and economic decisions. To fill the void that previously existed, the People's Treasury created the Office of Economic Policy ("OEP"). OEP is tasked with developing and promoting innovative initiatives that will assist in restoring prosperity. Additionally, OEP provides independent and nonpartisan economic guidance and analysis with respect to Delaware's economy. OEP also produces the Delaware Economic Index, implements the Delaware Early Warning System and issues the Legislative Brief (all discussed later in this Report). In doing so, OEP acts as a hub of economic information to inform the public of our state's economic condition. OEP was created without expense to taxpayers.

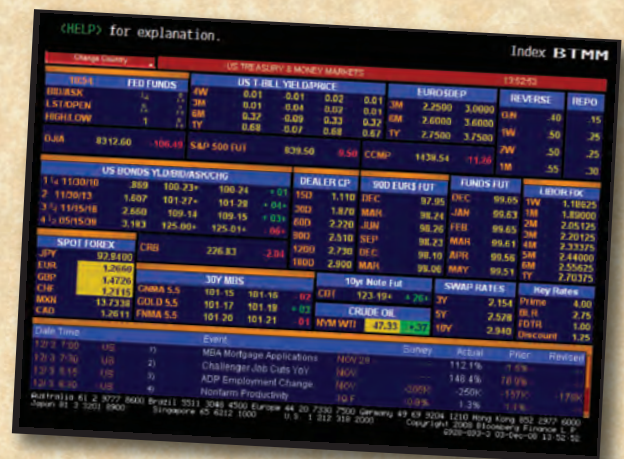
Created an Office of Finance and Treasury Services

To achieve economic growth and job creation in the 21st century, the People's Treasury must have a strong presence in identifying financial and investment opportunities that stimulate economic growth. The Office of Finance and Treasury Services ("OFTS"), derived from existing resources within the People's Treasury, was created to manage the state's investment portfolio and develop short- and long-range investment policies that will protect taxpayer dollars and assist in restoring our economic prosperity. OFTS interacts with public and private sector leaders to advance investment positions that benefit the state (including, but not limited to, protecting the state's AAA bond rating). OFTS was created without expense to taxpayers.

Modernized the People's Treasury

Advanced technology is critical in managing the state's investment portfolio in a dynamic 21st century global economy. Since the arrival of the current administration, a major initiative has been undertaken to modernize the People's Treasury to fulfill its constitutional and legislative mandates. New technology (including hardware, software and technical resources) has been put in place to ensure that our modern treasury is agile and productive. To assist in managing the state's portfolio, a state-of-the-art comprehensive financial system was implemented to provide real-time market-moving economic information and data to allow the People's Treasury to respond rapidly to economic conditions and provide key data to the People of the State of Delaware.

Wireless network capabilities and portable computing devices have been deployed to increase the efficiency and effectiveness of treasury staff.





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Improved Technology and Security

As stated in the previous section, the People's Treasury has made great strides using new technology to create a modern financial office. Through the Delaware Department of Technology and Information (DTI), the treasury has transferred its servers and confidential information to secure virtual servers. These servers are hosted in DTI's high-level data center using its virtual cloud technology. This allows the treasury to ensure that data and services have a 24/7 uptime as well as regular backups in case of a disaster. The treasury continues to move forward and look for more ways to improve its technological footprint.

Outreach-Based Accomplishments

Developed and Expanded the Prosperity Portal

To assist Delawareans in realizing their financial goals, the People's Treasury created the Prosperity Portal: Your Pathway to Financial Education (the "Prosperity Portal"), an online tool containing a repository of financial articles and information. Incorporating a unique partnership among the treasury, federal agencies and Delaware non-profit organizations, the Prosperity Portal is a valuable resource for individuals, families and businesses. The Prosperity Portal includes links to financial articles, services and resources with the goal of providing critical information for Delawareans of all ages and financial situations as they make key financial decisions. In the past few years, the treasury expanded the Portal with the development of a section featuring a variety of resources for small business owners. Several new pages were also added to assist seniors with financial matters affecting them and for families facing the financial decisions which come with the illness or loss of a loved one. An ever evolving-product, the Prosperity Portal will work to grow and change to best meet the needs of the People.

Created and Enhanced the Delaware Economic Index

As the cornerstone of the state's financial system, the People's Treasury must provide the public and businesses with relevant economic data that will assist them in making informed financial decisions. Issued by the OEP, the Delaware Economic Index (the "Index") serves this purpose by providing key national and state economic data and news in a centralized location and easy-to-read electronic format. Accessible on the treasury's website and via e-mail, the Index contains information which impacts Delawareans, including home and gas prices, unemployment and mortgage rates, and stock prices of major state employers. In 2012, the Delaware Economic Index was revamped to provide data in a more user-friendly format to increase its value to its readers. In addition to formatting changes, additional data and features were included to provide Delawareans with information that will assist in their daily financial decision-making. Such additions include the Delaware Stock Index (discussed in this Report) and a bimonthly feature highlighting an important and timely economic topic. The Delaware Economic Index has already received national recognition for its value in promoting financial literacy and the People's Treasury will work to improve the Index on a continual basis.

WELCOME TO DELAWARE STATE TREASURY'S
Prosperity Portal
YOUR PATHWAY TO FINANCIAL EDUCATION





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Implemented the Delaware Early Warning System

Economic downturns can occur at any time. Having a financial early warning system is essential to the financial health of Delaware's families and businesses. The People's Treasury has developed the Delaware Early Warning System, a simple color-coded rating of the state's economic climate that uses economic data from Delaware, the region and the nation to evaluate the state's economic position and assess the performance of the state's economy over the prior sixty-day period. The early warning system is a powerful tool in informing Delawareans of changes in the economic climate that can impact their livelihoods. The Early Warning System is available on the treasury's website and is distributed bimonthly with the Index through various media outlets.



Established and Strengthened Relationships with Federal Agencies

The People's Treasury has worked to establish strong ties with key federal agencies tasked with issuing financial and economic policies. Over the past three years, the People's Treasury has been actively engaged with these institutions and agencies, including the White House, U.S. Treasury and Federal Reserve Bank. Due to the numerous financial issues facing the nation, Delaware's influential role in corporate and financial matters requires the People's Treasury to maintain an ongoing relationship with national lawmakers. Dealing with issues ranging from the federal "fiscal cliff," the proposed elimination of tax exemption for municipal securities and the expiration of a certain federal deposit insurance program, the People's Treasury was heavily engaged to ensure Delaware was an active participant in shaping financial and economic policies that impact the fiscal health of our state. Such meetings have enhanced the voice of our treasury in these policymaking venues and through these cooperative efforts Delaware has become an active stakeholder in influencing the policies and practices necessary to restore our economic prosperity.



Earn-Save-Invest-PROSPER Marketing Outreach Campaign

In these challenging financial times, planning for retirement is paramount and the People's Treasury has an important role in ensuring that Delawareans plan and invest in their own financial future. To assist in this effort, the treasury developed the statewide Earn-Save-Invest-PROSPER campaign, a marketing outreach effort to encourage savings, advocate for sound investments, and provide resources that will help Delawareans achieve their retirement goals. The treasury promoted this theme in all of its outreach endeavors over the past three years, including those to state employees, at the Delaware State Fair, at the 55+ Expo, at Senior Beach Day, to school children, in online and media outlets and at other events throughout the state. In coordination with the National Save for Retirement Week Program, the treasury launched its first statewide billboard campaign featuring the Earn-Save-Invest-PROSPER theme.





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Expanded the Online Presence of the People's Treasury

A treasury website must be user-friendly, demonstrate the highest levels of transparency and accountability, and provide relevant financial and economic information. In 2011, the People's Treasury's website, treasury.delaware.gov, underwent a complete overhaul to enhance and spotlight the treasury's vision, message and initiatives. Not only did the new website achieve its goals, but it has become one of the most modern sites in our state government. The site is continually updated and the topics and initiatives on the treasury website all streamline into a very easy to use point-and-click system, avoiding long delay links or less than user-friendly connections. The treasury has also expanded into social media, providing real-time updates to those that use the latest technological offerings for their news and information.

Revamped the National Save for Retirement Week Program

In conjunction with the Earn-Save-Invest-PROSPER marketing outreach campaign, the People's Treasury expanded its National Save for Retirement Week effort from a targeted state employee-driven campaign to a statewide marketing campaign encouraging all Delawareans to plan for retirement. In addition to traveling information booths, the statewide campaign promoted the Prosperity Portal and the DelawareSaves.com website (a specialized portion of the treasury website focusing on savings and retirement plans), offered one-on-one retirement planning consultations, circulated information on retirement savings, and featured personal finance technology workshops created in collaboration with Microsoft®. Marketing tools included billboards, flyers, newspaper and radio advertisements and other promotional efforts. In an effort to expand knowledge of the state's Defined Contributions Plans, the treasury team responsible for administering this program visited state sites in all three counties during the program weeks. As a result of these efforts, the treasury's program was recognized in 2012 as one of the top five programs in the country by the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA), the nation's leading professional organization of defined contribution and deferred compensation administrators. The program continues to educate Delawareans on the importance and benefit of saving for retirement and taking the steps needed to secure their financial futures.





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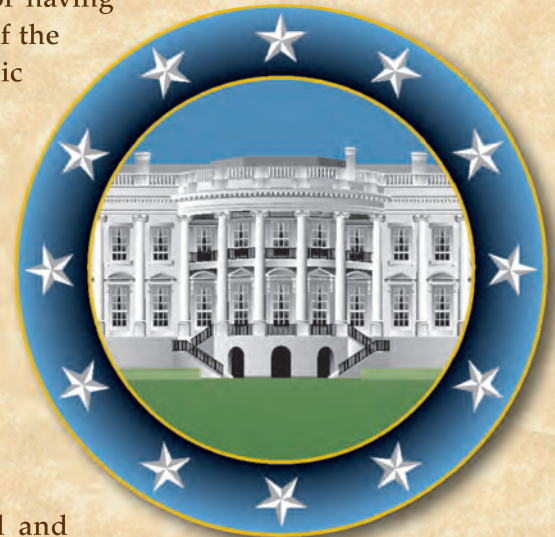
Created the Delaware Stock Index

One of the major changes to the Delaware Economic Index in 2012 was the creation of a Delaware Stock Index within the Economic Index. This index tracks the stock performance of key Delaware employers across various sectors and aggregates them to provide an indicator on the health of our state economy. The index is divided into three major sectors: financial, chemical and consumer. By tracking and comparing the performance of the index to other key indices (i.e., the Dow Jones Industrial Average, the S&P 500, et al.), the People's Treasury is able to use this tool in performing key financial and economic analysis.



Received Commendation from the White House for our Financial Literacy Program

In 2012, the Obama administration recognized three state treasuries for having robust financial literacy efforts. Proudly, the People's Treasury was one of the selected treasuries. The White House highlighted the Delaware Economic Index and the Prosperity Portal in particular for providing means to empower citizens to make wise financial decisions. While the People's Treasury is humbled by this recognition, it will continue building upon its innovative financial literacy products in its continual goal of providing top-quality service to the People of the State of Delaware.



Created and Introduced a Monthly Legislative Brief

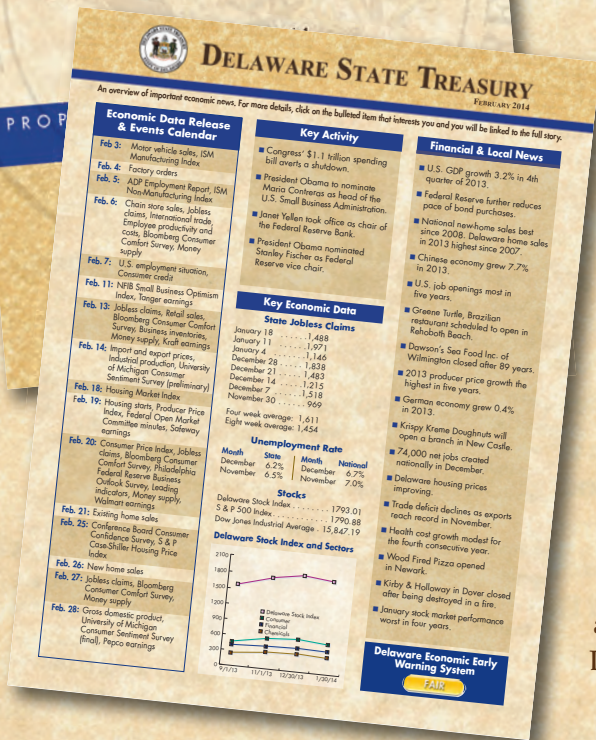
The People's Treasury created and introduced a brief for lawmakers and

elected officials. The brief, which provides a monthly snapshot of the national and state economic outlook, is sent directly to state legislators, cabinet members and other elected officials as a service of the treasury to provide additional resources to Delaware policymakers in drafting key policies and legislation.

Launched "Financial Football," a partnership with the NFL and Visa Inc.

In late 2013, the People's Treasury announced a statewide effort to improve the money management skills of high school and middle school students with the rollout of Financial Football, a free educational video game and classroom curriculum developed by Visa Inc. in partnership with the National Football League (NFL). Baltimore Ravens wide receiver Brandon Stokley joined the State Treasurer, representatives of the NFL and Visa Inc. at Christiana High School to tackle head on the issue of financial literacy improvement among Delaware teens. The game is being distributed by the Delaware State Treasury to every middle school and high school

DELAWARE STATE TREASURY FINANCIAL & NEWS BRIEF





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and various community organizations throughout the state of Delaware and is available online for all Delawareans at www.delawarestatetreasury.financialfootball.com. In addition, the People's Treasury announced a new statewide initiative to work with education officials to ensure that every middle and high school student receives financial education either in the classroom or through community organizations.

Financial Accomplishments

Signed Landmark State Agreement with American Express



The People's Treasury and the Delaware Department of State signed a new agreement with American Express® which offers corporations and individuals another payment option for certain services when conducting business with the state. This agreement was part of the treasury's effort to provide customers with the highest level of financial service while providing economic incentives that reduce the transaction costs borne by taxpayers and maintaining our competitiveness. Currently, American Express® is accepted by a number of state agencies.

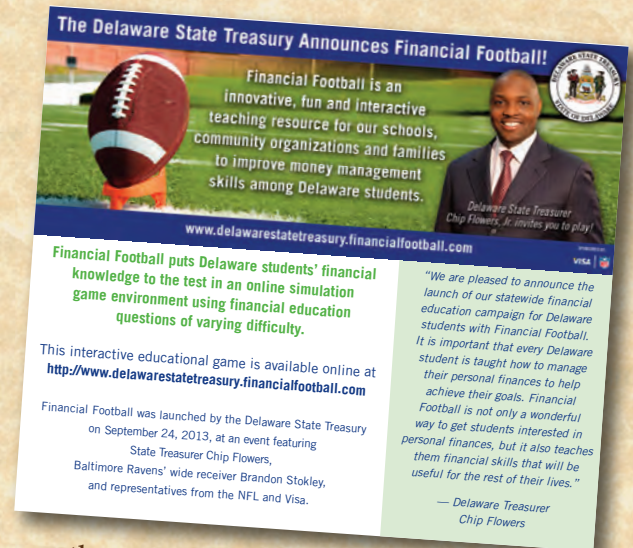
Supported Delaware Small Businesses

The People's Treasury is committed to supporting Delaware's small businesses as an engine of job growth and economic prosperity. The People's Treasury proposed an innovative program entitled the Delaware Small Business Investment Program (the "Program"), to promote small businesses by increasing the amount of available capital. The Program would have deposited a small portion of state funds in federally backed accounts in Delaware lending institutions and provided an incentive for banks to lend money to small businesses at no risk to taxpayers. Though the Program was not implemented, the People's Treasury is proud to offer innovative ideas to improve the financial viability of the state's small business community. Additionally, the People's Treasury has been a vigorous supporter of "Small Business Saturday," a national initiative which encourages Americans to shop at local small businesses on the Saturday after Thanksgiving.



Signed Delaware Money in Delaware Banks Directive

The importance of supporting banking institutions chartered or having a significant presence in Delaware is paramount to the People's Treasury. Under the "Delaware Money in Delaware Banks" Directive (the "Directive"), state funds up to \$250,000 are deposited in qualified Federal Deposit Insurance Corporation-insured banks having an active presence in Delaware. This innovative program deposits state funds in secure savings accounts and/or certificates of deposit that are paying a rate of return equal to or higher than the rate the state is currently receiving on similar deposits. Spreading deposits over a large number of banks increases the diversification of state funds, thus increasing their safety, and increases the funds available for Delawareans in these local banks. The state's Cash Management Policy Board rejected the proposal.





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Selected New Merchant Services and Credit Card Processing Vendor

The state's bank card acceptance program is organized and centralized under the purview of the People's Treasury. Bank card acceptance is one element in the overall plan of the People's Treasury to streamline revenue collection, speed receipt of payments, and lower overall banking costs while maximizing interest income. EPX, Inc. ("EPX"), a Delaware company, was awarded the treasury's merchant services and bank card processing contract to provide a central e-payment gateway for all state agencies. EPX serves as the first stop for all virtual terminal and Internet-based transactions in the payment stream. By providing local vendors an opportunity to compete to receive state funds in major contracts, the People's Treasury is playing its part to support economic growth in the First State.

Engaged an Independent Investment Advisor

Following best practices in government and public finance, the People's Treasury, through an open and competitive bid process, engaged Credit Suisse Securities (USA) LLC, a Delaware limited liability company, to serve as an independent investment advisor, ensuring that the treasury is making timely and informed investment decisions in today's fast-paced, 21st century global economy. Prior to the engagement of the independent investment advisor, the Cash Management Policy Board (the "Board"), which approves investment strategies for the state, met infrequently without a government finance expert. At the direction of the State Treasurer, the investment advisor issued a report analyzing the historic performance of the state's investment portfolio, and worked with the treasury to propose key changes for the Board that resulted in a restructuring of the portfolio without increasing the total risk level. (Both items are discussed below.) Furthermore, the independent investment advisor has provided the People's Treasury with additional technological resources (including a proprietary investment management system) to perform high-level analytics on the state's investment portfolio to ensure that the state is maximizing interest returns on our public funds without increasing risk.

Issued an Independent Report on the State's Investment Portfolio

At the request of the State Treasurer, the state's independent investment advisor issued a 60-page report to the Board that (i) analyzed the performance of the state's investment portfolio and (ii) provided substantive recommendations to the Board to improve the portfolio's performance in light of global market conditions. The independent report provided a detailed analysis of the investment portfolio and found that the Board's investment strategy had generated historically low interest returns and failed to keep pace with inflation. The independent report's recommendations to improve the performance of the state's investment portfolio supported the position of the People's Treasury that additional returns could be achieved with minimal changes to the overall structure of the portfolio and without increasing the overall level of risk (primarily through diversification of assets).

Restructured the State's Investment Portfolio and Increased Returns

Upon the current administration of the People's Treasury entering office in 2011, the state's investment portfolio was generating historically low interest returns that failed to keep pace with inflation. Under the direction of the State Treasurer, immediate actions were taken to reallocate assets in the portfolio without increasing the level of risk, resulting in millions of additional dollars in interest income. Further, based upon recommendations provided to the





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People's Treasury by the independent investment advisor, additional changes to the portfolio were recommended to the Board for adoption. Recently, at the recommendation of the treasury, the Board agreed to diversify the state's assets, increase the number of state investment managers and require the state's investment managers to meet certain financial benchmarks. As a result of the actions of the treasury, the state investment portfolio has returned over \$43 million over the past 37 months and the treasury has had positive returns in 30 of the past 37 months.

Issued an "Open and Competitive" Proposal and Increased the Number of State Investment Managers

To ensure that funds invested in our state investment portfolio are being managed by a diverse group of the nation's leading investment managers at a cost-effective and competitive rate, the People's Treasury issued a request for proposal soliciting a new group of state investment managers. Resulting from a directive issued by the State Treasurer encouraging small, women- and minority-owned businesses to submit proposals along with other leading local, national and international investment managers, the People's Treasury received more than 70 applications to serve the People of the State of Delaware. The response was the greatest ever to such a request; historically, fewer than 20 investment managers would submit a proposal. In 2013, the state increased the number of investment managers from five to nine, engaging a diverse group of innovative investment managers (including small, women- and minority-owned businesses and businesses based in Delaware). By increasing the number of investment managers through an open and competitive process, the state not only ensured that fees paid for such services are consistent with market rates, but also that the People's Treasury fosters innovative investment strategies generating greater returns without increasing the level of risk.

Reduced Fees Charged by the State's Investment Managers

Prior to the completion of the open and competitive request for proposal for investment managers, and in light of the challenging economic climate and the level of interest generated under the state's investment portfolio, the People's Treasury made significant gains in reducing the fees paid to the state's investment managers to ensure that such fees were in line with current market rates. Under fee agreements authorized by the Board prior to the current administration of the People's Treasury, the State of Delaware paid approximately \$2.1 million annually to the state's investment managers. In October 2011, the People's Treasury negotiated and announced major fee reductions from two of the state's investment banks – which saved the state hundreds of thousands of dollars. Fee reductions allowed the treasury to return additional monies to the General Assembly from the state's investment portfolio. During the open and competitive request for proposal, the People's Treasury ensured that the fees for all selected investment managers would be consistent with market rates, thus reducing costs to the state even further. The treasury has saved hundreds of thousands of dollars in fees while improving the performance of the portfolio.

Launched a Prepaid Debit Card Program to Reduce Number of Checks Issued

Though the People's Treasury continues to reduce the number of checks processed and issued annually, in 2011 the People's Treasury implemented a prepaid debit card program to provide an additional cost-effective option for those seeking a form of payment for their services to the state in lieu of a check. Through an open and competitive

bid process initiated by the People's Treasury, JPMorgan Chase Bank, N.A., a Delaware corporation, was selected to serve as the vendor for the program. The treasury anticipates several more state agencies will participate in the program, which will further streamline operations by eliminating time-consuming processes associated with printing checks and vouchers. Under the program, funds can be loaded onto prepaid cards, allowing cardholders to make purchases from vendors or access their cash from ATMs.





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Implemented Performance Measures for the State's Investment Managers

Accountability from those performing services on behalf of the People's Treasury is a top priority of the State Treasurer and the treasury team. In conjunction with realigning the state's investment portfolio, the People's Treasury adopted a number of performance benchmarks to ensure that the state's investment managers are performing at a level commensurate with the fees charged to the state. Further, performance benchmarks also ensure that the goals associated with the realigned portfolio are being achieved. Failure to achieve a benchmark would result in a reevaluation of such investment manager's contract and the fees charged to the state – thus ensuring accountability by those performing these key services on behalf of the People of the State of Delaware.

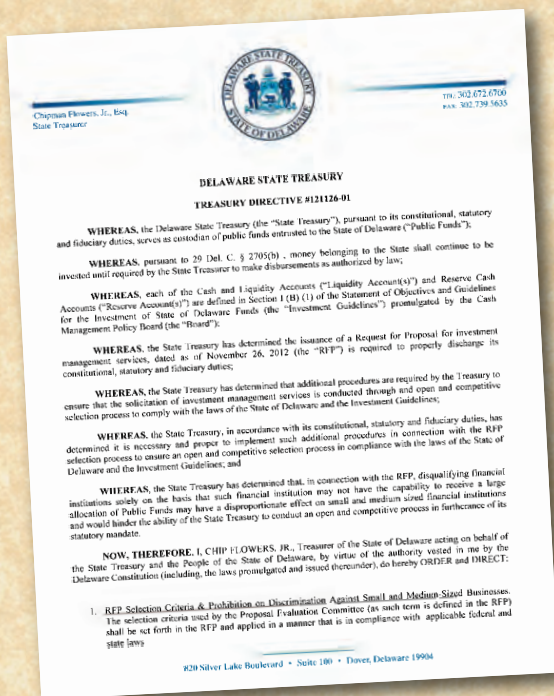
Transparency in the State's Investment Portfolio

Providing Delawareans the ability to evaluate the performance of their state's investment portfolio is a key priority of the People's Treasury. While caution is undertaken to protect proprietary and confidential information, this initiative

periodically provides a significant amount of detail regarding the state's investment portfolio on the treasury's website. This information not only provides an additional layer of accountability from the state's current investment managers, it also enables vendors seeking to manage state funds to use accurate information in developing proposals for alternative investment strategies.

Signed Directive Creating a Conflict of Interest Policy

One of the most important roles of any governmental agency is to ensure that public trust is never violated by those given the responsibility to make decisions in the best interest of the People of the State of Delaware. To this end, the State Treasurer signed Directive #121126-01 implementing the strongest ethical policies to date at the People's Treasury. Under the terms of the Directive, in the selection process for the state's investment managers, any individual having a majority ownership interest in an investment bank or having a potential business conflict of interest must either recuse from the process or meet certain ethical requirements promulgated by the state. By issuing a directive on this topic, the basic principles of fairness and equity can be ensured by the People's Treasury when soliciting bids from prospective vendors.



Protected and Collateralized Our State Funds

On December 31, 2012, the Federal Deposit Insurance Corporation's Transaction Account Guarantee Program, which extended federal insurance to non-interest-bearing transaction accounts beyond \$250,000, expired. At the time of announcement of the program's expiration, millions of dollars of our public funds were protected under the program. Since ensuring the safety of public funds is this administration's highest priority, the State Treasurer issued Directive #121212-01 to protect these deposits by requiring banks holding state funds to have sufficient collateral to secure such funds. In doing so, the People's Treasury protected critical assets through collateralization.





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Increased Participation in the Remote Check Deposit Program

The People's Treasury successfully worked to grow participation in its Remote Check Deposit Program over the past three years, adding the Department of State, the Division of Accounting and the Division of Revenue to a growing list of state agencies enrolled in and using the program. Use of the remote check deposit program results in funds entering into the state accounts faster, allowing the state to receive additional interest and providing for a more secure transfer of large sums into the state's banking institutions. The treasury will continue to identify state agencies whose participation in the program would be beneficial and cost-effective and work to implement the program within those agencies.

Strengthened Bond Approval Process and Delaware's "AAA" Credit Rating

The integrity of the bond approval process undertaken by the People's Treasury is one of the most important functions in maintaining Delaware's coveted "AAA" bond rating. Over the past three years, the People's Treasury protected this process by working with the General Assembly to ensure that no bond using the state's credit rating, regardless of the issuing entity, would bypass this critical approval process. Additionally, the People's Treasury created a new position, Director of Finance and Investment Services, having the requisite experience and qualifications in government finance, to lead the approval process. Finally, the People's Treasury adopted strict procedures to ensure that every bond undertakes a multi-phase, yet timely, review process prior to approval by the State Treasurer.



Revamped the State Social Security Administration Program

The People's Treasury is engaged in an outreach campaign to work with local officials on administering Social Security Agreements to ensure that Social Security coverage is maintained properly for each covered government entity and to extend coverage to entities seeking participation in the program. Additionally, the treasury is implementing a compliance Social Security database system that would assist the office in working with covered governmental entities to ensure that the terms of each Social Security Agreement are compliant.



Challenges Facing the People's Treasury

As noted in the previous report, the People's Treasury confronts challenges each year that require creative and innovative solutions. While the People's Treasury experienced another year of performing at a high level, the challenges confronted were subjected to significant publicity in a highly charged political environment. Regardless, the People's Treasury, firmly committed to transparency and the betterment of our government, used the challenges set forth below as an opportunity to engage in a constructive dialogue between the People and their treasury.

Staffing

Though the People's Treasury has managed to perform at a high level over the past three years, the operational demands required to maintain a 21st century treasury continue to increase. Over the past decade, fiscal challenges and operational decisions by prior administrations have reduced the staffing level of the treasury by more than thirty percent. These staffing reductions have caused the treasury to have insufficient redundancies for some of its operations. As a result, the additional work assigned to existing staff has reduced the necessary checks and balances designed to ensure that operational policies and procedures are maintained to protect taxpayer funds. Additional staff is required to restore the proper level of checks and balances in the office.



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Outdated Travel and Credit Card Policies (Resolved)

Over the past year, the treasury faced challenges in its travel and credit card programs. The problem, as discussed in detail in a report issued by the treasury on the matter, was primarily due to errors made by personnel at the treasury and other agencies in our state government and outdated policies issued by the treasury, the Office of Management and Budget and the Department of Finance (through its Division of Accounting). Though the treasury funds impacted were minimal, at the order of the State Treasurer, the treasury followed policies and procedures in addressing personnel matters and overhauled the treasury's policies and procedures relating to the programs. Additionally, the treasury provided detailed recommendations to the applicable agencies that administer the state's travel and credit card program in an effort to resolve the issue statewide.

Marketability of the Local Government Investment Pool

The People's Treasury made a concerted effort to revamp and revitalize Delaware's local government investment pool ("LGIP") to regain participants lost due to the outdated investment policies of the Cash Management Policy Board. However, the Board's guidelines remain unattractive to potential local government participants. Experience in other states demonstrates that local governments can use investment pools to reduce banking servicing costs. Due to the current composition of the Board, it is unlikely that the necessary changes to the Board's investment policies will be adopted in the near future. The People's Treasury has placed this initiative on hold until the current composition of the Board is changed, which will likely occur during the term of the state's next governor.

Board's Lack of Annual Financial Disclosure and Conflict of Interest Policies

Those tasked with managing the state's \$2 billion investment portfolio should be required to adhere to strict annual financial disclosure and conflict of interest policies to ensure that decisions being made are in the best interest of the People, not members of the Board. Over the past year, the People's Treasury has questioned some of the decisions by the Board in allocating monies to certain financial institutions that countered the recommendation provided by the treasury's independent financial advisor. The absence of strict financial disclosure and conflict of interest policies deprives the People of the transparency that they rightly deserve from those tasked with managing their money.

Board's Failure to Adopt Recommendations of the Independent Investment Advisor

While the performance of the state's investment portfolio has improved greatly during the current administration of the State Treasurer, additional improvements are warranted to position the portfolio to achieve long-term success. Many recommendations provided by the treasury's independent investment advisor to diversify and preserve the state's assets in the portfolio have not been adopted by the Board. Though in the past the treasury had the ability to respond to changes, recent legislation adopted by the General Assembly prevents the treasury from undertaking such action in the future. Similar to the issues facing the state's LGIP, the treasury hopes that the Board will adopt important changes to our state's portfolio.

Aging Check Processing System

Though the number of checks issued by the treasury has been reduced significantly during the current administration of the treasury, Delaware law requires the agency to maintain the technology needed to process checks. As the treasury continues to migrate from processing checks to more inexpensive payment forms, such as ACH and direct deposits, existing check processing systems have not been upgraded. Failure to upgrade the technology not only increases the man-hours required to undertake such tasks, but reduces the ability of the People's Treasury to perform the financial tasks necessary to discharge the required duties of the office.



PROPOSED INITIATIVES OF THE PEOPLE'S TREASURY

Former U.S. President Theodore Roosevelt once stated, "In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing." With this spirit, the People's Treasury continues to put forth initiatives aimed at providing innovative solutions to challenging problems facing the State of Delaware. This year is no different and the People's Treasury will continue to offer ideas to improve the financial and economic condition of our state. Let us discuss the proposed initiatives of the People's Treasury.

Continue Expanding Financial Education and Outreach Programs

Over the past three years, the People's Treasury has successfully established and expanded a number of financial education and outreach programs to best serve the People of the State of Delaware. In the coming year, the treasury looks to capitalize upon the successes of its award-winning and nationally recognized programs to further expand its education and outreach initiatives. The People's Treasury is prepared to implement its statewide initiative to partner with education officials to ensure that every middle and high school student receives financial education either in the classroom or through community organizations. The recent launch of Financial Football and its current distribution throughout the state will provide another resource for educators, parents and students in this expansion of financial education for the next generation of Delawareans. Meanwhile, the treasury will continue to expand the services offered to Delawareans of all ages through the further development of the Prosperity Portal and the Delaware Economic Index to best address relevant current financial issues. The treasury's recently established social media presence will be cultivated to better reach the growing number of Delawareans who obtain their news and information from these internet sources as the treasury adapts to the changing times in addressing the financial issues facing the People of Delaware.

Create a Financial and Economic Resource Center

In a major effort to expand the financial and economic services offered by the treasury to the People of Delaware, the treasury is currently evaluating the implementation of a state-of-the-art financial education and information center called the "Prosperity Post: Your Pathway to Financial Data and Information." The Prosperity Post, when fully implemented, would be a central hub of data, financial magazines and newspapers, providing up-to-the-minute business updates and other resources to assist Delawareans in preparing for their financial future. Not only would the Prosperity Post consist of a physical presence where Delawareans could visit, the treasury will develop a major web-based component as part of the project. The Prosperity Post Online, an extension of the Prosperity Portal, would provide a one-stop Internet-based shop for data and information for Delawareans who wish to stay updated minute by minute.

Explore New Electronic Payment Options for State Services

With electronic payments (i.e., PayPal) becoming an increasing part of the total value of payments in the U.S. economy, it is important that the People's Treasury explores the possibility of allowing Delawareans to utilize these payment options for certain state services. Potential cost savings, combined with convenience of use, are a couple of the reasons underlying the desire to explore these options. Over the course of the next year, the treasury intends to undertake a cost-benefit analysis to determine the feasibility of this option.



Delaware State Treasury

State Treasurer Chip Flowers

Implement a New Check Processing System

As discussed earlier, while the People's Treasury has made significant reductions in the number of checks issued by the agency, Delaware law requires the People's Treasury to maintain technology necessary to issue checks. To this end, over the next year, the treasury will be implementing new check processing technology that will not only reduce the manpower required to process checks but will also provide additional functionality and features that will improve the overall process and increase efficiency.

Revamp the Treasury Website and Delaware Economic Index

As the treasury revamped its website and Delaware Economic Index in previous years, it will look to do so again this year to continue to evolve as our society evolves. The improved website and Index will debut with new features and sections designed to provide Delawareans with the information and resources they need to assist in their financial decisions. In addition, new web sections will allow citizens to stay updated on all treasury matters and provide detailed information on current initiatives and projects being implemented by their treasury.

Evaluate Fee Reduction Options for the State's Deferred Compensation Plans

Continuing to reduce fees for participants of our state's Deferred Compensation Plans remains a top priority for the People's Treasury. During the coming year, with guidance and assistance from the state's Deferred Compensation Council, the People's Treasury will work with the applicable vendors under the state's 457(b) and 403(b) plans to reduce the fees charged to participants. Additionally, the engagement of a best practices consultant to advise the treasury in determining the appropriate fee level and fee structure will be undertaken during this period.



CONCLUSION

The State Treasurer and his administration, upon careful reflection of the matters set forth herein, have detailed the state of the People's Treasury in this *Fourth Report on the Delaware State Treasury*. This report is humbly submitted to the People of the State of Delaware for their proper consideration.

This *Fourth Report on the Delaware State Treasury* was made possible through the hard work, dedication and commitment of public servants and private citizens committed to serving the People of our great state. No words can express my appreciation for their work not only in drafting this report, but also in developing a record of achievement to better the lives of Delawareans in spite of numerous obstacles. Each of these individuals embodies the principles of public service and serves as an inspiration for those who will follow and surpass their footsteps.

