

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,798	\$4,801	\$4,760	-\$42	-0.9%
Contingent & Back of Bill Reductions	0	0	-91	-91	
Adjusted General Fund	\$4,798	\$4,801	\$4,669	-\$132	-2.8%
Special Fund	1,047	2,060	3,276	1,216	59.0%
Contingent & Back of Bill Reductions	0	0	-8	-8	
Adjusted Special Fund	\$1,047	\$2,060	\$3,268	\$1,208	58.6%
Reimbursable Fund	28,042	34,800	31,455	-3,345	-9.6%
Contingent & Back of Bill Reductions	0	0	-72	-72	
Adjusted Reimbursable Fund	\$28,042	\$34,800	\$31,384	-\$3,417	-9.8%
Adjusted Grand Total	\$33,887	\$41,662	\$39,321	-\$2,341	-5.6%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board budget reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance decreases by \$2.3 million (-5.6%) from the current year working appropriation. Special funds for bond sale expenses increase by \$1.2 million. Reimbursable funds related to insurance coverage decrease by \$3.4 million.

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

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Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Positions	64.00	61.00	61.00	0.00
Contractual FTEs	<u>0.20</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	64.20	61.00	61.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	2.22	3.64%
Positions and Percentage Vacant as of 12/31/09	3.00	4.92%

- The number of regular and contractual positions remains unchanged in the fiscal 2011 allowance.
- Budgeted turnover of 3.64% equates to 2.22 positions. As of December 31, 2009, there were 3 vacant positions.

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 (STO), with accounts now being reconciled on average in less than four days.

Claims Are Adjusted Accurately and Timely: In fiscal 2009, STO closed more claims than were opened during the year. This trend is projected to continue through fiscal 2011.

Recommended Actions

1. Concur with Governor’s allowance.

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State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the 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 sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation bond issues, and through the Capital Debt Affordability Committee reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The State Treasurer annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer's Office (STO) are to:

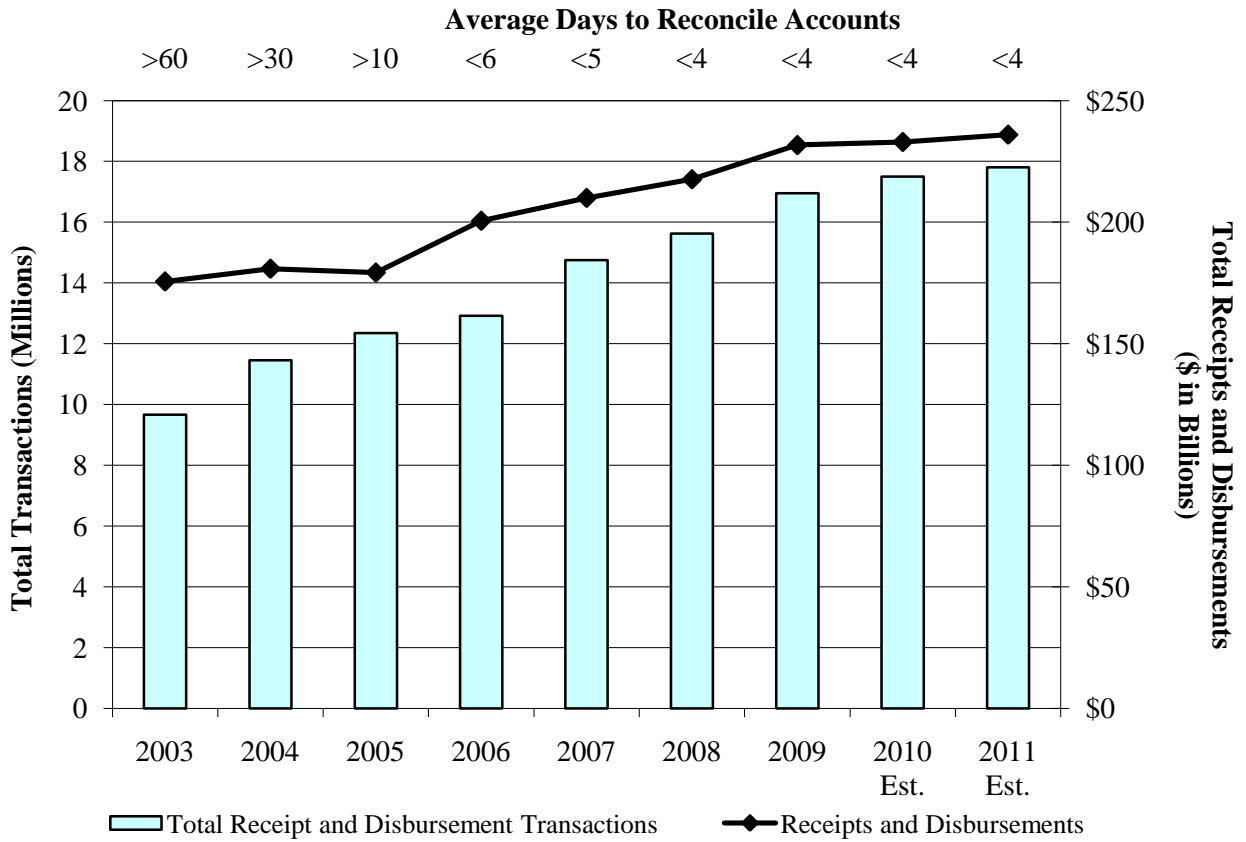
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law;
- maintain and enhance the information technology capability and infrastructure to meet the diverse needs of STO and the agencies it serves; and
- process 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 a 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 four days since fiscal 2008.

**Exhibit 1
Total Receipts and Disbursements and Days to Reconcile All Accounts
Fiscal 2003-2011**

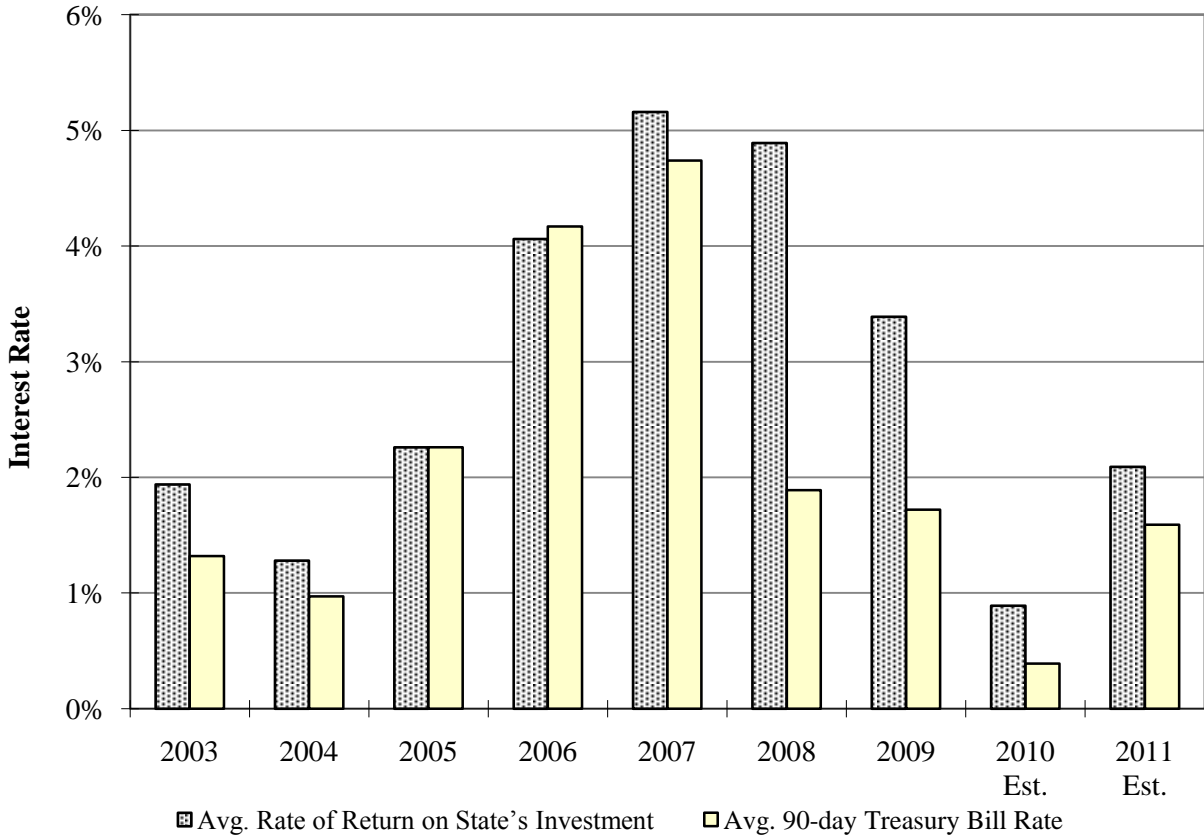


Source: Governor’s Budget Books, Fiscal 2006-2011

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 may 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. The economic downturn has reduced the rate of return on investment, but the State’s return is expected to continue to be greater than the 90-day Treasury Bill rate.

Exhibit 2
Comparison of State’s Investment Portfolio and 90-day U.S. Treasury Bill Rates
Fiscal 2003-2011

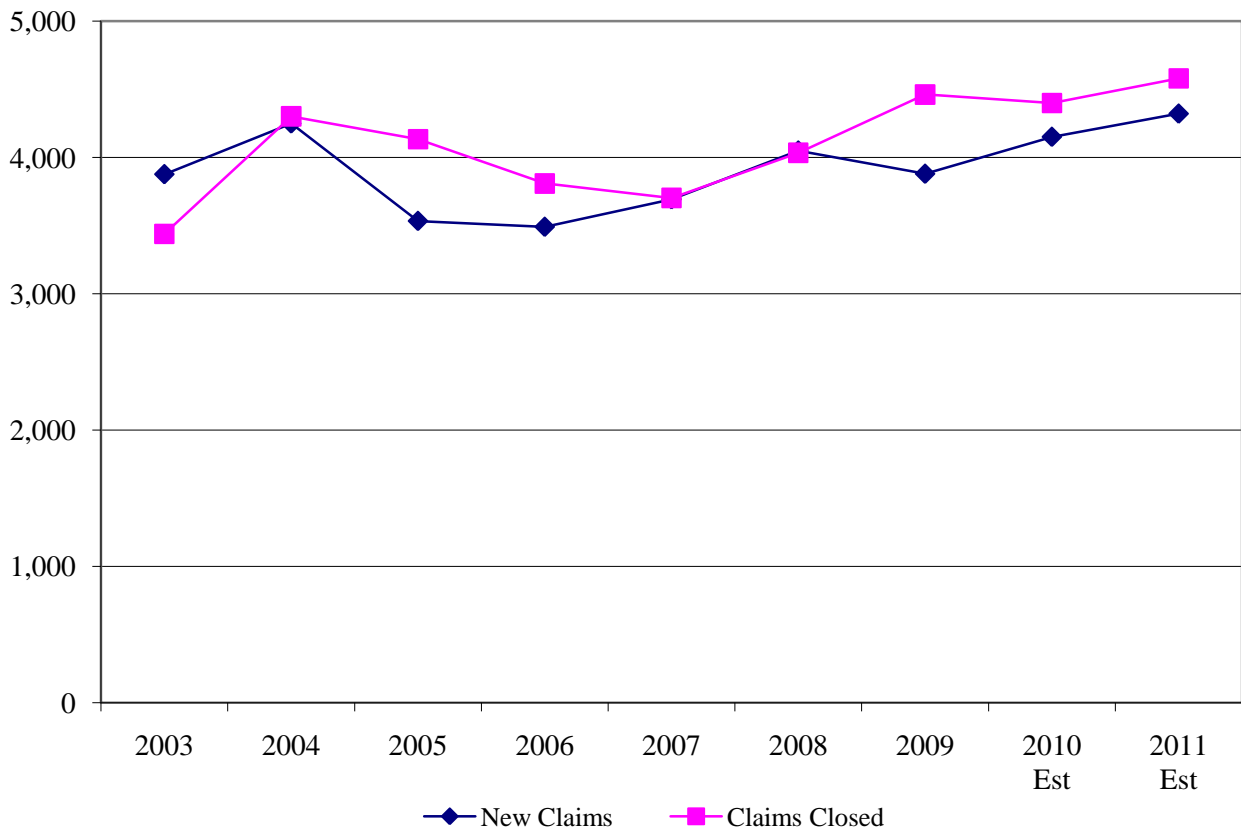


Source: Governor’s Budget Books, Fiscal 2006-2011

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. In fiscal 2009, there were 582 more claims closed than were opened. This trend is expected to continue through fiscal 2011.

**Exhibit 3
New Claims v. Claims Closed
Fiscal 2003-2011**



Source: Governor’s Budget Books, Fiscal 2006-2011

Fiscal 2010 Actions

Impact of Cost Containment

The fiscal 2010 budget for STO was reduced by \$264,139 through the three Board of Public Works actions taken through November 2009. Employee furloughs (\$81,066 in general funds, \$9,077 in special funds) and elimination of the position dealing with the federal Cash Management Improvement Act (CMIA) (\$68,996 in special funds) make up more than half of the reductions. The CMIA position was eliminated because the federal funds reporting module for the R*STARS accounting system was not developed, which made it impossible to centrally monitor federal fund

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transfers across all State agencies as originally envisioned. A reduction in banking fees (\$40,000 in general funds) was possible due to decreased investment activity as a result of the economic climate. STO reduced the scope of business recovery services that would be utilized in the event that the State's central data was compromised (\$35,000 in general funds) and reduced contractual computer services (\$30,000) as general cost cutting measures.

The Budget Reconciliation and Financing Act of 2010 (SB 141/HB 151) contains two provisions relating to the State Treasurer's Office. The first authorizes the transfer of \$5,221,332 from the State Insurance Trust Fund (the Trust Fund) to the general fund. The Trust Fund is used to pay claims under the State's self-insurance program and to purchase commercial insurance to cover catastrophic property and liability losses. State agency budgets include funding for insurance premiums which are deposited into the Trust Fund. The proposed transfer will reduce the estimated balance on June 30, 2010 to \$23.8 million which is \$2.7 million below the actuarial recommended fund balance. The allocations in State agency budgets for fiscal 2011 are sufficient to bring the balance back up to the actuarial recommended level based on current loss estimates.

The second provision authorizes the transfer of \$733,339 from the Cash Management Improvement Fund to the general fund. This fund is used to pay penalties due to the federal government when State agencies draw federal funds before they are needed. Until fiscal 2010, the fund was also used to pay for a position in the State Treasurer's Office that was responsible for fulfilling the reporting requirements under the federal Cash Management Improvement Act. This position was abolished as part of the fiscal 2010 cost containment actions taken by the Board of Public Works because the consolidated reporting envisioned when the position was created is not possible due to the decision not to develop the needed module for the State's Financial Management Information System. This transfer leaves \$50,000 in the fund to pay future penalties. After these funds are exhausted it is anticipated that responsible agencies will pay penalties from their budgets.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2011 allowance for STO decreases by \$2.3 million from the current year working appropriation. Personnel expenses increase by a net \$48,000. General administrative savings, coupled with a decrease in equipment capital leases more than offset increases for software for the tort litigation unit, web development, and data processing supplies. In total, the budget for general operations declines by \$206,000. Bond sale expenses increase by \$1.2 million due to a combination of increased fees charged by the rating agencies and an increase in the number and types of debt issuances particularly related to school construction funding. Insurance coverage costs decrease by \$3.4 million representing lower premium costs as policies are renewed.

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

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2010 Working Appropriation	\$4,801	\$2,060	\$34,800	\$41,662
2011 Allowance	<u>4,760</u>	<u>3,276</u>	<u>31,455</u>	<u>39,491</u>
Amount Change	-\$42	\$1,216	-\$3,345	-\$2,171
Percent Change	-0.9%	59.0%	-9.6%	-5.2%
 Contingent Reductions	 -\$91	 -\$8	 -\$72	 -\$170
Adjusted Change	-\$132	\$1,208	-\$3,417	-\$2,341
Adjusted Percent Change	-2.8%	58.6%	-9.8%	-5.6%

Where It Goes:

Personnel Expenses

Retirement contributions.....	\$76
Employee and retiree health insurance (net of Section 19).....	46
Unemployment compensation	7
Decreased turnover	3
Employee furloughs (Section 18) net of cost containment salary restorations, includes reimbursable fund reduction	-85
Other fringe benefit adjustments.....	1

Operations

Software for tort litigation unit	10
Computer services – web development enhancements.....	8
Data processing supplies.....	8
Telecommunications	-12
Advertizing and legal publications	-15
In-state/out-of-state conference travel	-26
Equipment capital leases.....	-88
Banking and financial services contracts.....	-91

Where It Goes:

Insurance Coverage and Bond Sale Expenses

Bond sale expenses – increased rating agency costs, additional issuances (school construction bonds, etc.)	1,212
Insurance coverage – savings in purchase of insurance.....	-3,416
Other	21
Total	-\$2,341

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

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers’ settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected actions relating to employee furloughs and health insurance.

For STO, the reductions for the items for which estimated savings could be calculated are as follows: employee furloughs (\$150,000) and health insurance (\$19,306.)

Recommended Actions

1. Concur with Governor's allowance.

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 2009					
Legislative Appropriation	\$5,131	\$1,592	\$0	\$38,833	\$45,557
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	40	7	0	0	47
Cost Containment	-339	-6	0	0	-345
Reversions and Cancellations	-35	-546	0	-10,791	-11,372
Actual Expenditures	\$4,798	\$1,047	\$0	\$28,042	\$33,887
Fiscal 2010					
Legislative Appropriation	\$4,987	\$2,138	\$0	\$34,800	\$41,926
Cost Containment	-186	-78	0	0	-264
Budget Amendments	0	0	0	0	0
Working Appropriation	\$4,801	\$2,060	\$0	\$34,800	\$41,662

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

Fiscal 2009

The fiscal 2009 budget for STO closed out \$11.7 million lower than the legislative appropriation. Increases by budget amendment added \$47,075 for the general salary increase (\$40,190 in general fund, \$6,885 in special fund) and were offset by cost containment reductions totaling \$344,999 and reversions and cancellations totaling \$11.4 million. The general fund reversion of \$34,605 related to general administrative savings, deferral of equipment purchases, notably replacement of the Treasurer's car, and remaining funds budgeted for bond sale expenses. The special fund cancellation included some general administrative savings but was primarily related to unused spending authority related to variable rate debt issuance. A reimbursable fund cancellation of \$10.8 million related to lower losses and lower costs for excess insurance in the State Insurance Trust Fund.

Cost containment comprised:

- bank reimbursements due to overpayments (\$147,378 in general funds);
- a reduction to banking fees (\$50,000 in general funds);
- removal of Other Post Employment Benefits funding (\$44,722 in general funds);
- furlough savings (\$37,626 general, \$4,476 in special funds);
- elimination of vacant position (\$36,622 in general funds); and
- health insurance subsidies to be paid for with nonbudgeted fund (\$22,501 in general funds, \$1,674 in special funds);

Fiscal 2010

The fiscal 2010 working appropriation is \$264,139 lower than the legislative appropriation due to cost containment actions taken by the Board of Public Works. Cost containment comprised:

- furlough savings (\$81,066 in general funds, \$9,077 in special funds);
- deletion of a position which supported the Cash Management Improvement Act (\$68,996 in special funds)
- a reduction to banking fees due to expected reduced investment trades (\$40,000 in general funds);

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- a reduction in the scope of business recovery services by eliminating contingent hosting support (\$35,000 in general funds); and
- a reduction in contractual services support for computer programming (\$30,000 in general funds).

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	64.00	61.00	61.00	0	0%
02 Contractual	0.20	0	0	0	0.0%
Total Positions	64.20	61.00	61.00	0	0%
Objects					
01 Salaries and Wages	\$ 4,852,797	\$ 5,257,033	\$ 5,475,693	\$ 218,660	4.2%
02 Technical and Spec. Fees	14,156	4,500	3,125	-1,375	-30.6%
03 Communication	98,294	114,587	103,417	-11,170	-9.7%
04 Travel	24,822	32,737	7,000	-25,737	-78.6%
07 Motor Vehicles	6,913	13,077	12,831	-246	-1.9%
08 Contractual Services	3,302,393	4,932,731	6,066,609	1,133,878	23.0%
09 Supplies and Materials	246,569	250,826	265,422	14,596	5.8%
10 Equipment – Replacement	208,699	99,427	11,436	-87,991	-88.5%
11 Equipment – Additional	62,757	0	0	0	0.0%
13 Fixed Charges	25,069,790	30,956,980	27,545,418	-3,411,562	-11.0%
Total Objects	\$ 33,887,190	\$ 41,661,898	\$ 39,490,951	-\$ 2,170,947	-5.2%
Funds					
01 General Fund	\$ 4,798,161	\$ 4,801,426	\$ 4,759,665	-\$ 41,761	-0.9%
03 Special Fund	1,046,544	2,060,092	3,275,909	1,215,817	59.0%
09 Reimbursable Fund	28,042,485	34,800,380	31,455,377	-3,345,003	-9.6%
Total Funds	\$ 33,887,190	\$ 41,661,898	\$ 39,490,951	-\$ 2,170,947	-5.2%

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Treasury Management	\$ 6,162,212	\$ 6,304,615	\$ 6,293,331	-\$ 11,284	-0.2%
01 Insurance Management	2,195,288	2,936,050	2,981,285	45,235	1.5%
02 Insurance Coverage	25,034,065	30,930,233	27,513,835	-3,416,398	-11.0%
01 Bond Sale Expenses	495,625	1,491,000	2,702,500	1,211,500	81.3%
Total Expenditures	\$ 33,887,190	\$ 41,661,898	\$ 39,490,951	-\$ 2,170,947	-5.2%
General Fund	\$ 4,798,161	\$ 4,801,426	\$ 4,759,665	-\$ 41,761	-0.9%
Special Fund	1,046,544	2,060,092	3,275,909	1,215,817	59.0%
Total Appropriations	\$ 5,844,705	\$ 6,861,518	\$ 8,035,574	\$ 1,174,056	17.1%
Reimbursable Fund	\$ 28,042,485	\$ 34,800,380	\$ 31,455,377	-\$ 3,345,003	-9.6%
Total Funds	\$ 33,887,190	\$ 41,661,898	\$ 39,490,951	-\$ 2,170,947	-5.2%

Note: The fiscal 2010 appropriation does not include deficiencies.