

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 1119

(Senator Rosapepe, *et al.*) (By Request - Joint Committee
on the Management of Public Funds)

Budget and Taxation

Appropriations

State Treasurer - Supranational Issuers

This bill authorizes the State Treasurer to invest or reinvest unexpended or surplus money over which the Treasurer has custody in an obligation issued and unconditionally guaranteed by a supranational issuer. Investments in supranational issuers must receive the highest credit rating category from a nationally recognized statistical rating organization, be denominated in United States dollars, and be eligible to be sold in the United States.

Fiscal Summary

State Effect: None. The Treasurer's Office can carry out the bill's provisions with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Background: The bill was proposed by the State Treasurer during a hearing held by the Joint Committee on the Management of Public Funds on December 8, 2015. The Treasurer asked the joint committee to sponsor the bill in order to increase the quantity and quality of eligible investment opportunities available to the Treasurer by including obligations issued by a supranational issuer.

A supranational issuer is an international development institution that provides financing, advisory services, or other financial services to the institution's member countries to achieve the overall goal of improving living standards through sustainable economic growth.

Supranational issuers include:

- (1) the World Bank;
- (2) the International Finance Corporation;
- (3) the Inter-American Development Bank;
- (4) the African Development Bank; and
- (5) the Asian Development Bank.

Additionally, each county has an investment policy that is limited by what State law allows. Thus, the bill will allow local governments to also invest in supranational issuers. The Treasurer is responsible for oversight of local government investment policies.

Current Law: Currently, State Finance and Procurement § 6-222 allows the Treasurer to invest or reinvest unexpended or surplus money in:

- (1) an obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
- (2) an obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
- (3) a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies, or instrumentalities;
- (4) bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission or the Treasurer;
- (5) with respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical

rating organization as designated by the United States Securities and Exchange Commission issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this item;

- (6) commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States Securities and Exchange Commission;
- (7) money market mutual funds with certain restrictions; and
- (8) any investment portfolio created under the Maryland Local Government Investment Pool.

The Treasurer is required to report to the General Assembly annually by January 3 on investment activities. At a minimum, the report must contain the following information for general fund investments and all other investments:

- the inventory of investments with maturity dates and the book and market value as of June 30;
- the earned net income;
- the percentage share of each category of investment in the portfolio; and
- sales of investments prior to the maturity date.

The Treasurer is required to make investments with care, skill, prudence, and diligence with due regard for minimizing risk while maximizing return. The Treasurer must use competitive purchasing practices except when impractical. Investments must reasonably match the State's cash flow so that sufficient funds are available to pay obligations as they become due. The Treasurer must also maintain a reasonable amount of cash on hand for unanticipated needs. Investments must be made accordance with a written investment policy and they must be made so that securities and collateral may be priced on a market-to-market basis. The Treasurer must also avoid the enhancement of his/her personal financial position and avoid enhancing the personal financial positions of employees who are responsible for managing investments with State funds.

The Treasurer must attempt to use minority business enterprises for brokerage and investment management services for its investments to the greatest extent feasible.

Additional Information

Prior Introductions: None.

Cross File: HB 1570 (Delegate Gutierrez, *et al.*) (By Request – Joint Committee on the Management of Public Funds) – Rules and Executive Nominations.

Information Source(s): State Treasurer’s Office, Department of Legislative Services

Fiscal Note History: First Reader - March 15, 2016
min/hlb

Analysis by: Trevor S. Owen

Direct Inquiries to:
(410) 946-5510
(301) 970-5510