

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 07-08</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$4,380	\$4,985	\$5,092	\$106	2.1%
Special Fund	828	812	1,727	916	112.8%
Reimbursable Fund	<u>33,710</u>	<u>34,606</u>	<u>39,517</u>	<u>4,911</u>	<u>14.2%</u>
Total Funds	\$38,918	\$40,403	\$46,336	\$5,933	14.7%

- A proposed fiscal 2007 budget deficiency appropriation would add \$163,000 to provide funds for legal services and other contractual services related to bond sale expenses.
- The fiscal 2008 allowance increases \$5.9 million over the current year's budget representing a 14.7% increase. When one-time health savings are adjusted for, the underlying increase is \$6.1 million, or 15.2%. Increases for insurance coverage (\$4.8 million) and bond sale expenses (\$963,000) account for the majority of the increase.

Personnel Data

	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 07-08</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	55.00	59.00	59.00	0.00
Contractual FTEs	<u>1.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	56.00	59.00	59.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	1.99	3.37%
Positions Vacant as of 12/31/06	11.00	18.64%

- The number of regular positions in the allowance remains unchanged from the current year. The office has no contractual employees.
- The State Treasurer's Office reports that six positions have been filled since the beginning of calendar 2007 and several others are in process with offers having been extended.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Bank Accounts Are Reconciled Timely: Dramatic improvement has occurred since fiscal 2003 in the average number of days it takes to reconcile the bank accounts administered by the State Treasurer's Office.

Investment Earnings Are Maximized: Unlike previous years, the State portfolio did not out perform the 90-Day U.S. Treasury Bill rate in fiscal 2005 and 2006.

Issues

Unfunded Liability in the State Insurance Trust Fund Decreases: The unfunded liability in the State Insurance Trust Fund decreased from \$19.5 million in fiscal 2005 to \$7.7 million in fiscal 2006 due to fewer than anticipated losses. Should this trend continue the unfunded liability will be eliminated in the next few years.

Bond Sale Expenses Increase to Allow Issuance of Variable Rate Debt: The fiscal 2008 allowance includes \$963,000 for expenses related to the issuance of variable rate debt. As yet, written policies on when and how variable rate debt will be issued have not been developed.

Recommended Actions

1. Add a section to increase turnover for the State Treasurer's Office due to high vacancy rate.
2. Add language to E20B03.01 Bond Sale Expenses restricting funds for variable rate debt until written policies are developed.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. To carry out these responsibilities, the State Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against damage to State property and liability of State employees. The State Treasurer also administers the sale of Maryland general obligation bonds and serves as a member of the Board of Public Works. The State Treasurer's Office (STO) consists of four programs: treasury management; insurance management; insurance coverage; and bond sale expenses.

The goals of the Treasurer's Office are to:

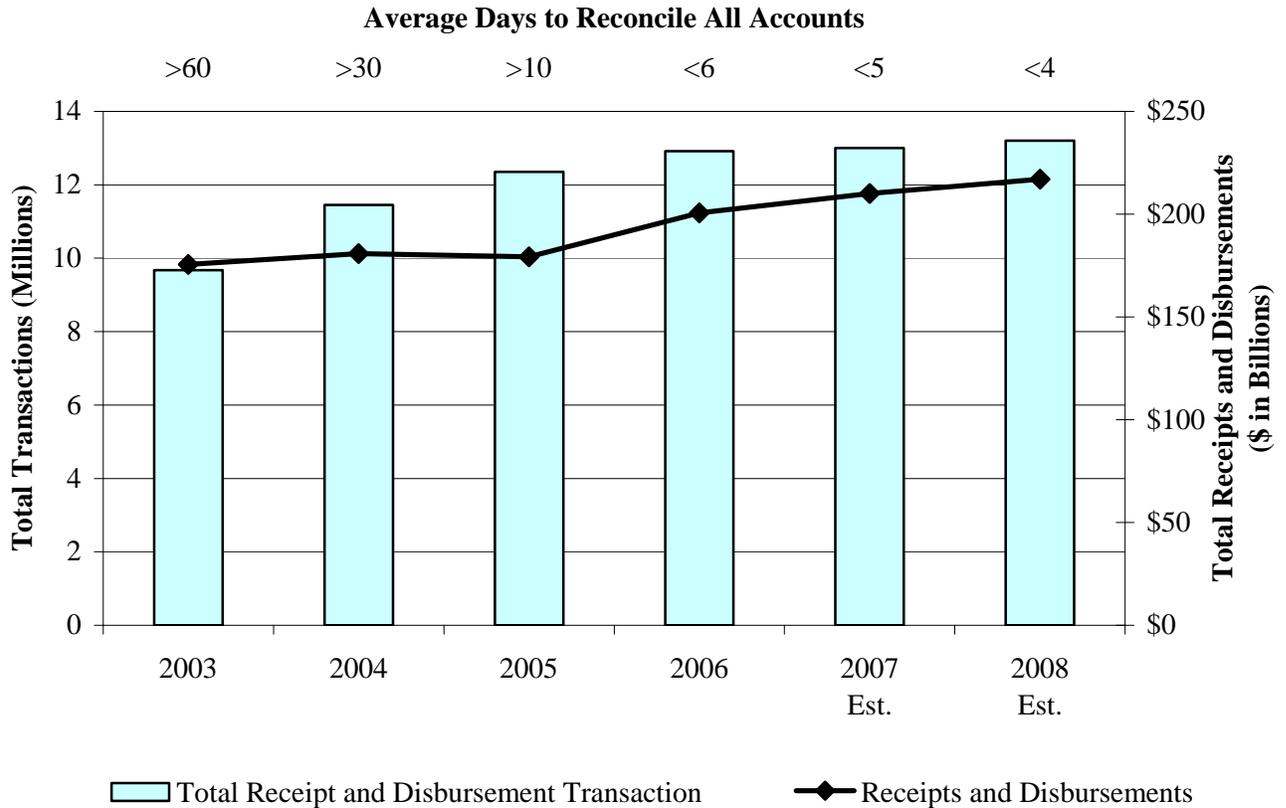
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law; and
- process all agency and third party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

Bank Accounts Are Reconciled Timely

As shown in **Exhibit 1**, the number and dollar value of total receipts and disbursements from the bank accounts administered by STO have increased since fiscal 2003. Since 2003, there has been dramatic improvement in the length of time it takes to reconcile all accounts dropping from over 60 days on average in fiscal 2003 to under 6 days in fiscal 2006.

**Exhibit 1
Total Receipts and Disbursements and Days to Reconcile All Accounts
Fiscal 2003-2008**

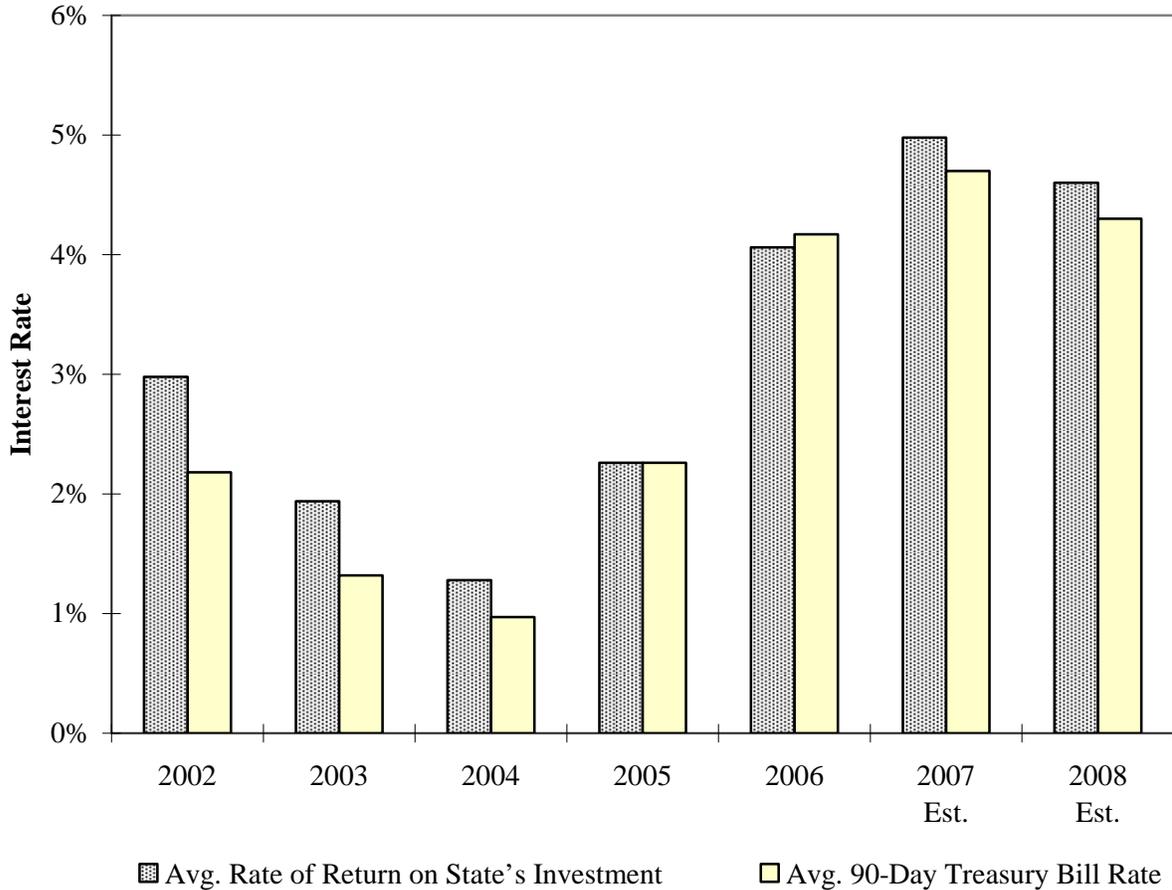


Source: Governor’s Budget Books, Fiscal 2008

Investment Earnings Are Maximized

STO is responsible for maximizing investment earnings for the State’s surplus funds. It is limited by law in the types of investments it can make. **Exhibit 2** compares the rate of return on the State’s investment portfolio compared with the average 90-Day U.S. Treasury Bill rate. Unlike previous years, the State portfolio did not out perform the 90-Day U.S. Treasury Bill rate in fiscal 2005 and 2006. **STO should comment on the factors that have contributed to the change in the State’s investment portfolio performance compared to the 90-Day U.S. Treasury Bill rate.**

Exhibit 2
Comparison of State’s Investment Portfolio and 90-day U.S. Treasury Bill Rates
Fiscal 2002-2008

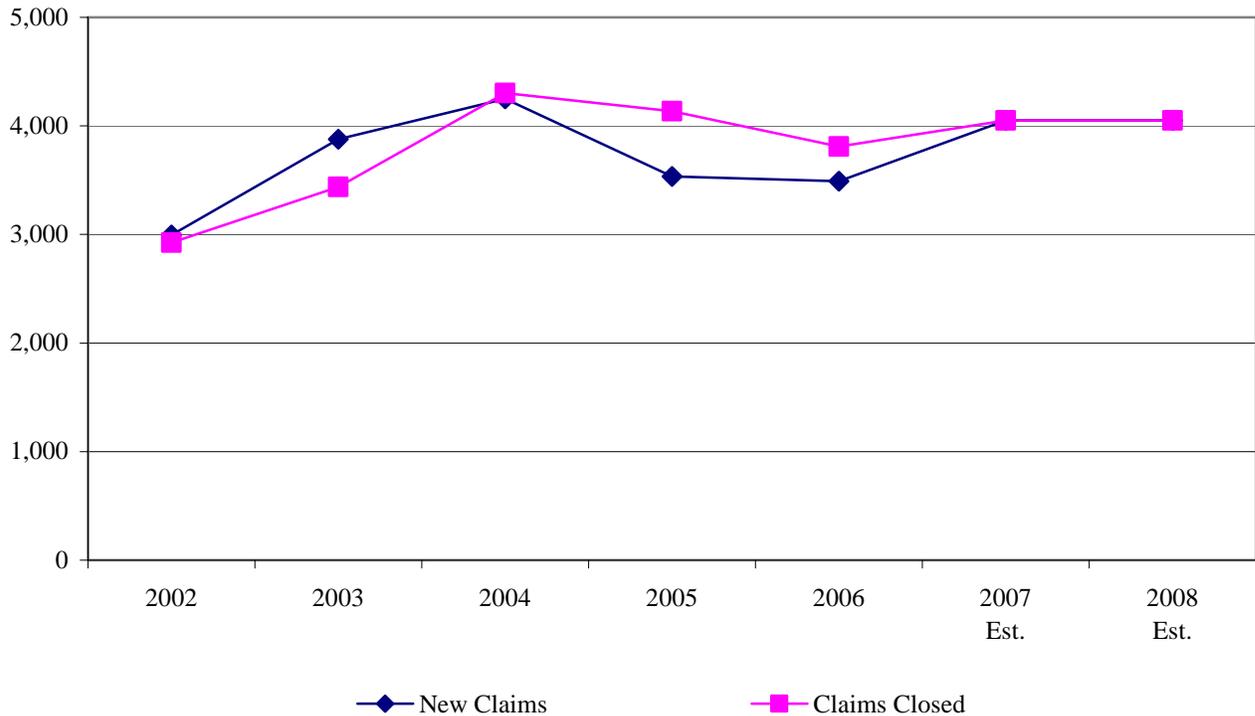


Source: Governor’s Budget Books, Fiscal 2008

Claims Are Adjusted Accurately and Timely

STO is responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. **Exhibit 3** compares the number of new claims received with the number of claims closed. At the end of fiscal 2005, there were 825 open claims. The number of open claims dropped to 507 by the end of fiscal 2006, and STO anticipates end-of-year open claims to remain at this level by closing as many cases as are opened each year.

**Exhibit 3
New Claims v. Claims Closed
Fiscal 2002-2008**



Source: Governor’s Budget Books, Fiscal 2008

Fiscal 2007 Actions

Proposed Deficiency

A proposed fiscal 2007 deficiency appropriation would increase general funds by \$48,000 and special funds by \$115,000 to cover bond sale expenses. The special fund increase is due to the increased cost of the State’s two general obligation bond sales (\$80,000) mostly related to increased rating agency fees, and due to the sale of Qualified Zone Academy Bonds (QZABs) to fund school construction (\$35,000). The QZAB sale was not anticipated when the fiscal 2007 budget was formulated. The special funds are derived from the proceeds of the bonds. The general funds are to cover legal services relating to the issuance of debt but which cannot be attributed to specific bond issuances.

Governor’s Proposed Budget

As illustrated in **Exhibit 4**, the fiscal 2008 allowance for STO increases by \$5.9 million representing a 14.7% increase. The largest areas of increase are in insurance coverage purchased for agencies (\$4.8 million) and bond sale expenses (\$963,000). If these items and one-time health savings are adjusted for, the growth in the budget operations of STO is just under \$359,000 representing a 0.9% increase over the current year.

Exhibit 4
Governor’s Proposed Budget
State Treasurer
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2007 Working Appropriation	\$4,985	\$812	\$34,606	\$40,403
2008 Governor’s Allowance	<u>5,092</u>	<u>1,727</u>	<u>39,517</u>	<u>46,336</u>
Amount Change	\$106	\$916	\$4,911	\$5,933
Percent Change	2.1%	112.8%	14.2%	14.7%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$110
Retirement expenses	70
Decreased turnover	34
Health insurance costs decline due to one-time savings	-74
Other fringe benefit adjustments	8

Operations

Lease payment for check writing system and scheduled PC replacements	46
Computer hardware/software maintenance increase due to expiration of new purchase maintenance period	43
Banking services contracts	13
Data processing supplies budgeted at fiscal 2006 actual	6
Department of Budget and Management paid telecommunications	5
Remove one-time funding for reconciliation system study	-80
Check writing and supplies (safety paper, toner, developer, etc.) decrease due to increased use of electronic payments	-43

E20B – State Treasurer

Where It Goes:

Other Changes

Insurance coverage purchased for agencies.....	4,785
Bond sale expenses increase to allow issuance of variable rate debt	963

Other 47

Total **\$5,933**

Note: Numbers may not sum to total due to rounding.

Issues

1. Unfunded Liability in the State Insurance Trust Fund Decreases

The State provides insurance protection through self-insurance from the State Insurance Trust Fund (SITF) and through the purchase of excess commercial insurance policies. Premiums charged to State agency budgets on an annual basis provide the source of revenue for the SITF.

In the Treasurer’s 2007 Report to the Legislative Policy Committee, STO advised that the unfunded liability in the SITF dropped from \$19.5 million in fiscal 2005 to \$7.7 million in fiscal 2006. The unfunded liability results from insufficient funds being credited to the SITF to cover losses and increases in commercial insurance premiums.

Each year STO recommends premium levels to the Department of Budget and Management (DBM) that would return the SITF to the full funding level recommended by the actuary. It also provides DBM with a “minimum premium” level representing the amount projected to cover only the anticipated claims required to be funded in the upcoming year. Although the minimum premium level has been funded in recent years, lower than anticipated losses have decreased the unfunded liability. Should this trend continue, the unfunded liability will be eliminated in the next few years.

To ensure that losses are kept to a minimum, STO instituted a loss prevention program that began with the creation in the Insurance Division of a Loss Prevention Manager position. Under the direction of this manager, insurance division staff works with State agencies to target preventable losses. The Insurance Division developed a fire and life safety self-audit program expected to be implemented in 2007 at State agencies experiencing large losses.

STO should comment on the current unfunded liability and the likely timeframe for its elimination given the current level of budgeting for premiums.

2. Bond Sale Expenses Increase to Allow Issuance of Variable Rate Debt

Beginning in fiscal 2008, STO intends to issue variable rate debt if market conditions suggest doing so will result in debt service savings. Authority to issue variable rate debt is provided by Chapter 325 of 2003. Additional costs are incurred when variable rate debt is issued and the fiscal 2008 allowance for the Bond Sale Expense program includes \$963,000 for this effort. (For a full discussion of the variable rate debt issuance plans see Issue No. 6 of the Department of Legislative Services Public Debt Budget Analysis.) As yet, STO has not developed written policies on when and how variable rate debt will be issued. **Budget bill language is included in the Recommended Actions section of this analysis to restrict funds for variable rate debt issuance until written policies are developed.**

Recommended Actions

1. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That \$38,623 in general funds, \$3,595 in special funds, and \$26,661 in reimbursable funds shall be deleted from E20B01.01 Treasury Management. This reduction may be allocated between E20B01.01 Treasury Management and E20B02.01 Insurance Management. The Governor shall develop a schedule for allocating this reimbursable fund reduction across the various units of State government that receive services from the Office of the State Treasurer and across all funds based upon agency use of those services. The reduction under this section shall equal at the least the amounts indicated for the budgetary fund types listed:

<u>Fund</u>	<u>Amount</u>
<u>General</u>	<u>\$15,997</u>
<u>Special</u>	<u>\$5,332</u>
<u>Federal</u>	<u>\$5,332</u>

Explanation: Increase turnover to 5% to more closely reflect historical vacancy levels. For the past two years the vacancy rate has not dropped below 12.5%.

2. Add the following language:

Provided that no funds may be expended for the purpose of preparing for or issuing variable rate debt until the State Treasurer’s Office develops written policies addressing the following topics:

- (1) the market conditions under which variable rate debt will be issued;
- (2) limits on the per issuance and aggregate level of variable rate debt;
- (3) methods that will be used to safeguard against increasing interest rates and the conditions under which these methods would be employed;
- (4) reserve requirements; and
- (5) the types of variable debt rate instruments that could be utilized.

Explanation: Beginning in fiscal 2008, the State may begin issuing variable rate debt. As yet, written policies do not exist on how and when variable rate debt would be issued. This language restricts funds budgeted for preparing for and issuing variable rate debt until such policies have been developed.

Current and Prior Year Budgets

Current and Prior Year Budgets State Treasurer (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$4,339	\$785	\$0	\$33,710	\$38,834
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	41	44	0	0	84
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$4,380	\$828	\$0	\$33,710	\$38,918
Fiscal 2007					
Legislative Appropriation	\$4,956	\$808	\$0	\$34,606	\$40,370
Budget Amendments	30	4	0	0	34
Working Appropriation	\$4,985	\$812	\$0	\$34,606	\$40,403

Note: Numbers may not sum to total due to rounding.

Fiscal 2006

The fiscal 2006 budget for the State Treasurer’s Office closed out \$84,228 higher than the legislative appropriation. Budget amendments increased general funds by \$40,658 for a general salary increase (\$23,911) and for increased employee and retiree health care insurance subsidies (\$16,747) and increased special funds increased by \$43,570 to cover bond sale expenses.

Fiscal 2007

The fiscal 2007 working appropriation is \$33,586 higher than the legislative appropriation and reflects increases in general funds (\$30,079) and special funds (\$3,913) by budget amendment for a general salary increase offset partially by a transfer to the Department of Budget and Management of \$406 in general funds to help fund the comprehensive salary study.

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	55.00	59.00	59.00	0	0%
02 Contractual	1.00	0	0	0	0.0%
Total Positions	56.00	59.00	59.00	0	0%
Objects					
01 Salaries and Wages	\$ 3,789,118	\$ 4,476,940	\$ 4,625,107	\$ 148,167	3.3%
02 Technical and Spec. Fees	36,588	4,000	4,000	0	0%
03 Communication	91,745	88,229	92,687	4,458	5.1%
04 Travel	31,986	33,000	33,500	500	1.5%
06 Fuel and Utilities	222	0	0	0	0.0%
07 Motor Vehicles	6,032	12,310	10,769	-1,541	-12.5%
08 Contractual Services	3,774,627	3,670,630	4,665,045	994,415	27.1%
09 Supplies and Materials	228,295	182,886	147,577	-35,309	-19.3%
10 Equipment – Replacement	3,432	97,600	143,660	46,060	47.2%
11 Equipment – Additional	18,675	4,410	3,415	-995	-22.6%
13 Fixed Charges	30,937,595	31,833,083	36,609,895	4,776,812	15.0%
Total Objects	\$ 38,918,315	\$ 40,403,088	\$ 46,335,655	\$ 5,932,567	14.7%
Funds					
01 General Fund	\$ 4,380,087	\$ 4,985,419	\$ 5,091,530	\$ 106,111	2.1%
03 Special Fund	828,094	811,591	1,727,199	915,608	112.8%
09 Reimbursable Fund	33,710,134	34,606,078	39,516,926	4,910,848	14.2%
Total Funds	\$ 38,918,315	\$ 40,403,088	\$ 46,335,655	\$ 5,932,567	14.7%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Treasury Management	\$ 5,526,292	\$ 6,160,951	\$ 6,250,690	\$ 89,739	1.5%
01 Insurance Management	2,118,793	2,122,697	2,217,492	94,795	4.5%
02 Insurance Coverage	30,907,660	31,797,440	36,582,473	4,785,033	15.0%
01 Bond Sale Expenses	365,570	322,000	1,285,000	963,000	299.1%
Total Expenditures	\$ 38,918,315	\$ 40,403,088	\$ 46,335,655	\$ 5,932,567	14.7%
General Fund	\$ 4,380,087	\$ 4,985,419	\$ 5,091,530	\$ 106,111	2.1%
Special Fund	828,094	811,591	1,727,199	915,608	112.8%
Total Appropriations	\$ 5,208,181	\$ 5,797,010	\$ 6,818,729	\$ 1,021,719	17.6%
Reimbursable Fund	\$ 33,710,134	\$ 34,606,078	\$ 39,516,926	\$ 4,910,848	14.2%
Total Funds	\$ 38,918,315	\$ 40,403,088	\$ 46,335,655	\$ 5,932,567	14.7%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.