



MARYLAND STATE TREASURER
Dereck E. Davis

Testimony of the Maryland State Treasurer’s Office

Senate Bill 776: State Investment Portfolio – Investment Standards

Position: Favorable

House Appropriations Committee

March 19, 2024

Senate Bill 776 serves as the top priority for the State Treasurer’s Office (STO) this legislative session for three reasons. First, the bill ratifies the State’s current investments. Second, the bill increases flexibility for future changes to the State and local investment guidelines while still protecting the State’s money. Third, the bill strengthens the partnership between State and local governments to ensure continued effective management of public funds.

As the Committee and full House of Delegates unanimously approved the identical crossfile, [House Bill 846](#), STO respectfully requests that the Committee give favorable consideration to Senate Bill 776.

Ratification of Current Investments

During the 2023 session, this Committee approved legislation¹ that made changes to the statute governing State investments. Among the changes, the new law repealed the statutory threshold for commercial paper investments and instead required the Treasurer to adopt regulations establishing thresholds for all authorized investments. STO recently received legal advice from the Office of the Attorney General indicating that STO interpreted the new law too broadly to authorize investments that are not explicitly referenced in statute.

As a result of that advice and STO’s continued desire to provide more flexibility for future changes to State and local investment policies, STO is pursuing Senate Bill 776 to repeal and

¹ Chapters [115](#) and [116](#) of the Acts of 2023.

replace the statutory authorization for investments with regulations adopted by STO. STO may retain these investments until the investments have reached their respective maturity dates.

The State's investment portfolio has performed exceptionally well again this year, bringing in an estimated \$300 million in interest. Aside from last year, the previous highest earnings were \$58 million, in 2010. The returns are due to a combination of the size of the portfolio, which has grown in part due to federal funds, and interest rates, which continue to increase. Diversifying the portfolio with the use of new asset classes (corporate bonds, municipal securities, foreign sovereign debt, mortgage-backed securities, asset-backed securities, and term repurchase agreements) has bolstered the overall returns.

While the diversification of the portfolio aided the returns with higher coupon interest, if the State was forced to liquidate the assets prior to their respective maturity dates, market fluctuations could potentially cost between \$15 - \$20 million. Passage of this emergency legislation is needed to ratify the existing investments in high-grade securities in which other AAA-rated states invest.

Increased Flexibility

By establishing in regulations both the list of authorized investments and the thresholds for those investments, Senate Bill 776 will provide greater flexibility in responding to changing market conditions. For context, the State's investment portfolio has grown from \$7.6 billion in 2006 to \$21.4 billion as of February 2024. Interest rates have also fluctuated over time. Given the portfolio's growth, the need for diversification and flexibility is especially critical.

Transitioning to the regulatory process will preserve General Assembly oversight of changes to investment guidelines while enabling STO to seek changes outside of the legislative session.

Continued State/Local Partnership

The bill reflects consensus reached with the Maryland Association of Counties. In particular, STO will be required to consult with local governments prior to adopting regulations that alter the types of authorized investments. STO is separately planning to hire an additional investment staff person to help maintain strong relationships with local governments.

For the foregoing reasons, STO requests that the Committee give Senate Bill 776 a favorable report. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.