



MARYLAND STATE TREASURER  
Dereck E. Davis

**Testimony of the Maryland State Treasurer’s Office**

**Senate Bill 776: State Investment Portfolio – Investment Standards**

**Position: Favorable with Amendments**

**Senate Budget and Taxation Committee**

**February 14, 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.

With the adoption of the enclosed amendments that clarify the intent of the bill and incorporate feedback from local governments, STO respectfully requests that the Committee give favorable with amendments consideration to Senate Bill 776.

**Ratification of Current Investments**

During the 2023 session, this Committee approved legislation<sup>1</sup> 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 Among the changes, the new law repealed the statutory threshold for commercial paper investments and instead required the Treasurer to adopt regulations establishing thresholds for all authorized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.

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<sup>1</sup> Chapters [115](#) and [116](#) of the Acts of 2023.

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 replace the statutory authorization for investments with regulations adopted by STO. The amendment language further clarifies that 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 enclosed amendments reflect consensus reached with the Maryland Association of Counties. In particular, the amendments require STO 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 with amendments report. Please contact Laura Atas, Deputy Treasurer for Public Policy ([latas@treasurer.state.md.us](mailto:latas@treasurer.state.md.us)), with any questions.

**PROPOSED AMENDMENT**

BY: Chair, Budget and Taxation Committee  
(To be offered in the Senate Budget and Taxation Committee)

**AMENDMENTS TO SENATE BILL 776**  
(First Reading File Bill)

**AMENDMENT NO. 1**

On page 1, in line 3, after “of” insert “requiring the Treasurer to consult with local governments prior to proposing certain regulations that alter the types of investments allowed;”; in line 7 after “standards;” insert “authorizing the Treasurer to retain investments made prior to the effective date of the Act until the investments have reached their respective maturity dates; authorizing the Treasurer and local governments to invest or reinvest certain surplus funds in accordance with certain provisions of law prior to the adoption of certain regulations;” and after line 8 insert:

“BY repealing and reenacting, with amendments,  
Article – Local Government  
Section 17-204  
Annotated Code of Maryland  
(2013 Replacement Volume and 2023 Supplement)”.

**AMENDMENT NO. 2**

On page 1, after line 15 insert:

**“Article – Local Government**

**17-204.**

**(a) (1) After consulting with the governmental entities, the State Treasurer shall adopt by regulation local government investment guidelines to govern the investment of public money by the entities in a manner that:**

**\_\_\_\_\_ [(1)](1) facilitates sound cash management;**

[(2)](II) protects the public; and

[(3)](III) ensures that each entity has access to its public money.

**(2) PRIOR TO ADOPTING REGULATIONS THAT ALTER THE TYPES OF INVESTMENTS IN WHICH GOVERNMENTAL ENTITIES MAY INVEST PUBLIC MONEY, THE STATE TREASURER SHALL CONSULT WITH THE LOCAL GOVERNMENTAL ENTITIES.**

(b) The local government investment guidelines shall:

(1) specify the types of investments in which public money may be invested;

(2) include guidance for the prudent investment of public money based on cash flow projections, income, liquidity, investment ratings, and risk;

(3) require that investments by a county board of education and a county board of library trustees comply with the local investment policy of the county; and

(4) prohibit the borrowing of money for the express purpose of investment.”.

**AMENDMENT NO. 3**

On page 5, in line 21, after “That” insert:

“(1) notwithstanding any other provision of law, the Treasurer may retain investments made prior to the effective date of the Act until the investments have reached their respective maturity dates;

(2) the Treasurer may invest or reinvest surplus money in the investments authorized under § 6-222(a) of the State Finance and Procurement Article as effective immediately prior to the effective date of this Act until the effective date of the regulations amending the State investment policy required to be adopted by the Treasurer under Section 1 of this Act; and

(3) the governmental entities described in § 17-203 of the Local Government Article may invest or reinvest surplus money in the investments authorized under § 6-222(a) of the State Finance and Procurement Article as effective immediately prior to the effective date of this Act until the effective date of the regulations amending the local government investment guidelines required to be adopted by the Treasurer under Section 1 of this Act.

**SECTION 3. AND BE IT FURTHER ENACTED, That”;**

in line 22, after “adopt” insert: “;

\_\_\_\_\_ (i);

after line 23, insert: “(ii) regulations amending the local government investment guidelines adopted by the Treasurer pursuant to § 17–204 of the Local Government Article; and”;

in line 24, strike “1” and substitute “2”; and in line 28, strike “updated State investment policy;” and substitute “amended local government investment guidelines;”.

On page 6, in line 1 strike “3.” and substitute “4.”.