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## HOUSE APPROPRIATIONS

### SUBCOMMITTEE ON PUBLIC SAFETY AND ADMINISTRATION

**MARCH 3, 2010**

#### **TESTIMONY OF STATE TREASURER NANCY K. KOPP**

Good afternoon, Chairman Clagett, and members of the committee. I am pleased to appear before you today to present the State Treasurer's Office's proposed budget for 2011. As usual, the Department of Legislative Services, and particularly Mr. McCulloch, has done an exceptional job in this analysis of the budget.

I would like to update you briefly on a few of the significant accomplishments of the Treasurer's Office during the past year:

**Debt Management** – As you are aware, Maryland continues to be one of only seven states with the highest possible rating of AAA from all three bond rating agencies. This rating was just reaffirmed by the bond rating agencies for the 2010 First Series General Obligation Sale which took place on February 24<sup>th</sup>. The sale consisted of \$400 million, 2010 First Series A, Build America Bonds with a True Interest Cost of 2.85%. By issuing Series A as Build America Bonds instead of as traditional tax-exempt bonds, the State realized approximately \$11.2 million in present value savings. The 2010 First Series B, Refunding Bonds in the amount of \$195.3 million had a True Interest Cost of 2.97% and the State achieved approximately \$8.6 million in present value savings.

As a result of the State's exceptional ratings and the strong demand in the market for Maryland bonds, in Calendar Year 2009, the Treasurer's Office completed six different bond sales and the year was full of many noteworthy firsts as noted below:

**First issues of Build America Bonds (BABs):**

2009 Second Series C - \$50,000,000

2009 Third Series B - \$58,200,000

**First issue of Qualified School Construction Bonds – (QSCBs):**

2009 Qualified School Construction Bonds - \$50,320,000

**First sales giving priority to Maryland citizens to buy GO bonds in three retail sales:**

2009 First Series A and B - \$291,580,000  
2009 Second Series A - \$235,000,000  
2009 Third Series C Refunding – \$107,530,000 (a)

**Development of a website for retail investors:**

[www.buymarylandbonds.com](http://www.buymarylandbonds.com)

**First issue using negotiated method for entire sale:**

Third Series C Refunding - \$602,765,000

**Largest amount and number of issues:**

11 different Series totaling \$1,834,448,000  
\$ 668,565,000 refundings  
\$1,165,883,000 new money

**Lowest overall TICS (True Interest Costs) for new money in at least 20 years**

2009 1<sup>st</sup> Series - 3.52%  
2009 2<sup>nd</sup> Series – 3.06%  
2009 3<sup>rd</sup> Series A and B – 2.93%

(a) The total size of the 2009 Third Series C issue was \$602,765,000 of which \$107,530,000 was sold to retail customers.

**Investments** – The par value of the General Fund investment portfolio for January 31, 2010 was \$6,303,806,539.39 as compared to January 31, 2009 when it was \$6,786,642,020.71. This is a reduction of almost \$483 million dollars. On January 31, 2010, the portfolio was earning an average of 1.691%, compared to 2.544% for the same date in 2009. This much lower return reflects the impact of the Federal Open Market Committee maintaining the Federal Funds Target rate at .25% or less since December 16, 2008 and the change in portfolio strategy to keep more funds liquid due to unpredictable and volatile cash flows.

The General Fund gross interest earnings received year-to-date for FY 2010 were \$50,382,784 as compared with \$79,012,952 received for the same time period in FY 2009. The \$28 million plus decline in interest received is directly attributable to the fact that FY 2010 had an average \$1.2 billion less daily to invest – a reflection of reduced State revenue – in addition to the much lower interest rate environment.

The securities lending program continues to provide additional revenue. The program has earned \$91,985 so far in FY 2010. This compares with \$300,440 for the same period in FY 2009. Much of this reduction is due to the Federal Reserve and Federal Treasury

programs to aid liquidity in the financial markets which drastically reduced borrowers' need for the securities in the State's portfolio.

The Office continues to increase MBE participation in the investment of State funds. Sixteen MBE broker/dealers are on the Office's approved list for FY 2010 and they have handled investments in excess of \$425 million so far this year.

The Maryland Local Government Investment Pool has maintained its AAAM rating through all of the turbulence in the money markets. The balance January 31, 2010 was \$3,296,777,455 compared with \$3,083,029,558 for the same date in 2009. This is an increase of over \$200 million dollars.

The Office continues to invest according to the officially adopted State Treasurer's Investment Policy, which sets out investment goals, priorities and constraints. The overriding goal is to assure sufficient liquidity to maintain uninterrupted funding of State government. The Office continues to review and compare our cash management and investment policies and practices with those of peer AAA rated states to ensure best practices.

**Banking** – Maintaining a timely and accurate cash reconciliation continues to remain the Banking Division's main focus, and has proven critical in the timely identification and resolution of potential discrepancies and banking issues. Current highlights include:

- Total cash receipts and disbursements each reached \$116 billion for FY 2009.
- The State's bank accounts continue to be reconciled daily to the State's general ledger within 4 days (and in many cases within 3 days), with no unreconciled differences.

The Division is continually developing a more automated environment to enhance the current tracking, processing and reconciling of all bank related transactions with a primary focus on enhancing the ability to recover in the event of a disaster and to change banks if required by market conditions or the procurement process.

They have also commenced development of a new master bank account database to replace the current Bank Account Information System maintained by the General Accounting Division. The new system will allow for a more efficient set-up and approval process for agency bank accounts as well as enhanced automation of the management and control of the State's bank accounts, including the collateralization of State funds.

Over the past year, the Division has also worked closely with various State agencies to enhance revenue collection processes, convert various routine payments to electronic

payment, and specifically with the Metro and Lightrail Systems to launch credit card acceptance programs. In addition, the Department of Labor, Licensing and Regulation's accounting office has recently begun the use of our depository bank's remote deposit product, resulting in significant cost savings through the elimination of armored courier services. We are enthusiastic to be actively working with agencies to develop and strengthen their internal processes and to promote efficient and cost effective banking services.

**Insurance** - The Underwriting Unit procures broker services for the purchase of commercial insurance to protect the State, or as otherwise required for certain coverages with high loss potential that are not self-insured. The Underwriting Unit was very successful this past year renewing several policies with a reduction in premium as outlined below:

- The MPA's liability policy was successfully renewed in FY 2009. Although MPA receipts were up 4%, **the rate decreased 39% for an annual premium savings of approximately \$431,900.**
- The UMB Dental School liability policy renewed in FY 2009. Although the number of patients had increased by 23%, **the rate decreased by 35% for an annual premium savings for UMB of \$44,117.**
- The MTA rail car coverage was renewed this year with a **34% rate reduction and savings of \$214,253.** This renewal added coverage for domestic and foreign terrorism and flood with a \$10,000,000 sub limit. Thus, there were significant coverage improvements with the premium savings.
- The Excess Property coverage for State-owned buildings, contents and data processing equipment renewed in April, 2009. In a market where pricing is hardening and rate increases are typically 0 – 12%, **the State rate decreased 7.5% for an annual savings of approximately \$111,036.**

The Office's Loss Prevention Unit has continued conducting comprehensive reviews of State agencies' loss histories to identify problem areas and to help those with high severity claims and/or high frequency claims take corrective measures to significantly reduce the losses to State owned buildings and contents. Upon identifying agencies with above average claims frequency and severity, the Loss Prevention Manager meets with State agency risk managers to discuss the analysis performed and possible improvements. For example in the area of Boiler and Machinery, in FY 2009 and 2010 State agencies **invested approximately \$300,000** to implement preventive maintenance recommendations **which reduced potential loss exposure from approximately \$3.5 million to less than \$100,000.**

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**Budget** – As the State continues to face the most challenging fiscal times in decades, the Office has continued to do its part to help keep the budget in balance. While the Treasurer’s Office was comprised of 64 staff members at the beginning of FY 2009 that number has been reduced to 61 as of December, 2009.

In addition to the abolishment of three positions, the Office has seen operating budget reductions through cost containment of approximately \$920,000 of its Legislative appropriation between FY 2008 and 2010. The Office’s General Fund appropriation has been reduced by approximately \$600,000 between FY 2008 and FY 2010 with the adjusted FY 2011 General Fund appropriation down an additional \$92,000. The Office also saw fund balance transfers of approximately \$17 million since the beginning of FY 2009. While the majority of the transfer was taken from the State Insurance Trust Fund, I’m pleased to report that the fund remains actuarially sound, due in large part to the efforts of the Insurance Division as noted above.

While these reductions have been difficult, we continue to be both a partner and reliable resource to State agencies and local governments. Given the fiscal crisis shared Statewide, employees within the State Treasurer’s Office are achieving more with less. I am very proud of the budget that we have submitted for Fiscal Year 2011, along with the concessions that we have offered over the past fiscal years in assisting the State through these challenging budgetary times.

**As you can imagine, I’m quite proud of our accomplishments and feel confident that we will be sharing more with you next year.**

**Response to Legislative Analyst’s Recommended Actions and Updates:**

**Recommended Actions**

- 1) *Concur with Governor’s Allowance.*

**STO Response**

Office concurs.