

Maryland

STATE TREASURER'S ANNUAL REPORT

2004



Investing for Maryland's Future

2004 Treasurer's Annual Report

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STATE TREASURER

Nancy K. Kopp

nkopp@treasurer.state.md.us

BIOGRAPHY OF THE HONORABLE NANCY K. KOPP, TREASURER OF MARYLAND

Elected in February 2002 and re-elected to a full four-year term in February 2003, Nancy K. Kopp is the twenty-third Maryland State Treasurer since the adoption of the Constitution of 1851. In addition to her responsibilities for managing the Office of State Treasurer and its divisions, the Treasurer, as a Constitutional Officer and a representative of the General Assembly, holds positions of leadership on a number of key State financial planning committees.

Treasurer Kopp chairs both the Capital Debt Affordability Committee and the Commission on State Debt, and is the chief representative of the State in dealing with financial rating agencies and investment banking firms. She also serves as Vice Chair of the Board of Trustees of the Maryland State Retirement and Pension Systems, as Chair of the Maryland College Investment Trust and as a member of the Maryland Supplemental Retirement Board, the Maryland Health and Higher Education Financing Authority, and the Maryland Agricultural Land Preservation Foundation Board. Chief among the Treasurer's responsibilities is her position on the Board of Public Works with the Governor and the Comptroller of the State. This Board supervises a substantial portion of the fiscal affairs of the State - everything from wetlands licenses to construction projects and other State procurements and contracts.

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Treasurer Kopp represented the Bethesda, Maryland area in the Maryland House of Delegates for twenty-seven years prior to her election as Treasurer. As a member of the House of Delegates, Treasurer Kopp chaired the Joint Committee on Spending Affordability, as well as the Appropriations Subcommittee on Education and Economic Development. She also served on the Capital Budget Subcommittee, Subcommittee on Pensions, and Joint Committee on Budget and Audits and, at various times, as Deputy Majority Leader and Speaker Pro Tem. During her legislative career, Treasurer Kopp was named by her colleagues as the most effective woman legislator and one of the ten most effective members of the House.

Treasurer Kopp has been active over the years in a variety of national, regional and state organizations and boards, primarily focused on education and on budget and finance issues. Appointed by President Clinton to the National Assessment Governing Board, which oversees the National Assessment of Educational Progress (the "Nation's Report Card"), she was also the Treasurer of the Southern Regional Education Board and chaired its Commission on Educational Quality. She also served on the Executive Committee of the National Conference of State Legislatures and chaired its Assembly on Legislative Issues and Committees on federal budget issues, state fiscal issues, and capital budgeting procedures. Treasurer Kopp also was Vice-Chair of the National Commission on State and Local Budget and Finance Procedures.

A graduate of Wellesley College, Treasurer Kopp holds a Master's Degree in Government from the University of Chicago. She also has received Honorary Doctorate degrees from Hood College, the University of Maryland at Baltimore, the University of Maryland University College and Towson University. She and her husband, Robert Kopp, live in Bethesda, Maryland and have two adult children.

MARYLAND STATE TREASURER'S OFFICE: HISTORICAL REVIEW

During the exploration and settlement period in North America (1492-1607), European powers competed to settle the New World. England laid claim to large tracts of land along the East Coast and successfully colonized the Chesapeake Bay area. England's first official colony, settled in Jamestown, Virginia in 1607 (the Jamestown Colony), included what we now know as Maryland. In 1632, Charles Stuart, King of England (also known as King Charles I), granted the Charter of Maryland to Cecil Calvert. Calvert was granted extensive autocratic powers over the Maryland colony. Among those powers was the right to appoint government officials.

Soon after his appointment as Governor of Maryland, in 1692, Sir Francis Nickelson appointed Maryland's first State Treasurers. At that time, there were two Treasurers - a Treasurer for the Eastern Shore and a Treasurer for the Western Shore. Maryland's first Treasurers were Colonel William Whittington for the Eastern Shore and Captain Thomas Tasker for the Western Shore. The primary duty of the State Treasurers at that time was to manage and disburse State funds.

The Governor held the authority to appoint State Treasurers for most of the 18th century until it was transferred to the Legislature with the adoption of the Maryland Constitution of 1776.

In 1843, the office of the Treasurer of the Eastern Shore was abolished and its duties assumed by the Treasurer of the Western Shore. The Maryland Constitution of 1851 finally established a single, part-time office of Treasurer for the entire State, elected every two years by joint ballot of both houses of the General Assembly. In 1922, the Treasurer's term was increased to four years. It became a full-time position in 1973.

With the Constitution of 1864, the role of the Treasurer was expanded to include *ex officio* membership on the revitalized Board of Public Works, along with the Governor and Comptroller of the Treasury. Over the years, this role has provided a balance in fiscal management, allowing the General Assembly a role in the management of State funds even when the legislature is not in session.

The Treasurer represents the State with financial rating agencies, conducts outreach with local governments and oversees cash management and other financial practices of State agencies. The Treasurer also keeps legislators informed about the operations of the State Treasurer's Office and other issues regarding the financial operation and condition of the State.

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MARYLAND STATE TREASURERS OF THE PAST

TREASURERS OF THE EASTERN SHORE

1694-1695	Col. William Whittington
1695-1714	Maj. Thomas Smithson
1714-1727	Robert Ungle
1727-1747	Col. James Hollyday
1747-1766	Col. Edward Lloyd
1766	John Leeds
1766-1769	Bedingfield Hands
1769-1775	William Hemsley, Jr.
1775-1777	William Hindman
1777-1778	James Hindman
1778-1779	Edward Hindman
1779-1789	Henry Dickinson
1789-1802	William Richardson
1802-1813	William Chambers
1813-1825	William Richardson
1825-1826	John K.B. Emory
1826-1840	William K. Lambdin
1840-1841	Perry Robinson
1841-1842	John H. Harris
1842-1843	Perry Robinson

TREASURERS OF THE WESTERN SHORE

1694-1695	Capt. Thomas Tasker
1695-1698	Robert Mason
1699-1700	Robert Mason
1700-1736	Col. Samuel Young
1736-1772	Col. Charles Hammond
1772-1775	Col. William Fitzhugh
1775-1804	Thomas Harwood, Jr.
1804-1826	Benjamin Harwood
1826-1843	George Mackbin
1843-1844	James Owens
1844-1852	Dennis Claude

MARYLAND STATE TREASURERS (*Beginning of single-treasurer system*)

1852-1854	James Owens
1854-1860	Dennis Claude
1860-1862	Sprigg Harwood
1862-1870	Robert Fowler
1870-1872	John Merryman
1872-1874	John W. Davis
1874-1885	Barnes Compton
1885-1886	John Gittings
1886-1890	Stevenson Archer
1890-1892	Edwin Brown
1892-1896	Spencer C. Jones
1896-1900	Thomas J Shryock
1900-1916	Murray Vandiver
1916-1918	John M. Dennis
1918-1920	William P. Jackson
1920-1935	John M. Dennis
1935-1963	Hooper S. Miles
1963-1973	John A. Luetkemeyer
1973-1975	J. Millard Tawes
1975-1987	William S. James
1987-1996	Lucille Maurer
1996-2002	Richard N. Dixon
2002-Present	Nancy K. Kopp

MARYLAND'S BOARD OF PUBLIC WORKS

The Board of Public Works, as re-created in the Constitution of 1864, is the paramount administrative body in Maryland State Government. The Board derives its power directly from the State Constitution which authorizes the Board to "hear and determine such matters as affect the Public Works of the State." While there are similar financial oversight committees throughout the country, the Maryland Board of Public Works is unique in American government.

The Governor, Comptroller and Treasurer comprise the three-member Board, which meets bi-weekly throughout the year. The Treasurer's participation on the Board ensures that the General Assembly has a voice in the management of public funds.

The Constitutional Convention of 1864 created the Board of Public Works based on predecessor boards dating back to 1825. The 1864 Board's original duties were essentially to oversee the public works activities, primarily railroads, canal and bridge companies, in which the State had an interest as stockholder or creditor. Since that time, the Board's duties have evolved considerably as the legislature has expanded the Board's jurisdiction and authority.

The Board of Public Works supervises the State's public works (except for road construction) and oversees the expenditure of State funds and other fiscal affairs of the State. The Board's diverse scope of responsibilities include:

- Approving both the sale of General Obligation bonds and the expenditure of the bond proceeds
- Approving the expenditure of funds for capital improvements except for State roads, bridges, and highways
- Approving the sale, lease or transfer of State real and personal property
- Controlling procurement policy, adopting procurement regulations and approving most contracts exceeding \$200,000
- Approving allocation of funds paid to each county for school construction and adopting rules for the administration of the Public School Construction Program
- Serving as custodian of the State's Contingent Fund

MARYLAND'S BOARD OF PUBLIC WORKS (*Continued*)

- Debarring and suspending contractors from entering into contracts with the State in appropriate cases
- Preserving and protecting the State's submerged lands, shoreline and tidal wetlands and issuing licenses to dredge or fill wetlands.

In his book entitled **The Maryland Board of Public Works: A History**, Judge Alan M. Wilner wrote about the Board's uniqueness: "Some states have coordinative bodies of one kind or another, serving some of the functions committed to our Board of Public Works, but none, to my knowledge, have a constitutionally based troika quite like our board... the board serves first and foremost as a dilution, through sharing, of the executive authority that otherwise would be vested in the governor . . . over the years the board has served its function well . . . it has acted with dedication and efficiency and has effectively discharged the myriad of responsibilities delegated to it."



2004 Treasurer's Annual Report

SCHEDULE OF SELECTED FINANCIAL DATA

COLLATERAL BALANCES AS OF JUNE 30, 2004:

Banks	\$ 448,438,936
Insurance Companies	\$ 323,295,925

TOTAL INVESTMENT PORTFOLIO COMPOSITION

AS OF JUNE 30, 2004:

Repurchase Agreements	\$ 3,255,903,900
U.S. Treasury	\$ 133,913,533
U.S. Government Agencies	\$ 794,762,569
Other Investments	\$ 284,958,540
Total Portfolio	\$ 4,469,538,542

SECURITIES LENDING PROGRAM ACTIVITY FOR THE YEAR

AS OF JUNE 30, 2004:

Gross Income	\$ 119,309
Net Income	\$ 83,516

GENERAL OBLIGATION DEBT ACTIVITY FOR THE YEAR

AS OF JUNE 30, 2004:

General Obligation Bond Issuances	\$ 500,000,000
New Money	\$ 500,000,000
Refunding Bonds	\$ 0
Interest Payments	\$ 241,752,250
Principal Payments	\$ 330,215,000

LOCAL GOVERNMENT INVESTMENT POOL FUND BALANCE

AS OF JUNE 30, 2004:	\$ 1,797,814,980
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STATE INSURANCE TRUST FUND BALANCE

AS OF JUNE 30, 2004:

Beginning Balance	\$ 11,358,447
Transfers In	\$ 11,476,036
Transfers Out	\$ (17,585,893)
Less Operating Transfer to GF	\$ 0
Ending Balance	\$ 5,248,590
Recommended Actuary Balance	\$ 29,562,244
Unfunded Liability	\$ (24,313,654)

Maryland State Treasury

Executive Division

EXECUTIVE DIVISION

The Executive Division provides assistance to the Treasurer in the execution of the full range of her Constitutional responsibilities. As the State's chief financial officer, the Treasurer is responsible for receiving, depositing, investing and distributing State funds; anticipating the monetary needs of the State and, on behalf of the Board of Public Works, conducting bond sales to ensure the State's financial ability to meet fiscal obligations; providing lease-purchase financing of capital equipment for State agencies; and providing the insurance needs for the State's insurance program. She also serves as Vice-Chair of the State Retirement and Pension Systems Board of Trustees, Chair of the Maryland College Savings Programs, and member of the Maryland Supplemental Retirement Plans. The Executive staff monitors all these functions and more.

The Executive Division is undergoing a restructuring that will include a Director of Operations that will coordinate and manage the day-to-day operations of the Treasurer's Office and a Deputy to advise the Treasurer on statewide fiscal policy issues. The Director of Operations will ensure that the divisional activities complement each other and that operations continue to be effective and efficient. Additionally, the Director of Operations will advise the Treasurer on matters regarding office planning and management, new technologies and long term strategies.

The Deputy Treasurer for External Affairs serves as the Treasurer's principal liaison to the Board of Public Works and designee to the Procurement Advisory Council, the Administrative Committee of the State Retirement and Pension Systems and the Hall of Records Commission and, in concert with the Director of Administration, as liaison to the General Assembly. He also serves on task forces related to procurement and to the retirement and pension system. He represents the Treasurer at numerous public events and also is the public information officer for the State Treasurer's Office.

The Executive Division also is responsible for the internal audit function which reviews and reports to the Treasurer the status of recommendations from the most recent Legislative Audit. The auditor works with division directors to implement and monitor the legislative auditor's recommendations. The auditor also reviews legislative audit reports from the various agencies, recommends necessary correspondence regarding agency audit comments, responds to requests for assistance from the various Treasury Divisions to analyze problem areas, makes recommendations for improvements or internal controls, and serves as a liaison between the Treasurer and agency representatives, and between legislative, external and federal auditors.

Maryland State Treasury

Investment Division

INVESTMENT DIVISION

Sections 6-222 through 6-226 of the State Finance and Procurement Article govern the investment of the State's "unexpended or surplus money". The Investment Division is responsible for the investment activities of the State Treasurer's Office. Investments are made according to the State Treasurer's investment policy.

The investment program of the State Treasurer's Office is primarily oriented to the investment of cash balances temporarily idle between the time revenue is collected and the time budgeted amounts are disbursed. The program does, however, include a number of long-term investment activities associated with the twenty-year purchase of development easements on agricultural land and the payment of lottery prizes over nineteen-year periods. The Division manages the investment of General Obligation bond proceeds and also directs the short and long-term investments of a number of trustee accounts under State agency revenue bond indentures.

Other State agencies are responsible for the investment and management of the State's pension funds, the insurance reserves of the Maryland Automobile Insurance Fund and certain endowment funds at public colleges and universities. The interest earnings on investments accrue to the General Fund unless either a State law or a regulation specifies that the interest should accrue to some other fund. Prior to Fiscal Year 1991, the statute required that the State Treasurer's Office invest the State's general fund balances and those of certain State agencies separately. During its 1990 session, the General Assembly enacted legislation, sponsored by the Treasurer's Office, to allow all funds to be invested in a common pool. Interest earned from this pool is allocated to the various State agencies and to the General Fund on a pro-rata basis.

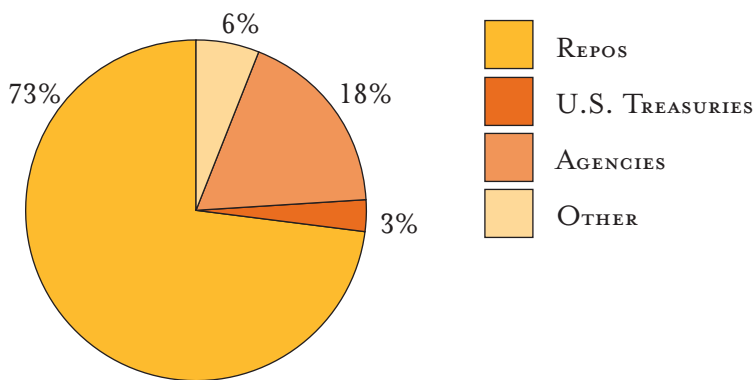
Under State law, investments by the State Treasurer's Office are limited to secured bank accounts, full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities and repurchase agreements collateralized by those securities. The law specifically prohibits doing reverse repurchase agreements when the funds generated from the repurchase agreement will be used solely for investment purposes. The requirement that money market mutual funds must be Triple-A rated was eliminated by the General Assembly in the 1997 session.

Fixed-price, new issue U.S. government agency investment securities are competitively procured through approved brokerage firms. To be approved, a firm must be a primary dealer reporting to the Federal Reserve or be a registered member of the New York Stock Exchange, file financial statements exhibiting financial resources considered adequate by the Investment Division and provide competitive bids to the Division on a regular basis.

Portfolio Composition at June 30, 2004 (Chart 1)

Repurchase Agreements	\$ 3,255,903,900
U.S. Treasuries	133,913,533
Agencies	794,762,569
Other	284,958,540

Portfolio Composition



The investment function of the Treasurer's Office is primarily a cash management function. The investment portfolio is designed to meet the cash needs of the State, i.e., have funds available to cover disbursements. In Fiscal Year 2004, the Investment Division continued to invest the bulk of the portfolio in repurchase agreements with maturities of 90 days or less. This concentration in repurchase agreements meets two important aspects of the State's investment program: the need for an investment vehicle that provides for a safe, short-term investment and the need to secure the highest possible return. Repurchase agreements, collateralized by U.S. Treasuries and federal agency securities, have several benefits. They provide safety, have short maturities and have rates of return that are generally higher than Treasury and agency securities of comparable maturity. Treasury and federal agency securities with a maturity of up to three years are also purchased to provide portfolio diversification, liquidity and an even higher rate of return. This maturity extension is well within the guidelines of prudent portfolio management.

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Portfolio Balances

FISCAL YEAR	GENERAL FUND	TOTAL PORTFOLIO
1995	\$1,911,500,173	\$2,356,519,510
1996	2,246,100,924	2,750,958,742
1997	2,566,851,465	2,856,365,724
1998	2,985,526,643	3,344,142,797
1999	3,336,084,299	3,812,335,126
2000	4,043,592,678	4,341,640,537
2001	4,734,087,661	4,983,070,473
2002	4,007,351,370	4,338,575,761
2003	3,393,570,110	3,582,550,645
2004	4,212,322,055	4,469,538,542

Average Annual Interest Rates

FISCAL YEAR	GENERAL FUND	3-MONTH TREASURY BILL
1995	5.34%	5.27%
1996	5.58	5.29
1997	5.37	5.17
1998	5.54	5.16
1999	5.18	4.60
2000	5.61	5.38
2001	5.93	5.27
2002	2.92	2.18
2003	1.94	1.32
2004	1.27	.97

The average annual General Fund investment balance increased by \$818,751,945. Interest rates declined from 1.94% in FY 2003 to 1.27% in FY 2004, leading to another sharp decline in interest income.

General Fund investment earnings, net of the amount allocated back to the agencies, for Fiscal Year 2004, decreased by over \$12,000,000, down 32.7% from the previous year. Gross investment earnings went from \$79,446,160 in Fiscal Year 2003 to \$54,090,795 in Fiscal Year 2004.

Total Interest Earned

FISCAL YEAR	NET GENERAL FUND	ALLOCATED TO STATE AGENCIES	TOTAL
1995	\$38,883,983	\$61,005,130	\$99,889,113
1996	32,309,030	83,139,565	115,448,595
1997	59,386,225	74,679,947	134,066,172
1998	65,514,185	90,852,463	156,366,648
1999	100,834,087	91,230,658	192,064,745
2000	121,951,720	103,173,287	225,125,007
2001	136,981,074	144,249,899	281,230,973
2002	82,641,807	66,399,769	149,041,576
2003	37,205,637	42,240,523	79,446,160
2004	25,037,345	29,053,449	54,090,795

SECURITIES LENDING

As is typical with a portfolio containing government securities, the State engages in a securities lending program in which specific securities in the portfolio are loaned to brokers and dealers who need such securities for a short period of time. In return for borrowing the security, the broker or dealer posts other securities or cash collateral equal to 102% of the market value of the borrowed security and pays the State an additional fee.

Securities lending earned \$83,516 during Fiscal Year 2004, up 30.5% from the Fiscal Year 2003 earnings of \$63,985. The rise in securities lending income is attributable to the fact that the Treasurer's Office contracted with a new securities lender that could lend out more securities than the previous firm.

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LOCAL GOVERNMENT INVESTMENT POOL

Section 22G of Article 95 of the Annotated Code of Maryland establishes the Maryland Local Government Investment Pool (LGIP) and assigns to the State Treasurer's Office the responsibility for administering the pool. The actual management of the pool has been contracted out to Mercantile Safe Deposit and Trust Company.

The Treasurer has encouraged local governments and eligible authorities to participate in the LGIP, which is essentially a money market account. At the end of Fiscal Year 2004, there were 285 participants, up from 282 in Fiscal Year 2003. The fund balance as of June 30, 2004, was \$1,797,814,980, an increase of 7.4% from the Fiscal Year 2003 level of \$1,674,169,653. The actual yield for Fiscal Year 2004 was 1.03%, compared to the actual yield for Fiscal Year 2003 of 1.45%.

To ensure that the pool is responsive to the needs of the participants, the Treasurer created an advisory panel consisting of representatives of the pool's membership. The panel meets quarterly, reviews the fund's activities and makes recommendations to Mercantile Safe Deposit and Trust Company's administrators. The pool administrator produces a quarterly newsletter, which keeps members informed and serves as an effective marketing tool for potential participants.

Local Government Investment Pool

FISCAL YEAR	FUND BALANCE AS OF JUNE 30	NUMBER OF PARTICIPANTS	ACTUAL YIELD FOR PREVIOUS 12 MONTHS	FUND BALANCE % INC/(DEC) PREVIOUS YEAR
1995	\$327,343,278	161	5.98%	15.96%
1996	467,313,980	186	5.34	42.76
1997	450,610,248	202	5.47	(3.57)
1998	650,010,516	291	5.66	44.25
1999	797,283,320	231	5.19	22.66
2000	813,759,289	252	5.73	2.07
2001	1,141,544,255	270	5.96	40.28
2002	1,422,684,869	276	2.53	24.62
2003	1,674,169,653	282	1.45	17.67
2004	1,797,814,980	285	1.03	7.38

Maryland State Treasury

Finance Division

2004 Treasurer's Annual Report

FINANCE DIVISION

Under Article VI, Section 3 of the State Constitution, the Treasurer is responsible for arranging for the payment of principal and interest on State debt. As a member of the Board of Public Works, she has taken the lead role in the Board's activity relating to the issuance and oversight of State debt.

The basic framework for providing financing for capital assets is the State's General Obligation debt, that is, debt to which is pledged the full faith and credit of the State. The State's General Obligation bonds have been assigned the highest credit rating by Moody's Investors Service, Inc. (Aaa), Standard and Poor's (AAA) and Fitch Ratings, Inc. (AAA).

The State of Maryland is proud to be one of only seven states in the nation to maintain a Triple-A credit rating from all three major credit rating agencies.

General Obligation debt financing provides the funding for State-owned capital improvements, prisons and colleges, as well as various State capital grants to local governments and private non-profit organizations. Projects funded include local public schools, local jails, water treatment facilities, museums, rehabilitation of historic structures and private treatment centers for the developmentally and physically disabled. There was one General Obligation bond sale in Fiscal Year 2004 in the amount of \$500,000,000; the true interest cost was 3.707%, a low rate directly attributable to the State's AAA credit rating.

General Obligation Debt

FISCAL YEAR	ISSUANCES	INTEREST	DEBT SERVICE	
			PRINCIPAL	TOTAL
1996	\$ 470,000,000	\$153,012,794	\$229,134,000	\$382,146,794
1997	410,000,000	157,312,018	244,540,500	401,862,518
1998	500,000,000	163,030,803	254,869,075	417,899,878
1999	475,000,000	172,349,029	245,296,900	417,645,929
2000	125,000,000	182,802,000	276,362,000	459,164,000
2001	400,000,000	172,901,379	297,966,300	470,867,679
2002	509,935,000	172,896,683	322,320,000	495,216,683
2003	1,101,950,000	169,286,517	326,695,000	495,981,517
2004	500,000,000	241,752,250	330,215,000	571,967,250

The Treasurer recommends the size, timing and terms of sale of General Obligation debt. This entails periodic analysis and surveys to determine loan fund cash availability and anticipated cash needs of State agencies and grantees for authorized capital projects. In recent years, the State has held sales semi-annually. The Finance Division, in conjunction with the State's Financial Advisor, the Treasurer's Principal Counsel, and the State's Bond Counsel, coordinates the sale and all activities prior to the actual sale, including liaison with the bond rating agencies, the preparation and publication of statutorily required notices and advertisements, and the preparation and distribution of Official Statements. The preparation of Official Statements is primarily performed in-house, resulting in substantial savings to the State. The State Treasurer's Office arranges the details of the actual sale and monitors market conditions. The State Treasurer's Office also supervises all activities of post-sale settlement, including investment of the proceeds.

ELECTRONIC BOND SALE

For Fiscal Year 2004, the State conducted one General Obligation bond sale in the amount of \$500,000,000 using the PARITY electronic bidding system.

The State's bidding guidelines and specifications are entered into the electronic transmission system, are verified and then reviewed prior to the day of the sale. Bidders may then review these guidelines before bidding. The State Treasurer's Office reviews all bids to verify that bidding guidelines have been followed.

The electronic bidding system allows the State of Maryland to:

1. Pre-screen bidders;
2. Adjust bidding specifications at any time prior to the sale;
3. Instantly communicate electronically with all registered bidders;
4. Instantaneously receive bids;
5. View submitted bids in ascending order from lowest to highest; and
6. Instantly notify the winner electronically.

The electronic sale occurs during a Board of Public Works meeting.

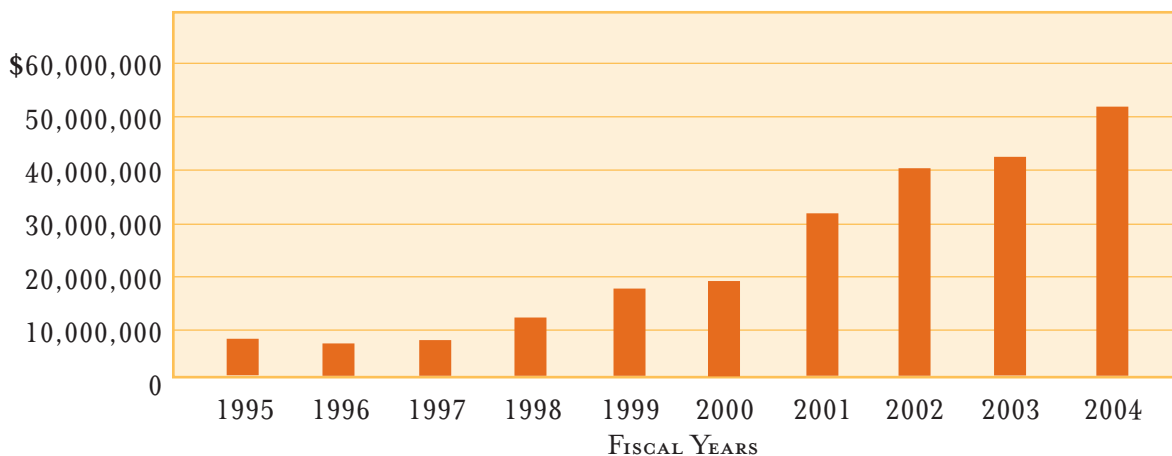
CAPITAL LEASE FINANCING

The State Treasurer's Office provides equipment financing to State agencies using funds from a Lease-Purchase Program. The Master Lease-Purchase Program allows agencies to request financing on a monthly basis for equipment under three-year or five-year financing terms. The equipment requested for financing must meet the Lease Purchase Financing Guidelines established by the State Treasurer's Office.

The State Treasurer's Office procures a Lessor, which will finance equipment throughout the term of the Master Lease-Purchase Agreement, or until the amount of funds has been used. Each month, the Lessor pays the vendors as requested by the State Treasurer's Office. The Lessor is paid by the State Treasurer's Office semi-annually (January 1 and July 1) from funds transferred at the beginning of each fiscal year from the using agencies.

During Fiscal Year 2004, State agencies financed \$50,759,645.44 under the 2003 Master Lease-Purchase Agreement (SEE CHARTS). The current Master Lease-Purchase Agreement was awarded December 1, 2002 in the amount of \$96,000,000.

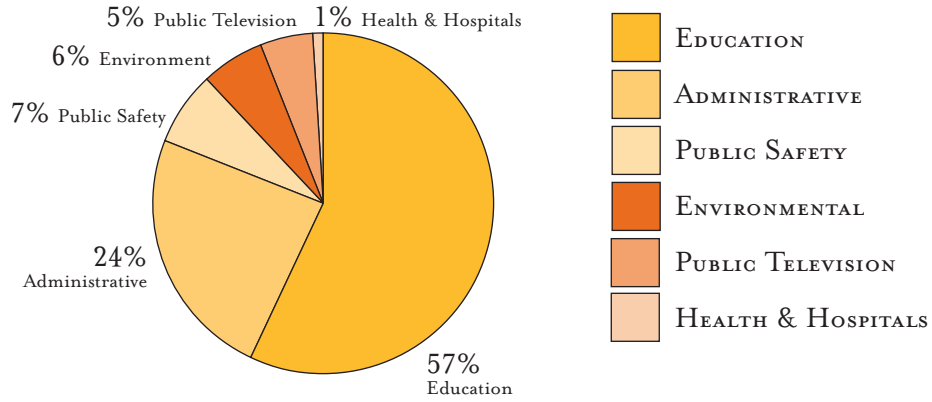
Master Equipment Lease - Purchase Financing History Fiscal Years 1995 - 2004



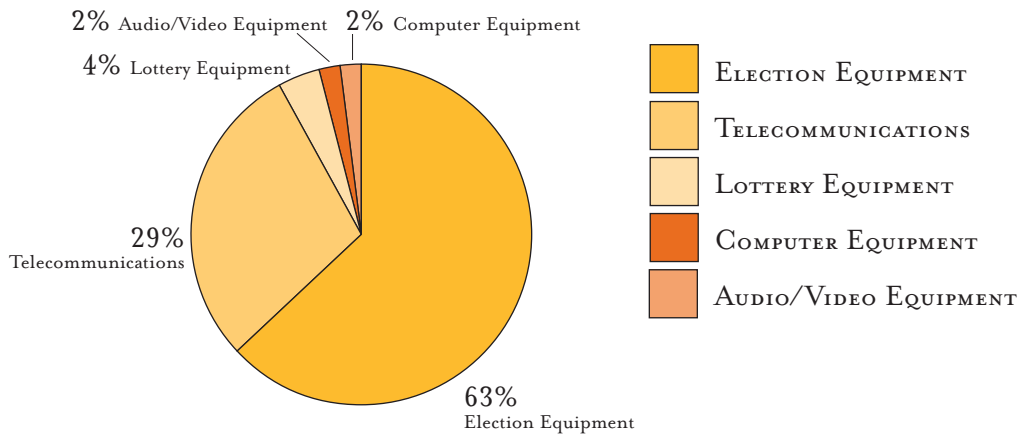
Significant Increases - Reasons:

The significant increases are the result of Technology in Maryland Schools Program in Fiscal Years 1998, 1999, 2000, 2001, and 2003 and the purchase of Statewide voting machines in Fiscal Years 2003 and 2004.

Equipment Use Chart (by category function)



Equipment Classifications Chart



2004 Treasurer's Annual Report

COLLATERALIZATION

Maryland law requires that State money on deposit with financial institutions must have collateral pledged to the State that equals or exceeds the amount on deposit not covered by the Federal Deposit Insurance Corporation. A third party custodian must hold the posted collateral. All pledged collateral must be approved by the Treasurer.

The Finance Division is responsible for monitoring collateral. Financial institutions must submit a monthly report to the Treasurer noting the highest collected balance in each State account, describing the collateral posted and the name of the custodian holding the collateral. Custodians are also required to report the names of the financial institutions for which collateral is being held and the amounts. The reported data is entered into an automated collateral monitoring system, which is audited to ensure that the pledged collateral is sufficient to cover the applicable bank balances. If the collateral is insufficient, the financial institution is required to increase the collateral. Collateral reported by the custodian must match the collateral reported by the financial institution.

Whenever an institution deposits, substitutes or withdraws pledged collateral, it must submit a written request for approval by the State Treasurer's Office. The State then prices all the collateral in question and, if the collateral is sufficient to cover the account balances, approves the transaction.

As a condition of conducting business in Maryland, State insurance and health laws require all insurers and health maintenance organizations to deposit and maintain cash or securities in trust with the Treasurer in amounts determined by the Maryland Insurance Commissioner for the protection of policyholders, members and creditors. The Treasurer approves various financial institutions as depositories for the receipt and safekeeping of these securities. The Finance Division monitors and coordinates the execution of all custodial agreements, modifications and releases among the insurers and health maintenance organizations, the designated depositories, the Insurance Commissioner and the Treasurer. The Finance Division also conducts an annual review and reconciliation of the deposits in this insurance collateral program.

Collateral Balances

AS OF JUNE 30, 2004	BANKS	INSURANCE COMPANIES
1999	\$355,252,913	\$240,067,000
2000	266,439,768	267,709,454
2001	254,229,334	301,510,395
2002	461,370,562	294,892,070
2003	415,858,754	283,178,391
2004	448,438,936	323,295,925

Maryland State Treasury

Banking Services Division

BANKING SERVICES DIVISION

The Treasurer's authority as custodian of the State Treasury and as the Constitutional Officer responsible for the deposit and disbursement of State funds is found under Article VI, Section 3 of the State Constitution and Titles 6 and 7 of the State Finance and Procurement Article of the Annotated Code of Maryland. The Banking Services Division is responsible for ensuring the accurate and timely recordation of State funds and for reconciling the State's bank accounts with the State's R*STARS accounting system. Individual depository accounts are maintained for all State agencies, and balances are consolidated at the end of each day into the State's main depository account. This allows for accurate agency level transaction reporting with automatic concentration of funds for cash management purposes.

The Banking Services Division maintains disbursement accounts for vendor payments, payroll, and income tax refunds. While many checks are issued from these accounts, the Treasurer's Office strongly encourages the use of electronic transactions for all disbursements to increase efficiency in the payment processes.

In addition to managing the State's banking relationships for the Treasurer, the Banking Services Division's responsibilities include:

1. Reconciling the State's bank accounts;
2. Processing the drawdown of federal funds, initiating federal money wires for payments, and reissuing unrepresented disbursement checks upon agency request;
3. Providing transaction research assistance to State agencies and processing stop payment orders;
4. Processing requests for photocopies of paid checks and check cancellations;
5. Managing agency bank account relationships for State agencies that include creation and elimination of accounts and transfers of accrued interest income for funds on deposit;
6. Managing the Unrepresented Check Fund and the Undeliverable Check Fund; and
7. Managing foreign currency transactions.

Agency Bank Accounts

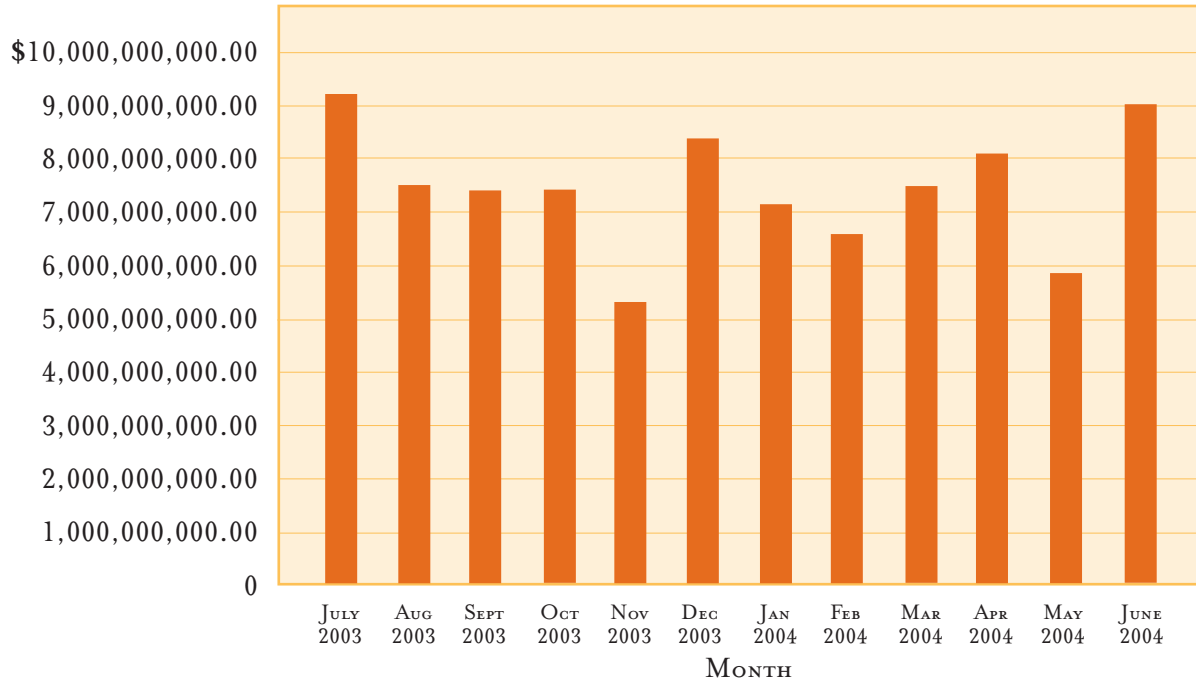
There are over 600 registered agency working funds accounts, many of which are used for trust and escrow account services. All deposits must be collateralized under Section 6-209 of the State Finance and Procurement Article of the Annotated Code of Maryland.

RECEIPT & DISBURSEMENT TABLE

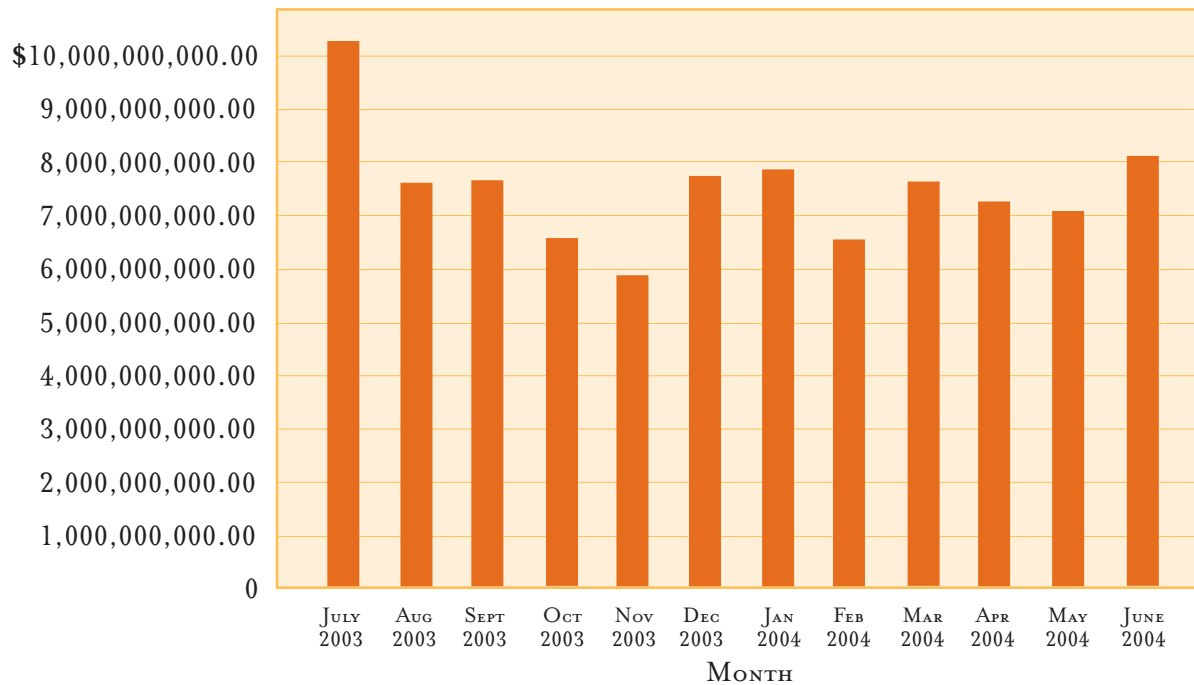
BEGINNING CASH BALANCE FISCAL YEAR 2004		\$ (731,970,277.15)
Receipts	July, 2003	\$ 9,293,570,094.45
	August, 2003	7,477,101,736.12
	September, 2003	7,428,989,055.95
	October, 2003	7,756,742,598.31
	November, 2003	5,288,414,578.85
	December, 2003	8,456,074,846.69
	January, 2004	7,081,507,002.67
	February, 2004	6,696,269,528.98
	March, 2004	7,688,208,429.61
	April, 2004	8,062,594,474.41
	May, 2004	5,950,572,495.89
	June, 2004	9,018,242,718.10
Total Cash Receipts Fiscal Year 2004		\$ 90,198,287,560.03
Disbursements	July, 2003	\$ (10,175,737,803.16)
	August, 2003	(7,708,417,070.50)
	September, 2003	(7,776,647,086.15)
	October, 2003	(6,651,392,465.27)
	November, 2003	(5,927,216,185.82)
	December, 2003	(7,697,586,959.44)
	January, 2004	(7,873,387,370.82)
	February, 2004	(6,512,742,441.84)
	March, 2004	(7,680,434,140.13)
	April, 2004	(7,349,948,465.71)
	May, 2004	(7,159,517,475.80)
	June, 2004	(8,122,520,058.50)
Total Cash Disbursements Fiscal Year 2004		\$ (90,635,547,523.14)
Ending Cash Balance Fiscal Year 2004		\$ (1,169,230,240.50)

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Cash Receipts



Cash Disbursements



AUTOMATION

Many agencies have initiated or expanded their ability to accept electronic receipts and credit card transactions this past year. The Treasurer's Office, in partnership with the Comptroller's General Accounting Division, continues to encourage State agencies to use these payment options and will work in the near future with agencies currently not maximizing use of these payment methods. The Internet-based purchase of goods and services provided by State agencies has significantly increased. Additionally, the Treasurer's Office and several agencies have worked together to develop the ability to initiate direct debit transactions through secure Internet websites. These programs have proven successful. It is anticipated that other agencies will utilize these payment services in the future.

The Banking Services Division has developed a new daily cash reconciliation, allowing the Treasurer's Office to become more proactive in identifying and solving agency banking issues. Continued refinement of this process will ensure maximum efficiency in completing the reconciliation between bank information and the R*STARS accounting system.

The Banking Services Division's goal is to provide efficient, accurate, reliable and timely banking services to all State agencies and external customers.

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Insurance Division

INSURANCE DIVISION

The Insurance Division pursues its role as a resource for State organizations seeking service, guidance and information on insurance issues. In support of its core values of duty, service and integrity, the Insurance Division management team continuously evaluates technologically enabled processes that will improve service to both its internal and external customers.

The insurance industry initially envisioned modest improvements in both rates and capacity in several areas of insurance coverage at the beginning of 2004. However, the significant impact of the hurricane season, which began in June, has caused an estimated \$22 billion in property losses. This will undoubtedly have a detrimental effect on property insurance rates nationwide.

The Insurance Division continues to face significant challenges on commercial insurance procurements. Insurance companies are asking the State to provide more underwriting information from State agencies than ever before. Capacity remains a large issue, as brokers now may have to utilize three or four insurers to secure the State's desired limits of insurance on a particular risk. Prior to September 11th, a single insurance company was usually willing to provide the required limits.

Managing risk and loss concerns all organizations, whether private or public. The State of Maryland is exposed to all classes of risk. As a government, the State promulgates laws and regulations, provides a wide range of services to citizens, enforces laws and owns property that is always exposed to a potential loss. These losses not only include tort claims from the alleged negligence of State employees, but also direct loss to State-owned property. Additionally, State employees also expose the State to losses from claims arising from the breach of citizens' constitutional rights.

Under the common law, the State of Maryland has sovereign immunity and cannot be sued for negligence in its own courts. To allow recovery for injuries and to provide immunity for its employees, the State waived its sovereign immunity, subject to certain limitations under the Maryland Tort Claims Act (MTCA). The MTCA requires that all claims be filed with the Office of the State Treasurer. It is this provision of the law that creates the need for the Insurance Division within the Office of the State Treasurer.

In addition to matters related to the MTCA, the State Treasurer also has authority for insurance coverage of State-owned property and the payment of claims awarded by the Board of

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Public Works. Funds for payment of these claims are reserved in the State Insurance Trust Fund. The Insurance Trust Fund balance is determined by premiums paid by State agencies for losses incurred by the State (See schedule for selected financial data).

The Insurance Division's Claims Department received and investigated approximately 4,000 claims this year. These claims include a variety of losses, from vehicle accidents and premises liability claims, to major property losses including hurricane damage and aircraft accidents.

The Claims Department recently implemented staffing changes and now employs six professional claims adjusters who handle the property and casualty claims in-house. The claims intake process has been streamlined and automated to provide internal users with a faster, more efficient method to research claims.

The opportunity to employ cost-saving alternative dispute resolution methods that will reduce costly litigation on qualifying automobile property damage cases is being explored. It is anticipated that the Division will be fully engaged in this process by the end of the fiscal year.

To identify and combat potential fraud, the Insurance Division maintains membership in the Insurance Services Office's ClaimSearch program, a nationwide computerized claims index system. This database system, currently utilized by over 4,000 casualty insurers, stores over 100 million records on individuals who have submitted bodily injury claims. With the implementation of this feature, the Insurance Division now has the ability to enter and access data on each individual presenting an injury claim through the Maryland Tort Claims Act, as well as to accurately evaluate bodily injury claims to fairly compensate those citizens with legitimate claims. It also provides a tool to thwart those persons who are intent on defrauding Maryland taxpayers.

Through the administration of claims programs across the State, the Insurance Division accumulates a significant amount of data on the types and nature of claims. This information is available to State agencies to assist in their safety and loss prevention programs. As an incentive to promote awareness of claims, the allocation of the cost of risk to each State agency is calculated using a factor reflecting its specific experience on major claims, particularly property claims. A claims debriefing is used to determine the cost of loss and to assist State agencies in establishing ways to prevent the recurrence of such claims.

The Risk Management Department works with underwriters and claims adjusters to assist State agencies in identifying and correcting the frequency and severity of recurring losses. Its mission is to prevent or minimize losses by State organizations. The goals of the Risk Management Department are to increase interest, awareness and the commitment of State organizations to effectively manage risk and to spearhead programs to prevent and control losses. The department assists State agencies in the identification and assessment of risk and the development, implementation and evaluation of programs to reduce risk. Information, education and training are provided to promote the development of State agency loss prevention, loss control and the cost reduction of claims. The implementation of these programs improves risk desirability and reduces loss frequency and severity for both the State Insurance Trust Fund and purchased commercial insurance. The Risk Management Department conducts investigations into severe losses and implements procedures for future prevention of such occurrences.

The Insurance Division also has undertaken a mission to enhance its image as a proactive, accessible and responsive department. Frequent visits with customers will further this goal while also fostering cooperative relationships that will undoubtedly improve service by delivering assistance to customers more efficiently and promptly.

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Administration Division

ADMINISTRATION DIVISION

The Administration Division is responsible for day-to-day operations and provision of centralized support to the Treasurer's Office. The division also is responsible for accounting, budget preparation and monitoring, legislation, human resources, compliance with the Cash Management Information Act and the procurement of insurance, banking and financial services and commodities.

SUPPORT SERVICES

One of the support functions provided by the division is human resources and personnel management. New employee orientation, administration of health benefits and retirement benefits, leave accounting, performance evaluation tracking, staff development, position reclassifications, employee relations and retirement are included in these services. The Human Resources Department also is responsible for ensuring compliance with the Americans with Disabilities Act and Maryland's Equal Employment Opportunity policy. The department serves as the Fair Practices Officer for the Treasurer's Office. The department also provides guidance and interpretation of Statewide and office policy as well as providing updates for any changes in the personnel system.

As of June 30, 2004, the State Treasurer's Office has 54 permanent positions, which are assigned as follows:

Executive	6
Administration Division	9
Banking Services Division	11
Information Technology Division	7
Finance Division	4
Insurance Division	12
Investment Division	2
Legal Division	3

OFFICE ADMINISTRATION AND PROCUREMENT

Under the authority of the State Finance and Procurement Article, Annotated Code of Maryland, the Administration Division is responsible for procuring all banking, investment, insurance and other financial services contracts. These services include banking contracts, financial advisors, escrow and paying agents, underwriters, and General Obligation bond services. These contracts

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are procured on behalf of the State Treasurer's Office for utilization by all State agencies. In addition to the contract awards, the Procurement Officer is responsible for providing to the Board of Public Works (BPW) a quarterly report known as the Procurement Agency Activity Report (PAAR) and an Annual Minority Business Report. This position ensures compliance with new initiatives proposed by the BPW regarding the Small Business Reserve Program effective October 1, 2004. The Division also represents the State Treasurer at Senior Procurement Advisory Group (SPAG) meetings and attends the quarterly Procurement Advisory Council (PAC) meetings as well.

The Administration Division also provides centralized procurement for equipment, supplies and services, telecommunications including telephones, pagers and cell phones, travel arrangements, fleet management, surplus property and inventory control and management. Several statutorily required Statewide reports are prepared by the Division, such as forms management, record retention schedules, fixed asset materials and supplies inventory. The Division must work closely with other State agencies to procure telecommunication services and specialized commodities, such as the MICR paper required for check printing operations.

LEGISLATIVE OFFICE

The Division Director serves as the Legislative Liaison for the State Treasurer's Office. This involves coordinating legislation within the office, reviewing bills, preparing fiscal notes and written testimony and following the course of bills through the legislative process. The Director also is responsible for coordinating with the legal office and division directors any draft legislation to be introduced to the General Assembly. Each proposed bill requires extensive preparation, including a determination of the fiscal and economic impact on the Office, the State and private industry. The director works closely with the General Assembly's budget committees, Joint Audit Committee and the Joint Committee on the Management of Public Funds.

BUDGET MANAGEMENT AND ACCOUNTING

The Budget Management and Accounting Unit manages all of the fiscal duties essential to the administration of the Maryland State Treasurer's Office programs. These duties include developing and monitoring the operating budget; preparing and maintaining all the financial records, controls and procedures relating to budgetary general, special, non-budgeted and reimbursable funds and administering expenditures, revenues, accounts receivable, accounts payable, payroll, cash receipts and cash disbursements to ascertain accurate reporting in the general ledger. This section works closely with the Department of Budget and Management, the Comptroller of the Treasury, and the Department of Legislative Services to ensure that the department is reporting accurately and promptly while adhering to all State requirements.

The accounting unit administers the fiscal responsibilities for treasury management, State investments, State Insurance Trust funds, commercial insurance coverage, injured workers insurance funds, master lease programs, State debt, unrepresented check funds, undeliverable check funds, and banking and financial contracts in accordance with the powers and authority given to the State Treasurer under Article VI of the Constitution of Maryland. During Fiscal Year 2004, the accounting unit recorded, confirmed and reconciled all accounting entries with the general ledger for receipts and disbursements on behalf of: Treasury management; State investments; State Insurance Trust Fund exceeding \$30 million; commercial insurance coverage premiums of approximately \$25 million; the Injured Workers Insurance Fund in excess of \$88 million and more than \$44 million for the Master Lease Program. This was accomplished by recording, directing, and coordinating these transactions for more than 300 vendors, and State and local government agencies.

The accounting responsibilities include the approval and processing of vendor invoices, depositing of receipts, payroll processing, maintenance of all financial records, the reconciliation of all accounts, preparation of year-end closing records and the development and implementation of accounting controls and procedures. The Division continues to update the internal controls and office procedures to ensure compliance with established governmental policies, laws and regulations.

CASH MANAGEMENT IMPROVEMENT ACT

The Maryland State Treasurer has the responsibility of administering the federal Cash Management Improvement Act of 1990 (CMIA). CMIA was enacted to regulate the way State agencies request federal funds. The objective of CMIA is to ensure efficient, effective and equitable cash management.

Efficiency in this context is defined as minimizing the time between the transfer of funds to the State and the payout of those funds for program purposes. Effectiveness is defined as ensuring funds will be available when requested. The Treasury-State Agreement (TSA), also called the CMIA contract, specifies how and when funds will be transferred under major federal assistance programs.

Finally, equity is defined as compensating the party that is "out-of-pocket" when funding a federal program. In general, interest is due to the State if it must use its own funds for program purposes when there is valid obligational authority. Interest is due from the State for the time the State holds Federal funds in its account prior to its disbursement for program purposes.

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The state-specific details of how the CMIA is implemented are contained in the state/federal agreements each state is required to negotiate with the U.S. Treasury's Financial Management Service (FMS).

All programs listed in the Catalog of Federal Domestic Assistance fall under the rules of CMIA, which does not necessarily apply the same rules to all programs. The CMIA rules are categorized as Major or Non-Major.

For FY 2004, the State's Major programs, categorized as programs that exceeded \$33,229,341 in FY 2002 expenditures, must be included in the TSA, must use approved funding techniques, and are subject to interest liabilities.

Non-Major programs are not required to be covered in the TSA. Although no interest liabilities are calculated for the programs, the states and federal program agencies are responsible for minimizing the time between the transfer and payout of funds.

Maryland State Treasury

*Information
Technology Division*

INFORMATION TECHNOLOGY DIVISION

The Information Technology Division provides fully automated data processing capabilities to support the State Treasurer's Office's daily operations. The Division provides training, equipment management, technical assistance and services to all divisions in the State Treasurer's Office. Services provided include local area networking, Internet access, e-mail, application development, website updates, software evaluation and data communications.

The Division also has the responsibility for processing payments for several different agencies Statewide. Electronic and check payment data flows from the paying agencies to the recipients' bank accounts via the Information Technology Division computer system. Checks are printed through the high-speed printing system and distributed by the mailroom.

OFFICE AUTOMATION & NETWORK SUPPORT

The Networking Department of the State Treasurer's Office (STO) has experienced change, growth and movement over the past year. During 2004, the networking staff changed from an in-house staff of one person to include two additional dedicated outsourced network consultants. This change has allowed for expanded coverage in support hours, a more in-depth look at proper licensing, fresh views of technology advancement, and a greater concentration on the security and reliability of the Wintel network infrastructure.

The Banking Services Division has moved into a very advanced project stage that has required greater attention from the networking staff. With this attention came the need for prolonged support hours. Support hours were changed to allow for core hour coverage from 7 a.m. to 6 p.m., with the additional benefit of off-site support via a remote device. This remote device allows for all after-hours support calls to be immediately routed to an on call support engineer regardless of the time or day. This technology was also deployed to the Treasurer to allow for efficient communication with her staff.

With the expansion of End User Licensing Agreements (EULAs) and software activation, the rate of software piracy has decreased significantly. The Networking Department has been able to work through the files of documentation and current software inventories to make sure that the STO complies with these agreements.

With the move to networking staff, a fresh set of views was imported. The workstation infrastructure has been upgraded in almost every STO Division; this has helped efficiency and also slowed the rapid rate of decay that was evident in the older workstations. In addition, this deployment allowed the networking staff to implement State governed password policies and to take the first steps to upgrade the directory structure and implement directory security.

Directory security has been a primary focus for the past few months as more and more sensitive data flows through the STO network. To that end, security groups were created or modified to allow or deny access to each directory or department folder. Security also has been added to the servers with increased attention on critical update packages from Microsoft and the deployment of a new anti-virus solution. The second major emphasis for the Information Technology Division has been to increase the reliability and dependability of both the equipment and the staff. This includes the use of backup engineers in the event of staff illness or relocation. The dependability of the servers and network has been addressed in numerous ways. First and foremost, the disaster recovery policy of the STO was modified to allow for both onsite and off-site backups of all data and email which may be accessed in the event of a catastrophic failure. Also, the servers have been moved to a battery-backed system that will allow greater fault tolerance in the event of power failure.

The networking group has begun numerous changes, including the addition of three new network servers to enhance the fault tolerance and dependability of the network. In addition, the networking group has been working to bring about a unified office image through an updated intranet, develop a full disaster recovery plan and continue to update and transition the most up-to-date technology and practices into the STO environment.

PAYMENT PROCESSING

Over the years, many agencies in the State have responded to the need to make specific types of payments by developing their own ways of paying (i.e., printing checks, paying electronically or by using direct deposit methods). The State Treasurer, however, is ultimately responsible for all payments made by the State. Therefore, the division has developed a payment processing system that is flexible enough to allow the Treasurer to make payments for any agency in the State. The State

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Treasurer's Office's main processing system is an IBM AS/400 computer, which uses Advanced Function Printing to create each printed document. This includes the ability to print bank encoding, signatures, and agency and bank logos on blank paper. The use of blank paper stock precludes the need to maintain preprinted checks for each account. It also is protected with several security features to eliminate or detect forgery or fraud.

Electronic payments or direct deposits are run through a converter program that transforms the agency's payment information into printed notification or advice forms and into a standard banking format. When delivered to the Federal Reserve's Automated Clearing House (ACH), the payment can be deposited to any payee's bank account in the country.

RECEIPT PROCESSING

The STO's receipt processing system complements the payment processing system by allowing any State agency to receive electronic payments from taxpayers, credit card processors and federal programs.

Currently, most of the taxes collected by the State, all credit card receipts, lockbox (used for high-volume, mail-in collections) and all federal funds come in through the "Depository Plus" process. Agencies without access to the State's depository bank use the "Depository Plus" system to allow them to make their deposits locally. Funds are electronically transferred to the main account. The system's ability is only limited by what information can be passed through the Federal Reserve's ACH system.

BANK RECONCILIATION

To enhance the banking reconciliation system, the Information Technology Division has performed the following work: separation of matched and unmatched deposit logs, inclusion of additional selection criteria to allow for varying procedures used by agencies during their deposit accounting process, expansion of reported fields to allow for larger volume files, provision of detailed transaction reporting when requested, compilation of historical data, verification of historical data against existing reports when requested, running of historical data through reporting processes to reproduce reports when requested, preparation of instructions for reconciliation rerun processes, running of reconciliation rerun processes when requested, modification of match process reports with additional summary data, preparation of instructions for record deletion process and running record deletion processes when requested.

The Information Technology Division's future goals will be to work with the Banking Services Division to determine the best solution for an improved banking reconciliation system and then assist in its implementation.

Maryland State Treasury

Legal Division

LEGAL DIVISION

The Office of the Attorney General provides a full range of legal services to the State Treasurer's Office, including legal advice and opinions, contract preparation and review, preparing and editing rules, regulations and policies, drafting and review of legislation, representation in various types of litigation, responding to citizen inquiries and providing legal training to the staff as appropriate. Two assistant attorneys general are assigned to the State Treasurer's Office, while the entire Office of the Attorney General serves as a resource to the Treasurer.

PRINCIPAL COUNSEL TO THE TREASURER

The Principal Counsel advises the Treasurer and Office staff on a variety of issues affecting the Office and its interaction with federal, State and local government agencies, contractors and the public, serves as in-house counsel for the semi-annual issuance of General Obligation bonds and acts as a legal resource for other State agencies on their proposed uses of tax-exempt bond money for capital projects. At the request of the Treasurer, the Principal Counsel provides advice, counsel and legal analysis of the Treasurer's constitutional and statutory powers and responsibilities, and on matters before various boards and commissions on which the Treasurer serves, principally the Board of Public Works.

DEPUTY COUNSEL TO THE TREASURER

In addition to advising the Treasurer and staff on various issues, the Deputy Counsel to the Treasurer actively supervises all tort claim lawsuits filed against the State under the Maryland Tort Claims Act, serves as legal advisor to the Insurance Division and provides tort litigation support, education and training to assistant attorneys general throughout the State. Additionally, the Deputy Counsel supervises all appellate matters concerning Maryland Tort Claims Act litigation.

TAX-EXEMPT FINANCING - GENERAL OBLIGATIONS

In Fiscal Year 2004, the Principal Counsel participated in the issuance of \$500,000,000 in tax-exempt General Obligation Bonds.

The Principal Counsel's involvement with bond sales begins with review and comment to both the Department of Budget and Management and to the staff of the General Assembly on annual enabling legislation and individual bond bills. The Principal Counsel participates in the preparation and review of official statements and other offering documents. Underlying bond counsel opinions for loans prior to 1989 are solicited and reviewed, and authorizing resolutions of the Board of Public Works are prepared. For all loans authorized since 1989, the Principal Counsel researches and writes underlying bond counsel opinions for joint signature with the Attorney General.

The Principal Counsel also worked with the Treasurer and legislators to effect passage of several pieces of legislation pertaining to the Office and its functions, including the handling and disposition of undeliverable and unrepresented checks, the disposition of unclaimed bonds and the revision of statutes relating to deposits of State funds and banking service agreements.

On-going legal advice also is provided, as needed, to various State agencies that receive General Obligation Bond funding concerning federal tax code restrictions on use of bond proceeds.

TAX-EXEMPT FINANCING - MASTER LEASES

The Principal Counsel advises and assists the Treasurer's Finance Division in the procurement and on-going administration of tax-exempt lease financing. In Fiscal Year 2004, the Master Equipment Lease, in the aggregate principal amount of \$50,759,645, required review by the Principal Counsel of monthly takedown documentation and detailed equipment schedules, as well as the issuance of required legal opinions concerning the authorization, validity and enforceability of each installment under the lease.

TORT CLAIMS

The Deputy Counsel provides analysis and advice to the Insurance Division on all insurance matters, including administrative and regulatory proceedings and hundreds of the approximately 4,000 tort and auto claims filed each year under the Maryland Tort Claims Act. The Deputy Counsel serves as an advisor to the Insurance Review Committee, which evaluates potential tort settlements and litigation, and supervises and provides litigation support for the assistant attorneys general who litigate tort cases filed under the Maryland Tort Claims Act throughout the State.

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This litigation support includes preparing a manual and performing regular training of tort litigators, serving as a resource for developing trial strategies, taking and defending depositions, recommending and approving the use of expert witnesses, writing and reviewing briefs, memoranda and motions and trying tort cases in State courts. The Deputy Counsel supervises all appellate matters concerning the Maryland Tort Claims Act and argues cases before the Courts of Appeal. The Deputy Counsel provides analysis and advice on legislation and regulations pertaining to the Maryland Tort Claims Act and the operations of the Insurance Division.

Maryland State Treasury

Acknowledgements

2004 Treasurer's Annual Report

Editor-In-Chief

Bernadette Benik

Editorial Board

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Mimi Carter

Director of Education

Outreach and Artistic Property

Maryland State Archives

350 Rowe Boulevard

Annapolis, Maryland 21401

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FOR MORE INFORMATION OR ADDITIONAL COPIES CONTACT:

(This report is also available on CD.)

MARYLAND STATE TREASURER'S OFFICE

ATTN: ANNUAL REPORT

80 CALVERT STREET, ROOM #109

ANNAPOLIS, MARYLAND 21401

PHONE: (410) 260-7533

FAX: (410) 974-3530

E-MAIL ADDRESS: TREASURER@TREASURER.STATE.MD.US

WEBSITE ADDRESS: WWW.TREASURER.STATE.MD.US