

The background of the entire page is a close-up, slightly blurred image of the Maryland state flag. The flag features a black and white checkered pattern in the upper left corner, transitioning into a red and white checkered pattern in the lower right. A horizontal gold band is positioned across the top third of the page, containing the title text.

Maryland

State Treasurer's Annual Report 2006

Investing for Maryland's Future

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Biography of the Honorable Nancy K. Kopp

TREASURER OF MARYLAND



STATE TREASURER

Nancy K. Kopp

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. She is the second woman ever to serve as Maryland's State Treasurer and is the only woman serving Maryland in a Constitutional office. 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 sits on Maryland's Board of Revenue Estimates. She is the chief representative of the State in dealing with financial rating agencies and investment banking firms. The Treasurer also serves as Chair of the Board of Trustees of the Maryland State Retirement and Pension Systems; as Chair of the College Savings Plans of Maryland and as a member of the Maryland Supplemental Retirement Board; the University of Maryland Baltimore County Public Policy External Advisory Board; the Maryland Health and Higher Education Financing Authority; the Maryland Agricultural Land Preservation Foundation Board and the Small Business Development Financing Authority. Unique 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 procurements and contracts of the State, ranging from wetlands licenses to construction projects and other State procurements and contracts.



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. 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 10 most effective members of the House.

Treasurer Kopp has been active in numerous national, regional and state organizations and boards over the years, primarily focused on finance, budgeting and education. She is Chair of the Northeast State Treasurers organization and was recently elected Treasurer of the National Association of State Auditors, Comptrollers and Treasurers. Appointed by President Clinton to the National Assessment Governing Board, which oversees the National Assessment of Educational Progress (the “Nation’s Report Card”), Treasurer Kopp also served as Treasurer of the Southern Regional Education Board and chaired its Commission on Educational Quality. She 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 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 (Eastern Shore) and Captain Thomas Tasker (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 about 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) meets every two weeks, serving as the State's policy-making and oversight board for State procurements. In fiscal year 2006, the Board acted on 1,874 transactions totalling \$5.4 billion.

Comprising the Governor, the Comptroller and the Treasurer, it is the only constitutionally-mandated government body of its type in the nation. Its decisions, made in a public setting substantively affect the operation of State government.

The contracts submitted for approval are wide-ranging, such as: wetlands licenses; land acquisition as part of preservation programs; funding of hospitals, community colleges and nonprofit organizations; leasing of space for State agencies; flood mitigation in Western Maryland; sale of State land for economic development; construction projects at the Port of Baltimore and Baltimore Washington International Thurgood Marshall Airport; commuter bus operations in Southern Maryland; construction projects at universities belonging to the University System of Maryland; information technology upgrades at the Maryland Department of Human Resources and the Maryland Department of Environment; foster care and adoption services; testing services for the Maryland Department of Education; contracts for janitorial services for sheltered workshops and grants for wastewater treatment plants.

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 critical in ensuring that the State's procurement process is open, honest and competitive, and is particularly important when Board actions touch upon legislative policy decisions, as they sometimes do.

The Constitutional Convention of 1864 created the Board of Public Works based on predecessor boards dating back to 1825. In the mid-19th century, the Board principally oversaw public works activities such as railroads, canal and bridge companies, in which the State had an interest as a stockholder or creditor.

The Board's duties have expanded considerably as the legislature has broadened the Board's responsibilities and autonomy. The Board's purview touches nearly every facet of State government and hence every jurisdiction in Maryland.

The Governor, 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 local public officials and civic leaders interested in the outcome of Board decisions. On particularly contentious issues, a Board meeting can resemble a legislative hearing, with both sides presenting their cases. All votes are public. Twice a year the Board oversees bond sales organized by the State Treasurer's Office in the course of its normal agenda.

In a State such as Maryland with a strong governor who establishes the budget, which the General Assembly can only cut, not increase, the Board of Public Works can serve as a check on executive actions. This sharing of power works effectively for the citizens of Maryland; final decisions on procurements are transparent and open for discussion.



Schedule of Selected Financial Data

COLLATERAL BALANCES AS OF JUNE 30, 2006:

| | |
|-------------------------------|----------------|
| Bank | \$ 395,624,082 |
| Insurance Companies | \$ 157,531,205 |

TOTAL INVESTMENT PORTFOLIO COMPOSITION

AS OF JUNE 30, 2006:

| | |
|------------------------------------|-------------------------|
| Repurchase Agreements | \$ 4,876,192,677 |
| U.S. Treasury | \$ 104,152,939 |
| U.S. Government Agencies | \$ 1,692,536,964 |
| Other Investments | \$ 194,829,308 |
| Total Portfolio. | <u>\$ 6,867,711,888</u> |

SECURITIES LENDING PROGRAM ACTIVITY FOR THE 2006 FISCAL YEAR

| | |
|------------------------|------------|
| Gross Income | \$ 617,845 |
| Net Income | \$ 463,384 |

GENERAL OBLIGATION DEBT ACTIVITY FOR THE 2006 FISCAL YEAR

| | |
|---|----------------|
| General Obligation Bond Issuances | \$ 750,000,000 |
| Tax Exempt Bonds | \$ 710,000,000 |
| Taxable Bonds. | \$ 40,000,000 |
| Interest Payments | \$ 230,474,486 |
| Principal Payments | \$ 393,355,000 |

LOCAL GOVERNMENT INVESTMENT POOL FUND BALANCE

| | |
|--------------------------------|------------------|
| AS OF JUNE 30, 2006: | \$ 1,900,131,615 |
|--------------------------------|------------------|

STATE INSURANCE TRUST FUND BALANCE

AS OF JUNE 30, 2006:

| | |
|--|----------------------|
| Beginning Balance | <u>\$ 10,051,981</u> |
| Transfers In | \$ 22,678,631 |
| Transfers Out | \$ (14,229,568) |
| Less Operating Transfer to General Fund. | \$ 0 |
| Ending Balance. | \$ 18,501,044 |
| Recommended Actuary Balance | \$ 28,761,570 |
| Unfunded Liability | \$ (10,260,526) |



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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 twice a year to ensure the State's financial ability to meet its fiscal obligations. The State Treasurer also provides lease-purchase financing of capital equipment for State agencies and handles the insurance needs for State government.

The Treasurer serves, along with the Governor and the Comptroller, on the Board of Public Works and as Chair of the State Retirement and Pension System's Board of Trustees, Chair of the Maryland College Savings programs and a member of the Board of Trustees of the Maryland Supplemental Retirement System. The Treasurer sits on task forces as directed by the General Assembly.

The Director of Operations coordinates and manages the daily functions of the State Treasurer's Office, including the investment, information technology, banking services, insurance, debt management and administrative divisions. The Director of Operations also advises the Treasurer on personnel management, new technologies and strategic planning, and with the Deputy Treasurer for External Affairs as a liaison to the General Assembly.

As a Legislative Liaison for the State Treasurer's Office, the Director of Operations coordinates legislation within the office, reviewing bills, preparing fiscal notes and written testimony and following 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 to the Office, the State and private industry. The Director works closely 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/adviser to the Board of Public Works, conducting extensive research, preparing detailed analyses for the Treasurer for the bi-weekly meetings and operating a constituent outreach system. The Deputy Treasurer also represents the Treasurer on 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, preparing news releases and responding to media inquiries, particularly related to the twice-yearly bond sales.



The Internal Auditor who also serves as the focal point for all financial, productivity and compliance audit activity, 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 Internal Auditor works with Division Directors to provide preventative and enforcement services through independent audits, reviews and investigates, and also conducts performance, compliance, economy and efficiency audits to ensure that the internal controls associated with each of the operating divisions are being performed in accordance with the established guidelines.

The Internal Auditor plans, controls, directs and implements a comprehensive annual audit plan designed to evaluate internal controls, add value, improve operations, and minimize risk at 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 auditor 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 reasonable assurance that appropriate policies and procedures are in place and functioning as intended.



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The Maryland State Treasurer's Office

INVESTMENT DIVISION



Investment Division

*S*ections 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 primarily invests the cash balances that are temporarily idle between the time revenue is collected and the time budgeted amounts are disbursed. The program also includes 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.

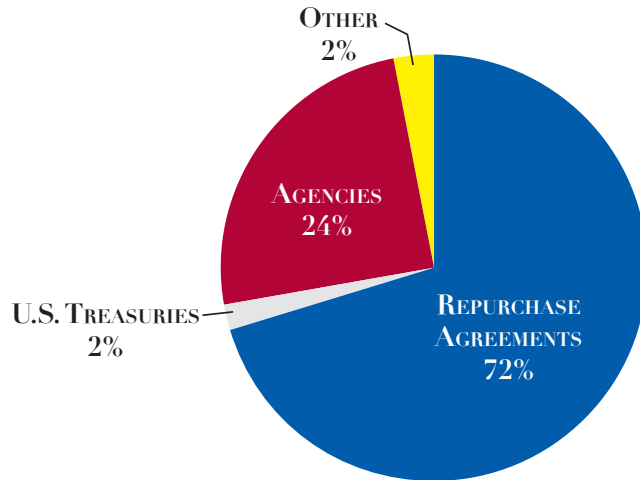
Other State agencies are responsible for the investment and management of the State’s pension funds, the insurance reserves of the Maryland Automobile Insurance Fund and certain endowment funds at public colleges and universities. Interest earnings on investments accrue to the General Fund unless State law or regulation directs that the interest should accrue to a specific fund. During the 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, repurchase agreements collateralized by those securities, certain money market mutual funds and limited amounts of commercial paper. The law specifically prohibits doing reverse repurchase agreements when the proceeds will be used solely for investment purposes. During the 2006 session, the General Assembly enacted legislation, sponsored by the Treasurer’s Office, which stipulates that money market mutual funds must “have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission” in order to be acceptable. The law also increased the percentage of highest grade commercial paper that could be held from 5% to 10% of the total portfolio. This legislation became effective October 1, 2006.

PORTFOLIO COMPOSITION AT JUNE 30, 2006 (CHART 1)

| | |
|---------------------------------|------------------|
| Repurchase Agreements | \$ 4,876,192,677 |
| U.S. Treasuries | 104,152,939 |
| Agencies | 1,692,536,964 |
| Other | 194,829,308 |





PORTFOLIO COMPOSITION AT JUNE 30, 2006

U.S. government agency investment securities are procured competitively through approved brokerage firms. To be approved, a firm (1) must 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.

The investment portfolio is designed to meet the cashflow needs of the State (i.e., have funds available to cover disbursements). During Fiscal Year 2006 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 were 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.

On June 30, 2006, the total of all portfolios under the active management of the State Treasurer's Office was \$6,867,711,888, up 20.8% from the previous year. The General Fund portfolio increased 19.9% from \$5,403,757,921 to \$6,480,959,704. The average rate of return on the General Fund rose from 2.26% to 4.06%. The State Treasurer's investment program lagged its benchmark index, the three-month Treasury Bill, which averaged 4.17% for the same time period.



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 |
| 2006 | \$ 6,480,959,704 | \$ 6,867,711,888 |

The average annual General Fund investment balance increased by \$1,402,867,794. 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 2006, more than doubled for the second consecutive year. Gross investment earnings went from \$107,424,537 in Fiscal Year 2005 to \$258,835,346 in Fiscal Year 2006.

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% |
| 2006 | 4.06% | 4.17% |

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 |
| 2006 | \$ 149,613,238 | \$ 109,222,108 | \$ 258,835,346 |



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 3rd 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 securities are returned and the interest earned is allocated between the State and the securities lender.

Securities lending earned \$463,384 during Fiscal Year 2006, a 28.5% increase over Fiscal Year 2005 earnings of \$360,524. The rise in securities lending income is attributable to the increase in size of the securities portfolio and the higher interest rate environment.

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, which has been acquired by The PNC Financial Services Group, Inc. The acquisition is expected to close during the first quarter of 2007. The State Treasurer's Office has been assured that this will result in enhanced services and technology available for the pool.

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 2006, there were 289 participants, up from 287 in Fiscal Year 2005. The fund balance as of June 30, 2006 was \$1,900,127,809. The actual yield for Fiscal Year 2006 was 4.15% compared to the actual yield for Fiscal Year 2005 of 2.15%.

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 members. The panel meets semi-annually, reviews the fund's activities and makes recommendations to Mercantile Safe Deposit and Trust Company's 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 Balance

| FISCAL YEAR | FUND BALANCE 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% |
| 2006 | \$ 1,900,127,809 | 289 | 4.15% | (2.69%) |



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The Maryland State Treasurer's Office

DEBT MANAGEMENT DIVISION



Debt Management Division

As a member of the Board of Public Works, the Treasurer has the lead role in the Board's activity relating to the issuance and oversight of State debt. 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.

GENERAL OBLIGATION BONDS

General Obligation debt, which has the pledge of the full faith and credit of the State, finances 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.

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). One of only six states in the nation to hold a Triple-A credit rating from all three major credit rating agencies, Maryland's low interest rates are attributable to these superior ratings.

The Treasurer recommends the size, timing and sale terms of General Obligation debt issuance. This entails periodic analysis and surveys to determine the monthly cash balances of bond proceeds and to project anticipated cash needs of State agencies and grantees for authorized capital projects. In recent years, the State has held sales semi-annually. The Debt Management Division, in conjunction with the State's Financial Advisor, the Treasurer's 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 monitors market conditions and arranges the details of the actual sale, which is done at a Board of Public Works meeting. Bids are transmitted electronically by underwriting syndicates, verified by the State Treasurer's Office and the winning bid is then approved by the Board of Public Works. Finally, the State Treasurer's Office supervises all activities of post-sale settlement, including the investment of the bond proceeds.

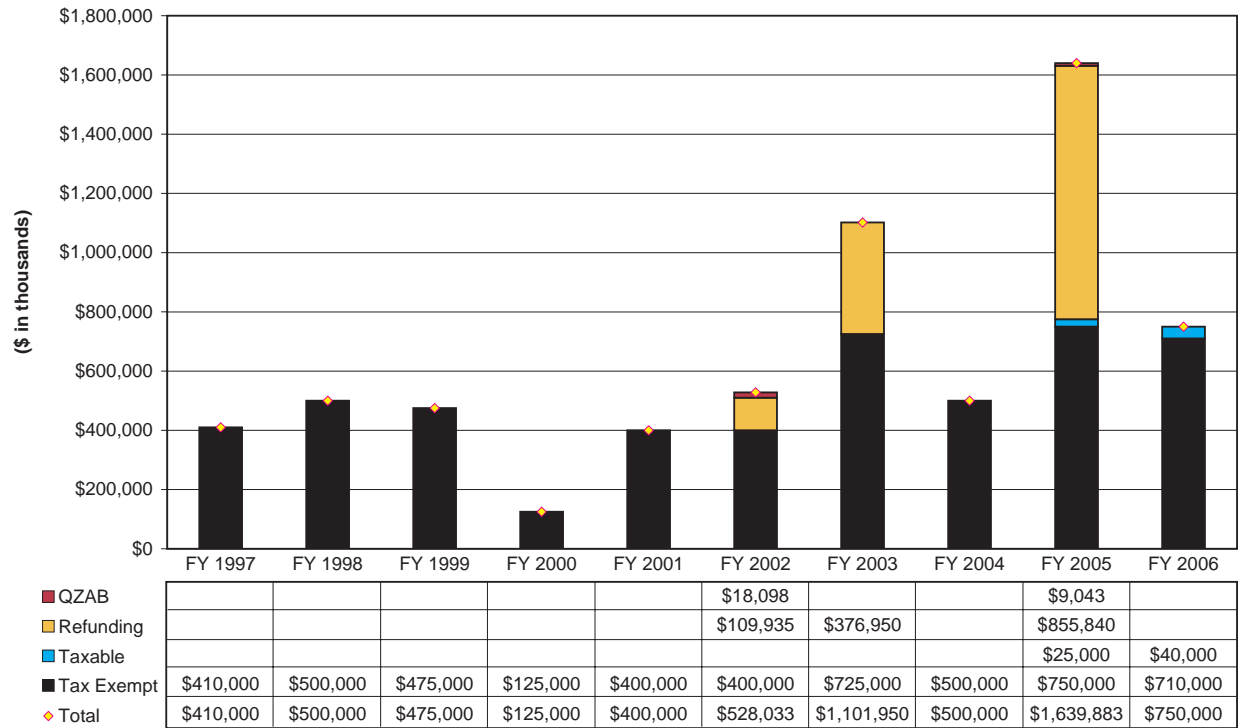
Two General Obligation bond sales occurred in Fiscal Year 2006 totaling \$750,000,000.

| Series | Date of Sale | Total Sale Amount | Tax-Exempt | Tax-Exempt TIC | Taxable | Taxable TIC |
|--------------------|--------------|-------------------|---------------|----------------|--------------|-------------|
| 2005 Second Series | 7/20/2005 | \$450 million | \$430 million | 3.788% | \$20 million | 4.42% |
| 2006 First Series | 3/1/2006 | \$300 million | \$280 million | 3.873% | \$20 million | 4.98% |

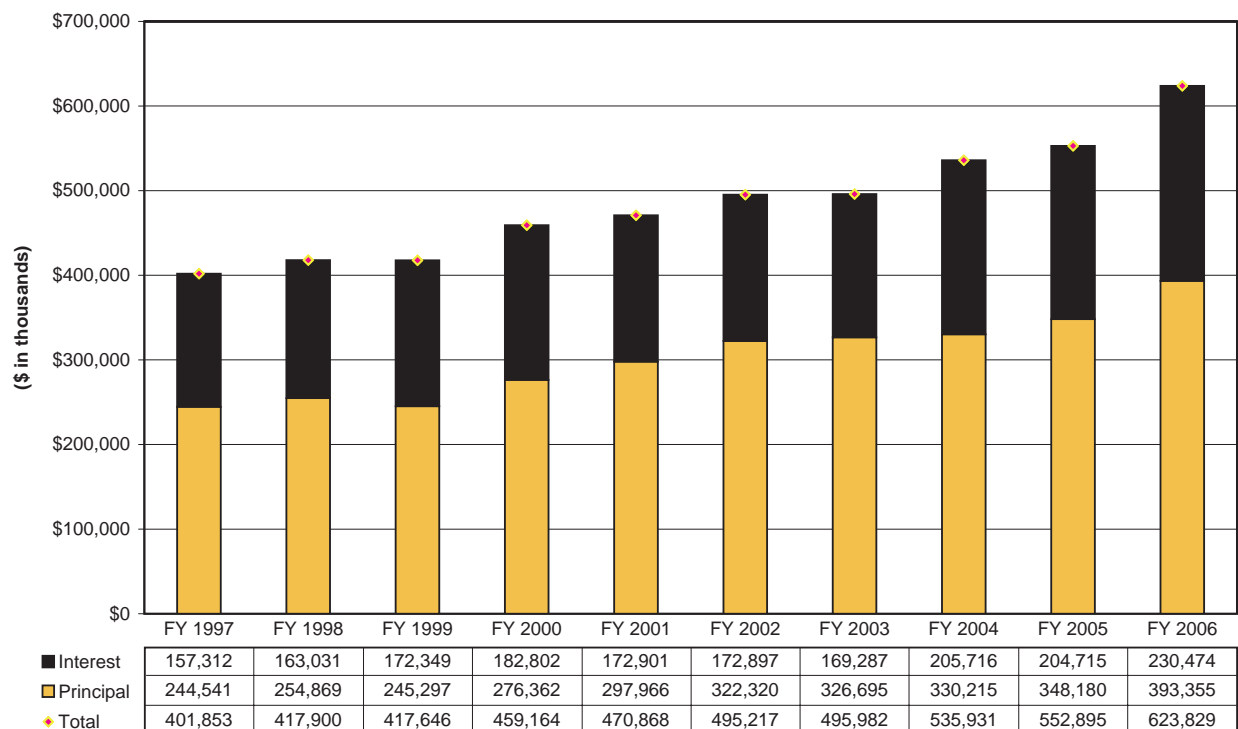


The history of General Obligation bond issuance and debt service for the last ten years is depicted in the following charts.

ISSUANCE OF GENERAL OBLIGATION BONDS



DEBT SERVICE ON GENERAL OBLIGATION BONDS

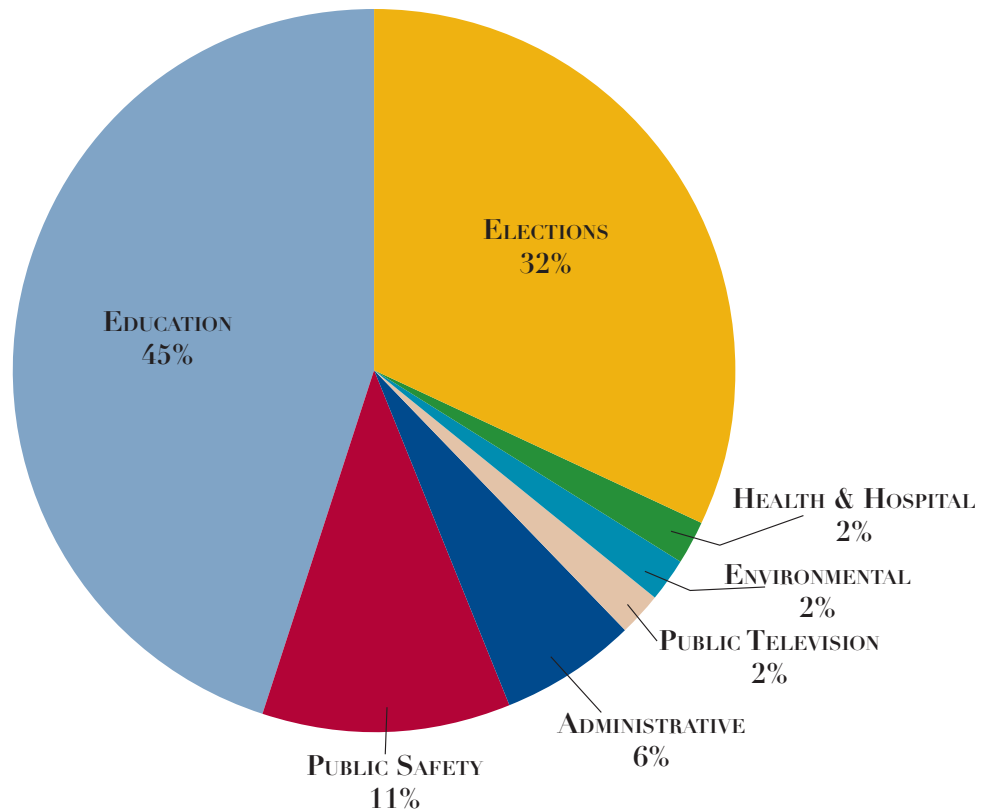


CAPITAL LEASE FINANCING

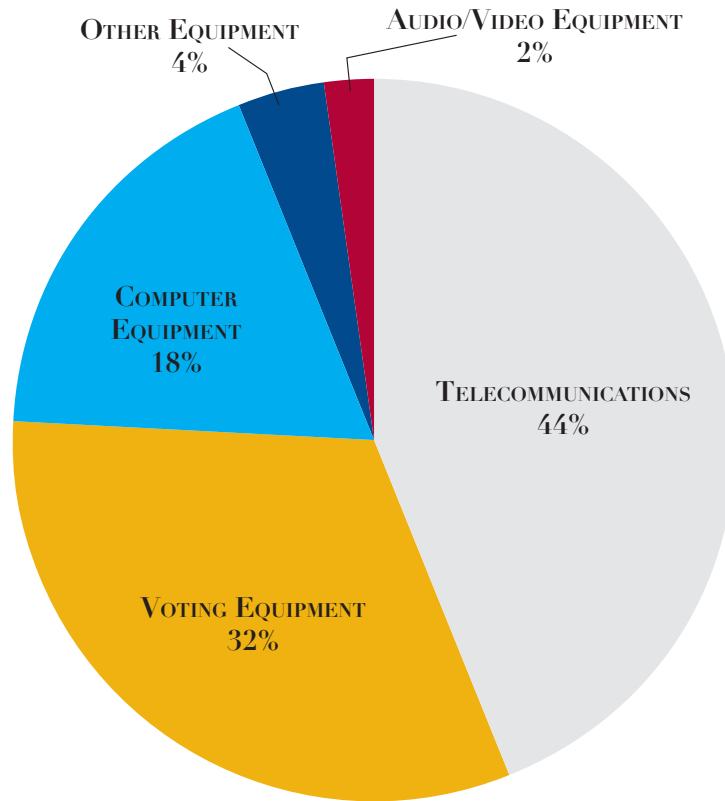
The State Treasurer's Office provides financing for equipment, generally for terms of three, five or ten years, for State agencies using the Capital Lease-Purchase Program. Periodically the State Treasurer's Office procures a lessor, who finances equipment monthly that meets the Lease Purchase Financing Guidelines established by the Office. The lessor is paid semi-annually (January 1 and July 1) from funds transferred at the beginning of each fiscal year from the using agencies.

During Fiscal Year 2006, State agencies financed \$ 23,048,914 of equipment under the 2003 Master Lease Purchase Agreement. (See the following charts for the classification by governmental use and equipment type).

GOVERNMENTAL USE - FISCAL YEAR 2006
MASTER EQUIPMENT LEASE-PURCHASE FINANCING

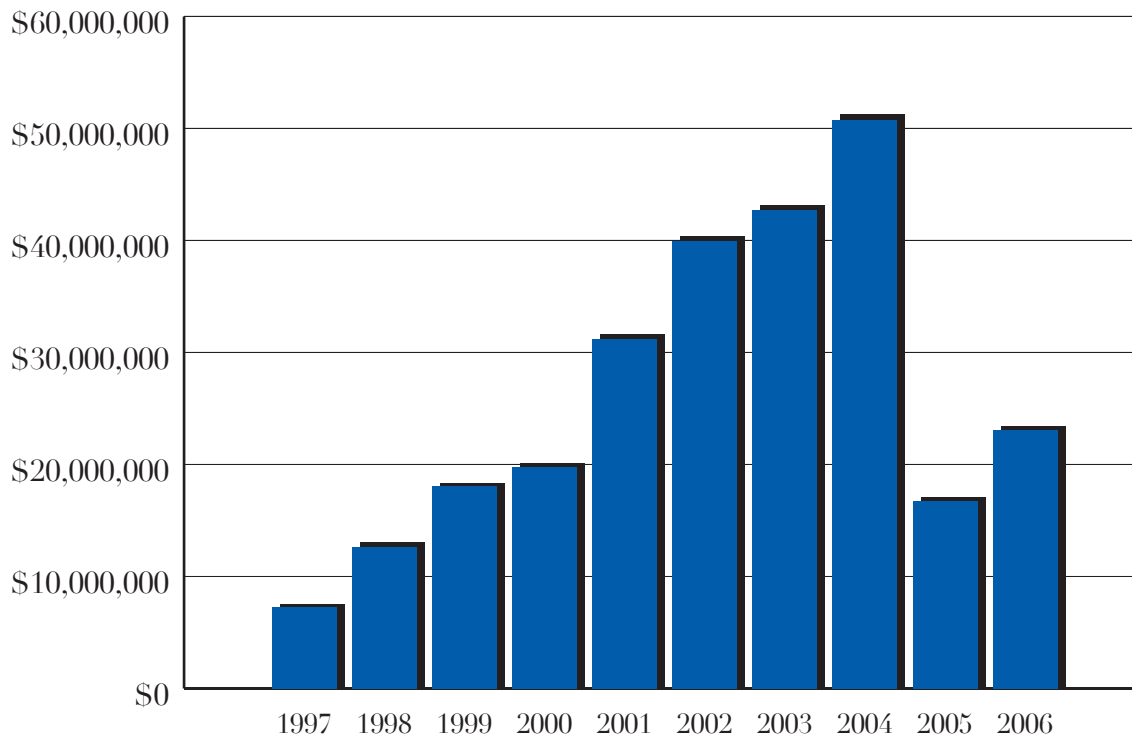


EQUIPMENT CLASSIFICATION - FISCAL YEAR 2006
 MASTER EQUIPMENT LEASE-PURCHASE FINANCING



The history of the Lease-Purchase Program for the last ten years is depicted in the following chart.

MASTER EQUIPMENT LEASE-PURCHASE FINANCING HISTORY
 FISCAL YEARS 1997 - 2006



Prior to the close of Fiscal Year 2006, the State Treasurer's Office rebid the Master Lease Agreement which resulted in significant interest savings compared to the 2003 Master Lease-Purchase Agreement. The 2006 Master Lease Purchase Agreement was awarded July 1, 2006 in the amount of \$70,000,000.



The Maryland State Treasurer's Office

BANKING SERVICES DIVISION



Banking Services Division

*T*he 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 in 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 Treasurer's Banking Services Division (BSD) is responsible for procuring and managing the banking needs for all agencies of the State of Maryland. This includes:

- agency specific depository accounts - 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 effectiveness;
- disbursement accounts for vendor payments, payroll, and income tax refunds - The BSD strongly encourages the use of electronic transactions to increase efficiencies in the payment processes;
- lockbox services;
- merchant account services (credit and debit card receipts);
- contracts for agency working fund, trust, and escrow accounts;
- contracts and procurement for all other agency banking needs.

The Banking Services Division is also directly responsible for the accurate and timely recordation of State funds and for the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Banking Services Division must account for the receipt of all warranted deposits and the disbursement of all warranted payments. The Banking Services Division's daily cash reconciliation remains a great tool 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.

In addition, the BSD performs daily operations on behalf of State agencies to assure the movement of funds into and out of the State's bank accounts. These include:

- processing the drawdown of funds from Federal programs and grants;
- initiating FedWire payments;
- initiating and managing foreign currency transactions;
- processing check stop payments, cancellations and reissues as well as requests for photocopies of paid checks;
- providing transaction research assistance to State agencies;
- managing the Unpresented Check Fund and the Undeliverable Check Fund;
- processing of all bank adjustments.



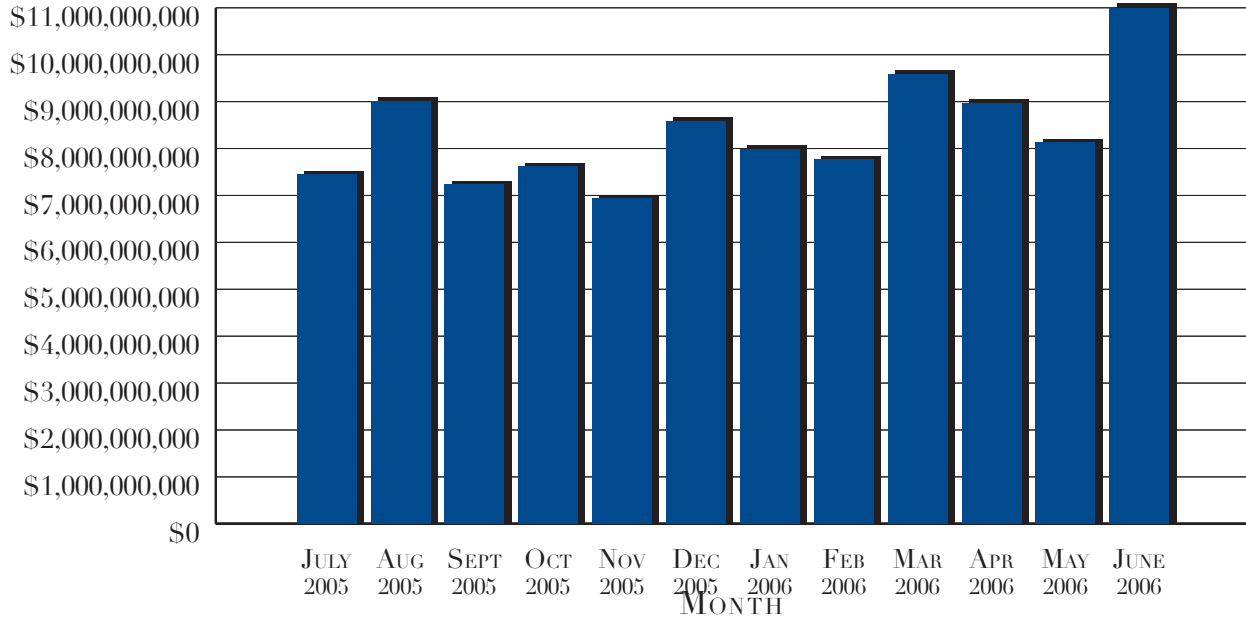
**TOTAL RECEIPTS AND DISBURSEMENTS
FISCAL YEAR 2006**

| | | |
|--|--------------|-------------------------|
| Beginning Cash Balance of Fiscal Year 2006 | | \$ (1,132,716,843.66) |
| Receipts: | July-05 | \$ 7,441,915,606.13 |
| | August-05 | 8,999,932,141.22 |
| | September-05 | 7,225,427,563.01 |
| | October-05 | 7,617,732,503.36 |
| | November-05 | 6,929,450,238.66 |
| | December-05 | 8,593,952,325.25 |
| | January-06 | 7,990,769,200.24 |
| | February-06 | 7,766,439,785.95 |
| | March-06 | 9,580,006,538.69 |
| | April-06 | 8,971,603,215.77 |
| | May-06 | 8,130,296,390.76 |
| | June-06 | 10,999,337,163.43 |
| Total Receipts Fiscal Year 2006 | | \$ 100,246,862,672.47 |
| Disbursements: | July-05 | \$ (8,052,208,190.15) |
| | August-05 | (8,140,830,490.85) |
| | September-05 | (8,056,926,010.56) |
| | October-05 | (6,860,112,021.41) |
| | November-05 | (8,212,992,514.89) |
| | December-05 | (7,616,507,854.61) |
| | January-06 | (8,486,229,111.51) |
| | February-06 | (7,904,047,750.44) |
| | March-06 | (9,378,610,137.17) |
| | April-06 | (8,209,162,538.94) |
| | May-06 | (9,617,950,508.20) |
| | June-06 | (9,779,174,015.91) |
| Total Disbursements Fiscal Year 2006 | | \$ (100,314,751,144.64) |
| Ending Cash Balance of Fiscal Year 2006 | | \$ (1,200,605,315.83) |

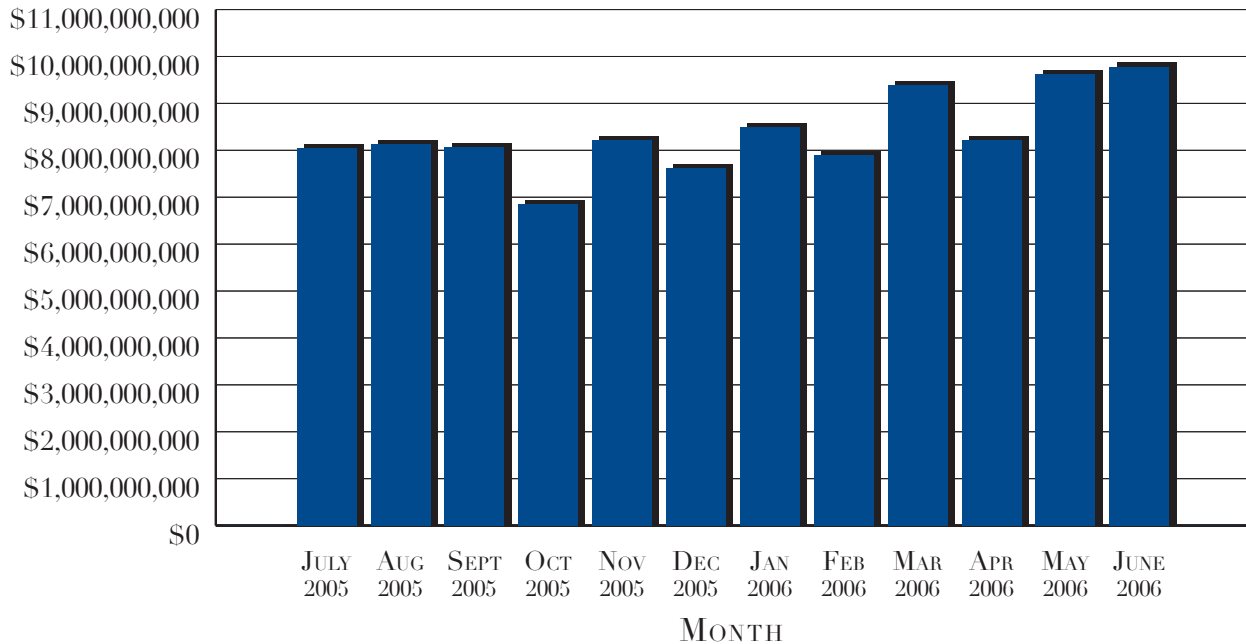


RECEIPTS AND DISBURSEMENT TABLES

Cash Receipts



Cash Disbursements



COLLATERALIZATION

Section 6-209 of the State Finance and Procurement Article of the Annotated Code of Maryland 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 collateralization for the State's main depository and disbursement accounts as well as over 600 registered agency working funds accounts, many of which are used for trust and escrow account services. 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 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.

The collateral balance for all State bank accounts at June 30, 2006 was \$395,624,082.

AUTOMATION

Agencies are expanding their ability to accept electronic receipts and credit card transactions. The Treasurer's Office, in partnership with the Comptroller's General Accounting Division, strongly encourages State agencies to use these payment options and will continue working with agencies currently not maximizing use of these payment methods. The Internet purchase of goods and services provided by State agencies also is increasing rapidly. The Treasurer's Office and several agencies have worked together with the banks to develop secure Internet web-sites. These programs have been established successfully, and it is anticipated that other agencies will utilize these payment services in the future.



MISSION OF THE BANKING SERVICES DIVISION

The overall mission of the Banking Services Division is to provide efficient, accurate and timely banking services to all State agencies and external customers. This includes the following goals:

- manage and control banking relationships for all banking needs for the State of Maryland; anticipate agency needs and respond timely to agency requests;
- ensure the accurate, timely, and fully documented reconciliation of the State's bank accounts to the State's R*Stars accounting system;
- ensure the accurate and timely processing of agency monetary transactions and their recordation in the State's R*Stars general ledger;
- ensure protection of State funds on deposit through monitoring of account and collateral balances;
- serve as the State's authority for the development, control, and maintenance of statewide policies and procedures for banking products and services.

LONG TERM STRATEGY

The Banking Services Division's long term strategy is to create a more automated environment that will track, process, and reconcile all bank-related transactions for the State's cash accounts while maintaining the mission of providing efficient, accurate and timely banking services to all State agencies and external customers. The Banking Services Division is working to enhance its ability to recover in the event of a disaster or to change banks if required by the procurement process. In addition, the Banking Services Division's goal is to anticipate the State's future banking needs to maintain its capacity to contain costs while accommodating the growth, diversity and complexity of banking transactions.



The Maryland State Treasurer's Office

INSURANCE DIVISION



Insurance Division

The Insurance Division is responsible for cost-effectively managing the amount of the State Insurance Trust Fund (SITF) and the purchase of commercial insurance in order to protect State assets and to fully comply with Maryland statutes. The Insurance Division handles claims investigations and settlements that fall under the jurisdiction of the Treasurer. It is a central resource for State organizations seeking guidance on insurance issues. The Division is contacted daily by many internal and external customers needing accurate and timely information concerning underwriting, claims, and loss prevention services. The Division evaluates all bills that come before the Legislature that would impact the SITF. Testimony is prepared when necessary.

Through the investigation of claims across the State, the Insurance Division accumulates a significant amount of loss data, which is made available to State agencies to assist in the continued refinement of their safety and loss prevention programs. As an incentive to promote safety and reduce the cost of loss, State agencies are assessed a SITF surcharge for their adverse loss experience.

In partnership with the Insurance Division, State agencies are encouraged to develop specific action plans and safety audits that will reduce or eliminate the most frequent and/or severe sources of preventable losses. Well-planned and executed loss prevention programs have improved State risk considerably and reduced claim frequency and severity patterns for both the SITF and commercial insurance that is purchased for agencies needing catastrophic or special risk coverage.

The public entity insurance market continues to be very restrictive; hence, it is difficult to maintain commercial insurance coverage levels at high limits and competitive prices due to the catastrophic loss potential of a number of State agency operations. To secure State mandated limits, the Insurance Division must often obtain coverage with multiple coordinating insurance companies. Mergers and acquisitions continue to reduce the number of insurance carriers marketing to the State, as many insurers have either withdrawn or reduced the limits of coverage that they are willing to offer.

By meeting frequently with insurance company underwriters and brokers, the Division has been able to differentiate the Treasurer's Office from other state and local public entities seeking similar coverage and policy limit capacity. The Insurance Division's stronger partnerships with the aviation, property and boiler and machinery insurance carriers have facilitated the offering of competitively priced terrorism coverage.

For the first time, the State was able to purchase terrorism War Risk extension coverage for BWI Airport and a separate domestic and foreign terrorism policy for the State's property at competitive coverage and pricing levels. The separate terrorism policy for State property included a negotiated coverage expansion, at no additional cost, for the State's computer hardware and software which is typically excluded.



Insurance Division managers and the Maryland Emergency Management Agency's (MEMA) Hazard Mitigation Officer traveled to New York to meet with a group of property insurance company representatives. The Division managers were effective in convincing the group that Maryland does not have the same storm surge and windstorm susceptibility as the Gulf Coast states of Louisiana, Mississippi and Florida. The outcome was a renewal premium payment reduction that was significantly lower than what was first offered.

The State owns almost 3,000 buildings, with total building and content value of \$17 billion dollars -- assets that are exposed to potentially enormous 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 devastating 2005 hurricane season have already adversely impacted the Insurance Division by forcing an increase in property rates in the commercial catastrophic loss policies, especially in the reinsurance layers.

By the end of FY 2006, the open claim count reached a record low of 507. Each year the claims department strives to close far more claims than it opens, and the past two years produced a combined 65% reduction in the number of open claims. The Claims department processes an average of 4,000 new claims each year, in addition to pending open claims that have not yet been resolved. With the addition of a new adjuster to its staff, the tort claims unit realized an increase in productivity with a closing ratio of 114%.

The Insurance Division, in conjunction with the Department of Budget and Management implemented the State's first accident management system in April 2006. Along with its fleet maintenance agreement, the new administrator, Automotive Rental Systems, provides loss reporting and accident repair management for most of the State's vehicle fleets. The new system created an immediate increase in on-time reporting of accidents to the Insurance Division; agencies no longer are required to obtain time consuming multiple vehicle repair estimates.

The Claims Department expanded its use of the ISO national database that provides comprehensive and current information on prior claims and physical injury history that might be relevant to a claim submitted to the Insurance Division. Additional fraud protection tools have provided Insurance Division claim adjusters with more detailed and relevant information on the injury history of claimants, thus allowing them to make informed decisions when fairly compensating people with legitimate claims, while also protecting State assets.

Claims Department personnel remain committed to completing continuing education courses. In the past year, claim personnel logged over 300 hours of study and completed a total of 10 courses, including one person who expects to earn a Claim Law designation very shortly.



Two years ago the Insurance Division created a Loss Prevention Manager position. The new manager conducted State and agency level loss reviews which 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 (SERMA) Agency Risk Management Advisory Council and the University System Risk Management committees, as well as the MEMA Disaster Mitigation Risk Management team.

Under the State's Boiler & Machinery insurance program, infrared thermographic imaging technology was used to survey high voltage electrical panels in selected buildings. The infrared technology identified an overheated electrical line feed in the main boiler of a large correctional facility, an electrical panel deficiency in a university academic building, and other similar problems that, if left uncorrected, could have caused a fire, explosion and/or disruption of building operations. Roof leaks, causing expensive water damage if not repaired, also can 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 impact State budgets or cause tragic loss of life or bodily injury.

The State Fire Marshal and the excess property insurance carriers continue to 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 has allowed the Insurance Division and respective agencies to improve fire and life safety conditions in State buildings before losses occur.

The Claims, Underwriting, and Loss Prevention departments will continue to work diligently to increase the interest, awareness and commitment of State agencies in the effective management of risk, to spearhead programs to prevent and control losses and to improve customer service delivery standards.



The Maryland State Treasurer's Office

ADMINISTRATION DIVISION



Administration Division

The Administration Division is comprised of four units: Budget and Accounting, Human Resources, Procurement and Office Administration. The primary function is to supply efficient daily operational services and provide support to the State Treasurer's Office.

BUDGET MANAGEMENT AND ACCOUNTING

The Budget and Accounting unit prepares and monitors the Office's operating budget which is submitted to the Department of Budget & Management and the Maryland General Assembly. The unit's 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 all accounting controls and procedures. The unit continues to update the internal controls and office procedures manual so that compliance with established governmental policies, laws and regulations is ensured.

The accounting staff is also responsible for ensuring timely payment of State debt and quarterly payments under financial agreements related to the Master Lease programs and the Injured Workers' Insurance Fund (IWIF). This includes collection of the yearly IWIF assessments and the transfer of funds from over 150 State agencies and departments. Accounting also collects insurance premiums from all State agencies to fund the State Insurance Trust Fund to cover the purchase of agency specific insurance policies.

The responsibility for administering the Federal Cash Management Information Act of 1990 (CMIA) is also provided by this unit. The objective of CMIA is to ensure efficient, effective and equitable cash management.

The primary goal of CMIA is to minimize 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) specifies how and when funds will be transferred under federal assistance programs. The specific details of how 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.

For FY 2006, the State's major programs, categorized as programs that exceeded \$45,182,612 in FY 2004 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.



HUMAN RESOURCES

One of the various support functions provided by the Administration Division is Human Resources and Personnel Management for the State Treasurer's Office. This unit is responsible for providing guidance and interpretation of Statewide personnel policies and regulations as well as STO office policies. Services include position tracking and recruitment, new employee orientation, administration of health benefits and retirement benefits, leave accounting, performance evaluation monitoring, staff development, position reclassification, and employee relations. In addition, the Human Resources Unit is responsible for ensuring compliance with the American with Disabilities Act and Maryland's Equal Employment Opportunity policy. The unit also houses the Fair Practices Officer and the Equal Employment Opportunity Officer for the State Treasurer's Office.

As of June 30, 2006, the State Treasurer's Office has 55 permanent positions, which are assigned as follows:

| | |
|---|----|
| Executive Division | 7 |
| Administration Division | 7 |
| Banking Services Division | 12 |
| Debt Management | 3 |
| Information Technology Division | 7 |
| Insurance Division | 13 |
| Investment Division | 2 |
| Legal Division | 4 |

PROCUREMENT

The State Finance and Procurement Article, Annotated Code of Maryland, designates the Treasurer as the primary procurement authority for all banking, investment, insurance and other financial services contracts. This authority allows the Office to enter into contracts that provide State agencies with banking services, financial advisors, escrow and paying agents, underwriters, fiscal agents and official statement printers.

The Procurement Office prepares a quarterly report submitted to the Board of Public Works to keep the Board informed of all procurement activity. Additional reports that are prepared include the Small Business Reserve and the Minority Business Reports.

OFFICE ADMINISTRATION

This unit provides centralized procurement for all equipment, supplies and services, telecommunications, fleet management, inventory control and management of State property. Several Statewide reports are prepared to ensure compliance with State policies and procedures for records retention, inventory, fixed assets and forms' management.



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The Maryland State Treasurer's Office

INFORMATION TECHNOLOGY DIVISION



Information Technology Division

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

The IT Division 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 IT Division computer system. Checks and Advices are printed through the high-speed printing system and distributed by the mailroom.

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 disbursements made by the State. Therefore, STO 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 i5 eServer midrange computer, which uses Advanced Function Printing to create each printed document. The IT Division prints MICR encoding, signatures, and agency or bank logos on blank secure paper check stock. The use of blank secure 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 conversion program that transforms the agency's payment information into printed notification, or advice forms, and into a standard banking transaction 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 IT Division, along with the Banking Services Division, encourages the use of the Electronic Data Interchange, or EDI, payment method as part of the goal to support eMaryland Marketplace initiatives.

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

The Information Technology Division continues to enhance the Banking reconciliation system. Programming has focused upon the ACH processing, charge backs and data quality controls on vendor, tax and R*STARS source files. The IT Division has worked with the Banking Services Division to enhance the reporting of Unpresented Checks, Data Validation, Issued/Reissued Payroll Checks and the on-demand request of Agency Crosswalk verification of historical data against existing reports. The match process reports were also improved with additional summary data.

The IT Division worked with the Banking Services Division to incorporate banking-industry-standard transaction files into STO processing. The elimination of customized transaction files reduced bank fees to the State and provides the State with the ability to do business with any bank without significant programming changes.

The IT Division developed an automated report archive process. Critical paper reports are now automatically stored electronically on the i5 system, permitting quick retrieval for accounting and audit research.

AUTOMATION INITIATIVES AND TECHNOLOGY SUPPORT

Agency ACH Deposit Reports

The IT Division developed new programming that enables electronic delivery of a R*STARS Agency ACH Deposit Report file to the agency. The file can then be incorporated into an agency's automated reconciliation.

AS/400 Migration to an IBM i5

The IT Division migrated from the AS/400 system to an IBM i5 eServer midrange system. This system hosts the STO's disbursement, check printing, Administration, Banking and Insurance systems. The new system permits the STO to acquire secure data transmission software, establish a contingency contract with an off-site vendor, secure a maintenance contract and reduce processing times ten-fold.

Contingency Planning

The IT Division has contracted for access to an off-site location to host the i5 eServer processing during a contingency. A successful contingency test was conducted at the vendor's location. Contingency planning will continue to incorporate the full compliment of IT functions into the test plan.

The IT Division worked with the Annapolis Data Center (ADC) to implement a daily run of a secondary off-site tape backup of agency generated disbursement files. The IT Division acquired a tape backup device compatible with ADC. The new tape drive enables IT to read the ADC tapes containing the daily disbursement and reference files at the STO contingency site.



Secure File Transmissions

The IT Division has acquired and installed new file transmission software. The new software is an industry standard software package that is widely used on mainframe systems used by the State's mainframe and financial services institutions. The software permits point-to-point transmission of data in an encrypted format. The software is being used to phase out asynchronous transmissions. The jobs converted to date have reduced transmission times by 90% while increasing the security of the data. The migration to the new software will continue into the next fiscal year.

The new file transmission software enables the IT Division to transmit and receive production data files from the contingency site to the State's ADC's mainframe. The IT Division's contingency plan for financial services transmission is currently being modified to migrate from asynchronous transmission to the new software. The full migration is expected to be completed by next year.

Server Management

The IT Division continued its focus of running on the current releases of server operating systems, applications, virus and spam protection, and server management utilities. All servers are running Microsoft 2003 Server on a MS 2003 Domain. This has allowed for better control over network resources, greater uptime for users and has enhanced the fault tolerance and dependability of the entire network.

Working Hours

The Networking Department's service hours are 7:30 a.m. to 5:00 p.m., augmented by 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.

Workstations

The IT Division streamlined Help Desk support, strengthened security and increased processing capabilities by migrating all of the STO onto a 2003 OS domain, 2003 OS based servers and XP desktops. MS Office 2003 is now installed on all standard STO desktops. This standardization to current releases of Microsoft software and operating systems has provided the STO with greater flexibility to acquire and implement desktop and network management solutions, such as State-governed password policies, automated Virus Scan database updates and software administration.



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:

- 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, monthly capital equipment lease financings, and periodic Qualified Zone Academy Bonds;
- 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, provides advice, counsel and legal analysis of the Treasurer's constitutional and statutory powers and responsibilities;
- 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:

- 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;
- serves as the senior advisor to the Insurance Division and provides analysis and advice on all insurance matters, including: (1) self-insurance coverage under the Maryland Tort Claims Act and through the Board of Public Works, (2) administrative and regulatory proceedings; and (3) procurement and administration of commercial insurance policies.
- provides advice and counsel to the Treasurer and Office management on all personnel matters, including disciplinary matters, and represents the Office in all personnel proceedings.

SUPERVISOR, TORT CLAIMS

The Supervisor of Tort Claims Litigation, under the administration and supervision of the OAG Civil Division:

- 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;
- serves as a member of the Insurance Review Committee, which evaluates potential tort settlements and 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;
- supervises all appellate matters concerning the Maryland Tort Claims Act.

PRIMARY FUNCTIONS

Finance/Debt Management

In Fiscal Year 2006, the Legal Division participated in the issuance of \$750,000,000 in tax-exempt Capital Improvement Bonds and the financing of \$23,048,914 in Capital Equipment Leases.

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 Division 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. Of particular concern are changes in use, and private business use of facilities that have been financed with the proceeds of tax-exempt bonds.

The law firms are under contract with the State Treasurer's Office and managed by the Division Director, to provide bond counsel services: Kutak Rock, LLP, Venable LLP and McKennon Shelton & Henn, LLP.

Board of Public Works

At the request of the Treasurer, the Division Director reviews all agenda items that come before the Board of Public Works and provides suggested questions and comments to a Deputy Treasurer concerning legal, procurement and funding issues. Principal Counsel reviews all proposed legal settlements and insurance matters and similarly provides comments. The Division Director attends Board of Public Works meetings to be available to the Treasurer for legal advice.

Procurement

As a Primary Procurement Unit, the State Treasurer's Office is generally responsible for the procurement of all State banking, finance and insurance contracts. Principal Counsel is extensively involved in the procurement arena. The Treasurer's Office is responsible for contract administration of its own contracts and agreements for banking, finance, investments, insurance and information technology, as well as for banking and finance contracts for other agencies. Principal Counsel is engaged in all procurement issues, including Request for Proposals, Invitation for Bids, Renewals, Modifications, Amendments, Claims, Protests and Appeals.

Insurance/Tort Claims

Under the administration and supervision of the Civil Division of the Office of the Attorney General, the Supervisor of Tort Claims advises the Treasurer's Office's Insurance Division on many of the approximately 4,000 tort and auto claims filed each year under the Tort Claims Act, and participates in the review and evaluation of settlements and potential litigation. Litigation support also is provided to the Assistant Attorneys General throughout State agencies who litigate tort cases. 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.



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