

**E20B
State Treasurer**

Operating Budget Data

	(\$ in Thousands)					
	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$24,853	\$27,658	\$28,621	\$3,769	\$31,188	\$2,566
Contractual Services	2,661	2,849	2,747	86	2,569	-178
Contingent & Back of Bill Reductions	0	0	0	0	-20	-20
Adjusted Grand Total	\$27,514	\$30,507	\$31,368	\$3,854	\$33,737	\$2,369
General Funds	\$4,166	\$3,840	\$3,635	-\$532	3,697	62
Contingent & Back of Bill Reductions	0	0	0	0	-20	-20
Adjusted General Funds	\$4,166	\$3,840	\$3,635	-\$532	\$3,678	\$43
Special Funds	483	760	619	136	622	3
Reimbursable Funds	22,865	25,907	27,115	4,250	29,438	2,323
Adjusted Grand Total	\$27,514	\$30,507	\$31,368	\$3,854	\$33,737	\$2,369
Annual % Change		10.9%	2.8%		7.6%	

- Since fiscal 2002 the State Treasurer's Office has taken approximately \$1.4 million in aggregate cost containment reductions. These reductions include savings related to the statewide hiring freeze and general 1.5% reduction in general funds initiated in fiscal 2002 and carried forward into fiscal 2003. Additional fiscal 2003 cost containment actions included savings resulting from the delayed implementation of a new banking service and the use of special fund proceeds derived from bond sale premiums to cover bond sale expenses in lieu of using general funds. Fiscal 2004 cost containment includes the continued use of special funds to cover bond sale expenses as well as reductions approved by the Board of Public Works (BPW) in July 2003.
- The fiscal 2005 allowance provides a \$2.4 million increase over the adjusted fiscal working appropriation. Almost all of the increase is attributable to the State's insurance coverage program. Reimbursable fund expenditures are expected to increase 8.6% from \$27.1 million in fiscal 2004 to \$29.4 million in the fiscal 2005 allowance.
- The allowance for general funds increased by \$43,000 over the adjusted fiscal 2004 working appropriation. General fund personnel costs increase by \$178,000 in the budget which entails a reduction in general fund support for nonpersonnel administrative activities of \$135,000.

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

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Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	52.0	53.0	52.0	0.0	52.0	0.0
Contractual FTEs	1.0	0.0	0.0	-1.0	0.0	0.0
Total Personnel	53.0	53.0	52.0	-1.0	52.0	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	1.77	3.40%
Positions Vacant as of 12/31/03	3.00	5.77%

- There are no new positions and no positions lost as a result of cost containment for the fiscal 2005 budget.
- There are three vacant positions as of December 31, 2003. Of these, one position has been vacant longer than 12 months.

Analysis in Brief

Major Trends

Reconciliation of the State's Main Accounts: The average number of days it took to reconcile accounts exceeded 30 days in fiscal 2002 and 2003. The continued implementation and anticipated roll-out of a new reconciliation system is expected to improve upon this measure.

Investment Portfolio Continues to Outperform 90-Day U.S. Treasury T-bill Rate: Although interest rates have declined and are expected to remain low in the short-term, the Treasurer's Office investment portfolio continues to outperform the average 90-day U.S. Treasury T-bill rate.

State Insurance Claims Processing: The number of new claims filed increased substantially in fiscal 2003 and is expected to continue to increase through fiscal 2005. While the number of claims closed also increased, the closure rate has not kept pace with the number of new filings. Consequently, the number of pending cases is on the rise.

Issues

Audit Report Identifies 16 Major Issues: The Office of Legislative Audits (OLA) released the audit report for the Treasurer's Office in December 2003 for the period beginning October 1, 2000, and ending October 31, 2002. The report listed 16 findings related to eight areas of operations. Two of the findings relate specifically to the Treasurer's Office budget operations. **The Department of Legislative Services makes several recommendations concerning these audit findings.**

State Insurance Trust Fund Balance Depleted: The State provides insurance protection through the purchase of specific excess commercial insurance policies and through self-insurance from the State Insurance Trust Fund (SITF). Increased costs associated with excess policy coverage and increased claim losses have outpaced agency premiums. As a result, the SITF balance is significantly short of the recommended actuary balance. To begin to correct this situation, the fiscal 2005 budget increases agency premiums charged to State agencies by almost \$10 million. **The Treasurer should comment on the short- and long-term plans for improving the SITF structural balance.**

Expiration of General Banking Contracts Could Result in Deficiency: Several general banking contracts are set to expire during fiscal 2005. The amount of funds provided to pay for these contracts in the fiscal 2005 allowance may be insufficient to cover the cost of these contracts once they are re-bid. **The Treasurer should discuss plans for re-bidding these contracts and whether the amount provided in the fiscal 2005 allowance will be sufficient to cover costs.**

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Recommended Actions

	<u>Funds</u>
1. Reduce funds for motor vehicle gas and oil and vehicle maintenance and repair expenses.	\$3,000
2. Reduce funds for library and data processing supplies.	3,000
3. Delete funds for office assistance.	8,000
Total Reductions	\$14,000

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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. To carry out these responsibilities, the State 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 damage to State property and liability of State employees. The State Treasurer also administers the sale of Maryland general obligation bonds and serves as a member of the Board of Public Works (BPW). The Treasurer's Office consists of four programs: treasury management, insurance management, insurance coverage, and bond sale expenses.

Performance Analysis: Managing for Results

The Treasurer's Office is tasked with providing cash management including the reconciliation of the State's main accounts (depository and disbursement) and working funds.

- ***Objective: Reconcile the State's Main Depository, Main Disbursement, and Income Tax Refund Accounts within 30 days of receipt of the bank statement.***

As shown in **Exhibit 1**, the Treasurer's Office did a very poor job of reconciling accounts in a timely fashion in fiscal 2002 and 2003. This poor performance can be traced to the office's failed attempt to improve its account reconciliation procedures in the late 1990s. Using its delegated procurement authority (which allows it to approve and award banking services contracts without control agency involvement) the office entered into two information technology contracts for the development of an automated bank reconciliation system in April 1997. The two contracts, with amendments, were valued at over \$481,000 and provided for software, programming, training, and related professional consulting services. The system never performed as expected, and after investing nearly \$1.6 million (not including the cost of IT personnel in the office) in the project, the Treasurer's Office cancelled the project and reverted to a manual reconciliation process. In fiscal 2002 and 2003, the office was unable to meet this goal as it attempted to run both the manual reconciliation and the automated reconciliation system simultaneously.

Despite the setback, in 2002 the Treasurer's Office identified the implementation of a new automated system as a top priority. After an extended procurement process, a contract was awarded to TrinTech, Inc. to deliver an automated reconciliation package as one component of system reform. The office reports that progress is being made in the roll-out of the new automation system and expects to complete parallel testing of the new system in early 2004 with full implementation expected by April 2004. Improvements in the account reconciliation system are reflected in the Treasurer's Office fiscal 2004 and 2005 estimates as the office moves closer to a daily reconciliation process.

Exhibit 1
Average Number of Days to Reconcile Accounts
Fiscal 2002 – 2005

	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Est.</u>	<u>FY 2005</u> <u>Est.</u>
Measure: Average days to reconcile accounts	>60	>30	<30	<7

Source: State Treasurer's Office

A December 2003 audit of the Treasurer's Office, conducted by the Department of Legislative Services, Office of Legislative Audits (OLA), presented very damaging findings directly related to the office's financial reconciliation responsibilities. Specifically, the audit found that the Treasurer's Office did not adequately reconcile the cash balance in the State's main bank accounts with the corresponding balance recorded in the State's accounting records. As a result, OLA was unable to adequately determine the State's cash balance. In conjunction with the implementation of the new automated account system, the Treasurer's Office is actively working on reconciling the books to determine the extent and cause of any discrepancies between the books and the bank. **OLA will present a separate report covering its audit findings, and the Treasurer should comment on the changes the office is implementing to improve the account automation process.**

- **Objective:** *Earn a rate of return on the investment portfolio that exceeds the average 90-day U.S. Treasury Bill rate by 50 basis points on an annual basis.*

The Treasurer's Office is also responsible for maximizing investment earnings for the State's surplus funds. **Exhibit 2**, which shows the rate of return on the investment portfolio as compared to the average 90-Day U.S. Treasury rate, indicates that the Treasurer's investment portfolio outperformed the average T-bill rate by 80 basis points in fiscal 2002 and 62 basis points in fiscal 2003. The office expects this trend to continue in fiscal 2004 and 2005 despite declining interest rates. In its December 2003 report to the Legislative Policy Committee, the Treasurer conveyed that interest rates have been declining since the beginning of calendar 2001 and expect to remain at historically low levels through calendar 2003 and into calendar 2004.

Exhibit 2
Rate of Return on Investment Portfolio Compared to 90-Day T-Bill Rate
Fiscal 2002 – 2005

<u>Measures</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Est.</u>	<u>FY 2005</u> <u>Est.</u>
Average return on investment portfolio	2.98%	1.94%	1.65%	2.10%
Average 90-day T-bill rate	2.18%	1.32%	1.15%	1.60%
Basis point spread over 90-day T-bill rate	80	62	50	50

Source: State Treasurer's Office

- **Objective:** Promptly and accurately investigate, analyze, and adjust all claims presented under the State Insurance Trust Fund and the Maryland Tort Claim Act. Claims should be adjudicated on a 1:1 ratio.

The Treasurer's Office is also responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. As shown in **Exhibit 3**, the reported performance measure shows a dramatic increase in the number of new claims filed.

Exhibit 3
Insurance Division Third Party Claims Processing
Fiscal 2001 – 2005

<u>Measures</u>	<u>FY 2001</u> <u>Actual</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Est.</u>	<u>FY 2005</u> <u>Est.</u>
New claims processed	2,938	2,994	3,877	4,150	4,325
Claims closed	3,087	2,924	3,493	4,150	4,325
Pending open cases	970	1,040	1,478	1,478	1,478

Source: State Treasurer's Office

While the number of claims closed also increased significantly in fiscal 2003, this measure did not keep pace with the number of new claims filed. Consequently, the number of pending cases open at the close of fiscal 2003 increased markedly over fiscal 2001 and 2002 levels. The office reports that the damage caused by Hurricane Isabel, liability resulting from a resurfacing project on Route 50, and a significant increase in the number of routine claims submitted have contributed to the increase in the number of new claims and pending open cases.

Fiscal 2004 Actions

Impact of Cost Containment

The cost containment actions taken to the Treasurer's Office by BPW in July 2003 totaled \$73,224, or 1.97% of the office's general fund legislative appropriation. This reduction is approximately 0.8% lower than the State average reduction of 2.8% of the general fund legislative appropriation (excluding mandatory aid to education). **Exhibit 4** provides the details of the specific reductions. It is also noteworthy that the office's fiscal 2004 legislative appropriation already reflected the continued use of special funds to cover bond sale expenses in lieu of general funds which was initiated as part of cost containment in fiscal 2003.

Exhibit 4
Treasurer's Office Fiscal 2004 Cost Containment Items
Approved by the Board of Public Works
July 2003

<u>Action</u>	<u>Base Funding</u>	<u>Reduction</u>
Reductions to information technology expenditures, including computer maintenance, supplies, software, and computers	\$172,625	\$29,031
Miscellaneous reductions including printing, office supplies, and office assistance	77,500	29,193
Reduction expenditures for management studies and consultant services	35,000	15,000
Total Reductions		\$73,224

Source: Department of Budget and Management

Governor's Proposed Budget

As shown in **Exhibit 5**, the fiscal 2005 allowance for the Treasurer's Office is \$33.7 million which represents almost a \$2.4 million, or 7.6% increase over the adjusted fiscal 2004 working appropriation. The increase is almost entirely in reimbursable funds with most of the increase in the cost of commercial insurance. Commercial insurance premiums are increasing for the following reasons. First, detailed property and equipment inventories received from State agencies reflect updated property values. The second reason is that several of the office's insurance policies that had three-year guaranteed rates are expiring, and the Treasurer's Office anticipates higher premiums once new contracts have been procured. Finally, the commercial insurance market continues to reflect increased premium costs in the aftermath of the September 11, 2001, terrorist attacks.

**Exhibit 5
Governor's Proposed Budget
State Treasurer
(\$ in Thousands)**

	<u>FY 03 Actual</u>	<u>FY 04 Approp.</u>	<u>FY 05 Allowance</u>	<u>FY 04-05 Change</u>	<u>FY 04-05 % Change</u>
General Funds	\$3,840	\$3,635	\$3,697	\$62	1.7%
Contingent & Back of Bill Reductions	0	0	-20	-20	
Adjusted General Funds	\$3,840	\$3,635	\$3,678	\$43	1.2%
Special Funds	\$760	\$619	\$622	\$3	0.5%
Reimbursable Funds	\$25,907	\$27,115	\$29,438	\$2,323	8.6%
Adjusted Grand Total	\$30,507	\$31,368	\$33,737	\$2,369	7.6%

Where It Goes:

Personnel Expenses

Increments and other compensation.....	\$52
Employee and retiree health insurance.....	44
Retirement contribution cost increase.....	2
Reclassification of vacant positions.....	34
Workers' compensation premium assessment.....	6
Cost containment and turnover adjustments.....	63
Other fringe benefit adjustments.....	-9

Other Changes

Insurance coverage – mainly commercial policies.....	2,278
Computer software training and tuition reimbursement.....	-5
Increased communications costs due including the Department of Budget and Management (DBM) paid telecommunications.....	58
Lease purchase.....	13
Out-of-state travel for conferences.....	-5
Office assistance.....	8

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Where It Goes:

Information technology – claims tracking system.....	-130
Reduced cost of general banking contracts	-66
Office supplies	19
Elimination of one-time fiscal 2004 expenditure for microcomputers	-14
Increased reimbursement to Treasury Management for fiscal services	24
Other.....	-3
Total	\$2,369

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

General funds increase in the budget by \$43,000 after adjusting for the contingent reduction in the deferred compensation State contribution. General funded personnel costs increase by \$178,000 in the budget. This is primarily attributable to increased employee and retiree health insurance costs, employee increments, a reduction in the office’s budgeted turnover rate, and the reclassification of vacant positions. The increase in general funded personnel costs is offset by a \$135,000 reduction in general fund support for non-personnel administrative activities.

Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$19,508 for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation. It is also noteworthy that the office’s fiscal 2005 allowance reflects the continued use of special funds to cover bond sale expenses in lieu of general funds which was initiated as part of cost containment in fiscal 2003 and continued in fiscal 2004. Additionally, the fiscal 2005 allowance continues the reductions imposed under the fiscal 2004 cost containment actions approved by BPW in July 2003 as shown in Exhibit 4.

Issues

1. Audit Report Identifies 16 Major Issues

OLA released the audit report for the Treasurer's Office in December 2003 for the period beginning October 1, 2000, and ending October 31, 2002. The report listed 16 findings related to eight areas of operations. OLA will present a separate analysis of its findings and recommendations to the budget committees during the 2004 session. However, the Office of Policy Analysis observes that two of the findings relate specifically to the Treasurer's Office budget operations.

- *Finding 12: Certain fees for support services to State agencies were assessed by the State Treasurer's Office without authorization.*

The audit revealed that the Treasurer's Office was, without legal authorization, assessing fees on interest earned for funds which were invested by the office on behalf of State agencies. The office was retaining these fees and receiving a special fund appropriation in the budget to cover expenditures related to the office's investment activities. Furthermore, the audit revealed that the office was retaining any unexpended balance at the close of a fiscal year rather than reverting these funds consistent with the General Accounting Division's (GAD) fiscal year closeout policies which require all special fund balances be transferred to the General Fund unless specific authority exists to retain the funds. According to the audit, the balance of funds retained by the Treasurer's Office was \$312,067 as of June 30, 2002. **The Department of Legislative Services (DLS) recommends that the Treasurer's Office revert unexpended and unencumbered special funds derived from investment fees assessed on interest earned for funds which were invested by the office on behalf of State agencies consistent with GOA closeout procedures absent specific authority to retain such fees.**

The audit also found that the Treasurer's Office was collecting fees for administrative costs from State agencies participating in the capital lease financing program without specific legal authority. Rather than receiving an appropriation for these revenues, the office was recording the fees as nonbudgeted funds and utilizing the funds to cover expenditures related to the administration of the capital lease financing program. The audit indicated that the balance of this nonbudgeted fund totaled \$238,244 as of April 30, 2003. **DLS recommends that the Treasurer's Office receive an annual reimbursable fund appropriation in its budget to reflect the collection and subsequent expenditure of these special fund revenues in its annual budget.**

- *Finding 16: Unredeemed minibond funds were not properly transferred to the Unpresented Bond and Coupon Fund, or the Comptroller's Abandoned Property Fund, as required.*

The audit concluded that the Treasurer's Office did not properly transfer funds related to unredeemed minibonds to the Unpresented Bond and Coupon Fund and failed to determine the amount of unredeemed bonds subject to transfer to the Abandoned Property Fund. Title 17 of the Commercial Law Article provides that property is presumed abandoned if it remains unclaimed for more than three years and should be transferred to the Abandoned Property Fund maintained by the

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Comptroller. Title 17, Section 317 of the Commercial Law Article further requires that after making specified distributions all remaining net funds in the Abandoned Property Fund shall be distributed to the State general fund at the end of each fiscal year. In retaining funds related to unredeemed minibonds in the Unpresented Bond and Coupon Fund in excess of three years, the Treasurer's Office was in essence depriving the State general fund of revenues. The audit concluded that as of February 28, 2003, the Unpresented Bond and Coupon Fund balance totaled \$3.8 million. However, an exact accounting of how much of these funds has been retained for more than three years and thus required to be deposited into the Abandoned Property Fund was not provided in the audit. **DLS recommends that the Treasurer identify the amount of funds currently in the Unpresented Bond and Coupon Fund and the amount that has been retained in excess of three years. DLS further recommends that the Treasurer comment on how the legislative proposal provided in HB 689/SB 433 will address the auditing finding and recommendation.**

State Treasurer's Office Legislative Package Addresses Audit Findings

The Treasurer's Office's legislative package for the 2004 session includes several proposals specifically targeted to correct deficiencies identified in the audit.

- **HB 686/SB 432:** The proposed legislation is intended to clarify procedures regarding undeliverable checks. Current law requires that undeliverable amounts remain in the Undeliverable Checks Fund for seven years. This procedure is inconsistent with the Abandoned Property Act and federal requirements for checks funded in whole or in part with federal funds. The legislation would eliminate the seven-year limitation on issuing replacement checks and clarifies that undeliverable check funds are not subject to the Maryland Uniform Disposition of Abandoned Property Act.
- **HB 688/SB 434:** The proposed legislation is intended to clarify procedures concerning unpresented checks. Specifically, the proposed legislation would eliminate a seven-year limitation on reissuing checks that have been presented for payments and allow the Treasurer to void unpresented checks and return the funds to their sources or transfer the funds to another account. Unpresented check funds would no longer be subject to the Maryland Uniform Disposition of Abandoned Property Act.
- **HB 689/SB 433:** The proposed legislation would require the Treasurer to deposit unredeemed principal and interest on State general obligation bonds in an Unpresented Bond and Coupon Fund and dispose of the unredeemed funds in accordance with abandoned property procedures. Current law is silent on how the Treasurer should dispose of bond and interest payments that have not been redeemed.
- **HB 690/SB 290:** The proposed legislation would allow earnings on deposits to offset bank service charges and require that all investment earnings be paid into the general fund. Under current law, agency bank accounts are not specifically authorized and interest earnings on these accounts are not consistently paid into the general fund.

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- **HB 691/SB 291:** The proposed legislation would update statutory requirements for State units to deposit revenues only into banks designated by the Treasurer's Office in accordance with the regulations and policies of the Treasurer and Comptroller. Current law requires State units to make deposits on a monthly basis. This legislation would require daily deposits.

DLS recommends that the Treasurer brief the committees concerning how the office's legislative agenda will address the many deficiencies identified in the OLA audit.

2. State Insurance Trust Fund Balance Depleted

The State provides insurance protection through the purchase of specific excess commercial insurance policies and through self-insurance from the State Insurance Trust Fund (SITF). The SITF self-insurance program is designed to cover State agencies and employees for claims related to property, motor vehicle, torts, and officer and employee liability. Although the Treasurer's Office's Insurance Division procures commercial insurance policies for certain risks, most of the coverage is provided through the SITF. As shown in **Exhibit 6**, the SITF is recording a significantly declining fund balance. Although agency premiums increased in fiscal 2003 and 2004, these premiums have not kept pace with excess policy coverage costs and annual losses. Consequently, the SITF balance is projected to be just \$1.5 million at the close of fiscal 2004.

Exhibit 6
Actual and Estimated SITF Fund Accounting
(\$ in Thousands)

	FY 2002	FY 2003	Original	Revised	
	<u>Actual</u>	<u>Actual</u>	<u>FY 2004</u>	<u>FY 2004</u>	<u>FY 2005</u>
			<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
Beginning Balance	\$28,997	\$19,885	\$11,358	\$11,358	\$1,485
Transfers & Recoveries	552	434	600	600	600
Agency Premiums	8,013	8,679	10,800	10,800	20,000
Excess Policy Coverage	(1,140)	(5,050)	(4,608)	(4,608)	(4,893)
Losses	(9,953)	(11,086)	(10,450)	(10,450)	(10,450)
Est. Losses Hurricane Isabel	0	0	0	(4,500)	0
Operating Costs	(1,585)	(1,504)	(1,714)	(1,714)	(1,669)
Transfer to General Fund	(5,000)	0	0	0	0
Ending Cash Balance	\$19,884	\$11,358	\$5,986	\$1,486	\$5,074
Recommended Actuary Balance	23,827	26,219	26,219	26,219	26,219
Actuarial Shortfall	(\$3,943)	(\$14,861)	(\$20,233)	(\$24,733)	(\$21,145)

Source: State Treasurer's Office

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Factors contributing to the declining fund balance:

- **Costs to procure excess commercial insurance blanket coverage increased dramatically in the wake of the September 11, 2001, terrorist attacks** – As shown in Exhibit 6, the State paid just over \$1.1 million for excess commercial insurance in fiscal 2002 compared to slightly more than \$5.0 million for the same coverage in fiscal 2003. These costs are not expected to revert back to fiscal 2002 levels.
- **Officers and employee liability losses increase well in excess of agency premiums** – Officer and employee liability losses totaled just under \$500,000 in fiscal 2000 and 2001; well under the amount of agency premiums collected which averaged approximately \$1.3 million. Losses increase to \$3.6 million by fiscal 2003 while premiums only increased to just over \$1.4 million.
- **Tort claims and losses exceeded premiums** – In fiscal 2001 through 2003, tort claim losses exceed agency premiums. Adding to the cost was an increase in the tort claims cap from \$100,000 to \$200,000 beginning October 1, 1999.
- **Transfer of \$5 million for SITF in fiscal 2002** – The Budget Reconciliation and Financing Act of 2002 transferred \$5 million from the available fund balance to the general fund. This was reduced from the proposed \$11 million transfer.

All of these factors have contributed to a declining SITF balance. Moreover, the fund balance is woefully short of the recommended actuarial balance. In order to begin addressing this situation, DBM has substantially increased the amount of premiums charged to State agencies in fiscal 2005 to \$20 million compared to \$10.8 million for fiscal 2004. Despite this increase in premiums, the SITF is expected to close fiscal 2005 with a balance of just \$5.1 million which is still well below the recommended level. Clearly the plan to increase the amount of premiums paid by State agencies will have to be extended beyond fiscal 2005 if the SITF fund balance is to be brought more in line with the recommended balance. In addition, the Treasurer's Office should continue to initiate aggressive risk management and loss control measures to reduce paid losses.

The Treasurer should provide the committees with a blueprint for how the office intends to bring a structural balance to the SITF, including the short- and long-term plans for increased agency premiums and short- and long-term plans for improving the office's risk management and loss control policies.

3. Expiration of General Banking Contracts Could Result in Deficiency

The State Treasurer procures and monitors all contracts for general banking services. These include the main depository account, vendor and payroll disbursement accounts, fiscal agent, custody/safekeeping, and agency working fund accounts. Several of the State's general banking contracts are set to expire in June and December 2004, and the amount of funds budgeted for these contract expenses in the fiscal 2005 allowance does not reflect the likelihood that these contract expenses will increase once the contracts are re-bid. This situation sets up a possible deficiency for fiscal 2005.

The Treasurer should provide the committees with an update concerning the re-bidding of the office's general banking contracts. Specifically, whether the re-bid contracts are likely to result in increased costs over the budgeted fiscal 2005 allowance for such contracts.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for motor vehicle gas and oil and vehicle maintenance and repair expenses. The remaining allowance is equal to the fiscal 2004 working appropriation and represents a 100% or \$4,500 increase over the fiscal 2003 actual expenditure.	\$ 3,000	GF
2. Reduce funds for library and data processing supplies. The remaining allowance of \$28,700 is a 47%, or \$9,200 increase over the fiscal 2003 actual expenditure.	3,000	GF
3. Delete funds for office assistance. Funding for office assistance was deleted for fiscal 2004 through cost containment. This recommendation would continue the cost containment measure through fiscal 2005.	8,000	GF
Total General Fund Reductions	\$ 14,000	

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 2003					
Legislative Appropriation	\$4,036	\$360	\$0	\$19,415	\$23,810
Transfer from Insurance Trust Fund	0	0	0	6,492	6,492
Budget Amendments	22	536	0	0	558
Cost Containment	-218	0	0	0	-218
Reversions and Cancellations	0	-136	0	0	-136
Actual Expenditures	\$3,840	\$760	\$0	\$25,907	\$30,507
Fiscal 2004					
Legislative Appropriation	\$3,708	\$619	\$0	\$27,115	\$31,442
Cost Containment	-73	0	0	0	-73
Budget Amendments	0	0	0	0	0
Working Appropriation	\$3,635	\$619	\$0	\$27,115	\$31,368

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

Fiscal 2003

The Treasurer's Office finished fiscal 2003 \$6.7 million above the original legislative appropriation. The difference is attributable to increased reimbursable fund expenditures resulting from larger than anticipated insurance claim losses and increased commercial coverage costs. Additional reimbursable funds were transferred from the Insurance Trust Fund balance to cover the increased expenditure. Fiscal 2003 cost containment actions reduced the office's general fund appropriation by \$218,000. Most of the cost containment reductions are attributable to a delay in implementing a new banking service which enabled the office to negotiate a lower implementation fee that provided \$75,000 of the cost containment amount. An additional \$125,000 represented the use of special funds in lieu of general funds for bond sale expenses. An additional \$22,000 in general funds was provided from the Board of Public Works Contingent Fund to pay the expenses incurred for a framed portrait of former State Treasurer Richard N. Dixon. Special funds increased in the budget by \$536,000 almost exclusively to cover bond sale expenses. These additional funds were made available from the bond sale proceeds in lieu of using general funds which were eliminated from the budget through cost containment.

Fiscal 2004

To date, the fiscal 2004 legislative appropriation has been reduced by approximately \$73,000 in general funds resulting from cost containment actions (see the earlier discussion of changes to the fiscal 2004 appropriation for additional detail).

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	53.00	52.00	52.00	0	0%
Total Positions	53.00	52.00	52.00	0	0%
Objects					
01 Salaries and Wages	\$ 3,213,117	\$ 3,374,966	\$ 3,596,276	\$ 221,310	6.6%
02 Technical & Spec Fees	19,233	26,000	21,000	-5,000	-19.2%
03 Communication	83,961	47,026	117,823	70,797	150.5%
04 Travel	25,131	35,792	31,200	-4,592	-12.8%
07 Motor Vehicles	23,411	10,244	13,180	2,936	28.7%
08 Contractual Services	2,848,780	2,747,025	2,569,116	-177,909	-6.5%
09 Supplies & Materials	213,463	224,866	241,983	17,117	7.6%
10 Equip - Replacement	117,789	120,849	109,797	-11,052	-9.1%
11 Equip - Additional	20,258	2,998	0	-2,998	-100.0%
13 Fixed Charges	23,942,060	24,778,726	27,056,557	2,277,831	9.2%
Total Objects	\$ 30,507,203	\$ 31,368,492	\$ 33,756,932	\$ 2,388,440	7.6%
Funds					
01 General Fund	\$ 3,840,277	\$ 3,634,730	\$ 3,697,148	\$ 62,418	1.7%
03 Special Fund	759,696	618,780	621,653	2,873	0.5%
09 Reimbursable Fund	25,907,230	27,114,982	29,438,131	2,323,149	8.6%
Total Funds	\$ 30,507,203	\$ 31,368,492	\$ 33,756,932	\$ 2,388,440	7.6%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
State Treasurer**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Treasury Management	\$ 4,533,855	\$ 4,688,299	\$ 4,615,075	1.8%	\$ 4,724,842	2.4%
01 Insurance Management	1,504,215	1,714,307	1,714,307	14.0%	1,725,790	0.7%
02 Insurance Coverage	23,917,634	25,749,110	24,749,110	3.5%	27,026,300	9.2%
01 Bond Sale Expenses	551,499	290,000	290,000	-47.4%	280,000	-3.4%
Total Expenditures	\$ 30,507,203	\$ 32,441,716	\$ 31,368,492	2.8%	\$ 33,756,932	7.6%
General Fund	\$ 3,840,277	\$ 3,707,953	\$ 3,634,730	-5.4%	\$ 3,697,148	1.7%
Special Fund	759,696	618,779	618,780	-18.5%	621,653	0.5%
Federal Fund	0	-\$ 0	0	0.0%	0	0.0%
Total Appropriations	\$ 4,599,973	\$ 4,326,734	\$ 4,253,510	-7.5%	\$ 4,318,801	1.5%
Reimbursable Fund	\$ 25,907,230	\$ 28,114,982	\$ 27,114,982	4.7%	\$ 29,438,131	8.6%
Total Funds	\$ 30,507,203	\$ 32,441,716	\$ 31,368,492	2.8%	\$ 33,756,932	7.6%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.