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By: **Senator Lawlah (Chairman, Joint Committee on the Management of Public Funds) and Senators Forehand, Haines, and McFadden**

Introduced and read first time: January 27, 2006

Assigned to: Budget and Taxation

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Committee Report: Favorable with amendments

Senate action: Favorable

Read second time: February 13, 2006

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CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **State Treasurer - Authorized Investments - Commercial Paper**

3 FOR the purpose of altering the characteristics of certain commercial paper in which  
4 the State Treasurer may invest or reinvest unexpended or surplus money;  
5 authorizing investment or reinvestment in certain money market mutual funds  
6 that may contain commercial paper holdings under certain circumstances;  
7 requiring the State Treasurer to notify certain officials and the governing bodies  
8 of certain local government units about the provisions of this Act; and generally  
9 relating to authorized investments in commercial paper by the State Treasurer.

10 BY repealing and reenacting, with amendments,  
11 Article - State Finance and Procurement  
12 Section 6-222  
13 Annotated Code of Maryland  
14 (2001 Replacement Volume and 2005 Supplement)

15 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
16 MARYLAND, That the Laws of Maryland read as follows:

17 **Article - State Finance and Procurement**

18 6-222.

19 (a) The Treasurer may invest or reinvest unexpended or surplus money over  
20 which the Treasurer has custody in:

1 (1) an obligation for which the United States has pledged its faith and  
2 credit for the payment of the principal and interest;

3 (2) an obligation that a federal agency or a federal instrumentality has  
4 issued in accordance with an act of Congress;

5 (3) a repurchase agreement collateralized in an amount not less than  
6 102% of the principal amount by an obligation of the United States, its agencies or  
7 instrumentalities, provided the collateral is held by a custodian other than the seller  
8 designated by the buyer;

9 (4) bankers' acceptances guaranteed by a financial institution with a  
10 short-term debt rating in the highest letter and numerical rating by at least one  
11 nationally recognized statistical rating organization as designated by either the  
12 United States Securities and Exchange Commission or the Treasurer;

13 (5) with respect to amounts treated by the Internal Revenue Service as  
14 bond sale proceeds only, bonds, notes, or other obligations of investment grade in the  
15 highest quality letter and numerical rating by at least one nationally recognized  
16 statistical rating organization as designated by the United States Securities and  
17 Exchange Commission issued by or on behalf of this or any other state or any agency,  
18 department, county, municipal or public corporation, special district, authority, or  
19 political subdivision thereof, or in any fund or trust that invests only in securities of  
20 the type described in this paragraph;

21 (6) commercial paper that has received the highest letter and numerical  
22 rating by at least [one] TWO nationally recognized statistical rating [organization]  
23 ORGANIZATIONS as designated by the United States Securities and Exchange  
24 Commission, provided that such commercial paper may not exceed [5%] ~~10%~~ 20% of  
25 the total investments made by the Treasurer under this subsection;

26 (7) money market mutual funds that:

27 (i) [contain only securities of the organizations listed in items (1),  
28 (2), and (3) of this subsection;

29 (ii)] are registered with the Securities and Exchange Commission  
30 under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., as amended;  
31 [and

32 (iii)] (II) are operated in accordance with Rule 2A-7 of the  
33 Investment Company Act of 1940, 17 C.F.R. § 270.2A-7, as amended; and

34 (III) HAVE RECEIVED THE HIGHEST POSSIBLE RATING FROM AT  
35 LEAST ONE NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION AS  
36 DESIGNATED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION;  
37 AND

1 (8) any investment portfolio created under the Maryland Local  
2 Government Investment Pool defined under Article 95, § 22G of the Code that is  
3 administered by the Office of the State Treasurer.

4 (b) The Treasurer may sell, redeem, or exchange an investment or  
5 reinvestment made under this section in accordance with the limitations of this  
6 section.

7 (c) Subject to § 2-1246 of the State Government Article, the Treasurer shall  
8 report by January 3 of each year to the General Assembly on investment activities for  
9 unexpended or surplus money over which the Treasurer has custody which have been  
10 conducted during the previous fiscal year. At a minimum, the report shall specify for  
11 General Fund investments and all other investments:

12 (1) the inventory of investments with maturity dates and the book and  
13 market value as of June 30;

14 (2) the net income earned;

15 (3) the percentage share of each category of investment in the portfolio;  
16 and

17 (4) any sale of investments prior to the maturity date.

18 (d) An investment made pursuant to this section shall be made:

19 (1) with the care, skill, prudence, and diligence under the circumstances  
20 then prevailing that a prudent person acting in a like capacity and familiar with such  
21 matters would use in the conduct of an enterprise of a like character and with like  
22 aims;

23 (2) in a manner designed to reasonably match the anticipated cash flow  
24 of the State so that sufficient funds are available to pay obligations upon proper  
25 presentation for payment;

26 (3) so that a reasonable amount of cash or cash equivalents is available  
27 for unanticipated cash needs;

28 (4) with due regard for minimizing risk while maximizing return;

29 (5) using competitive purchasing practices except when impractical;

30 (6) in accordance with a written investment policy;

31 (7) so that the securities and collateral may continue to be priced on a  
32 market to market basis; and

33 (8) to avoid the enhancement of the personal financial position of the  
34 Treasurer or any employee of the Treasurer who has responsibilities for such  
35 investments.

1 SECTION 2. AND BE IT FURTHER ENACTED, That prior to the effective date  
2 of this Act, the Treasurer shall notify in writing the chief executive and governing  
3 body of each local government unit required to have a local investment policy under  
4 Article 95, Section 22F of the Code, to notify them of the changes contained in this Act  
5 and to provide them an opportunity to review, revise, and report any changes in the  
6 local investment policies to the Treasurer, as appropriate.

7 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
8 October 1, 2006.