

# 25-04-18 TheBuzz web

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Arizona State Treasurer, Kimberly Yee, state budget, local government investment pool, financial literacy, Arizona 529 Education Savings Plan, financial education, market volatility, investment strategy, fiscal responsibility, public schools funding, state land trust, economic resilience, financial management, senior citizens.

## SPEAKERS

Christopher Conover, Michael Dauphinais, Kimberly Yee, Tanya Mosely, Nicole Cox

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Michael Dauphinais 00:00

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Christopher Conover 00:09

Welcome to The Buzz. I'm Christopher Conover this week, state treasurer, Kimberly Yee, if Arizona were a private entity, its roughly \$18 billion annual budget would likely make it a fortune 500 company, and that doesn't include other money that the state has that it invests. The job of overseeing more than \$60 billion of public money is the responsibility of the state treasurer's office, a position that, just like other executive level officials in Arizona, is elected every four years. The past two times, Arizonans have voted on who should hold that office, the winner has been Republican Kimberly Yee. Yee's time in the treasurer's office began nearly two decades ago, when she was the communications director, the process of how she eventually went from spokesperson for the treasurer to the Treasurer herself is where our conversation starts.



Kimberly Yee 01:11

I think that's the best experience, is really understanding the work of the Arizona treasurer's office from again, it was so many years ago, 18 years ago, I believe I was a staff member in the Arizona treasury. My job was the Director of External Affairs and legislative affairs, and to now be in the position of the elected statewide office holder as the state treasurer. Running this office is truly a blessing, but it certainly has given me the experience to be able to understand all facets of the job and all of the divisions within this office which makes it work, and I think that's where you see our historic record performance in so many different ways. It's because we really hit the ground running from day one.

**C** Christopher Conover 01:54

Everybody sees every four years on the ballot, the Office of the treasurer. Anybody who's been in a club. Knows what the club treasurer does? I have a feeling this job might be a little bit bigger than that. So can you explain to the audience what does the treasurer's office do?

**K** Kimberly Yee 02:11

Yes, the Arizona State Treasurer is Arizona's chief Banking and Investment Officer, and I manage \$64.7 billion in the cash flow that comes in and out of this office. Those dollars go to our state agencies, to our school districts, to our local municipalities all across the state we manage the investments of our local governments. It's an optional program called the local government investment pool, and on day one of my administration, I thought, well, you know, simple math tells you that if you grow the local government investment pool, there is greater amount of funds available for those local municipalities on the returns. So I went across the entire state of Arizona, all 15 beautiful counties, to really increase our participation so that pool would grow with our local governments. And we have seen enormous growth. We've had about 143% increase in the local government investment pool, so the value of that pool is now just under \$8 billion

**C** Christopher Conover 03:12

And just so people understand, the local government investment pool is local dollars, county level, city level, and you're just managing it so they don't have to worry about

**K** Kimberly Yee 03:22

right? So rather than sitting on that money overnight, we're investing it, and we're investing it with other local governments, whether they are small little towns across Arizona to larger counties, all of that. We even do tribal governments in that mix. And it's always a philosophy of safety before liquidity, before yield, and when we invest these dollars together, all of these local governments are getting more money on the money so that they can produce more in local transportation needs, in education, infrastructure, all of those are so important today. But the best part is when I get calls from our local residents and they say my taxes went down because your investments went up. So thank you

**C** Christopher Conover 04:04

talking about taxes, you've been treasurer both before and after Arizona's flat tax was implemented. How has that changed the state's financial well being?

**K** Kimberly Yee 04:17

We've considered so many different aspects of where we are in terms of our revenues, whether it was before the flat tax to today, we've also taken a look at where our GDP was prior to

COVID, to during COVID, to after COVID, and we have hit records entirely along the way. In fact, we remained a resilient economy here in Arizona through all of those interesting changes that we certainly didn't expect during the months of COVID. So much so that other states were watching our dollar grow in that period of time to record earnings, and we got calls from other states saying, What is your secret sauce? First of all, our economy continues to. Maintain really strong pro growth stance where we have seen many states really decrease in their revenues. I believe that our business and infrastructure that we've built here in Arizona continues to allow us to grow those revenues, even while we have maybe a few less dollars on the operating side, because some consumers are not spending as much with inflation and other things. But if you take a look at state by state, Arizona is doing quite well,

**C** Christopher Conover 05:28

people from both parties in the legislature saying we should either continue drawing funds from the state land trust to pay for education and a number of other things that that that fund pays for, or maybe we should even up the rates before we get into whether those are good ideas or bad ideas, just so people understand what is that fund?

**K** Kimberly Yee 05:52

The Arizona permanent land Endowment Trust Fund has been around since we have created This Investment Authority so that whenever state land is sold, we take the proceeds of the state land sales and we invest those funds. And the local government investment pools as well as this particular permanent land Endowment Trust Fund, are all managed within the Office of the Treasury, and we have seen the value of the permanent land Endowment Trust Fund grow to above \$9 billion under my administration, what we have done is we've maintained great investments so that the beneficiaries of the permanent land Endowment Trust Fund, there are 13 of them, Receive the maximum amount of dollars for our investments. Just to give you an example of how much the permanent land Endowment Trust Fund provides for K through 12 public schools. It's 93% of the total fund that's significant, and so in this fiscal year alone, K through 12 public schools will be receiving \$450 million in this permanent land Endowment Trust Fund, and that goes to our public schools across the state. That is huge. As they talk about extending Proposition 123, because its expiration date is coming. The big question on the table is, what is that rate going to look like in terms of the distribution? What does that mean? It means that's the money that is pulled out of the trust fund. And as you remember, 10 years ago, it was quite the conversation, very controversial, because the conversation is always about the long term fund and making sure you don't break into the corpus or the principle of the fund. Why? Because this fund is here forever more. It's in perpetuity, and so you don't want to have to rate it to pay for today's bills. That's not the intent of this fund. My recommendation is between four to 4.5% of distribution. Why? Because that is the industry norm, and an endowment similar to our State's land endowment. Currently it's at 6.9% that's where the controversy came 10 years ago, and today it remains, because that is high for a market that we're in currently, there's market volatility, there's great uncertainty in what will happen in the near future. And so we don't want to break into the principle of this fund. And so my responsibility as the treasurer is to really give the legislature and the governor and the people of Arizona what does that number look like in a responsible way, and so I'll maintain the four to 4.5% distribution rate recommendation. Again, we have looked at Wall Street and all of their

market recommendations for similar endowments across the country. Colleges and universities across the country have endowments. They never go above 4.5% so it's very important for us to maintain this consistency, but also the safety for the taxpayer.

**C** Christopher Conover 08:43

With all of that being said, everybody wants to fund education. You were in the legislature before you'd come back to this office as the treasurer, do you want to put your legislative hat on and venture into the fray of how can we better fund education?

**K** Kimberly Yee 09:01

It's very important that we fund K through 12 public schools, and I'm the daughter of a public school teacher, so I know full well the needs, not only of the classroom, but certainly as a parent today, what those needs are for families who are struggling to make ends meet and making sure that they have what is available for their child in that great school. In my past, I wore the hat of majority leader. They have to manage the budget, and they have to balance that, and they also have lots of responsibilities in funding really important programs. Public schools are part of that discussion. And so one of the things that I have certainly lived through as a former legislator and see today in the current structure that we have is we're always fighting about public schools, and it really shouldn't be a partisan issue. It's about the kids. And so for me, it's always, you shouldn't take a look at rating something to pay for the needs of what should have been paid for yesterday, because it really should be a long term project, right? If you have a Family Fund, and you know. That you have a child living in your home from age zero to 18, you have a pathway for them, and you prepare that pathway along the timeline that you know will be available. Well, we're going to have public school kids here for a long time, so we really have to look at a long term funding structure that will maintain not only the needs for those public school teachers, as well as to the families that shouldn't have to be buying supplies for the classroom that really should be part of the structure of our government to provide those for our schools.

**C** Christopher Conover 10:31

Let's stay on schools for a second. A little different. It's not the trust fund, but the Arizona 529, savings plan is something that you've been a strong backer of as a way to make sure families have money for their kids to go to college. How's that fun doing? Because you oversee so much of that.

**K** Kimberly Yee 10:52

Also, the Arizona 529 Education Savings Plan started about 25 years ago, and it was housed under a post secondary education commission, a tiny little bureaucratic office that no new parent would Google and find. And so as the state treasurer in 2019 I started going to national conferences of state treasurers, and learned very quickly that over 50% of state treasurers run their five to nines in their states. And so immediately upon coming back from that conference, I asked the legislature and the governor at that time to move the five to nine plan to the office of

the Treasury. It was 2020 and they actually moved it over. And I asked if we could change the name from the college savings plan to make it more general to Education Savings Plan. Why? Because college is not going to be for every family, and I really wanted to emphasize this program to be a plan for those who want to go to vocational school or apprenticeship programs, workforce training, all significant higher education opportunities of course, in addition to college and universities. And so we changed the name to Education Savings Plan. And we also have ensured that this isn't just for that high income family because they already have multiple investment portfolios. I wanted this to be for every family to have an opportunity to save even as little as \$15 a month. This plan is not just for parents opening it up for their newborn child. It can be for a grandparent who learns about this later on, and they can open it for any age of their grandchild, or an aunt or an uncle providing this for their niece or nephew. And we have seen even adults creating a plan for themselves, and they get a \$2,000 tax deduction if they're a single filer, or a \$4,000 tax deduction as a married couple. What's so great about this is these funds grow tax free. You get the tax incentive by the tax deduction that you are provided in Arizona. But just in case, you don't know what your child will do when they grow up and they don't use all of the funds you have provided for them in that account, you can transfer \$35,000 into a Roth IRA retirement fund. And that is significant, because everybody needs a retirement fund.

C

Christopher Conover 13:05

You're listening to The Buzz. Our conversation with Arizona State Treasurer Kimberly Yee continues after the break. Stay with us.

T

Tanya Mosely 13:17

This is Tanya Mosley, co host of fresh air. You'll see your favorite actors, directors and comedians on late night TV shows or YouTube. But what you get with fresh air is a deep dive. Spend some quality time with people like Billie Eilish, quest love Ariana Grande, Stephen Colbert and so many more. We ask questions you won't hear asked anywhere else. Listen to the fresh air podcast from NPR and wh y of

C

Christopher Conover 13:47

Welcome back to The Buzz. I'm Christopher Conover. We're chatting with Arizona State Treasurer Kimberly gee this week, that conversation continues. So talking about retirement funds, you mentioned, the stock market volatility earlier, that could be one of the great understatements. It's been a scary roller coaster. What's your office's investment strategy to make sure that the money you are stewarding is still there and is growing right?

K

Kimberly Yee 14:20

Well, we are certainly in a market that is uncertain, and we shouldn't be surprised at that. And so our office maintains safety before liquidity, before yield in every investment. That is our philosophy. So we are prepared for any day. In fact, we do a stress test regularly to allow for us to put into scenarios where our money would be in any given point of time, so we will know

what our liquidity is and what our needs would be to the point of XYZ, whatever month that takes us to. And at this point in time, we are just fine for over two years. If we were to be in a real crisis, we also make sure that our investment. Are good. And so that means the companies are strong, those who we put in our portfolios. And how do we do that? We take a look at what our companies look like. We will scrub those companies. We will see where they are going, and if they look like they're sort of going south. We reduce our exposure, and we oftentimes do that before the real market actually sees it. And so we have had a great history of making sure that our performance is strong, but also really making money when other states are losing money. We also make sure that we have safe investments. So these are US based companies that are proven record earning, corporations that will grow the tax dollar.

**C** Christopher Conover 15:39

Are there any legal restrictions on what the state can and cannot invest in.

**K** Kimberly Yee 15:45

We have to make sure that these are based on US companies. We personally have a board of investment here at the Arizona Treasury that takes a look at all of our portfolio every month. We have this as a public meeting to show what we are investing in. We also have guidelines on what the legislature, you know, allows for us to invest in. And of course, when we are fiduciaries of the Arizona taxpayer dollars, we are making sure that the corporations in which we invest in are going to be money makers. And so all of those things put into play really have created a really great internal investment team of individuals who really know how to navigate our dollars. And we have seen that we have actually made \$4 billion in the time I've been state treasurer. That's new earnings, and the distributions have gone out to the state taxpayers, more money for the general fund to allow for these expenses to be paid, as well as for us to take a look at, you know, how can you make money on the money? And we really have never seen record performance like this in Arizona's Treasury history before.

**C** Christopher Conover 16:54

When you mention some of the things you look at in a company, obviously, that you're going to invest in, you want a profitable company, as you said. But there are some, I guess we'll call them moral restrictions, that people investing their own money think, wow, it used to be tobacco stocks. Those were gold. But I don't want to support the tobacco industry, or maybe somebody doesn't want to support the defense industry or something. Do those types of discussions about what the companies do factor in also?

**K** Kimberly Yee 17:25

we always want to take a look at what the performance of that company is. So we always take into consideration the pecuniary factors of what our investments look like, and that is our responsibility. So taking into consideration what a personal investor takes a look at. They can do that on their own time, but these are taxpayer dollars, so we really have to maintain safety first. And again, it goes back to our philosophy of safety, before liquidity, before yield that

allows us to maximize our investment performance based on the corporations that we have selected, and again, we take a look at corporations and their strength and the amount of money that will be returned on those investments, and those are really things that our office has had a history of doing, and we'll continue to do that.

**C** Christopher Conover 18:12

Earlier this year, you sent a letter to the head of the Arizona House Appropriations Committee explaining that your office does not investigate instances of missing or misplaced money. Do you think that should be something the treasurer's office should do, or is it properly placed with the Auditor General and the Attorney General?

**K** Kimberly Yee 18:30

Well, there certainly has been a discussion in terms of where does money go once it goes into the hands of the executive branch under the governor's jurisdiction, and they are specifically talking about agency expenditures. Well, from the treasurer's perspective, we are the state's bank, so we roll money in and we distribute it out, just like your local bank. Your local bank is not going to ask you, how did you use the money that you just withdrew. Same thing with our office. And so from that perspective, I did give a stern letter to the appropriations committee earlier in this legislative session, because I don't have the responsibility. It's not in the constitution for me to take a look at those expenditures, but it's their job to ensure that what money is authorized and distributed from the legislative authority needs to be checked. It's called checks and balances between the legislative branch and the executive branch. Now my office can certainly provide to them that guidance and advisement, but really it is the legislature that should determine whether or not the governor has requested those funds in the prior fiscal year and is using those funds as they were authorized. In this case, that is a question on whether or not the monies used were authorized. I believe the monies were not authorized, and now they are asking for a reimbursement. In that case, certainly the auditor general's office can come in. But again, those were what I put into the letter to really. Fiscal responsibility. You can never spend more than you make.

**C** Christopher Conover 20:03

Let's come back to education and money. Since we're in the treasurer's office, one of the things that hasn't been part of the treasurer's office until you became very vocal about it, was fiscal financial education. Why get in on that bandwagon?

**K** Kimberly Yee 20:21

It's certainly a passion of mine to advance the awareness and knowledge of financial education, otherwise called financial literacy. And I'll tell you, when that started, I was working for the former State Treasurer Dean Martin, literally, a couple decades ago, and I walked into university orientation where I would speak on the topic of smart money management. And as I was walking into my session, I saw one table with a credit card company signing up multiple students for a credit card, and then that student walking over to the second table, which was a

credit card company signing up for their second credit card. And as they walked into my session, I said, raise your hand if you just signed up for your first credit card. All of the hands were raised. Second question, how many of you have ever had a financial education course in high school? And those hands were not raised. And I knew immediately that we had a lot of work to do. So while I served in the state legislature, I advanced really that understanding for students to be able to know and do simple financial skills. I added that to the Arizona academic standards, K through 12 in a meaningful way per grade level, so that kids understand those simple concepts of basic money management. As the state treasurer, it has been a key part of my platform to go around the entire state talk to students about really being smart about their savings, Smart Money management when it comes to spending, but also setting aside money to share for those who are in need. And that really has been something that I wanted to preserve in this office. I am the first treasurer to do this, but we actually asked the legislature to put it in the role and responsibilities of the Arizona treasurer, so that when I leave this office one day this will continue on as a legacy piece, because it's so important, I believe that there's a direct correlation between how an individual and family manages their money to the greater fiscal health of the state of Arizona.

C

Christopher Conover 22:11

We hear in Arizona when it comes to financial literacy, a lot about scams, be it scams going after our senior citizens or just everybody every day. Is that part of financial literacy, being able to recognize and boy, some of them are getting really good, but being able to recognize what a scam is and what isn't.

K

Kimberly Yee 22:32

Yes, our financial education partnership is really what I built for the financial literacy Task Force. These are individuals I put together on day one to really help me navigate that in all of these areas, not just for kids, obviously, K through 12 education is very important for financial literacy, but just exactly how you would share this with an older person from our senior citizen communities who might be subject to, you know, fraud and scams out there. And we also have veterans as well as the military families around our table, as well as those vulnerable families, those who are on government subsidies, who really need that fiscal understanding so that they really might stay off that welfare program. What we did immediately in 2019 was to create a bill that would allow for students in high school to have a financial education course within their economics requirement in high school, so they have to take that in order to graduate. And taking a look at those adults in our system, many of our individuals who are on Temporary Assistance for Needy Families, otherwise known as welfare. They have been in generations of welfare, and we don't want that to continue if they don't have those basic skills on financial education. So I worked with the Department of Economic Security to create a bill that would allow for those who are on our workforce training programs on welfare to be able to have financial education as one of their options when they take a look at their menu of workforce skills.

C

Christopher Conover 24:08

So 2026, is an election year. You're coming into the last half now of your of your final term due to term limits. So what's on the agenda for the treasurer's office, is there any big thing that



you've wanted to do for not quite eight years, but by then, eight years that you haven't gotten done yet? What's the big thing?

K

Kimberly Yee 24:32

There is so much that we can continue to do even beyond the time that I will serve as the state treasurer of Arizona. It has truly been a blessing, not only to be a part of this office as a staff member so many years ago, but to continue that service in these last two terms that I have served. And what we can continue to do is really advance that awareness of really good money management, because that's going to continue throughout our state, helping families understand money in a meaningful way where it's not intimidating, so that we can. Really help those who really didn't have that background to navigate what this means for them and for their families, also to be able to talk about finances in a very simple way. That what we have done is we've really increased our social media presence. And so you can define so much in just photos and pictures. And so when we talk about workforce and workforce skills and the need for saving for that higher education plan, we'll put pictures of welders, because we know that Arizona has a shortage of workers in the welding area, and not just, you know, keeping that at, you know, the the individual student, but really taking a look at senior citizens. There are so many here in Arizona who really need to take a look at where their money is going, oftentimes on just a single income. And so those are some things that we've started. They will continue even beyond my time here in this office. But we really want to maximize the dollar and really continue that strong performance that we've seen in these last seven years. So

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Christopher Conover 26:02

as we've mentioned, your treasurer now statewide elected official. You were in the legislature. You looked at a run at governor for a while. So what's next, if you care, to tell us for Kimberly Yee, once you're out of this office?

K

Kimberly Yee 26:16

Well, it truly has been a blessing to serve the people of Arizona. I was born and raised in the state, and I, you know, I come from a family of small business owners. My grandparents had a little grocery store in South Phoenix back in the 1930s and it stayed successfully on that little corner for 63 years. And it really is about that customer that we had for who came in and out of those doors. They were like family. Same thing in public service. You serve the people, and you want them to, you know, understand that you are doing this for the people, and you earn their vote along the way. And so in the time that I've served in the legislature and now as state treasurer, it really has been meaningful to me to see that we have really improved the lives of so many with really good policies. And so I want to continue that work in some way. I want to continue to serve in a statewide capacity so that I will be able to, you know, really give back to the state that gave me so much.

C

Christopher Conover 27:10

All right. Well, thanks for having us up to the Capitol. Appreciate it.



Kimberly Yee 27:13

Thanks for coming by.



Christopher Conover 27:14

That was Arizona treasurer, Kimberly Yee, and that's the buzz for this week. You Zac, you can find all our episodes [online@azpm.org](mailto:online@azpm.org) and subscribe to our show. Wherever you get your podcast, just search for the buzz Arizona. We're also on the NPR app. Zac Ziegler is our producer, with production help from Maggie farmer, Our music is by enter the haggis. I'm Christopher Conover, thanks for listening.



Nicole Cox 27:57

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