



MARYLAND STATE TREASURER
Dereck E. Davis

Testimony of the Maryland State Treasurer's Office

Senate Bill 153: State Investment Portfolio – Investment Thresholds - Alterations

Position: Favorable

Senate Budget and Taxation Committee

January 25, 2023

As part of a broader effort to modernize office policies and practices, the State Treasurer's Office (STO) respectfully requests that the Committee give favorable consideration to Senate Bill 153.

One of three bills that the Joint Committee on the Management of Public Funds is introducing on STO's behalf, the legislation provides for more flexibility in the State's investment portfolio and puts Maryland in line with other AAA-rated states.

State Finance and Procurement, § 6-222, establishes guidelines for the types and proportions of investments in the portfolio. The law is silent as to the maximum thresholds for every type of investment except for one: commercial paper, which is capped at 10%. A recent survey of AAA-rated states found that other states allow on average up to 35% investment in commercial paper. STO proposes to repeal the statutory threshold for commercial paper and instead require the adoption of regulations to establish proportions for all types of investments allowed under the law.

The State's investment policy sets the parameters for local governments that are required to have an investment policy under § 17-205 of the Local Government Article. Senate Bill 153 further requires STO to notify local governments that are required to have specified local investment policies of the changes contained in the bill so that they will have the opportunity to review, revise, and report any changes in their respective investment policies back to the Treasurer, as appropriate.

There are three main reasons why STO seeks this change at this time. First, amending § 6-222 of the State Finance and Procurement Article to bring Maryland more in line with other top-rated states could yield a higher rate of return for the State's investments. For example, on a \$100 million transaction to the end of April 2023, Treasury Bills/GSE Discount notes yield around a 4.40% interest rate and a return of approximately \$2.1 million. A piece of Commercial Paper for that same maturity, depending on industry and supply, could be anywhere from 4.60% to over

5.00%. Assuming the average interest rate of 4.80% would provide the portfolio with a return of approximately \$2.350 million – additional earnings of approximately \$250,000 with extremely low risk.

Second, the law has not been changed since 2006, when the percentage was increased from 5% to 10%. The State did not use commercial paper except as collateral for repurchase agreements, but sought to increase the percentage to allow local governments to further diversify their portfolios. STO is now seeking to further diversify the State's portfolio, because the investment market has changed considerably since 2006 due to the Great Recession and COVID-19 pandemic recovery.

Third, the size of the State's investment portfolio has grown substantially over time. In November 2006, the portfolio was \$7.6 billion with an aggregate return of 5.15%. Today, the portfolio is approximately \$21.787 billion with an aggregate return of 2.30%. Given this growth, STO's Investment Division staff needs additional sources in which to invest.

For the foregoing reasons, STO requests that the Committee give Senate Bill 153 a favorable report. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.