

*INVESTING FOR MARYLAND'S FUTURE*

*Maryland*  
STATE TREASURER'S ANNUAL REPORT

2005



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# *Biography of the Honorable Nancy K. Kopp*


TREASURER OF MARYLAND



STATE TREASURER

*Nancy K. Kopp*

NKOPP@TREASURER.STATE.MD.US



Elected in February 2002 and re-elected to a full four-year term in February 2003, Nancy K. Kopp is the 23rd 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, as a Constitutional Officer and a representative of the General Assembly, the Treasurer holds positions of leadership on a number of key State finance planning committees.

Treasurer Kopp chairs both the Capital Debt Affordability Committee and the Commission on State Debt, and the Treasurer is the chief representative of the State in dealing with financial rating agencies and investment banking firms. She is one of 3 members of the Board of Revenue Estimates. Treasurer Kopp 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 and the Maryland Health and Higher Education Financing Authority.

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 numerous State procurements and contracts, including services as well as property leases and acquisitions.

Treasurer Kopp represented the Bethesda, Maryland area in the Maryland House of Delegates for 27 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. Treasurer Kopp 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 10 most effective members of the House.

Treasurer Kopp has been active in many national, regional, and state organizations and boards over the years with primary focus on education, budgeting, 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"), Nancy Kopp was also the Treasurer of the Southern Regional Education Board and chaired its Commission on Educational Quality. The Treasurer served on the Executive Committee of the National Conference of State Legislatures. At different times, Treasurer Kopp chaired the NCSL's Assembly on Legislative Issues and Committees on Federal Budget Issues, State Fiscal Issues, and Capital Budgeting Procedures, and Legislative Improvement and Modernization. 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 an MA in Government from the University of Chicago. Treasurer Nancy K. Kopp 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.



# The Maryland State Treasurer's Office

## HISTORICAL REVIEW

*D*uring the exploration and settlement period of 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, King Charles I of England 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, Sir Francis Nickelson appointed Maryland's first State Treasurers in 1694. At that time, there were two Treasurers appointed for the State - 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 task of appointing State Treasurers throughout the 18th century. This responsibility was ultimately transferred to the legislature with the adoption of the Maryland Constitution in 1776.

In 1843, the two-Treasurer system was abolished with the duties of the Eastern Shore Treasurer being assumed by the Treasurer of the Western Shore. The Maryland Constitution of 1851 finally established a single office of Treasurer for the entire State. Today, the Treasurer is elected by joint ballot of both houses of the General Assembly. Historically, the Treasurer's position was appointed for a term of two years as a part-time position. In 1922, the Treasurer's term was extended from two years to four years and became a full-time position in 1973.

Having supervisory authority over State funds and capital appropriations, the Maryland State Treasurer is considered among the most powerful Treasurers in the country due to membership on the Board of Public Works. In addition to directing the investment of State assets, the Treasurer reviews and votes on major capital expenditures as a member of the Board of Public Works. It is the Treasurer's job to brief members of the General Assembly on issues regarding the financial operation and condition of the State. The Treasurer maintains an ongoing relationship with financial rating agencies, conducts outreach with State agencies, and keeps legislators informed of the operations of the State Treasurer's Office.

The Treasurer also produces this annual report in keeping with her statutory responsibility to provide the General Assembly with current information regarding the State's financial condition.



# Maryland State

## TREASURER'S OF THE PAST

### TREASURERS OF THE EASTERN SHORE

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

### TREASURERS OF THE WESTERN SHORE

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

### MARYLAND STATE TREASURERS *(Beginning of single-Treasurer system)*

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



## Maryland's Board of Public Works

*M*aryland's Board of Public Works (Board), which meets every two weeks, is one of the most unique administrative bodies in the nation. Comprising the Governor, the Comptroller and the Treasurer, it serves as a policy-making and oversight board for State procurements totaling \$ 6.9 billion in fiscal year 2005. Its decisions reverberate throughout State government.

The Treasurer's participation on the Board ensures that the General Assembly has a voice throughout the year in the post-appropriations management of public funds. This "voice" is important in ensuring that the State's procurement process is open, honest, and competitive.

The Constitutional Convention of 1864 created the Board of Public Works based on predecessor boards dating back to 1825. The Board's original duties in the mid-19th century were essentially to oversee the public works activities, primarily railroads, canal and bridge companies, in which the State had an interest as a stockholder or creditor. Since that time, the Board's duties have expanded considerably as the legislature has broadened the Board's jurisdiction and autonomy.

At any given meeting, not any two of which are similar, the Board of Public Works may approve funding decisions on a variety of activities, such as funding for construction of a new terminal at the Baltimore/Washington International Thurgood Marshall Airport, a new electronic collection system at the State's bridges and toll roads, more than \$500 million of General Obligation bonds, a new health system for the State's 27,000 prisoners, a new gaming system for the State Lottery, a marketing contract for the University of Maryland University College, funding for parks and recreation areas throughout the State, loans and grants for non-profit organizations, grants for sewage treatment plants, and contracts for the development and evaluation of tests for Maryland's high school students.

The Governor, the Comptroller, and the Treasurer meet on the second floor of the State House every other Wednesday morning in a room filled with State government executives and procurement officers as well as citizens interested in the outcome of Board decisions. Meetings typically last for two to three hours. Board decisions can result in contracts being awarded with dollar amounts sometimes reaching \$200 million. Some of these contracts can extend over 10 to 12 years.



## Maryland's Board of Public Works (Continued)

Judge Alan M. Wilner, in his book *The Maryland Board of Public Works: A History*, referred to the Board of Public Works as a “constitutionally based troika... [that] 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...has acted with dedication and efficiency...”



*Treasurer Nancy K. Kopp shares some thoughts with Governor Robert L. Ehrlich, Jr. (center) and Comptroller William Donald Schaefer. At the meeting pictured here, the Board of Public Works oversaw a bond sale.*



## Schedule of Selected Financial Data

### COLLATERAL BALANCES AS OF JUNE 30, 2005:

Bank .....	\$ 424,150,752
Insurance Companies .....	\$ 330,531,926

### TOTAL INVESTMENT PORTFOLIO COMPOSITION

#### AS OF JUNE 30, 2005:

Repurchase Agreements .....	\$ 4,202,104,945
U.S. Treasury .....	\$ 99,750,379
U.S. Government Agencies .....	\$ 1,189,150,378
Other Investments .....	\$ 194,275,042
<b>Total Portfolio</b> .....	<b>\$ 5,685,280,744</b>

### SECURITIES LENDING PROGRAM ACTIVITY FOR THE YEAR

#### AS OF JUNE 30, 2005:

Gross Income .....	\$ 480,699
Net Income .....	\$ 360,524

### GENERAL OBLIGATION DEBT ACTIVITY FOR THE YEAR

#### AS OF JUNE 30, 2005:

General Obligation Bond Issuances .....	\$ 1,630,840,000
New Money .....	\$ 750,000,000
Refunding Bonds .....	\$ 855,840,000
Taxable Bonds .....	\$ 25,000,000
Interest Payments .....	\$ 204,715,370
Principal Payments .....	\$ 348,180,000

### LOCAL GOVERNMENT INVESTMENT POOL FUND BALANCE

AS OF JUNE 30, 2005: .....	\$ 1,932,549,322
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### STATE INSURANCE TRUST FUND BALANCE

#### AS OF JUNE 30, 2005:

Beginning Balance .....	\$ 5,248,591
Transfers In .....	\$ 20,622,614
Transfers Out .....	\$ (15,819,224)
Less Operating Transfer to General Fund .....	\$ 0
<b>Ending Balance</b> .....	<b>\$ 10,051,981</b>
Recommended Actuary Balance .....	\$ 28,710,159
Unfunded Liability .....	\$ (18,658,178)



*The Maryland State Treasurer's Office*  
EXECUTIVE DIVISION

## Executive Division

The Executive Division provides direct support to the Treasurer in the execution of her wide-ranging Constitutional responsibilities. The State 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. The State Treasurer also provides lease-purchase financing of capital equipment for State agencies and handles the insurance needs for State government.

The Treasurer, while ultimately responsible for the activities and accomplishments of the State Treasurer's Office, has a great number of other State financial duties as well. These include membership on the Board of Public Works and leadership roles on the Board of Trustees of the Maryland Retirement and Pension Systems and the Maryland College Savings Plans, and she also chairs the Capital Debt Affordability Committee and serves on the 3-member Board of Revenue Estimates.

The Director of Treasury Operations coordinates and manages the daily functioning of the State Treasurer's Office, which includes the investment, information technology, banking services, insurance, finance, and administration divisions. The Director of Operations also advises the Treasurer on personnel management, new technologies, and strategic planning, and serves with the Deputy Treasurer as the Treasurer's liaison to the General Assembly.

As the Legislative Liaison for the State Treasurer's Office, the Director of Operations coordinates legislation within the Office, reviews bills, prepares fiscal notes and written testimony, and follows the course of bills through the legislative process. The Director is responsible for coordinating any draft legislation to be introduced to the General Assembly with the legal office and Division Directors of the State Treasurer's Office. 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 on behalf of the Office with the General Assembly's budget committees, the Joint Audit Committee, and the Joint Committee on the Management of Public Funds.

The Deputy Treasurer for External Affairs serves as the Treasurer's primary liaison to the Board of Public Works, the Procurement Advisory Council, the State Retirement and Pension System's administration committee, the Hall of Records Commission, and the Maryland Agricultural Land Preservation Foundation's board of trustees. The Deputy Treasurer represents the Treasurer at numerous public events and also serves as the Office's public information officer.

### INTERNAL AUDIT

The Executive Office also includes the Internal Auditor, who plans, controls, directs, and implements a comprehensive annual audit plan designed to evaluate internal controls, add value, improve operations, and minimize risk of the State Treasurer's Office. The audits of programs, operations, special projects, and contractual arrangements follow generally accepted auditing standards, legal and statutory requirements. The unit helps safeguard assets by minimizing risk and ensuring that the mission, objectives, and key goals of the Office are carried out. The Auditor directs systematic, periodic examinations of the accounts, records, procedures, and policies of the State Treasurer's Office to provide a reasonable assurance that appropriate policies and procedures are in place and functioning as intended.



The Auditor works with Division Directors to provide preventive and enforcement services through independent audits, reviews, and investigations and also conducts performance, compliance, economy and efficiency audits to ensure that the internal controls associated with each of the operating units are being performed in accordance with the established guidelines.

The Internal Auditor also serves as the focal point for all financial, productivity, and compliance audit activity and is the liaison between the State Treasurer's Office and external auditors, legislative auditors, and federal auditors. The Internal Auditor is responsible for coordinating the response to all audit reports. The Auditor evaluates and monitors the corrective action plans taken to ensure they are sufficient to resolve the findings, and reviews potential problem areas to prevent future audit deficiencies. Finally, the unit conducts controlled self assessments and risk management evaluations to ensure that the State Treasurer's Office is complying with ethical standards.



*The Maryland State Treasurer's Office*  
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 adopted 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 longer-term investment activities associated with the purchase of 20-year development easements on agricultural land and the payment of lottery prizes over 19-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, pursuant to State authority, 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.

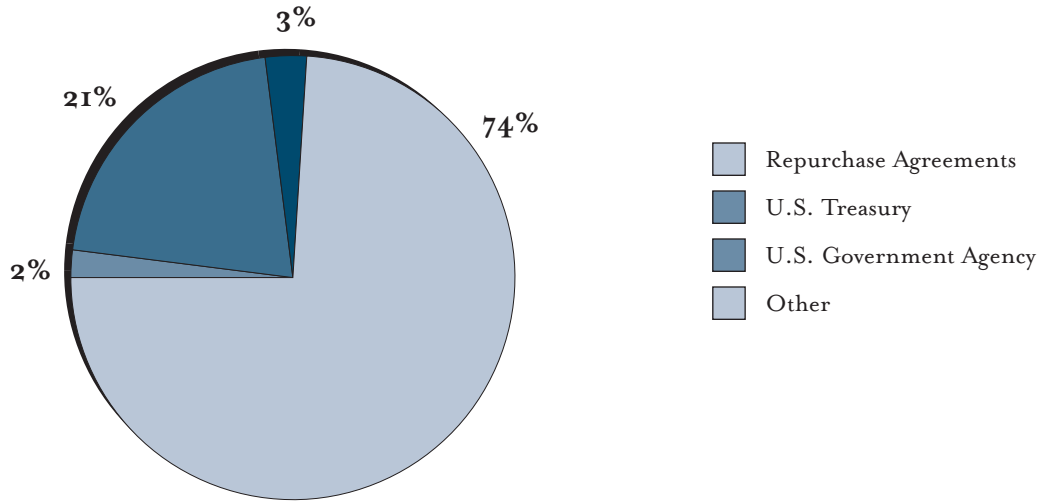
Fixed-price, new issue U.S. government agency investment securities are procured competitively through approved brokerage firms. To be approved, a firm must: (1) be a primary dealer reporting to the Federal Reserve or a registered member of the New York Stock Exchange; (2) file financial statements exhibiting financial resources considered adequate by the Investment Division; and (3) provide competitive bids to the Division on a regular basis.

### Portfolio Composition at June 30, 2005 (Chart 1)

Repurchase Agreements .....	\$ 4,202,104,945
U.S. Treasuries .....	99,750,379
Agencies .....	1,189,150,378
Other .....	194,275,041



## 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 2005, 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: (1) the need for an investment vehicle that provides for a safe, short-term investment and (2) the need to secure the highest possible return. Collateralized by U.S. Treasuries and federal agency securities, repurchase agreements have several benefits: they provide safety, have short maturities, and have rates of return that are generally higher than Treasury and agency securities of a comparable maturity. Treasury and federal agency securities with a maturity of up to three years are also purchased in order to provide portfolio diversification, liquidity, and a high rate of return. This maturity extension is well within the guidelines of prudent portfolio management.

## Portfolio Balances

FISCAL YEAR	GENERAL FUND	TOTAL PORTFOLIO
1996	\$2,246,100,294	\$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
2005	\$5,403,757,921	\$5,685,280,744

### Average Annual Interest Rates

FISCAL YEAR	GENERAL FUND	3 MONTH TREASURY BILL RATE
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	1.28%	0.97%
2005	2.26%	2.26%

The average annual General Fund investment balance increased by about \$1,045,000,000 in Fiscal Year 2005. The increase in portfolio size and the rise in interest rates lead to a sharp increase in interest income. General Fund investment earnings, net of the amount allocated back to the agencies for Fiscal Year 2005, more than doubled from the previous year. Gross investment earnings went from \$54,090,794 in Fiscal Year 2004 to \$107,424,537 in Fiscal Year 2005.

On June 30, 2005, the total of all portfolios under the active management of the State Treasurer's Office was \$5,685,280,744, up 27.2% from the previous year. The General Fund portfolio increased 28.3% from \$4,212,322,055 to \$5,403,757,921. The average rate of return on the General Fund rose from 1.28% to 2.26%. The State Treasurer's investment program matched its benchmark index, the three-month Treasury Bill, which also averaged 2.26% for the past year.



### Total Interest Earned

FISCAL YEAR	NET GENERAL FUND	ALLOCATED TO STATE AGENCIES	TOTAL
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	\$54,090,794
2005	\$52,886,074	\$54,538,463	\$107,424,537



## SECURITIES LENDING

As is typical with a portfolio containing a large number of securities, the State engages in a securities lending program. In this program, the State contracts with a third party securities lender who arranges to have specific securities in the portfolio loaned to brokers and dealers who need those securities for a short period of time. In return for borrowing the security, the broker or dealer posts cash collateral equal to 102% of the market value of the borrowed security. The securities lender invests the cash collateral for the period of the loan. At maturity, the State's securities are returned, and the interest earned is allocated among the State, the borrower, and the lender.

Securities lending earned \$360,524 during Fiscal Year 2005, up 332% from Fiscal Year 2004 earnings of \$83,516. The rise in securities lending income is attributable to the fact that (1) the Treasurer's Office contracted with a new securities lender who could lend out more securities than the previous lender, and (2) a change in our policy allowed the new lender to use the maximum 5% commercial paper in its investments for the State.

## 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 Pool, an AAA rated money market account. At the end of Fiscal Year 2005 there were 286 participants, up from 285 in Fiscal Year 2004. The fund balance as of June 30, 2005 was \$1,951,361,257, an increase of 7.5% from the Fiscal Year 2004 level of \$1,797,814,980. The actual yield for Fiscal Year 2005 was 2.15%, compared to the actual yield for Fiscal Year 2004 of 1.03%.

To ensure that the Pool was responsive to the needs of the participants, the Treasurer created an advisory panel consisting of representatives of the Pool's membership. The panel meets semi-annually, reviews the fund's activities, and makes recommendations to the Mercantile Safe Deposit and Trust Company administrators. The Pool administrator produces a quarterly newsletter to keep members informed. This newsletter acts as an effective marketing tool for potential participants.

### Local Government Investment Pool Fund Bal.

FISCAL YEAR	FUND BALANCE AS OF AS OF JUNE 30	NUMBER OF PARTICIPANTS	ACTUAL YIELD PREV. 12 MONTHS	% INC./ (DEC) PREV. YEAR
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%
2005	\$1,951,361,257	287	2.15%	8.50%

*The Maryland State Treasurer's Office*  
FINANCE DIVISION

## Finance Division

*U*nder 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, the Treasurer 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 six 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, such as prisons and colleges, and 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 were three General Obligation bond sales in Fiscal Year 2005 totalling \$1,630,840,000; the true interest cost for each was (2004 1st) 3.88%, (2004 refunding) 3.09%, and (2005 1st) 3.46%, low rates directly attributable to the State's AAA credit rating.

### General Obligation Debt

FISCAL YEAR	ISSUANCES	INTEREST	DEBT SERVICE PRINCIPAL	TOTAL
1997	\$410,000,000	\$157,312,018	\$244,540,500	\$401,852,518
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
2005	1,630,840,000	204,715,370	348,180,000	552,895,370

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, monitors market conditions, and supervises all activities of post-sale settlement, including investment of the proceeds.

## ELECTRONIC BOND SALE

For Fiscal Year 2005, the State conducted three General Obligation bond sales in the amount of \$1,630,840,000 using the PARITY electronic bidding system. This included two refundings of \$855,840,000 and new issuances of \$775,000,000.

The State's bidding guidelines and specifications are entered into the electronic transmission system, 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:

- Pre-screen bidders
- Adjust bidding specifications at any time prior to the sale
- Instantly communicate electronically with all registered bidders
- Instantaneously receive bids
- View submitted bids in ascending order from lowest to highest
- Instantly notify the winner electronically

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

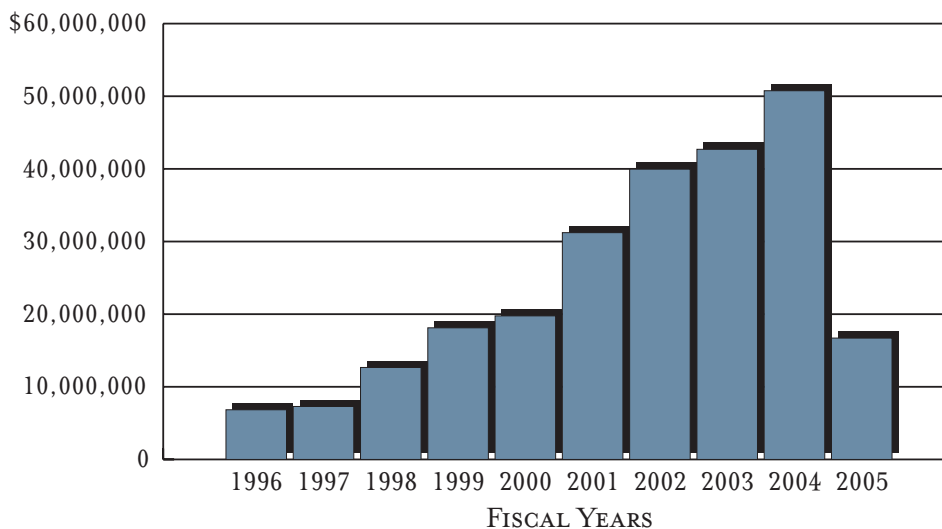
## CAPITAL LEASE FINANCING

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

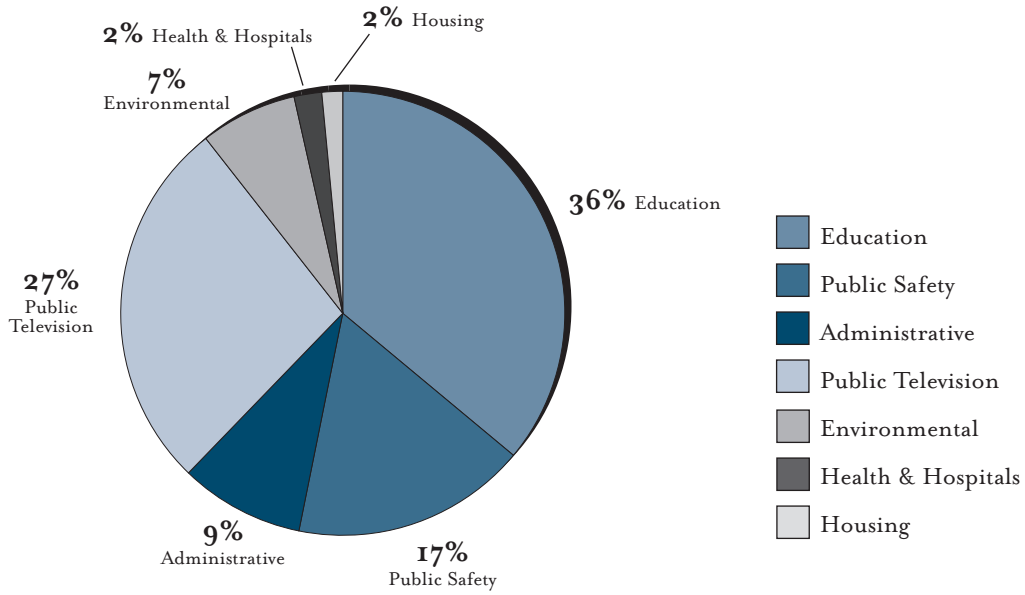
The State Treasurer's Office procures a Lessor, which will finance equipment throughout the term of the Master Lease-Purchase Agreement, or until the amount of funds has been used. Each month, the Lessor will pay the vendors as requested by the State Treasurer's Office. The Lessor is paid by the State 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 2005, State agencies financed \$16,707,134.39 under the 2003 Master Lease-Purchase Agreement. (See the following charts). The current Master Lease-Purchase Agreement was awarded December 1, 2002, in the amount of \$96,000,000.

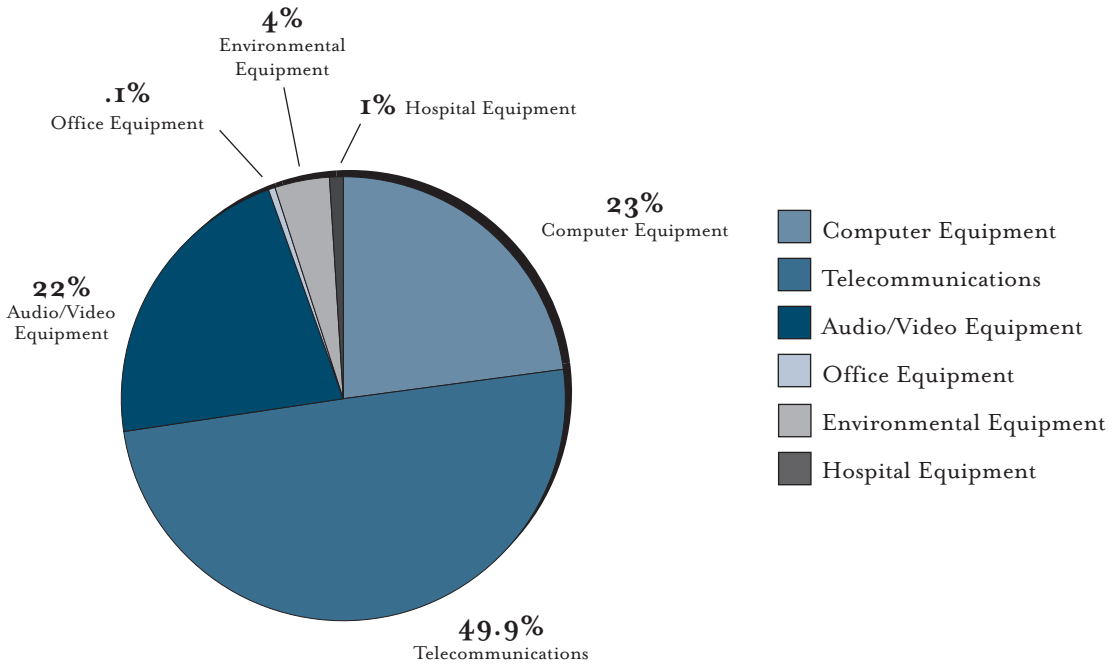
### Master Equipment Lease-Purchase Financing History Fiscal Years 1996 – 2005



**Equipment Use (by category function)**



**(Equipment Use Chart & Equipment Classifications Chart)**



*The Maryland State Treasurer's Office*  
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.

Banking Services 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 efficiencies in the payment processes.

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

- Reconciling the State's bank accounts
- Processing the drawdown of federal funds, initiating federal money wires for payments and reissuing unrepresented disbursement checks upon agency request
- Providing transaction research assistance to State agencies and processing stop payment orders
- Processing requests for photocopies of paid checks and check cancellations
- Managing agency bank account relationships for State agencies, including creation and elimination of accounts and transfers of accrued interest income for funds on deposit
- Managing the Unrepresented Check Fund and the Undeliverable Check Fund
- 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.

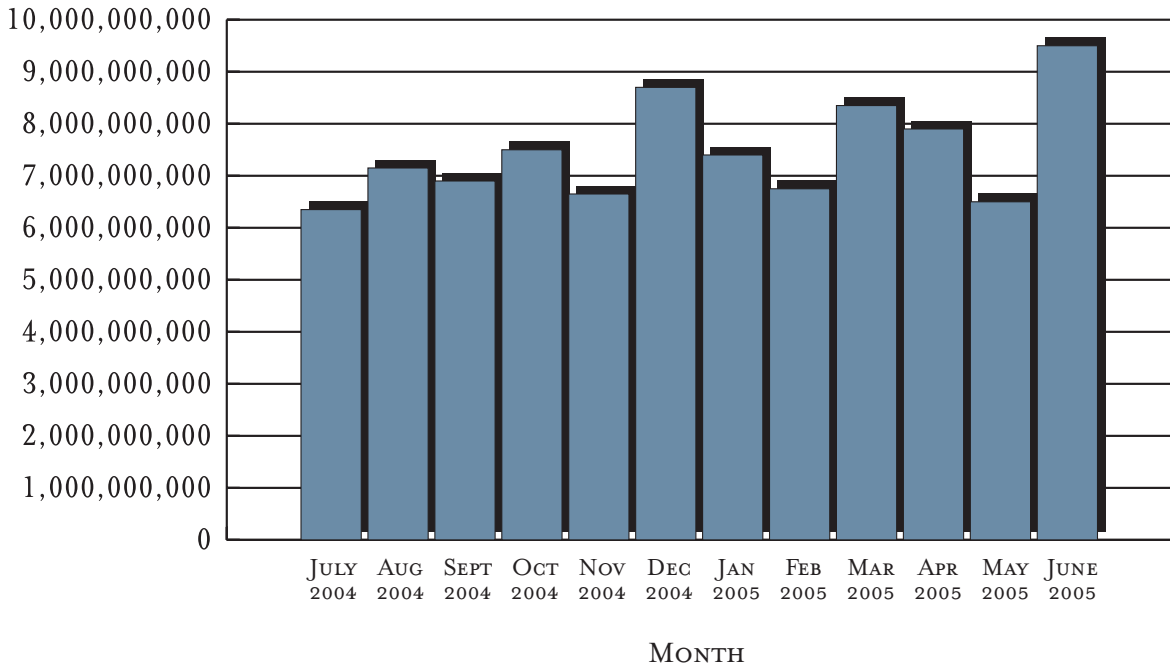
## RECEIPT & DISBURSEMENT TABLE

<b>BEGINNING CASH BALANCE OF FISCAL YEAR 2005</b>		\$	(1,169,230,240.26)
<b>Receipts:</b>	July-04	\$	6,345,956,508.62
	August-04		7,150,695,484.80
	September-04		6,916,749,864.49
	October-04		7,499,190,721.94
	November-04		6,649,968,562.21
	December-04		8,703,436,530.94
	January-05		7,413,664,780.77
	February-05		6,747,032,196.39
	March-05		8,332,057,862.80
	April-05		7,923,180,682.25
	May-05		6,519,948,585.05
	June-05		9,445,407,855.48
<b>Total Receipts Fiscal Year 2005</b>		\$	89,647,289,635.74
<b>Disbursements:</b>	July-04	\$	(6,796,145,994.45)
	August-04		(6,699,845,518.06)
	September-04		(7,514,170,477.47)
	October-04		(6,466,926,988.08)
	November-04		(8,017,155,594.40)
	December-04		(7,838,339,597.02)
	January-05		(7,872,294,132.51)
	February-05		(6,837,371,629.74)
	March-05		(8,014,806,072.57)
	April-05		(7,115,254,292.78)
	May-05		(8,199,561,102.34)
	June-05		(8,238,904,839.72)
<b>Total Disbursements Fiscal Year 2005</b>		\$	(89,610,776,239.14)
<b>Ending Cash Balance of Fiscal Year 2005</b>		\$	(1,132,716,843.66)

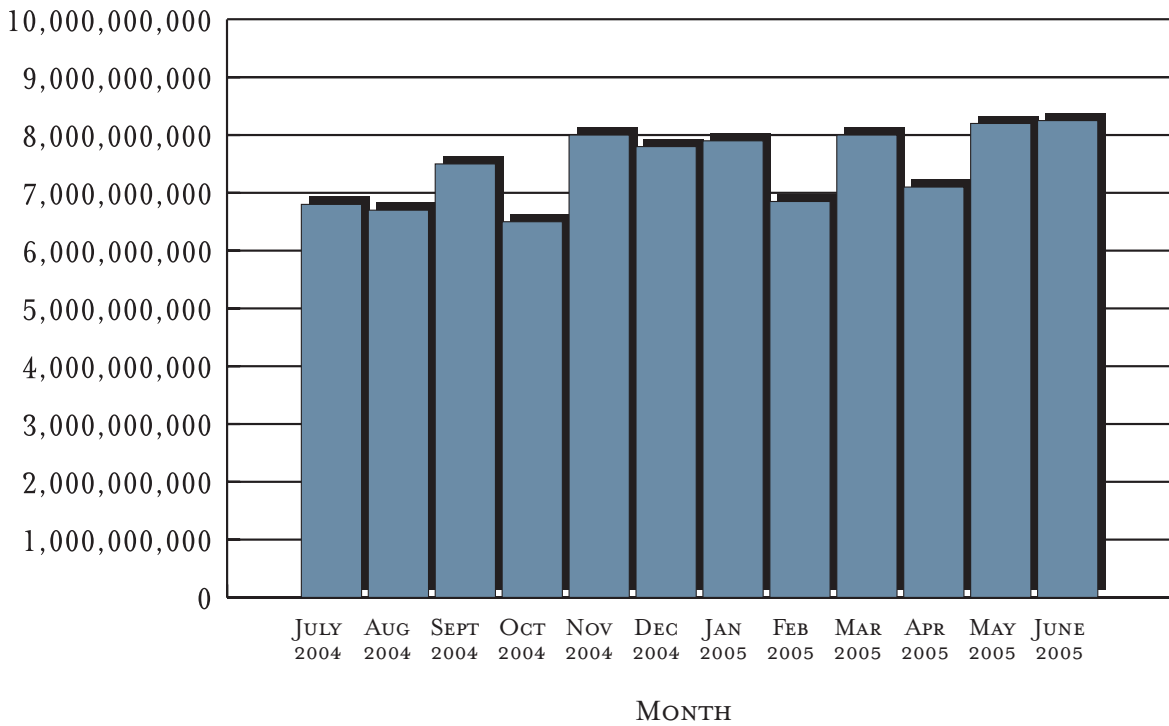




**Cash Receipts**



**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 be working with agencies currently not maximizing use of these payment methods in the near future. The Internet 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 web-sites. These programs have proven successful, and it is anticipated that other agencies will utilize these payment services in the future.

The 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.

## 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 Banking Services Division is responsible for monitoring collateral. Financial institutions must submit monthly reports 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 also are required to report the name of the institution for which the collateral is being held and the amount. 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 institution is required to increase the collateral. The 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.

### Collateral Balances

AS OF JUNE 30, 2005	BANKS	INSURANCE COMPANY
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
<b>2005</b>	<b>424,150,752</b>	<b>330,531,925</b>

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



*The Maryland State Treasurer's Office*  
INSURANCE DIVISION

# Insurance Division

The Insurance Division manages the State's self insurance programs and State Insurance Trust Fund (SITF) claims, procures commercial insurance policies, and assists in loss prevention action plan development for State agencies. The Insurance Division is a central resource for State organizations seeking guidance on insurance issues and is contacted daily by many internal and external customers needing accurate and timely information concerning underwriting, claims, and loss prevention services.

As a public entity, the State has challenges finding broad commercial insurance with high limits at competitive prices due to the catastrophic loss potential of a number of State agency operations. In order to secure State mandated limits, which can be several hundred million dollars for agencies with the highest catastrophic loss potential, the Insurance Division must obtain coverage with multiple coordinating insurance companies. Mergers and acquisitions have reduced the number of insurance carriers marketing to the State, and many insurers have reduced the limits of coverage they are willing to offer.

Frequent meetings with insurance company underwriters and brokers have made a significant impact on differentiating the Insurance Division from other state and local public entities seeking similar coverage and policy limit capacity. The Insurance Division has forged solid partnerships with the most financially secure market leaders because of its diligence in responding promptly to insurance company requests, despite an ever increasing demand for extensive technical support information. The Insurance Division Underwriting Department has a reputation for obtaining the most favorable coverage terms available in the marketplace on a consistent basis.

Effective risk and loss exposure management is an important component of the Insurance Division's approach to reducing the ultimate cost of loss. The State's geographic, cultural, and operational diversity has contributed to an exceptionally wide exposure to many sources of tort and property losses. The State owns almost 3,000 buildings with total building and contents values of \$16.5 billion dollars. There are enormous potential economic and human losses associated with natural disasters such as hurricanes, tornadoes, and floods. Financial losses from natural disasters can easily exceed the dollar values of other serious property losses. Insurance industry losses associated with the recent devastating hurricane season will almost certainly adversely affect the Insurance Division by forcing an increase in property rates in the commercial catastrophic loss policies.

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 State Treasurer's Office. It is this provision of the law that creates the need for the Insurance Division within the State Treasurer's Office.

In addition to matters related to the Maryland Tort Claims Act, the State Treasurer has authority for insurance coverage of State-owned property and the payment of claims awarded by the Board of 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 and losses incurred by the State (See the Schedule of Selected Financial Data at the beginning of the Annual Report).

In September, 2005 the Department of Budget and Management approved the Insurance Division's request for a deviation on the existing regulation COMAR 17.01.01.04H, which allows the use of inter-company arbitration. This change facilitates the settlement of liability disputes without the cost of litigation for claims valued up to \$5,000.



In fiscal year 2005, the Claims Department received and investigated approximately 3,600 claims and implemented several staffing adjustments to maximize operational efficiencies and further improve internal, agency, and external customer services.

The Claims Department assisted the Department of Budget and Management's Fleet Services Division in the planning of a Statewide program for the repair of damaged vehicles using a network of preferred vendors at discounted rates. Additional cost savings were achieved by expanding program eligibility to non-traditional automobiles such as State Highway Administration's heavy equipment. This new vehicle repair system, which eliminates the need to obtain multiple estimates, is expected to produce significant long-term financial savings for the State.

The Claims Department continues to combat fraud through the use of the Insurance Services Office's ClaimSearch program. ClaimSearch is a national database that provides comprehensive and current information on prior claims and physical injury history that might be relevant to a submitted Insurance Division claim. Fraud protection tools allow Insurance Division claim adjusters to make informed decisions when fairly compensating people with legitimate claims, while also protecting State assets.

The Insurance Division generates a significant amount of claims data that is used for accounting, loss prevention, and mitigation purposes. Loss information is shared with the originating agencies to support the development of safety and risk management action programs. To heighten the urgency for developing risk management and loss prevention plans, State agencies are billed on an annual basis for previously incurred claims costs.

Last year the Insurance Division created a Loss Prevention Manager position. The new manager conducted State and agency level loss reviews that identified high frequency and severity loss trends over a five year period. Meetings with State agencies resulted in the development of specific plans for targeted corrective actions. The Loss Prevention Manager participates in the State Employees Risk Management Administration's Agency Risk Management Advisory Council and the University System Risk Management committees, as well as Maryland Emergency Management Agency's Disaster Mitigation Risk Management team.

Property losses received special risk management attention this year. The Insurance Division expanded the scope of property inspections to include selective infrared thermographic imaging. Infrared thermographic imaging is a valuable detection tool in identifying high voltage electrical system hot spots and deficiencies that, if not corrected, can cause fires, electrical service interruptions, and unanticipated loss of building use. Roof leaks, causing expensive water damage if not repaired, can also be detected using infrared thermographic technology. Effective, selective use of infrared thermographic imaging can save the State money and improve preventative maintenance allocation resources by identifying problems before they adversely affect State budgets or cause tragic loss of life or bodily injury.

The State Fire Marshal and the excess property insurance carriers now notify the Insurance Division if a State owned building fails a fire and life safety inspection, or if a sprinkler system fails to meet testing or water flow performance standards. The Boiler and Machinery insurance carrier provides immediate notice to the Insurance Division when boilers fail inspections. Prompt notice of inspection deficiencies allows the Insurance Division and respective agencies to improve fire and life safety conditions in State buildings before losses occur.

Together the Claims, Underwriting, and Loss Prevention departments spearheaded cost-effective risk management action plans throughout the State and enhanced the Insurance Division's image as a proactive and responsive department by becoming more visible and improving customer service delivery standards.



*The Maryland State Treasurer's Office*  
ADMINISTRATION DIVISION

# Administration Division

The Administration Division is responsible for accounting, budget preparation and monitoring, legislation of interest to the State Treasurer's Office, and human resources within the State Treasurer's Office. In addition, the Administration Division ensures compliance with the Cash Management Information Act (CMIA) and procures insurance, banking and financial services, and equipment and supplies for the State Treasurer's Office.

## SUPPORT SERVICES

One of the support functions provided by the Administration Division is human resources and personnel management for the State Treasurer's Office by the Human Resources Department. New employee orientation, administration of health benefits and retirement benefits, leave accounting, performance evaluation tracking, staff development, position reclassifications, employee relations, and retirements are included in these services. In addition, the Human Resources Department 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 State Treasurer's Office. In addition, the department provides guidance and interpretation of Statewide personnel policies, office policies, and updates for any changes in the personnel system.

As of June 30, 2005, the State Treasurer's Office had 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 & PROCUREMENT

Under the authority of the State Finance and Procurement Article, Annotated Code of Maryland, the Administration Division is responsible for procuring contracts for all banking, investment, insurance and other financial services. These services involve banking contracts, financial advisors, escrow and paying agents, underwriters, and General Obligation bond services. Contracts procured by the Administration Division on behalf of the State Treasurer's Office are utilized by all State agencies. In addition to the contract awards, the Director is responsible for providing to the Board of Public Works a quarterly report known as the Procurement Agency Activity Report and an annual Minority Business Enterprise Report. These reports will be augmented by a third report to ensure compliance with new initiatives proposed by the Board regarding the Small Business Reserve Program that went into effect on October 1, 2004. In addition, the Administration Division represents the State Treasurer at Senior Procurement Advisory Group meetings and attends the quarterly Procurement Advisory Council meetings as well.

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

## 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 (1) developing and monitoring the operating budget; (2) preparing and maintaining all the financial records, controls and procedures relating to budgetary general, special, non-budgeted and reimbursable funds and (3) administering expenditures, accounts receivable, accounts payable, payroll, cash receipts and cash disbursements to ascertain accurate reporting to the general ledger. The Budget and Accounting Division works with the Department of Budget Management, the Comptroller of the Treasury, and the Department of Legislative Services to ensure that the Division is giving accurate and prompt reports while adhering to all State requirements.

Fiscal responsibilities for treasury management are carried out by the accounting unit of the Administration Division. These responsibilities include State investment, 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. These responsibilities are carried out in accordance with the powers and authority given to the State Treasurer under Article VI of the Constitution of Maryland.

During Fiscal Year 2005, the accounting unit recorded, confirmed and reconciled all accounting amounts entries with the general ledger for receipts and disbursements on behalf of: Treasury Management; State investments; the State Insurance Trust Fund, commercial insurance coverage premiums, the Injured Workers Insurance Fund and for the Master Lease Program. This was accomplished by recording, directing, and coordinating these transactions for more than 300 vendors, and both State and local governments.

Ongoing 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 Accounting Unit continues to update the internal controls and office procedures to ensure compliance with established government policies, laws, and regulations.

## CASH MANAGEMENT IMPROVEMENT ACT

The Maryland State Treasurer has the responsibility for 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 that 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 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 obligatory authority. Interest is due from the State during the time the State holds federal funds in its account prior to its disbursement for program purposes.

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

For FY 2005, the State's major programs, categorized as programs that exceeded \$36,951,589 in FY 2003 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 non-major programs, the State and federal program agencies are responsible for minimizing the time between the transfer and payout of funds.



*The Maryland State Treasurer's Office*  
INFORMATION TECHNOLOGY DIVISION

# Information Technology Division

The Information Technology Division (ITD) provides fully automated data processing capabilities to support the State Treasurer's Office's daily operations. The ITD provides application development, network services, file and print services, training, technical assistance, and other technology services to all divisions in the State Treasurer's Office. Other service provided by the ITD includes local area networking, Internet access, e-mail, application development, website updates, software evaluation, and data communications.

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

## OFFICE AUTOMATION AND NETWORK SUPPORT

The Networking Department of the State Treasurer's Office continued its focus on the upgrade and upkeep of hardware, software, and operating systems to industry standards on all State Treasurer's data processing systems.

### Server Upgrade

To upgrade the State Treasurer's Office data processing systems, the network host systems were migrated to a new MS Exchange mail server and a new file/print/application server. These new systems are now running on Microsoft 2003 Operational System (OS). The Domain Server OS was upgraded to MS 2003, permitting all Treasury systems to now run on a MS 2003 Domain. This upgrade/update has allowed for better control over network resources, greater uptime for users and enhanced the fault tolerance and dependability of the entire network.

### Working Hours

The Networking Department continued expanded service hours to allow for coverage from 7 a.m. to 6 p.m., complemented with off-site support via a remote device. This remote device now allows for all after-hours support calls to be immediately routed to an on-call support engineer regardless of the time or day.

### Software Licensing

The State Treasurer's Office expanded its use of End User Licensing Agreements (EULA) for software activation. The acquisition of EULA's standardized software has improved inventory control and will continue to ease the installation of future upgrades.

### Workstations Upgrades

Approximately 60 percent of workstations now run Windows XP, and 90 percent of workstations now run Office 2003. All workstations will be migrated to the Windows XP in 2006. The workstation upgrades have helped improve both client and Help Desk efficiency. The new workstations allow the networking staff to implement State governed password policies, automated Virus Scan database updates, and to take the first steps to upgrade the directory structure security.



### Directory security

Directory security has been a primary focus for the past year as more and more sensitive data flows through the State Treasurer's Office 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.

### Server/Network Infrastructure Power

New battery back-up units were installed to support all core switching and server infrastructure. The equipment protects servers and network switches from brief power outages and surges. The units are another tool placed into production to ensure uninterrupted processing.

## 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 disbursement 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 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 MICR encoding, signatures, and agency or bank logos on blank paper. The use of blank paper stock precludes the need to maintain pre-printed 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. The Information Technology Division, along with the Banking Division, continues to encourage the use of electronic payment methods.

## RECEIPT PROCESSING

The State Treasurer's Office 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

The Information Technology Division completed more than 70 projects to enhance the banking reconciliation system. Projects focused upon the ACH processing, charge backs, and quality data controls on Vendor, Tax, and R\*STARS source files. Enhancement of reporting for Unpresented Checks, Data Validation, Issued/Reissued Payroll Checks and Agency Crosswalk, verification of historical data against existing reports when requested, running of historical data through reporting processes to reproduce reports when requested, modification of match process reports with additional summary data, preparation of instructions for record deletion processes, and running record deletion processes when requested were among the 2005 enhancements.

The Information Technology Division will continue to work with the Banking Services Division to determine the best solution for an improved banking reconciliation system and assist that division in its implementation.



*The Maryland State Treasurer's Office*  
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. While the entire Office of the Attorney General serves as a resource to the Treasurer, three Assistant Attorneys General are assigned to the State Treasurer's Office to provide direct, full-time legal support.

## DIRECTOR, LEGAL DIVISION

The Director of the Legal Division (1) 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; (2) serves as in-house counsel for the semi-annual issuance of General Obligation bonds and (3) 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 Director provides advice, counsel and legal analysis of the Treasurer's constitutional and statutory powers and responsibilities. In addition, the Director provides advice, counsel, and legal analysis on matters before various boards and commissions on which the Treasurer serves, principally the Board of Public Works.

## PRINCIPAL COUNSEL TO THE TREASURER

The Principal Counsel serves as the primary legal advisor on administration, procurement, and personnel matters in the State Treasurer's Office. In this capacity, the Principal Counsel provides advice and assistance on the procurement and administration of a wide variety of financial service contracts for the Office, as well as for other State agencies, including banking, finance, investment and related information technology services. The Principal Counsel provides advice and counsel to the Treasurer and office management on all personnel matters, including disciplinary matters, and represents the State Treasurer's Office in all personnel proceedings.

In addition, the Principal Counsel serves as the senior advisor to the Insurance Division and provides analysis and advice on all insurance matters, including administrative and regulatory proceedings and procurement and administration of commercial insurance policies.

## TAX-EXEMPT FINANCING - GENERAL OBLIGATIONS

In Fiscal Year 2005, the Legal Division participated in the issuance of \$750,000,000 in tax-exempt Capital Improvement Bonds, \$855,840,000 in Refunding Bonds and \$25,000,000 in Taxable Bonds.

The Legal Division'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 Director participates in the preparation and review of official statements and other offering documents, including authorizing resolutions of the Board of Public Works. For all loans authorized since 1989, the Director researches and writes bond counsel opinions for joint signature with the Attorney General.

On-going legal advice 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 Director advises and assists the Treasurer's Finance Division in the on-going administration of tax-exempt lease financing. In Fiscal Year 2005, the Master Equipment Lease, in the aggregate principal amount of \$16,707,134.39, required legal review of monthly takedown documentation and detailed equipment schedules. In addition, the Master Equipment Lease required the issuance of legal opinions concerning the authorization, validity, and enforceability of each installment under the lease.

#### TORT CLAIMS

The Supervisor of Tort Claims Litigation provides analysis and advice to the Insurance Division on the approximately 4,000 tort and auto claims filed each year under the Maryland Tort Claims Act. The Supervisor of Tort Claims Litigation serves as a member of the Insurance Review Committee, which evaluates potential tort settlements and litigation. In addition to directly handling tort cases, the Supervisor of Tort Claims Litigation oversees and provides litigation support for the assistant attorneys general throughout the State who litigate tort cases filed under the Maryland Tort Claims Act.

This litigation support includes 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 and federal courts. The Supervisor of Tort Claims Litigation supervises all appellate matters concerning the Maryland Tort Claims Act.



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*(This report also available on CD.)*

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