

REPORT & RECOMMENDATIONS

TRANSITION COMMITTEE OF
GENERAL TREASURER JAMES A. DIOSSA



JANUARY 27, 2023



INTRODUCTION

On November 8, 2022, James A. Diossa was elected to be the 32th General Treasurer of the State of Rhode Island. Upon his election, Treasurer Diossa convened a 26-member Transition Advisory Committee (the “Committee”), comprised of financial and economic experts, elected officials, representatives of public and private stakeholders, and community leaders. Meeting over the course of three months, the Committee was charged with three primary objectives: (1) effect an orderly transition, (2) provide policy and operational recommendations for the Treasurer to consider and pursue, and (3) initiate a long-term strategic plan intended to provide stability, ensure transparency, and carve a path forward for our state’s economic and financial future.

The Committee was co-chaired by Yahaira “Jay” Placencia, a Senior Vice President with Bank of America, and Donald R. Sweitzer, the retired Chairman of International Game Technology PLC (“IGT”). They were joined by:

Hon. Marvin Abney	Gary Furtado	Oscar Mejías
Elizabeth J. Beretta-Perik	Francis Flynn	Lawrence Purtill
Donato Bianco	Bradford M. Gibbs	Lisa Ranglin
Liz Catucci	Thomas Giordano	Kelly Rogers
Robert Cusack	Hon. Donald R. Grebien	Jay Ryan
Kelly DiBiasio	Peter G. Kelly	Neil D. Steinberg
Russell Jeffrey	Sally Lapidés	Catherine Taylor
Hon. Walter S. Felag, Jr.	Matthew A. Lopes Jr.	Louis Yip

The transition team was led by Director John Simmons, alongside Assistant Director Robert Craven, Jr., Gonzalo Cuervo, and Alisha Pina.

The Office of the General Treasurer is multifaceted. The Treasurer’s initiatives, programs, and decisions routinely impact the daily lives of many across Rhode Island. To reflect this impact, the Committee was divided into four subcommittees, each representing a key facet of the Treasurer’s office: **customer service, strategic planning, governance, and a fourth subcommittee that assessed lean government, cash management, and information technologies.**

After an initial meeting of the full Committee, each respective subcommittee held a series of meetings where they heard from Treasury staff, stakeholders, and subject matter experts. These



sessions included presentations pertaining to operations, investment policy, retirement, and customer service. Among others, committee members heard from the Executive Director of the Employees' Retirement System of Rhode Island, financial empowerment advocates, the Rhode Island Student Loan Authority, the Rhode Island Infrastructure Bank, the Director of the Crime Victims Compensation Program, officials from the 529 Savings Program, and the Director of the Unclaimed Property program. In working with the Treasurer's office, committee members were provided with a wealth of information - in the form of data, documents, contracts, and studies - intended to aid their efforts and ensure informed, and thoughtful recommendations.

Over the course of three months, the full committee convened five times to share and discuss recommendations. The subcommittees hosted over ten two-hour meetings where they undertook in depth analyses of issues core to Treasury's mission and the Treasurer's priorities. This Report is the product of those efforts, comprising hundreds of hours of collective efforts by the Committee members.

This Report, and the recommendations contained herein, represents the final culmination of the Committees three-month effort. The Committee's recommendations are separated by subject, and are intended to guide Treasurer Diossa as he undertakes his charge. The first series of recommendations, outlined under the "Governance" section, are intended to apply across Treasury, and should underlie each of the Office's functions and policies. Following this section is a summary of presentations to the Committee concerning the State's investments and the present economic climate. Thereafter, Committee recommendations are addressed by subject in alphabetical order.



INVESTMENTS

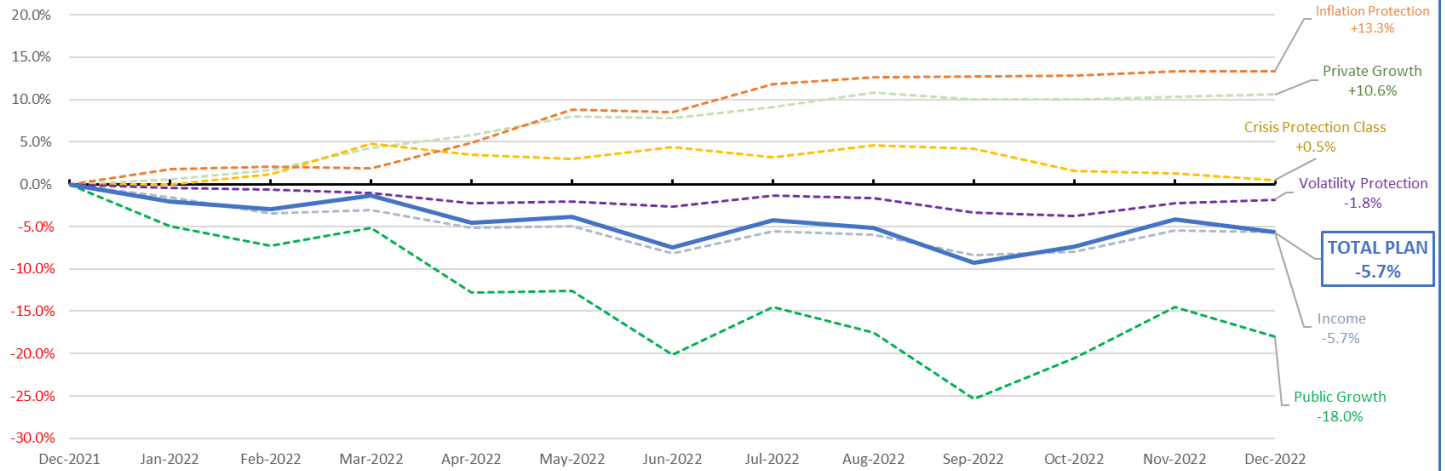
Over the course of the transition, Committee Members heard a number of presentations from the State's Chief Investment Office and Deputy Chief Investment Officer concerning the health of the State's investment portfolio and comparative performance of the present asset allocation. The following analysis and accompanying charts represent a summary of those presentations.

The calendar year of 2022 was a difficult period for all investors. Uncertainty deriving from situations such as the war in Ukraine, rising interest rates to combat high inflation, and the potential of the global economy to slide into recession led to significant declines in both the traded stock and bond markets. As bonds are a typical diversifying asset class relative to stocks, the simultaneous decline in both markets led to material losses for many investors including ERSRI. The market value of ERSRI's defined benefit fund declined from \$10.79 Billion on 12/31/2021 to \$9.98 Billion on 12/31/2022, as ERSRI continues to pay more in benefits than it receives in contributions and the fund's investments returned negative 5.7%. The fund's presence in additional diversifying asset components mitigated some of the losses. In particular, the Inflation Protection, Private Growth and Crisis Protection Class categories provided benefits to the fund as illustrated in the below charts.¹

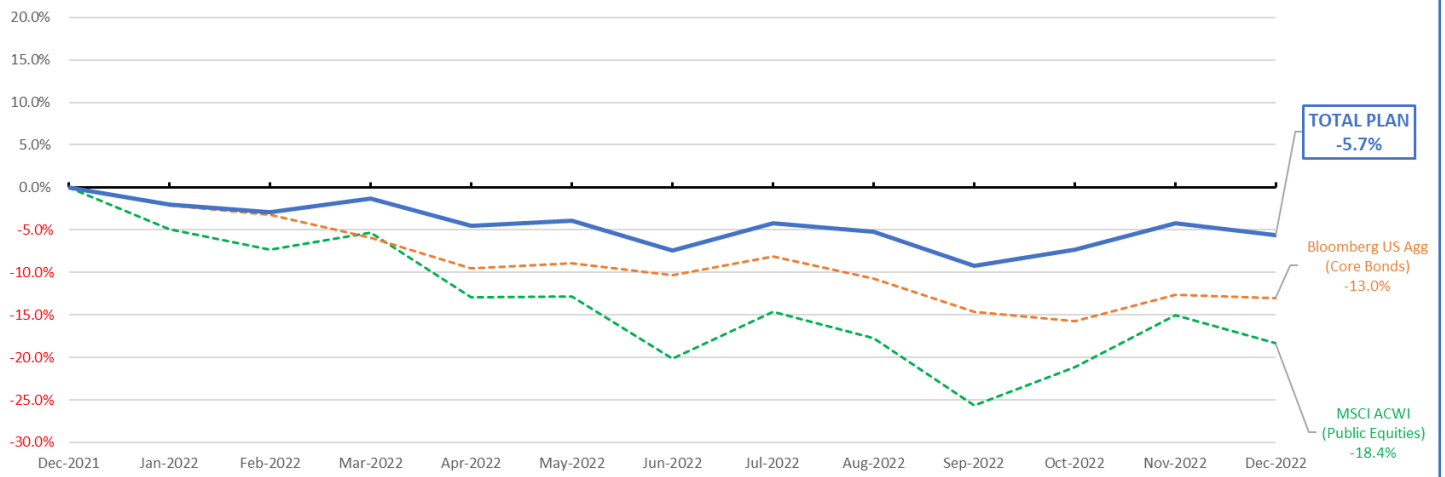
¹ The below-depicted charts represent ERSRI's investment returns relative to public market benchmarks.



ERSRI Defined Benefit - Total Plan and Asset Allocation Components
(*net-of-fee*)



ERSRI Defined Benefit – Total Plan and Public Market Benchmarks
(*net-of-fee*)





GOVERNANCE RECOMMENDATIONS

Throughout the course of the Committee’s work, it routinely considered means through which Treasurer Diossa could implement good governance practices in both the Treasurer’s Office and in its partner entities. The Committee understands ‘good governance’ to mean institutional processes and policies that achieve efficient, transparent, and successful administration. This Committee recommends the Treasurer:

- A. Review management and operational practices to ensure accountability, efficiency, transparency, respect and equity is included;
- B. Be mindful of Environmental, Social, and Governance considerations and Diversity, Equity and Inclusion in all facets of the Treasurer’s Office; and
- C. Prioritize information technology needs and security across the Treasurer’s Office by, among other things, ensuring the Office has sufficient cybersecurity and staffing for proactive and defensive measures against malicious actors.

PROGRAM-SPECIFIC RECOMMENDATIONS

COLLEGEBOUND SAVER (529 PLAN)

The Rhode Island CollegeBound Saver Program, otherwise known as the state 529 Plan, is a tax-advantaged college savings plan administered by the Treasury. Treasurer Diossa has repeatedly drawn attention to the rising cost of tuition, college affordability, and student debt as enduring obstacles to young Rhode Islanders as they begin their professional careers. This Committee recommends the Treasurer:

- A. Explore legislation that may implement tax incentives for employers and individuals to open and contribute to 529 Plans;
- B. Develop a more defined marketing plan aimed at increasing program awareness and participation; and
- C. Undertake routine review of the performance of the third-party contractor engaged to manage program funds relative to performance expectations.



CRIME VICTIMS COMPENSATION PROGRAM

Managed by the Treasurer's Office, the Crime Victims Compensation Program helps curtail the financial impact of criminal acts incurred by innocent victims. In large part, the Crime Victims Compensation Program is funded by grants under the federal Victims of Crime Act. It also receives funding from in-state court fines and fees, restitution fines, court orders, and private donations. Generally, an individual is eligible to receive economic aid through the Program if they have been the victim of a violent criminal act that results in injury or death and occurs within Rhode Island's borders. This Committee recommends the Treasurer:

- A. Work cooperatively with the General Assembly to introduce legislation that would permit a forensic sexual assault exam to stand in the place of a report from law enforcement for purposes of satisfying statutory reporting standards;
- B. Explore a surcharge on moving violations with legislative partners to ensure a consistent and reliable revenue stream to fund the program;
- C. Assess viability of legislation that would permit Crime Victims Compensation funds to be used for security upgrades—such as security cameras and lock replacement—to a victim's personal residence in lieu of complete relocation (the cost of which is presently compensable by statute);
- D. Examine the Program's marketing and outreach strategy to continue to expand visibility in cooperation with community, nonprofit, and advocacy organizations; and
- E. Strive to curtail language barriers by including common multiple language options on web-based applications and during interpersonal interactions and crafting a communications plan mindful of non-English language speakers.



EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

Established in 1936, the Employees' Retirement System of Rhode Island ("ERSRI") provides retirement, disability, and survivor benefits to state employees, public school teachers, judges, state police, participating municipal police and fire employees, and general employees of participating municipalities. The General Treasurer chairs the ERSRI Retirement Board, which in turn manages and administers the state's retirement system. This Committee recommends the Treasurer:

- A. Upgrade the existing telephone system to better track interactions between Treasury employees and retirees and ultimately the customer service quality;
- B. Increase the number of retirement counselors to expand capacity and increase opportunities for one-on-one member counseling, and reduce processing times;
- C. Add a full-time employee focused on education and outreach to ensure those considering retirement are able to make informed decisions;
- D. Ensure succession planning by cross training counselors should there be unexpected staff turnover;
- E. Explore flex hours for retirement counselors—such as 7:00 a.m. to 2:00 p.m. and/or 11:00 a.m. to 7:00 p.m. or weekend hours—to improve the accessibility for retirees presently working typical state hours;
- F. Properly inform advisors employed by Teachers Insurance and Annuity on ERSRI decisions concerning retirement and governance; and
- G. Continue to maintain and upgrade web-based applications.

FINANCIAL EMPOWERMENT

Financial empowerment refers to the skill set and knowledge base necessary to build personal wealth and financial stability in the long-term. The Treasurer's Office has a long-standing commitment to help teach these skills and build this understanding in order to provide Rhode Islanders with the financial know-how they need to succeed in today's economy. This Committee recommends the Treasurer:

- A. Consider an increase in Program funding for community outreach and education efforts in each of the 39 cities and towns; and
- B. Convene educators from across the State to craft a uniform financial empowerment curriculum for implementation in state public schools.



RHODE ISLAND INFRASTRUCTURE BANK

The Rhode Island Infrastructure Bank (“Infrastructure Bank”) is a quasi-state entity that provides low-cost financing for green infrastructure projects. This Committee acknowledges the Infrastructure Bank’s importance to sustained investments in public school buildings, public transportation, water treatment systems, and state’s general economic well-being. This Committee recommends the Treasurer:

- A. Consider allocating available capital to programs that emphasize, among other things, climate resilience, clean transport, and clean storage;
- B. Consider means through which the Infrastructure Bank can support minority, women, disadvantaged and veteran business enterprises.
- C. Assess the interrelationship between the Treasurer’s Office and the Infrastructure Bank to maximize funding and approval of green infrastructure projects;
- D. Closely examine the Infrastructure Bank’s potential role in ensuring Rhode Island reaches statutory sustainability and climate resilience goals;
- E. Consider adding a member to the Infrastructure Bank’s Board of Directors representing minorities;
- F. Prioritize efforts to apply for and attract federal funding to expand breadth of Infrastructure Bank projects; and
- G. Engage local governmental units to coordinate and fund local sustainable infrastructure projects, such as private lead water service line replacement.



RHODE ISLAND STUDENT LOAN AUTHORITY

The Rhode Island Student Loan authority is a non-profit, quasi-public entity that provides affordable higher education solutions to students across the State. The General Treasurer sits on the board of the Rhode Island Student Loan Authority and—in that capacity—can be an important agent of change in efforts to provide affordable, quality education options for Rhode Islanders. This Committee recommends the Treasurer:

- A. Support legislation requiring high schools provide information to students and their parent or guardian concerning the benefits of completing the Free Application for Federal Student Aid (“FAFSA”) form and instructions on how to complete this form;
- B. Seek to expand program marketing to ensure Rhode Island students are aware of student aid options and that the Student Loan Authority provides free assistance in obtaining aid; and
- C. Explore the feasibility of legislation implementing a student loan forgiveness program for Rhode Island students entering in-demand fields who intend to remain in Rhode Island for a predetermined period after graduation.

STATE INVESTMENT COMMISSION GOVERNANCE REPORT

In March 2022, Treasurer Diossa’s predecessor in office engaged Funston Advisory Services LLC (“Funston”) in conjunction with the State Investment Commission (“SIC”). Funston conducted an independent review of the SIC’s governance, policies, and operations, and evaluated each using peer programs in other states as a benchmark.

Finalized in late November 2022, the Funston Report identified opportunities for improving governance of the SIC through a number of recommendations. This Committee encourages Treasurer Diossa to duly weigh and consider these recommendations over the next four years of his administration. The Committee further suggests the Report’s recommendations be evaluated for practical and fiscal feasibility given the form, structure, and size of the State Investment Commission and total fund.



UNCLAIMED PROPERTY

Administered by the Treasurer's Office, the Unclaimed Property program helps reunite thousands of Rhode Islanders with property that is rightfully theirs. The dedicated staff at the Treasurer's Office recovers unclaimed cash and assets from businesses, banks, landlords, safe deposit boxes, and utility companies, and safeguards that property until it can be returned to its legal owner. This Committee recommends the Treasurer:

- A. Create and adopt rules and regulations to govern the administration of the Unclaimed Property program;
- B. Prioritize unclaimed property claims of older Rhode Islanders;
- C. Continue to coordinate with the National Association of Unclaimed Property Administrators to learn and identify best practices as implemented in other states; and
- D. Facilitate conversations between Treasury's communications team and Program staff to improve program outreach and accessibility.