

## **Creating a Performance-Driven Culture: “A New Order of Things”**

In my first two years as State Treasurer, I have struggled to bring the core tenets of performance-driven organizations to bear on our office’s operations. Within weeks of taking on the job, I could see that we lacked the most basic components of such a system. We had no benchmarks or metrics for success and our most valuable assets – our people – received no performance plans or reviews. We were a static organization, where most of our staff showed up every day to do a good job, not a dynamic one, where everyone showed up every day to do a better job.

Fast forward 24 months and I will claim that we are well on our way to becoming a results-oriented operation, with meaningful performance measures and a personnel system focused on aligning individual and organizational interests. The journey has been steady if not always smooth and there is much still to be done, but I am proud to say that this spring we completed our inaugural employee performance reviews. In addition, had I been given the opportunity to present to the legislature’s Joint Finance Committee (JFC), I would have given them our office’s first Report Card.

In both cases, I had to make the case to my staff that there was a need for these processes and reports! Culturally, I determined that I was coming from a different place than some of my peers and co-workers. In both politics and government, I have come to see too much credit given for good intentions and too little scrutiny applied to outcomes. My formative experiences outside of the public sector have taught me a different lesson: the world may recognize effort, but it rewards results.

### First, A Little Background

My first full-time job was as a corporate attorney for a firm based in Chicago. Fresh out of law school, I was staffed on a transaction with a senior partner to assist our client with the purchase of a division of a larger company. On less than 24 hours’ notice, I was sent to Detroit where a roomful of attorneys, business people and consultants spent a lot of time negotiating the transaction and, in particular, talking about “escrowing monies” (the nuances of which escaped me).

Leaving the daylong meeting in the cab on our ride to the Detroit airport, the partner spent about 15 minutes telling me what I had to do that night when we got back to Chicago. He wanted a draft of an escrow arrangement on his desk first thing in the morning. When we landed around 8:00 p.m. I returned immediately to the office, worked through the night and, as the sun was rising, gave the draft agreement a final proof. Given my limited understanding of the transaction, lack of sleep and the bare guidance that I had received, I simply did my best.

Not knowing the partner’s work habits, I left the agreement on top of some mail and other papers on his chair at 6:00 a.m. I could not leave it on his desk or even find his inbox as binders, contracts and other documents covered the surface and were piled all over one another in what appeared complete chaos. I went home, showered, grabbed breakfast, drank the better part of a pot of coffee and came back to the office at 8:30 a.m. to await further instruction.

By mid-morning, I was worried as I had not heard from the partner. I went up to his office, knocked on the door and peered in to see him furiously marking all over some agreement. He was almost hidden from view by the mounds of paper on his desk. He looked up at me and, at first, I did not think he even recognized who I was.

Nervously, I asked if I could provide any more help. He looked at me quizzically. I clarified that I had left the escrow document on his chair and wanted to know if I needed to make any edits or changes. He stopped writing and looked around at all the papers strewn about his desk and shook his head – as if to

say he was unaware of what I was talking about. Then he looked over the side of his desk at the overflowing trashcan and, without looking back up at me, said, “I threw it away”, and he went back to scribbling.

Feeling stupid that I should have left the agreement piled on his chair and not in a more prominent place to avoid it being tossed casually in the garbage, I quickly volunteered to print another copy and bring it to him. With a studied patience, he stopped writing, put down his pen and looked directly at me. “Your agreement was a piece of trash. I threw it away.” He paused another second to ensure that I got the message and then went back to his work.

I retreated to my own office to seethe and contemplate my future at the firm and in the legal field more generally. Though sleep-deprived and ashamed, I recall sitting at my desk as a realization struck me. This firm, its clients, and perhaps the world at large did not really care if working hard and doing my best produced unacceptable work. Results, not effort, were what mattered.

I stayed at the firm another two years before moving on to a career in finance and then hotel operations and commercial real estate. Over that time, I have never forgotten that formative lesson. Indeed, I have applied it to the businesses in which I have worked and those that I have helped create. While some may perceive the goal of being a results-driven organization as a choice, I view it as a necessity.

In the first instance, the world is a demanding place and the standard for what is acceptable is always being driven higher. The businesses in which I have been involved have had to constantly reinvent themselves to succeed. Staying the same does not equate to staying in the same place, but rather to falling behind. To get ahead, you have to know if you are progressing, and, if you’re not measuring progress, chances are you aren’t making any.

Second, in all these businesses, personnel are key. Like the law firm where I began my career, the service industries in which I have worked are “people businesses” – their most valuable assets are their employees. Failing to attract, train and retain great people is a recipe for mediocrity or even failure. In such organizations, personnel systems must be engineered to incent and reward out-performance and to point out and correct under-performance. Neither the organization nor its people will thrive if the development of human capital is not embraced as vital to success.

The attributes of a performance-driven organization – a commitment to results and people – while universal, can and should be tailored to fit the contours of its milieu. In addition, the systems that drive outcomes and incent personnel should not be made rigid or static, but must be constantly surveilled and re-engineered. The manifestation of this form of organization is less about the end state and more about the journey – the mandate arises from an ethos that is cultured, not a diktat that is coerced.

### Change is Hard, Especially So in State Government

Leading the kind of cultural change that embraces a performance-driven culture is never easy. In general, there is often no clear demand for and no immediate reward to be gained in pioneering such a transformation. After hearing me address this topic in a recent small group setting, a friend sent me this quote from Niccolò Machiavelli’s *The Prince*:

It ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.

Since joining state government, I have come to appreciate that change is even more difficult in the public sector. In contrast to the private sector, incentives are weak, ineffective or simply don't exist. On the one hand, there are few price signals from "buyers" (i.e., citizens) for public goods and services. An election every 2-4 years doesn't tell us much about the quality of what we are producing. On the other hand, "sellers" (i.e., government officials and employees) have no profit motive. If you earn the same amount of remuneration regardless of the quality of the product (or lack thereof), what reason have you to make it better?

The feedback loop that typically drives the risk-taking and innovation that I have encountered in every other field in which I have worked is missing in government. An insidious knock-on effect is that creativity and imagination in our state workforce goes unrewarded, or worse, is stymied. The result is a culture that is not performance-driven, but one beholden to the status quo.

This order of things can be reengineered to create a newfound dynamism. The inertia in our organization arises from systems problems, not immutable laws of nature. That changing them is challenging should be recognized, but not met with surrender. Moreover, if we cannot count on the marketplace to supply the public sector with the incentives to become a more performance-driven organization, then those of us in management positions in state government have to be more proactive, thoughtful and rigorous in designing them for our agencies.

### Laying a Foundation for Change in the Treasurer's Office

At the Treasurer's Office, the sojourn to becoming a performance-driven organization has taken more than two years. In fact, we are not there yet – the initial processes will culminate this October with the submission of our fiscal 2019 budget and Report Card and the completion of our first full year of employee plans and reviews. Before describing the "semi-finished" products, let me first provide a recap of the four critical steps in our process:

#### *Step 1: Review and Document Current Operations (March – May, 2015)*

Working with an outside consultant, we performed a thorough review of all operations of the Treasurer's office. We set out the governance and personnel structure of each unit, documented controlling laws, rules and regulations, identified and itemized material contracts and mapped all major processes and workflow. In the case of each operating unit, we described current challenges, bottlenecks and areas for improvement.

#### *Step 2: Identify Key Functions and Assess Competencies (June – August, 2015)*

Building from the operational review, we identified "critical value functions" – the key deliverables of each business unit. We then assessed the core competencies (i.e., the required skills, knowledge and abilities) required to execute each of the critical value functions. These functions and competencies were discussed and debated at length with the divisional leaders of the office and then submitted for further assessment and revision by the full staff of each division. Our goal was to create and foster office-wide understanding of and buy-in for these overarching themes.

#### *Step 3: Set Priorities and Prepare Budget (September – October, 2015)*

We used the findings and conclusions from our review and reassessment to draft a final report with detailed recommendations for each division and an overall plan for restructuring the office. In effect, the report became the foundation for our strategic planning, setting out operational priorities for the ensuing calendar year, outlining the parameters of our fiscal 2017 budget request and providing the roadmap for what would become a more than 100-page request for personnel changes impacting more than 75% of our workforce.

*Step 4: Restructure Organization (November, 2015 – August, 2016)*

The longest step in this process involved the reclassification of the office's personnel into three new operating divisions and one support division. Reclassification is a formal process that requires approval of both the Governor's Office of Management and Budget and the Legislature's Office of the Controller General. We took two months to write the "omnibus request" for reclassification. The implementation then took another nine months for approval and revision of the request, integration of exiting personnel and filling of open positions. Unnecessary and vacant posts were eliminated and critical but missing posts were created. Overall, there were several staff promotions and even one voluntary demotion. While the net effect on the budget was neutral, the realignment provided the office with significantly greater horsepower to achieve critical value functions.

The completion of the foregoing steps consumed nearly two years – half of my elected term! – and hundreds of hours of senior staff time. The investment has, however, paid off. On the basis of the solid strategic and organizational foundation that we had formed, we were able to design and develop individual performance plans for everyone in the office and meaningful performance metrics for each of our operating divisions.

Employee Performance Plans

In October of 2016, every employee in the Office of the State Treasurer received a performance plan for the period commencing that month and ending in September of 2017. In each case, the plan was provided to the employee to review at least 72 hours before scheduling a face-to-face meeting with the employee's supervisor and our HR representative. The meeting was framed as collaborative, an opportunity for the employee to ask questions and provide feedback on his/her plan. After such meeting, plans were revised or clarified, and then signed by the employee and supervisor in duplicate, with both parties receiving an original copy.

Critically, each plan followed the same structural outline:

- The first section of each plan set out the critical value functions and core competencies of the employee's division per the comprehensive report. This section was designed to be identical for every employee in the division and was not expected to change significantly over time.
- The second section of each employee's plan laid out the priorities of his/her operating unit for the plan year. The employee was not necessarily responsible for all such priorities, but was expected to be apprised of the unit's full set of undertakings. Priorities were anticipated to change from year to year as completed, amended or abandoned. A place-saver was included in this section for the articulation of performance metrics for each operating unit "to be developed." (More on that below.)
- The final section of each plan contained the employee's personal goals and areas of development. Goals represent those parts of the operating unit's priorities for which the employee is responsible. They were organized into four categories based on when they were to be started and completed: first half of plan year, second half of plan year, full plan year, and longer term (i.e., to be started but not completed in the plan year). Areas of development were not tied to the priorities of the employee's unit, but rather reflected individual opportunities for focus and/or improvement.

To be clear, these meetings were not performance *reviews*. Rather, discussions were based on the new plans and were strictly forward-looking. This helped focus attention on what had to be done going ahead, and eliminated anxieties about backward-looking assessments when there was no established set of expectations. Dates for the first mid-year reviews were scheduled for April of 2017 with final reviews in October of 2017.

Over the first six months of the plan year, division heads reported progress on priorities at monthly team meetings. Employees were encouraged to read over their plans on a regular basis to ensure attention to their goals and areas of development. In April, both supervisors and employees were tasked with assessing progress on individual plans using a form that focused on the completion of first half priorities and assessed progress toward full year goals.

For each of the employee's goals and areas of development, both supervisor and employee were asked to respond to two sets of variables: timeliness and quality. The former required either a "yes" or "no" as to whether the goal had been achieved within the designated timeframe (or an explanation as to an agreed upon change to the delivery date). The latter assessment of quality was rated on a five-point scale designed by the Office of Management and Budget: distinguished, exceeds expectations, meets expectations, needs improvement or unsatisfactory. Supervisors and employees were told that marks other than "meets expectations" had to be supported with clear explanations.

Meetings were subsequently scheduled between each employee and his or her supervisor, and attended by one or more of the office HR manager, Deputy Treasurer and/or me. At the meetings, employee and supervisor discussed and compared the independent assessments of the employee's work on each goal and area of development. The meetings focused on any variances in assessments and particularly on areas requiring improvement or rated unsatisfactory. This was not meant to overlook or ignore areas of strong performance, but rather to achieve consensus on how underperformance at the mid-year point could be raised to satisfactory performance by year-end.

In my experience sitting in on and conducting reviews with senior personnel, the meetings were straightforward and positive, focusing on constructive guidance and problem resolution. I was impressed that employees provided rigorous self-assessment and were highly engaged in wanting to understand how to improve in areas where they and/or the supervisor felt performance was not meeting expectations. While a large part of the staff – many of whom had never been part of a review process, came to the meetings with trepidation, most left more secure about their role and expectations for performance. The message emphasized over and over was that leadership was deeply committed to both them and the success of the organization.

That said, I would be sugarcoating reality if I did not admit that there was some blunt talk and tough love. In a few cases, emotions became raw but not confrontational. Honest assessments simply cannot be watered down, but can and should be delivered with sensitivity and always concluded with a focus on improvement. While identifying and being plain spoken about failure can be hard, re-orienting the discussion after such admission on how to overcome shortcomings can be cathartic and gratifying.

Overall, I was highly satisfied with the design and execution of the review process and only slightly disappointed with the results. On the positive side, quality of work across the office met or exceeded expectations at a rate slightly in excess of 75%; unsatisfactory outcomes were experienced in less than 10% of cases, with a balance of about 15% requiring some improvement. Plans proved surprisingly realistic with fewer than 10% of goals and areas of development being revised at the mid-year point. Notwithstanding that conclusion, there was a general consensus that we struggled with timeliness – a little less than 40% of our near term goals were substantially completed and more than half were less than 50%

completed. A table with results from our mid-year reviews is attached as an appendix to shed a little more light on how our office performed at the aggregate level.

The clear import of our mid-year reviews is that we need to do better at meeting milestones while maintaining and even improving on our quality of work. Given the substantial amount of positive discussion that took place as to how to prioritize initiatives and rectify areas requiring improvement, I would be surprised if full year reviews in October do not reflect greater levels of timely, satisfactory performance. During those fall meetings, we will also be asking employees and supervisors to rate and critique the review system itself. As noted above, nothing is static and the opportunities for improvement are never-ending.

### Division Performance Metrics

While the office had no employee plans or review processes in place when I arrived, I became aware of the existence of our performance metrics almost immediately. Surprisingly, the measures were not brought to my attention by the leaders of our operating divisions, but by our senior fiscal officer in charge of the annual budget submission. As it turns out, division leaders were not regularly apprised of or asked to monitor the metrics requested by the Office of Management and Budget and the General Assembly.

This disconnect proved fortuitous as the requested metrics were incomplete in scope and largely meaningless in content. To be fair, they sought to ensure compliance and document output, but core components of operations were excluded from measurement, metrics could not be interpreted to indicate whether performance was improving or declining and there were no benchmarks against which absolute performance could be judged.

If an organization is going to be performance-driven, metrics need to be meaningful. At a minimum, performance metrics should be (i) holistic (i.e., cover all core parts of the organization's operations), (ii) evaluative (i.e., measure efficiencies or efficacies) and (iii) benchmarked (either against external comparables or internal targets). That does not mean that performance measures need to be numerous or complex. In fact, quite the opposite is true. Fewer is better (perhaps 1-2 for each core area of operations); and ease of calculation and understanding should be favored over rigorously complicated computations that are not readily intelligible.

In contrast to those parameters for effective metrics, let me give you some specifics as to what I found when I arrived at the Treasurer's Office. In the first instance, the office had six operating units, but metrics covered only four of them. Core operations in banking services and collections were not measured.

Second, metrics were not derived from ratios of outputs to inputs but were simple outcomes. In the case of the management of the State's \$1.6 billion of investments, the sole metric asked only whether the portfolio was being managed in accordance with established guidelines – “yes” or “no,” nothing about returns, gains, losses, volatility, etc. Other metrics asked for outcomes with no indication of desired direction – is it more or less desirable that the number of ACH transactions (i.e., electronic payments) increases or decreases? Even where the desired direction of a metric could be divined – say in the instance of the number of employees with defined contribution accounts (where we clearly want to see more accounts), the measurement was problematic as it was not expressed as a percentage of employees much less the amount of actual savings in the accounts.

Finally, there was nowhere a set of expectations or targets against which to judge performance. Even taking the measures alluded to above as flawed, what were the expectations? Should compliance be

100%? Are ACH transactions expected to reach a certain threshold? Is there an optimal number of defined contribution accounts?

While the failings of the existing performance metrics were obvious, the specifics of the future system of measurement were not. Throughout the steps involved in laying our strategic foundation – the two-year process described above, we kept asking ourselves, “how do we measure success?” We knew we wanted a system that was holistic, evaluative and benchmarked, but designing the measures to meet those attributes involved a long, hard slog.

Fortunately, we had a deadline. At our JFC hearing in February of 2016, we asked legislative members for permission to junk the old metrics and return the following year with a new set of measures. In anticipation of our 2017 hearing, we condensed all the deliberations and calculations we had tried, tossed out and retried during the intervening year into a single two-sided piece of paper titled simply “Report Card”. The report set out eight performance metrics for our office, indicating in each case whether performance improved, declined or remained stable during the year. The key initiatives and events affecting each metric were described in a single, concise paragraph.

In all candor, I was not totally satisfied with the Report Card that we planned to present to the JFC. While we were able to come up with a holistic set of evaluative measures, we were not resolved on all benchmarks. In the case of some measures, we were in the midst of redesigning the architecture for an operating unit and it was hard to nail down a target in such a state of flux. In other instances, we were unconvinced that we had the right data and/or calculation for proper comparison. In still other cases, external benchmarks did not exist and we just did not know what targets represented achievable and optimal performance. In short, there remained much to resolve, but the overall set of measures that we had developed was far more robust than its predecessor.

I also took some comfort in realizing that the development of our first Report Card was as much the “product” as the report itself. The journey to create meaningful metrics, to push ourselves to ask what was important and deserving of measurement – what would constitute success, was the first critical step to the transformation we were seeking. Yes, our goal was to end up with an optimal set of metrics, but the search to articulate them had already made us attuned to the need to be a performance-driven organization and to prioritize and account for those activities that are critical to our existence.

Finally, it turned out that we had a bit more time than planned to get the first draft of the Report Card right. In wrestling with another challenging budget year, the JFC notified me in February that my hearing would be moved back by a month, then two months, then May and as of May, well, not at all. While unusual, the cancellation of my hearing had much to do with the fact that I had not made any extraordinary budget requests and the budget for my office (excluding debt service) is quite small. As a courtesy, I was extended the chance to make brief remarks to the JFC, but I demurred, knowing that I would be able to submit something more complete in the fall.

While the JFC has not seen our first Report Card, I attach the proposed draft for you here to consider. Note that it is still undergoing revision as we speak and that I have not included the appendix that provides for each metric a detailed explanation and rationale, shows the calculations and identifies the sources of data. If you want to get into the weeds, I will be posting the full report on the State Treasurer’s website when we make our budget submission this fall.

## Wrapping Up

Our path to becoming a performance-driven organization has just begun, and, as noted throughout does not end but rather continues to evolve and improve. As I write, we are in the process of combining the exercises of devising more granular performance metrics with the development of next year's personnel plans.

Next year's individual employee plans will rely less on achieving a prescribed set of priorities and more on improving a specific set of performance measures. In effect, we want to supply employees with a target for the ends and let them figure out the means. This can only happen successfully when individual interests and organizational goals are aligned around performance. I think we are there.

That said, when I decided to run for State Treasurer, I had no idea I would spend this much time focused on metrics and personnel. However, a major part of my message as a candidate was that I was more concerned with fixing existing processes than inventing new programs.

As a finance professional, my attention has always centered on the systems that inform us as to the prioritization of our collective resources, hold us accountable for the outcomes associated with their allocation and ensure that the whole operation is sustainable over the long term. The shorthand that I have used then and since is that my mission is to bring transparency, accountability and certainty to all of our financial operations.

When I initially gave that pitch to friends and acquaintances, I generally got one of two reactions. The positive response took the form of a complimentary statement, such as "awesome – we need people with your background." The negative feedback was almost always posed as a question, some variant of "why the heck would you want to do that?," often with an expletive substituted for "heck."

The naysayers were not questioning my motives, but were instead expressing a pessimistic view that I would be wasting my time or subjecting myself to fruitless frustration. A little probing elicited an almost verbatim response from all of them: "the system is broken." To which I have always replied, "then why don't we fix the system?"

While I may be fairly accused of being the type to see the glass as half-full, fifty years on the planet has shown me that people and organizations respond to incentives. If you can get the incentives right, then good results often follow.

Machiavelli notwithstanding, "a new order of things" is possible. Results matter. Organizations, including our state government, that put their emphases on measuring performance and motivating people can achieve them.

**Office of the State Treasurer**  
2016-2017 Performance Plans Progress Report

<b>Evaluation Type:</b>	Mid-Year Review As of: 3/30/2017
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<b>OST</b>
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#	Percentage of Completion			
	<25%	26%-50%	51%-75%	>76%

Performance Ratings					
D	EE	ME	NI	U	Total

**Goals**

Near-Term  
% of Total

121	34	28	14	45
100%	28%	23%	12%	37%

0	1	96	16	8	121
0%	1%	79%	13%	7%	100%

Full Year  
% of Total

82	42	23	4	13
100%	51%	28%	5%	16%

0	0	66	5	11	82
0%	0%	80%	6%	13%	100%

**Areas of Development**

Near-Term  
% of Total

54	8	36	10	0
100%	15%	67%	19%	0%

0	1	39	9	5	54
0%	2%	72%	17%	9%	100%

**Total**

Goals & Areas of Development  
% of Total

175	42	64	24	45
100%	24%	37%	14%	26%

0	2	135	25	13	175
0%	1%	77%	14%	7%	100%

Employee Avg.

10	2	4	1	3
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0	0	8	1	1	10
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Evaluation Criteria
Period: Mid-Year Review
Include Near Term Initiatives: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Include Full Year Initiatives: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Include Second Half Initiatives: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Include Long Term Initiatives: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Evaluation Periods	
Periods	Mid-Year Review: Progress between Oct-Apr Periodic Review: Progress between Apr-Oct Full-Year Review: Progress between Oct-Sep
Near Term	Initiative should be completed by the mid-year review (in April).
Full Year	Initiative should be started or in process in the first half of the year and completed by the end of the year (between October and September).
Second Half	Initiative should be initiated and completed in the second half of the year (between April and September).
Long Term	Initiative should be started and in process during the year but not expected to be completed within the year.

Performance Ratings	
<b>D</b> Distinguished	Employee produces exceptional or commendable work in multiple responsibility areas on a consistent basis, and at least meets expectations in all other areas. Usually recognized by peers, internal and external leadership as a major contributor or expert in the field.
<b>EE</b> Exceeds Expectations	Employee exceeds standards set for one or more major responsibility areas and at least meets expectations in all other areas. May sometimes produce exceptional work in one or more areas.
<b>ME</b> Meets Expectations	Employee meets standards set for all major responsibility areas without notable exception; but may infrequently exceed or fail to meet standards in one or more major areas.
<b>NI</b> Needs Improvement	Employee fails to meet standards consistently in one or more areas of responsibility despite sometimes achieving or even exceeding standards in other areas. Opportunities for improvement have not been sufficiently met.
<b>U</b> Unsatisfactory	Performance in one or more major responsibility areas is chronically deficient. Employee has been unable or unwilling to meet minimally acceptable performance expectations in one or more areas despite being given opportunities to improve.

## Office of the State Treasurer

### CY 2016 Report Card

<b>Grading Key</b>	<b>Improved</b>	<b>Stable</b>	<b>Declined</b>
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#### **Part I. Delaware's Money – Cash and Debt Management Report**

The Office of the State Treasurer (OST) manages the disbursement and collection of state funds, arranges the banking services that enable such transactions, reconciles the balances in state accounts, and oversees the investment of the State's cash on hand. OST also shares responsibility with the Division of Revenue for the issuance and servicing of the State's debt, and the State Treasurer serves as one of four Bond Issuing Officers. The following metrics are designed to track and promote progress in these areas.

Cash & Debt Management Metrics	CY2015	CY2016	CY2017	CY2018
Investment Return	.76	1.26		
Banking Efficiency	\$0.11	\$0.10		
Transactional Productivity	\$1.66	\$2.00		
Debt Feasibility	AAA (3)	AAA (3)		

#### **1) Investment Return: Improved**

Investment Return improved due to technical changes to the State's guidelines implemented in 2015 that allowed for greater diversification, investment in less over-bought areas of the credit market and implementation of strategies that assume a measured but certain path to rising short term rates. An ongoing review of the State's operational cash requirements is expected to result in changes to the portfolio architecture that will improve Investment Return by focusing on better liquidity management. The changes will not involve the lessening of current, stringent security requirements for the investment of state funds.

#### **2) Banking Efficiency: Improved**

Banking Efficiency improved slightly due to a variety of factors. For instance, small gains attributable to newer technologies that lower unit transaction costs and the time for reconciling deposits (e.g., Remote Check Deposit) were offset by a greater volume of inter-bank transactions. These off-setting gains and losses are representative of the balance that OST seeks between the need for flexible services that meet the various demands of agencies and the efficiencies that come from scale. A comprehensive review of the State's overall banking architecture using an outside consultant and an inter-agency task force is currently underway. This exercise is expected to improve Banking Efficiency while simultaneously achieving higher levels of both service and security.

#### **3) Transactional Productivity: Improved**

Transactional Productivity improved as a greater volume of transactions was handled by the same number of OST staff. This improvement occurred even as more senior personnel retired or resigned and were replaced by more junior hires or existing employees. An emphasis on engaging technology and enhancing personnel skills and training are anticipated to increase efficiency and allow for greater improvement in Transactional Productivity.

#### **4) Debt Feasibility: Stable<sup>1</sup>**

Delaware's Debt Feasibility remained stable with all three major rating agencies issuing the State the highest possible certification of creditworthiness. During 2017, OST has initiated plans with the Department of Finance to prepare a Debt Feasibility Study aimed at better informing policymakers as to the outlook for the State's

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<sup>1</sup> OST does not manage the State's budgeting or revenue collections; nor does it have control over the capital appropriation process by which debt-financed projects are selected. The Office does participate in the new issuance process led by the Department of Finance and manages all aspects of the servicing of the State debt. In addition, the State Treasurer serves as one of four Issuing Officers for the State of Delaware with consent over debt issuance.

maintenance of the highest rating for its debt. In addition, the study will examine the State's debt policy to ensure that use of the State's borrowing capacity is being optimized to meet capital requirements over the long term.

## **Part II. Your Money – Retirement and College Plans Report**

OST administers the deferred compensation programs for state employees and education professionals and has oversight for the administration of Delaware's 529 College Savings Plan. In addition, OST has recently been asked to develop a program to implement Delaware's ABLA statute for persons with disabilities. All of these plans are tax-advantaged, voluntary savings vehicles that do not involve state monies. The following metrics are designed to track and promote progress in these areas.

Retirement & College Plan Metrics	CY2015	CY2016	CY2017	CY2018
Retirement Readiness	n/a	n/a		
Retirement Participation	n/a	36.8%		
Retirement Return	n/a	n/a		
College Rating	Neutral	Bronze		

### **1) Retirement Readiness: Unavailable**

Retirement Readiness is a new metric that was not available for calculation under the prior plan structure. A complete overhaul of the State's retirement plans during calendar years 2015 – 2016 has resulted in a single plan structure for all state employees and teachers and a renewed focus on preparing participants for retirement (as opposed to simply offering a benefit). Promotion of Retirement Readiness will begin in 2017 with an emphasis on greater one-to-one counseling and use of state-of-the-art online planning tools.

### **2) Retirement Participation: Stable**

Retirement Participation remained stable at roughly 37% under the legacy plan architecture. As noted above, the State's deferred compensation plans underwent a substantial restructuring and strategic shift over the past 18 months. In 2017, a number of targeted campaigns will be launched to increase Retirement Participation. Outreach will be focused on increasing awareness of the plans and educating participants as to the need for supplemental savings to augment pension and social security income.

### **3) Retirement Return: Unavailable**

Retirement Return is a new metric that was not available for calculation under the prior plan structure. Beginning in 2017, the metric will reflect performance of the plan line-up approved by the Plans Management Board with the assistance of an independent, outside consultant.

### **4) College Rating: Improved**

College Rating improved as Delaware's 529 plan was upgraded by independent rating agency, Morningstar, Inc. The upgrade was based on several factors: implementation of lower plan fees, maturation of the plan's active asset allocation model, and recognition of improved plan oversight. During the second half of calendar 2017, OST will be conducting a comprehensive RFP that will emphasize improvements to Delaware's plan offering designed to increase College Rating.