



OFFICE OF THE STATE  
TREASURER

Program Evaluation  
Report

November 2015

*Image used by permission, Joel Babb, Summer, Maine*



Maine State Treasurer Terry Hayes

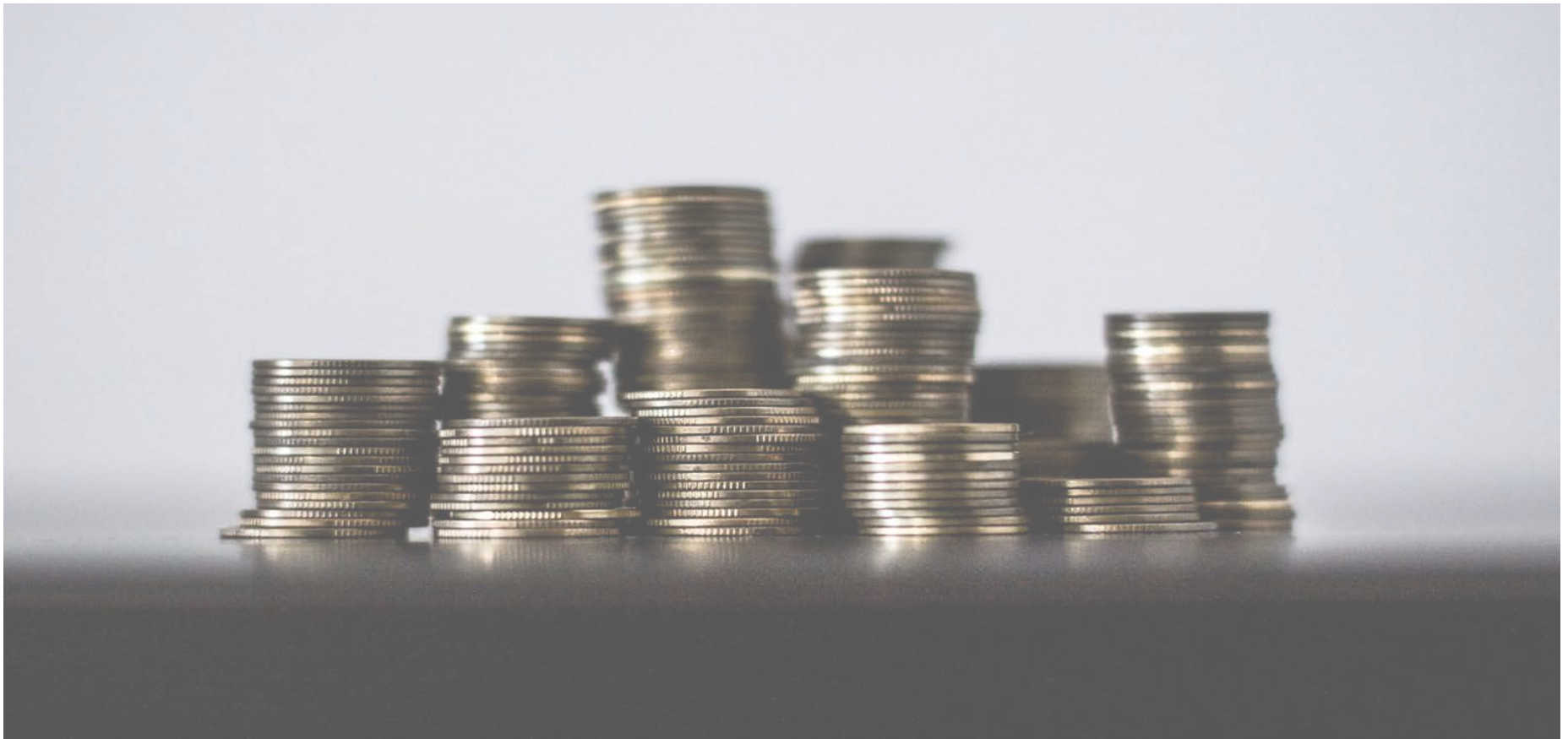
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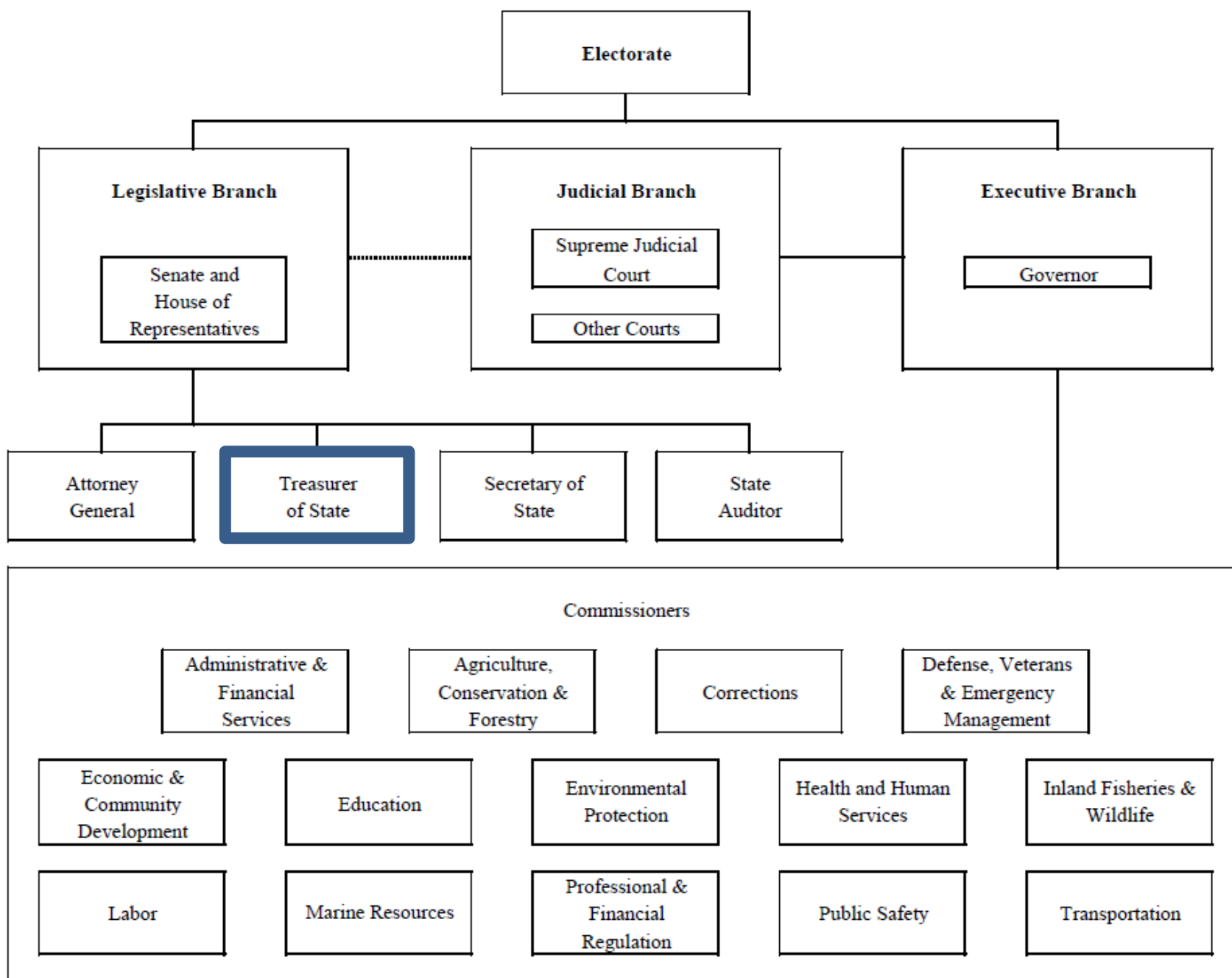
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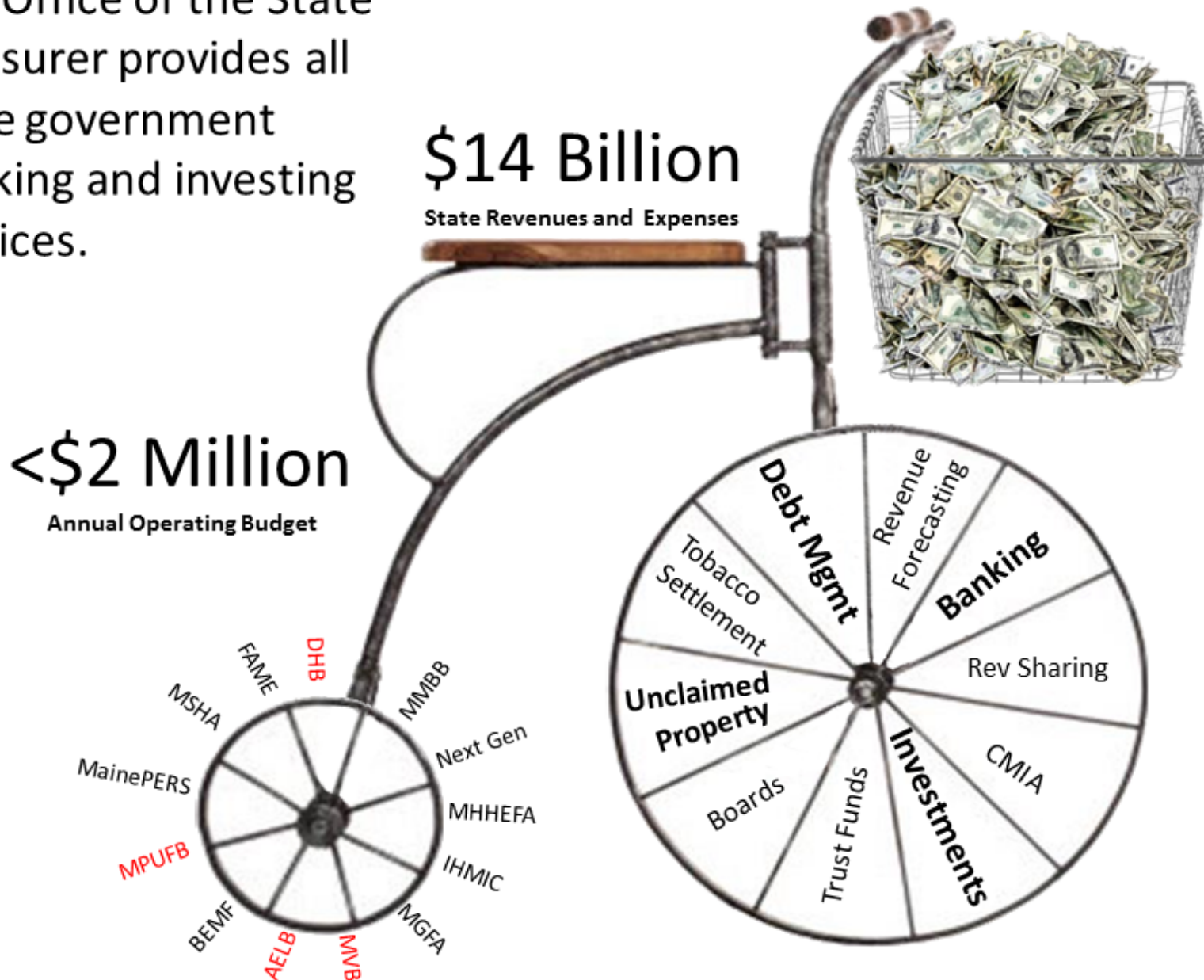
## **Mission Statement:**

At the Office of the State Treasurer, we provide all of the state's banking and investment services, remembering every day that the people of Maine and the agencies of state government are our valued customers.





The Office of the State Treasurer provides all state government banking and investing services.



AELB – Adaptive Equipment Loan Board; BEMF – Board of Emergency Municipal Finance; CMIA – Cash Management Improvement Act; DHB – Dirigo Health Board FAME – Finance Authority of Maine; IHMIC – Indian Housing Mortgage Insurance Committee; MSHA – Maine State Housing Authority; MainePERS – Maine Public Employees Retirement System; MHHEFA – Maine Health and Higher Education Facilities Authority; MGFA – Maine Governmental Facilities Authority; MNBB – Maine Municipal Bond Bank; MPUFB – Maine Public Utility Financing Bank; MVB – Maine Vaccine Board; NextGen – NextGen Investment Advisory Committee; **RED – Legislation recommended to remove Treasurer's role on these boards.**

# OFFICE OF THE STATE TREASURER

11/1/2015



**Terry Hayes**  
State Treasurer

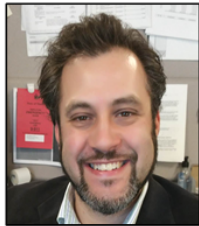


**Tim Rodriguez**  
Director of Internal Operations

**Kristi Carlow**  
Deputy State Treasurer



## Treasury Services



**Greg Olson**  
Asst. Director Int. Ops.

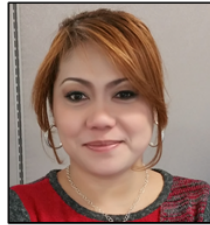


**Michelle Kimball**  
Office Specialist II



**Eliza Galella**  
Management Analyst II

## Accounting



**Alma Hazzard**  
Managing Staff Accountant

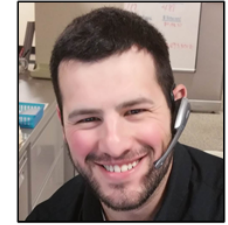


**Jeff Chetkauskas**  
Sr. Staff Accountant

## Unclaimed Property



**Angela Hinkley**  
Senior UP Specialist



**Jacob Jones**  
UP Specialist



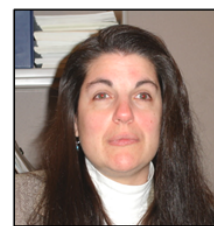
**Amber Griffin**  
Office Specialist



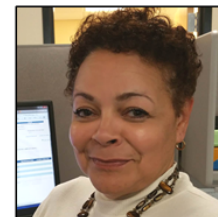
**Jane Adams**  
Office Associate II



**Rose McGibney**  
Staff Accountant



**Sherry Belka**  
Staff Accountant



**Ivonne Medrano-Hayes**  
UP Specialist



**Robin Hudson**  
UP Associate

## **Executive Summary**

### **Treasurer of State – A Constitutionally Established Office**

The Office of the State Treasurer (OST) is established in Article V, Part Third of the Constitution of the State of Maine. The position is filled biennially, at the first session of the Legislature, by joint ballot of the Senators and Representatives in convention, with a limit of four consecutive terms in office. Once elected, Treasurers are constitutionally prohibited from engaging in any business of trade, commerce, brokerage, or of agency for any merchant or trader. The Treasurer is barred from involvement with any political action committee.

### **Vacancy, Succession, Absence and Disability**

In the event that the position of State Treasurer becomes vacant, and whenever the Treasurer is absent or is disabled from performing the obligations of the office, the Deputy Treasurer acts as the Treasurer until a new Treasurer is elected by the Legislature. In practice, the Deputy Treasurer regularly acts as the Treasurer at board meetings as scheduling conflicts arise among the many boards upon which the Treasurer sits as an ex officio member. In those situations, the Treasurer will cover one board while the Deputy Treasurer covers another.

### **Organizational Structure, Management and Staffing**

OST has sixteen (16) employees, including the Treasurer. These employees are arranged in four work clusters with broadly similar responsibilities and with moderately flexible schedules. Each work cluster must have someone available to answer inquiries between 8:00 a.m. and 5:00 p.m. every business day. Cross-training and a willingness by employees to help as needed in areas outside their normal tasks has been critical to achieving the combined goals of increased office efficiency and individual work-day flexibility.

Management functions have been divided into two areas roughly described as internal and external operations. External operations include investment strategies, trust administration, banking and underwriting relationships, bond counsel coordination, rating agency relationships, board service, legislative and gubernatorial affairs, and debt management policy with accompanying publications and projections. These duties are shared by the Treasurer and Deputy Treasurer with minimal support from other OST employees. Internal operations include management of personnel, office structure, accounting practices, budgeting and planning, controls and security, cash management and unclaimed property systems. These duties are shared by the Deputy Treasurer and the Director of Internal Operations, with additional help from the Assistant Director of Internal Operations.

Staffing is governed by state law. No OST employees serve at the pleasure of the Treasurer. Five positions, Deputy Treasurer, Director of Internal Operations, Assistant Director of Internal Operations, Managing Staff Accountant, and Management Analyst II may be hired directly by the Treasurer if the position opens. Other staff openings are filled from civil service lists provided through the Bureau of Human Resources.

Workforce stability is important. The longest serving employee at OST has worked at the office for 17 years. Excluding the Treasurer, the median length of service for OST employees is 14 years.

## Duties

The five core duties of OST are cash management, debt management, unclaimed property administration, trust fund administration, and directorships for many of Maine's quasi-governmental debt issuing agencies:

**Cash Management:** providing centralized cash collection processes, cash management, and coordination of banking services for all state agencies; actively investing cash reserves to generate earnings; reconciling bank records with the accounting records of the state; providing revenue projections on cash pool earnings and tobacco settlement payments.

**Debt Management:** managing the issuance of both bond anticipation notes (BANs) and bonds; assuring timely debt payments; managing credit rating agency relationships; collecting and publishing state debt statistics; providing debt service projections for legislative and executive budgeting efforts; preparing the Treasurer's Statement for publication on ballots whenever general obligation debt proposals are sent out to voters; determining annually the need for tax anticipation notes (TANs), lines of credit, (LOCs) or other short-term debt vehicles to cover cash flow needs within a fiscal year; arranging for short-term debt if necessary; and coordinating with cash pool management to maximize cash pool support for general fund cash flow needs as an alternative to issuing debt.

**Unclaimed Property Administration:** collecting unclaimed financial assets held by Maine entities and companies doing business in Maine; cataloging and preserving those assets; arranging for the online advertisement of new properties and for legislative outreach to claimants; maintaining a permanent record of all received properties; developing and supporting easy claim processes that is available via the internet, telephone, and mail; processing claims received from rightful owners; and educating holders on Maine's unclaimed property law.

**State-Held Trust Administration:** managing the investments, records and distribution of assets held in trust by the State of Maine pursuant to the terms of nearly eighty (80) active state-held trusts

with an aggregate value of approximately \$40.6 million; engaging and overseeing independent investment advisors to professionally manage the funds; allocating investment earnings among the beneficiaries pursuant to the directive of each separate trust.

**Directorships:** The Treasurer is a voting member on the boards of the Maine Public Employees Retirement System (MainePERS), the Finance Authority of Maine (FAME), the Maine State Housing Authority (MSHA), the Maine Municipal Bond Bank (MMBB), the **Adaptive Equipment Loan Board (AELB)**, the Maine Health and Higher Education Facilities Authority (MHHEFA), the Maine Governmental Facilities Authority (MGFA), **the Maine Public Utility Financing Bank (MPUFB)**, the Board of Emergency Municipal Finance (BEMF), the NextGen College Investment Plan Investment Advisory Committee, the Indian Housing Mortgage Insurance Committee (IHMIC), and is a non-voting member of the **Maine Vaccine Board (MVB)** and the **Dirigo Health Board**.

The **AELB** has been staffed since its inception through a contract for services between the board and FAME. In November 2014, FAME notified the board that it will not renew that contract when it expires in June 2016. The board is actively investigating alternatives at this time.

The Treasurer recommends that the 128<sup>th</sup> Legislature consider the following statutory changes when it convenes in 2017:

-repeal of 24-A M.R.S.A. SS 6904 – **Dirigo Health Board**; this board has not met since 12/2013 as the program it oversaw is no longer in operation.

-repeal of 35-A M.R.S.A. SS 2904 – **Maine Public Utility Financing Bank**; this bank has had no activity for years and none is anticipated in the foreseeable future.

-amend 22 M.R.S.A. SS 1066 – to remove the Treasurer as a member of the **Maine Vaccine Board**; the board and the Treasurer agree that OST brings no expertise to the table that can assist this board in achieving its mission and that OST staff is best utilized in other pursuits.

## Long-term Trends and Challenges

***Electronic Payments:*** State payments to vendors, customers, and citizens are increasingly migrating from paper checks to electronic payment types like ACH-credit and payment cards. As this trend continues, the Treasurer will be required to ensure that the electronic delivery systems are viable, available, efficient, and compliant with state and federal laws. Electronic payments are, in most cases, a more secure and less expensive alternative to traditional check issuance. As more payments migrate away from paper checks, the state will continue to see cost savings associated with this transition.

***Electronic Receipts:*** Just as state payments are migrating to less expensive, more secure electronic payment types, so are receipts from other governmental organizations, corporations, and individuals. The state is capable of receiving credit/debit card payments, ACH-debit, and wires, in addition to traditional cash and check receipts. OST sees electronic receipts as the next trend that results in statewide cost savings. An associated challenge with allowing more entities to pay the state electronically is the ability to organize those receipts in an orderly, easily reconcilable manner. We are currently developing a payment portal with the Office of Information Technology (OIT) to help ensure this transition is secure and successful.

***Document Storage:*** A third trend is the increasing volume of records that must be stored and maintained. OST has migrated half of its operations to a paperless system that reduces the amount of document storage needed both locally and at State Archives. The long-term goal is to transition to an entirely paperless office. This will require significant effort and a focused desire to decrease the amount of paper/documents created and received by OST.

***Outsourcing:*** The ever-increasing complexity of financial management systems, combined with the reality of scarce state resources, presents another critical trend. OST engages with and oversees several private entities that provide the state with banking services, trust fund investment management, bond underwriting

services, legal counsel for bond issuances, audits for unclaimed property reports, custodianships for unclaimed property assets and information technology. Creating strong procedures and continually allocating OST staff time and resources sufficient to “manage the managers” will be an ongoing challenge under this outsourcing approach to governance.

***Employee Compensation:*** The integrity of a “managing the managers” approach to outsourced governance rests on the knowledge, skills, judgment and honesty of the employees who remain in the civil service system. Compensation and perquisites sufficient to respect the skills of those employees will remain as a challenging goal in OST. Retaining rough parity with other executive branch agencies is also important, so that OST is able to retain within its independent operations a nucleus of skilled and experienced professionals. This concern includes the compensation of the State Treasurer, which is set in statute (3 M.R.S.A. SS 162-B) and which has not been amended since 1989. At the present time, the salaries of the cabinet level managers in the executive branch and the Executive Director of the Legislature all exceed that of the Treasurer by more than \$40,000.

***Industry Forecasting:*** One of the primary challenges facing OST is the constant need to stay ahead of the ever-changing and shifting business landscape. Banking rules and regulations are complex and subject to change, as recently evidenced by the Great Recession that has led to many law and rule changes. Emerging technologies and regulations of those technologies must also be considered and planned for well before they become part of the mainstream vernacular. Protecting against fraud, both in banking services, and in the Unclaimed Property program also requires keen attention to the new and inventive methods of fraud that are being used or may be used in the future.

## A. Enabling and Authorizing Law Citations with Synopses

### MAINE CONSTITUTION

#### Article V, Part Third

Establishes the Office of State Treasurer.

### REVISED MAINE STATUTES

#### 3 M.R.S.A. § 162-B - Salary of Treasurer

The Treasurer shall be within salary range 88, but shall not be less than Step C in that range.

#### 3 M.R.S.A. § 959 - Scheduling guideline for review of OST

The joint standing committee of the Legislature having jurisdiction over state and local government matters shall review the performance of the Office of the State Treasurer in 2015.

#### 5 M.R.S.A. § 19 - Financial disclosure by Treasurer

The Treasurer must disclose all sources of income from the full calendar year prior to election to office within 30 days of election.

#### 5 M.R.S.A. § 121 - Office; bond; salary; deputy; fees

The Treasurer will keep office at the seat of government and will give the bond required in the constitution. The Treasurer may not receive any other fee, emolument or perquisite in addition to salary. The chief clerk in OST is the Deputy Treasurer and assumes the role of Treasurer in the case of vacancy.

#### 5 M.R.S.A. § 121-A - Transition period

The Treasurer takes oath of office after 30 days of election.

#### 5 M.R.S.A. § 125 - Personal use or receipt of state money credit prohibited

The Treasurer may not use money or credit from the treasury for personal use.

#### 5 M.R.S.A. § 126 - Attorney General to prosecute violations

The Attorney General is authorized to prosecute the Treasurer for violations.

#### 5 M.R.S.A. § 127 - Removal from office

The Governor may remove the Treasurer from office if found to be mentally ill or insolvent, or has absconded or concealed himself to avoid creditors, or is absent from the state and neglecting his duties to the hazard of the trust reposed in him, or has violated any provision regarding the personal use of state funds, or has failed faithfully to perform the duties of the Treasurer.

#### 5 M.R.S.A. § 130 - Payment of receipts to state treasury

The Treasurer collects receipts of payments to the state and transmits those receipts daily to the State Controller.

#### 5 M.R.S.A. § 131 - Departmental collections

Every department and agency of the state, wherever located, shall deposit state revenues into the state treasury without any deductions, except that the Bureau of Parks and Lands shall be allowed to refund daily use and camping fees based on the Bureau of Parks and Lands standard refund policies.

#### 5 M.R.S.A. § 131-B - Inter-fund transfers

State obligations may be paid as they come due, and the Treasurer may request the State Controller to reallocate various funds in the cash pool of state government in order to best manage available funds to meet obligations.

#### 5 M.R.S.A. § 133 - Payments to be withheld and applied to accounts

If any town or county unreasonably fails to pay its bill to any state agency, the Treasurer may withhold and apply to the outstanding bill any state payments owed to the town or county.

#### **5 M.R.S.A. § 135 - Deposit of state funds; limitations**

The Treasurer may deposit state funds in financial institutions organized under Maine law. Limits are set on these deposits, including deposits only with institutions with favorable ratings. When there is excess money in the state treasury that is not needed to meet current obligations, the Treasurer may invest those funds through competitive bids.

#### **5 M.R.S.A. § 138 - Custody and servicing of State-Held Trusts**

Funds held in trust by the state may be invested in such securities as are legal investments for savings banks. Each trust fund must be maintained separately.

#### **5 M.R.S.A. §145 - Registered bonds**

The Treasurer may issue registered bonds in pieces of not less than \$1,000, and of any multiple of 1,000, in exchange for, and in place of, any coupon bonds issued under the laws of this state, bearing the same rate of interest and maturing at the same time as the bonds that the Treasurer may receive in exchange.

#### **5 M.R.S.A. § 145-B - Issuance of registered bonds**

**1. Issuance.** The Treasurer may issue the bonds in registered form.

**2. Signatures.** Registered bonds must bear the facsimile signatures of the Governor and the Treasurer or Deputy Treasurer, and must be attested by the facsimile signature of the Commissioner of the Department of Administrative and Financial Services or such agent as the commissioner may designate.

#### **5 M.R.S.A. § 150 - Bond anticipation notes**

The Treasurer may negotiate temporary loans in anticipation of the issuance of bonds authorized but not yet issued. Such temporary loans shall be repaid from bond proceeds within one year from the date of the loan.

#### **5 M.R.S.A. § 150-A - Short term transportation debt**

The Treasurer may negotiate temporary loans in anticipation of the receipt of federal transportation funds.

#### **5 M.R.S.A. § 152 - Treasurer's ballot statement**

The Treasurer shall prepare a statement to accompany bond issues submitted to the electors setting forth the total amount of outstanding and unpaid bonds, the total amount of bonds authorized and unissued, and the total amount of bonds contemplated to be issued if the enactment submitted to the electors should be ratified. The Treasurer shall also set forth an estimate of borrowing costs showing the rate of interest, the total interest cost, and the total cost of principal and interest that will be paid at maturity, as well as any other substantive explanatory information relating to the debt of the state as deemed appropriate.

#### **5 M.R.S.A. § 286-B - Irrevocable Trust Fund**

The Treasurer and State Controller serve as the trustees of the Irrevocable Trust Fund for other post-employment benefits (OPEB), responsible for calculating the amounts necessary to fund the state employee health insurance program.

#### **5 M.R.S.A. § 1543 - Disbursements; exceptions**

Money may not be drawn from the state treasury except in accordance with appropriations duly authorized by law. Every disbursement from the state treasury must be upon the authorization of the State Controller and the Treasurer. The State Controller and the Treasurer are authorized to issue rules, policies or procedures to limit the number of disbursements made for less than \$5.

#### **21-A M.R.S.A §1063 - Political action committees**

The Treasurer may not form a political action committee nor be involved in decision making for nor solicit contributions to a political action committee.

#### **36 M.R.S.A. § 1815 - Tax from sales occurring on Passamaquoddy Reservation**

The Passamaquoddy Sales Tax Fund is a dedicated account administered by the Treasurer for the purpose of returning sales tax revenue to the Passamaquoddy Tribe. By the end of each month, the Treasurer shall make payments to the Passamaquoddy Tribe from the Passamaquoddy Sales Tax Fund.

### **Statutory Board membership for Treasurer:**

#### **4 M.R.S.A. § 1602 - Maine Governmental Facilities Authority**

The Treasurer serves as an ex-officio voting member of the Maine Governmental Facilities Authority.

#### **5 M.R.S.A. § 17102 – Maine State Retirement System**

The Treasurer serves as a trustee of the Maine State Retirement System.

#### **10 M.R.S.A. § 373 – Adaptive Equipment Board**

The Treasurer serves as a member of the Kim Wallace Adaptive Equipment Loan Program Board.

#### **10 M.R.S.A. § 965 – Finance Authority of Maine**

The Treasurer serves as a director on the FAME board.

#### **20-A M.R.S.A. § 11484 - NextGen Advisory Committee**

The Treasurer serves as the chair of the advisory committee.

#### **22 M.R.S.A. § 1066 – Maine Vaccine Board**

The Treasurer serves as an ex-officio, nonvoting member.

#### **22 M.R.S.A. § 2054 - Health and Higher Education Facilities Authority**

The Treasurer serves as an ex-officio member of the Health and Higher Education Facilities Authority.

#### **24-A M.R.S.A. § 6904 - Dirigo Health**

The Treasurer is an ex-officio non-voting member of the Dirigo Health Board of Trustees.

#### **30-A M.R.S.A. § 4723 – Maine State Housing Authority**

The Treasurer serves as an ex-officio commissioner of the Maine State Housing Authority.

#### **30-A M.R.S.A. § 4933 – Indian Housing Mortgage Insurance Committee**

The Treasurer serves on the committee for Indian Housing Mortgage Insurance.

#### **30-A M.R.S.A. § 5651 – Maine Municipal Bond Bank**

The Treasurer serves as an ex-officio commissioner of the Maine Municipal Bond Bank.

#### **30-A M.R.S.A. § 6101 – Board of Emergency Municipal Finance**

The Treasurer serves as one of 3 members of the Board of Emergency Municipal Finance.

#### **35-A M.R.S.A. § 2904 - Maine Public Utility Financing Bank**

The Treasurer serves as an ex-officio commissioner of the Maine Public Utility Financing Bank.

### **FEDERAL LAWS AND MANDATES**

#### **Internal Revenue Code, §103 & 141-150**

Tax-exempt bonds issued by the state through OST are subject to Internal Revenue Code Section 103 and Sections 141-150, and the regulations promulgated thereunder.

#### **31 CFR Part 205**

OST will act as the liaison between the State of Maine and the Financial Management Service (FMS), a department of the United States Treasury, by carrying out the rules and procedures for efficient funds transfers mandated by the Cash Management Improvement Act of 1990. OST will negotiate an annual contract, monitor state-wide agency compliance, and calculate interest liability owed to or from FMS.

## B. Program Descriptions

### Treasury Administration: 010-28A-002201

#### GOAL 1: Provide banking services for state agencies.

**OBJECTIVE:** To ensure efficient, accessible, accurate and coordinated banking services for state agencies.

#### PROGRAM STRATEGIES:

1. Authorize, establish and provide reconciliation services for all bank accounts used by state agencies and administered through a procured banking services relationship managed by the Treasurer.
2. Establish and support credit card accounts for state agencies.
3. Address all banking-related issues encountered by state agencies.
4. Procure banking services to efficiently and effectively meet the needs of state agencies.

#### PERFORMANCE MEASURES:

Met (Y/N)

1	Provide sufficient bank accounts to state agencies.	Y
2	Employ the most advantageous and cost effective credit card acceptance software, hardware and processes.	Y
3	Provide sufficient, secure avenues for receipt of state funds.	Y
4	Provide sufficient avenues for disbursement of state funds.	Y

#### RELATED STATISTICS:

	2012-13	2013-14	2014-15
Number of bank accounts used by state agencies and reconciled by OST	36	37	40
Percentage of bank accounts reconciled within 45 days	97%	97%	97%
Banking services costs	\$456,197	\$367,811	\$368,222
ACH payments issued	577,777	597,000	658,000
Checks issued	1.1M	960,000	827,000
Methods for receipt of funds	6*	6*	6*
Methods for disbursement of funds	3**	3**	4**

\*Cash, check, credit/debit card, ACH credit, ACH debit, wire

\*\*Check, ACH credit, wire, payment card (added in 2015)

**GOAL 2: Ensure that all cash transactions are secure, properly tracked and reconciled.**

**OBJECTIVE:** To efficiently track, record and reconcile the cash transactions of state agencies through the use of bank statement reconciliation.

**PROGRAM STRATEGIES:**

1. Accurately track all cash receipts of state agencies through a data exchange between the state's accounting system (AdvantageME) and the Treasurer's reconciliation system (TAMI).
2. Track all disbursements by state agencies through a data exchange between AdvantageME and TAMI.
3. Prevent fraud, mistake, and misuse of state funds through traditional and innovative means (currently includes internal controls, check stock security features, positive pay, bank account debit blocks, full-reconciliation banking services, internal segregation of duties, and external segregation of duties with the State Controller).
4. Provide agencies access to appropriate bank accounts and services.

**PERFORMANCE MEASURES:****Met (Y/N)**

1	Track, monitor and reconcile all cash receipt data exchange instances.	Y
2	Track, monitor and reconcile all disbursement data exchange instances.	Y
3	Identify fraud attempts and implement additional prevention methods, if warranted.	Y
4	Ensure adequate banking services are provided to each agency.	Y

**RELATED STATISTICS:**

	2013	2014	2015
Number of cash receipt statement transactions from state agencies processed during fiscal year	162,000+	145,000+	126,000+
Number of fraud attempts against State of Maine bank accounts/number successful	22/0	86/1*	13/0
Number of bank accounts provided for use by state agencies	36	37	40

\*In September 2014, a state-issued check in the amount of \$10,900 was altered and deposited by an unknown individual. OST became aware of this fraud when an agency inquired about a vendor's missing payment. OST was reimbursed by the bank, and has taken additional fraud protection steps to prevent similar transactions from debiting state accounts in the future.

**GOAL 3: Ensure that every State of Maine issuance is backed by sufficient funds while implementing an investment program that benefits the state and cash pool participants.**

**OBJECTIVE:** To use bank account balances to ensure adequate backing of state issuances while setting aside excess cash for cash pool investments.

**PROGRAM STRATEGIES:**

1. Maintain an investment portfolio with sufficient liquidity to ensure funding of all state expenses.
2. Utilize cash flow projections to plan investment timelines.
3. Make appropriate bank account transfers and cash concentration wires to cover all daily expenses.
4. Enhance cash pool investment earnings via daily investment of excess cash-on-hand.
5. Distribute cash pool investment earnings to programs and participants as mandated by statute and policy.

**PERFORMANCE MEASURES:**

**Met (Y/N)**

1	Maintain an appropriate level of liquidity in the Treasurer's cash pool within the statutory guidelines.	Y
2	Ensure current cash flow projections from the State Controller and investment advisor are being used in scheduling investment maturities.	Y
3	Review bank account balances daily to ensure sufficient balances exist to cover expenses.	Y
4	Periodic review of investment strategy and market conditions; adjust strategy as needed.	Y
5	Distribute earnings by the 25 <sup>th</sup> of each month; add/remove accounts as needed.	Y/Y

**RELATED STATISTICS:**

	2012-13	2013-14	2014-15
Average month-end balance of cash & equivalents	\$265M	\$281M	\$393M
Number of payments returned for insufficient funds	0	0	0
Average cash pool balance/earnings distributed	\$509 mil/ \$1.5 mil	\$558 mil/ \$1.6 mil	\$706 mil/ \$2.6 mil
Number of cash pool participants/programs*	109	108	108
Number of failed cash pool earnings distributions	0	0	0

\*Participants include more than 100 state funds as well as quasi-governmental agencies such as the University of Maine System, the Finance Authority of Maine and the Maine Community College System.

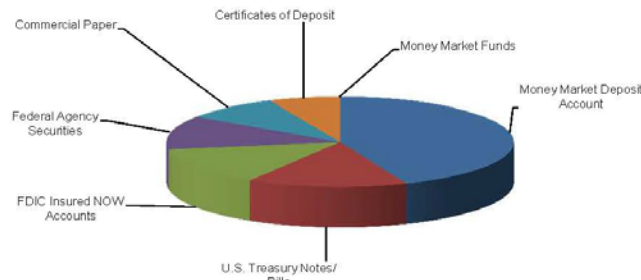
## Treasurer's Cash Pool Summary 6.30.15

### Treasurer's Cash Pool Summary

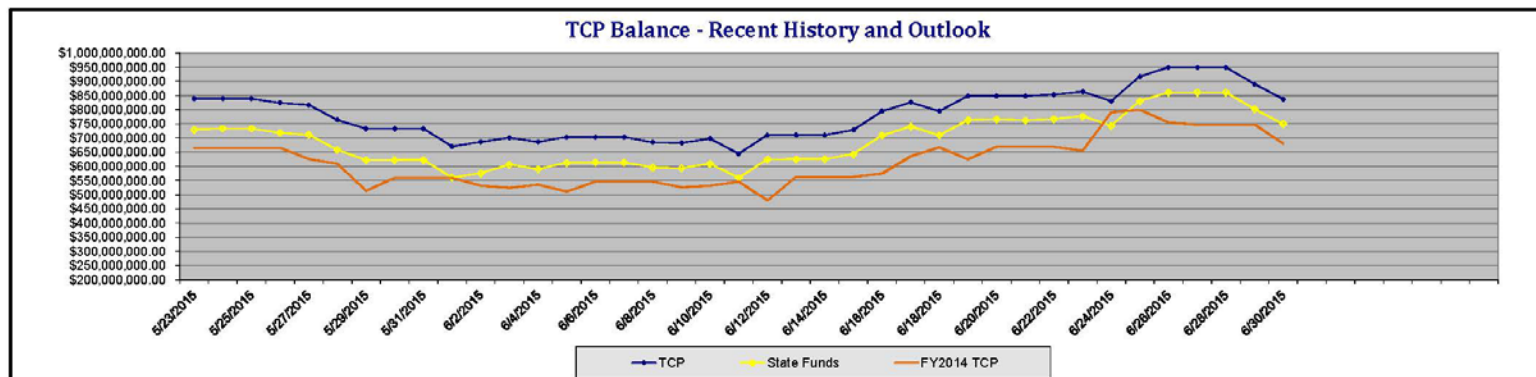
Tuesday, June 30, 2015

Name	Previous Day Bal	Bal Today	Investment Today	% of TCP	Type	Collateral	Maturity	Rate
U.S. Treasury Notes / Bills	124,683,769.55	124,683,769.55	0.00	14.9%	U.S. Treasury Notes / Bills	NA	Various	Various
US Bank	123,500,000.00	123,500,000.00	0.00	14.7%	Money Market Deposit Account	FHLB-Cincinnati LOC	NA	0.10%
Citizens Bank NOW	140,000,000.00	102,500,000.00	(\$7,500,000.00)	12.2%	Money Market Deposit Account	FHLB - Boston LOC	NA	0.20%
Camden National NOW	101,000,000.00	101,000,000.00	0.00	12.1%	FDIC Insured NOW Accounts	Ginnie Maes (105%) Fed Res	NA	0.16%
Federal Agency Securities	100,880,438.50	100,880,438.50	0.00	12.0%	Federal Agency Securities	NA	Various	Various
TD Bank	80,000,000.00	80,000,000.00	0.00	9.5%	Money Market Deposit Account	FHLB-Pittsburgh LOC	NA	0.16%
People's United	50,000,000.00	50,000,000.00	0.00	6.0%	Certificates of Deposit	FHLB	NA	0.25%
Banor Savings Bank NOW	49,800,000.00	49,800,000.00	0.00	5.9%	Money Market Deposit Account	FHLB-Boston LOC	NA	0.19%
Bank of Tokyo- Mitsubishi UFJ	14,974,500.00	14,974,500.00	0.00	1.8%	Commercial Paper	NA	10/13/2015	0.341%
Toyota Motor Credit Corp.	14,963,287.50	14,963,287.50	0.00	1.8%	Commercial Paper	NA	1/8/2016	0.331%
Canadian Imperial Holdings	14,958,837.50	14,958,837.50	0.00	1.8%	Commercial Paper	NA	1/8/2016	0.37%
J.P. Morgan Securities	14,949,937.50	14,949,937.50	0.00	1.8%	Commercial Paper	NA	1/8/2016	0.452%
BNP Paribas	14,936,587.50	14,936,587.50	0.00	1.8%	Commercial Paper	NA	1/8/2016	0.572%
Bath Savings NOW	13,000,000.00	13,000,000.00	0.00	1.6%	FDIC Insured NOW Accounts	Ginnie Maes (105%) Fed Res	NA	0.20%
Bar Harbor Bank and Trust	10,000,000.00	10,000,000.00	0.00	1.2%	Money Market Deposit Account	Ginnie Maes (105%) Fed Res	NA	0.25%
CDs - Various Banks	5,887,000.00	5,887,000.00	0.00	0.7%	Certificates of Deposit	FDIC, Ginnie Maes	Various	Various
Bank of America	1,000,000.00	1,000,000.00	0.00	0.1%	Money Market Deposit Account	Agency Securities (with Paymode)	NA	0.13%
Androscoogan Bank NOW #2	250,000.00	250,000.00	0.00	0.0%	FDIC Insured NOW Accounts	Ginnie Maes (105%) Fed Res	NA	0.20%
Citi Government NOW	200,000.00	200,000.00	0.00	0.0%	Money Market Deposit Account	100% FDIC Insured	NA	0.10%
Banor Savings Bank NOW	200,000.00	200,000.00	0.00	0.0%	FDIC Insured NOW Accounts	100% FDIC Insured	NA	0.15%
Biddford Savings NOW	200,000.00	200,000.00	0.00	0.0%	FDIC Insured NOW Accounts	Ginnie Maes (105%) Fed Res	NA	0.05%
Goldman Sachs - Money Market	1.00	1.00	0.00	0.0%	Money Market Funds	US Treasuries	NA	0.01%
US Bank Open CP	15,000,000.00	-	(15,000,000.00)	0.0%	Commercial Paper	NA	6/30/2015	0.150%
<b>Total Cash Pool</b>	<b>\$90,384,359.05</b>	<b>\$37,884,359.05</b>	<b>(\$52,500,000.00)</b>					

Cashpool Diversity		
Type	Total	% of TCP
Money Market Deposit Account	\$ 367,000,000.00	43.8%
U.S. Treasury Notes / Bills	\$ 124,683,769.55	14.9%
FDIC Insured NOW Accounts	\$ 114,650,000.00	13.7%
Federal Agency Securities	\$ 100,880,438.50	12.0%
Commercial Paper	\$ 74,783,150.00	8.9%
Certificates of Deposit	\$ 55,887,000.00	6.7%
Money Market Funds	\$ 1.00	0.0%
	<b>\$ 837,884,359.05</b>	<b>100%</b>



Cash Pool Notes	
1.	\$27.6 M in revenues and \$75.4 M in expenses
2.	Repo rates, .01 at Morgan Stanley for overnight & two weeks BOA no longer offering repos
3.	Matures Today: US Bank Open CP, 6/30/2015, yield of 0.15%



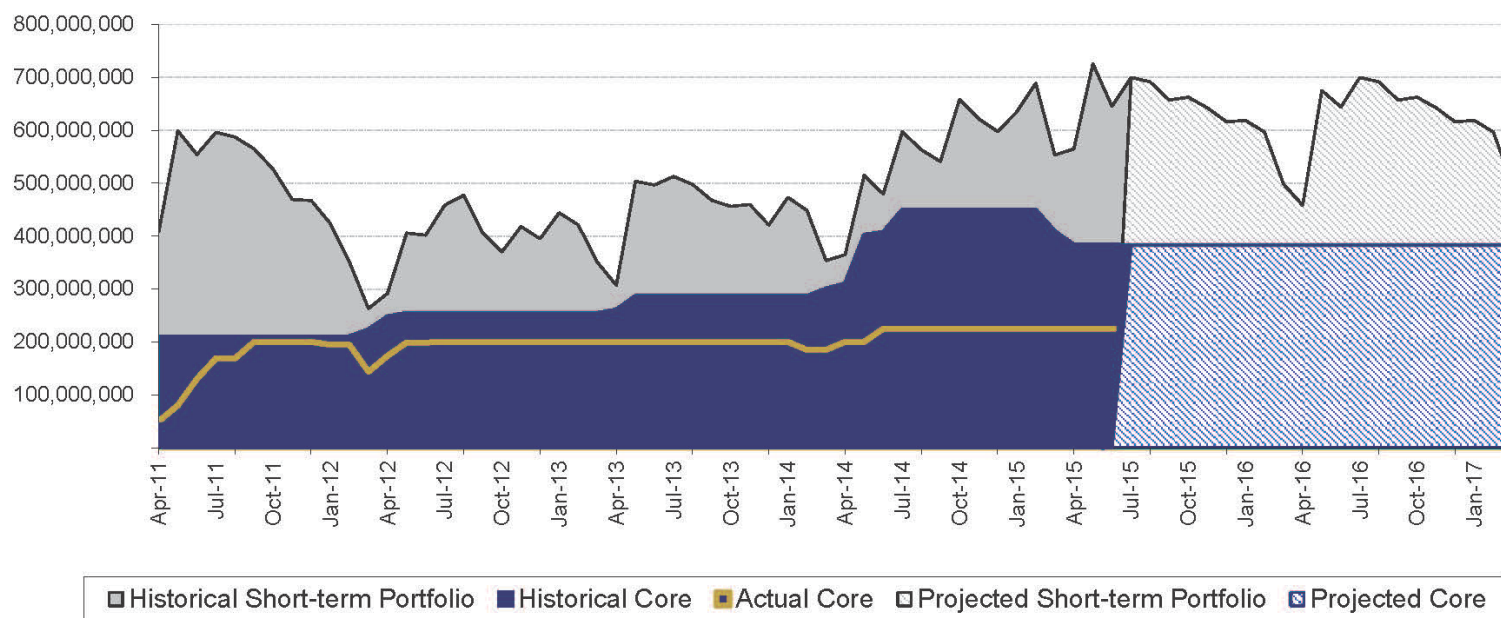
## Investment Advisor's FY15 Cash Flow Projection

### Cash Flow Analysis



- The current allocation to the Long-Term Portfolio is \$225 million.
- Average balances are approximately \$162 million higher than last year. The State could consider increasing the allocation to the Long-Term Portfolio by as much as \$100 million.

**State of Maine Cash Flow Analysis (Monthly Minimum Balance)**  
April 2011– March 2017 (projected)



**GOAL 4: To diligently perform all trust and safekeeping obligations.****OBJECTIVES:**

- To maintain escrowed funds as required by statute.
- To prudently invest, manage, disburse and account for funds held in trust.

**PROGRAM STRATEGIES:**

1. Work cooperatively with agencies in a custodial and reporting capacity in maintaining guaranty deposits as required by statute.
2. Forecast, monitor, and receive funds resulting from the Tobacco Master Settlement Agreement.
3. Review the status of funds held in trust and distribute assets as appropriate.
4. Use professional investment managers to grow the principal and increase the distribution capacities of state-held trusts.

**PERFORMANCE MEASURES:****Met (Y/N)**

1	Respond timely to agency custodial requests.	Y
2	Coordinate ongoing legal developments with most current econometric-based payment projections in time for use by the Revenue Forecasting Committee.	Y
3	Distribute earnings and assets according to intent of state-held trusts.	Y
4	Employ professional investment managers, review performance at least quarterly.	Y

**RELATED STATISTICS:**

	2012-13	2013-14	2014-15
Funds held in trust for Attorney General escrow, Bureau of Insurance, Dept. of Labor and miscellaneous safekeeping	\$54.2 million	\$43 million	\$45.6 million
Tobaccos settlement payments received	\$50.1 million	\$56.4 million	\$49.5 million
Value of assets distributed from state-held trusts	\$557,335	\$684,068	\$611,919
Value of funds in state-held trusts	\$31.2 million	\$37.4 million	\$40.6 million

**GOAL 5: To participate in the decision-making of quasi-governmental agencies having the capacity to implicate the credit of the State of Maine (moral obligation).**

**OBJECTIVE:** The Treasurer, or in the event the Treasurer is unavailable, the Deputy Treasurer, serves on the following boards:

- Adaptive Equipment Loan Program Board
- Board of Emergency Municipal Finance
- Finance Authority of Maine Board
- Indian Housing Mortgage Insurance Committee
- Maine Governmental Facilities Authority Board
- Maine Health and Higher Education Facilities Authority Board
- Maine Municipal Bond Bank
- Maine Public Utility Financing Bank Board
- Maine State Housing Authority Board
- Maine Public Employees Retirement System Board
- Maine Vaccine Board
- NextGen College Investing Plan Investment Advisory Committee (chair)

**PROGRAM STRATEGIES:**

1. Serve to keep boards connected with the Legislature.
2. Facilitate the distribution of the private activity bond cap.
3. Monitor and update the Legislature on liabilities.
4. Monitor investments and debt issuances.

**PERFORMANCE MEASURES:**

**Met (Y/N)**

1	Provide the Legislature with updates on board activities, as requested.	Y
2	Ensure authorities meet jointly to discuss the private activity bond cap.	Y
3	Provide updates to bond rating agencies on the moral obligation debt, unfunded actuarial liability, and other post-employment benefits.	Y
4	Monitor board debt size and structure to avoid negatively impacting the state's credit.	Y

**RELATED STATISTICS:**

	2013	2014	2015
Number of requests by Legislature of the Treasurer to present update on board activities	0	0	0
Board meetings held	89	78	56*

\*Calendar year to date

**RELATED STATISTICS (Cont'd):**

	<b>Moral Obligation Debt</b>	<b>Total Reserves</b>
Finance Authority of Maine	\$42,436,561	\$12,542,402
Maine Education Loan Authority	\$116,040,000	\$22,554,536
Maine Health and Higher Education Facilities Authority	\$847,645,000	\$116,251,152
Maine Municipal Bond Bank	\$1,209,225,333	\$176,081,000
Maine State Housing Authority	\$1,210,170,000	\$243,832,000
<b>Totals</b>	<b>\$3,425,516,894</b>	<b>\$351,812,090</b>

**GOAL 6: Ensure proper resources exist for all of the programs of OST.**

**OBJECTIVE:** To ensure personnel and financial resources are available and accessible to manage the programs within the umbrella of OST. While budgetary “programs” may exist, those specific budgets do not provide for the personnel resources and rarely provide funds for the other necessary resources required to effectively manage the programs. These programs currently include Debt Service, Unclaimed Property, Municipal Revenue Sharing, Passamaquoddy Sales Tax Fund, and the Cash Management Improvement Act.

**PROGRAM STRATEGIES:**

1. Effectively assess personnel and non-personnel resources needed to provide required services, including providing fiscal notes to proposed legislation upon request.
2. Dedicate budgetary resources to fund professional staff.
3. Dedicate budgetary resources to fund services that are sufficient, efficient, and promote the fulfillment of OST’s mission.

**PERFORMANCE MEASURES:****Met (Y/N)**

1	Introduce change packages into the biennial budget to reflect savings and spending initiatives in line with assessments.	Y
2	Maintain a professional, experienced accounting, financial, and administrative staff.	Y
3	Invest in technology and software that increases service while reducing the cost of providing those services.	Y

**RELATED STATISTICS:**

	2012-13	2013-14	2014-15
Number of OST personnel	15	15	15
Number of professional accounting staff	4	4	4
Personnel initiatives submitted	0	1	3
Total budget (includes ‘All Other’)	\$1,844,600	\$1,862,471	\$1,875,474

## Treasury Debt Service: 010, 017 & 018-28A-002101

### GOAL 1: To efficiently finance Maine's general obligation debt.

#### OBJECTIVES:

- To issue state general obligation debt in compliance with applicable state and federal law.
- To efficiently sell bonds at the lowest interest rate available to the state at the time of sale.
- To incur debt-service costs no sooner and in no greater amount than is necessary.
- To efficiently finance Maine's cash-flow requirements.
- To efficiently sell bond anticipation notes (BANs) at the lowest rate available to the state at the time of sale.
- To utilize the state's own resources when advantageous.

#### PROGRAM STRATEGIES:

1. Manage relationships with bond rating agencies.
2. Coordinate with applicable executive branch officials to create an annual bond rating agency presentations.
3. Structure, price, and promote in-state retail and institutional bond sales to minimize the burden on state finances.
4. Establish cash flow monitoring systems with the State Controller to closely calibrate cash flow needs and monitor internal borrowing capacity.

#### PERFORMANCE MEASURES:

Met (Y/N)

1	Ensure bond rating agencies are satisfied that their information requests are answered accurately and in a timely manner.	Y
2	Prepare presentation materials that are complete, accurate, integrated and persuasive. Ensure that the rating agency interviews are effective, with clear and coordinated objectives.	Y
3a	Ensure that Maine's cost of borrowing is reasonable given current market conditions.	Y
3b	Ensure debt service payments are scheduled at times when the state is expected to have sufficient cash flow.	Y
4a	Utilize cash pool assets, when available, to reduce external borrowing costs.	Y
4b	Exchange cash flow information regularly with the State Controller.	Y
4c	Ensure internal borrowing guidelines are established and followed.	Y

**GOAL 2: To oversee compliance with general obligation bond responsibilities.****OBJECTIVES:**

- To oversee the use of bond and note proceeds in compliance with state and federal law.
- To oversee compliance with all applicable general obligation debt indentures.
- To ensure continued disclosure of facts and information important to investors.
- To ensure debt repayment obligations are met.

**PROGRAM STRATEGIES:**

1. Counsel state agencies on the management of bond proceeds and the cash flow requirements.
2. Work with bond counsel and the Attorney General's office to assure legal compliance and proper tax characterization.
3. Generate and publish Preliminary Official Statements (POS) and Official Statements (OS) setting forth disclosure information pertinent to bond sales.
4. Track the spending of borrowed funds and guide agencies pursuant to authorization requirements.
5. Track and make debt service payments on time.

**PERFORMANCE MEASURES:****Met (Y/N)**

1a	Provide guidance to agencies regarding the proper and timely use of bond proceeds.	Y
1b	Ensure 100% of tax certificates are signed and vetted by bond counsel.	Y
1c	Monitor unspent proceed balances to ensure that borrowing is occurring efficiently.	Y
2	Maintain consistent compliance with state or federal law to avoid fines.	Y
3	Publish an accurate and timely POS and OS.	Y
4	Ensure receipt of adequate documentation from recipient agencies and require that funds are used properly.	Y
5a	Ensure timely BAN repayment via bond sale.	Y
5b	Ensure timely debt service payments.	Y

**GOAL 3: To assist state policy makers and voters as they explore debt structures and anticipate debt service costs.****OBJECTIVES:**

- To inform the Governor and the Legislature of all general obligation debt service budget requirements.
- To provide the Governor and the Legislature with advice and information on proposed borrowing packages.
- To provide current and relevant debt information to the public.

**PROGRAM STRATEGIES:**

1. Explore hypothetical financing structures early in the bond authorization process to assure market and legal feasibility.
2. Provide fiscal notes on bond bills to reflect the cost of borrowing.
3. Identify for state budget-makers the amount of funding needed to make debt service payments.
4. Prepare the Treasurer's Statement for publication on ballots whenever general obligation debt proposals are sent to the voters.
5. Provide current and timely debt related information to the public via the Treasurer's website.

**PERFORMANCE MEASURES:****Met (Y/N)**

1	Provide detailed and rapid responses to debt service questions and projection requests.	Y
2	Fiscal notes submitted within 2 days of receiving request from the Office of Fiscal and Program Review (OFPR).	Y
3	Provide accurate and detailed debt service projections to OFPR and Maine voters.	Y
4	Accurate and timely Treasurer's Statement provided to the Secretary of State.	Y
5	Update the Treasurer's debt webpage as new information becomes available.	Y

**GOAL 4: To maximize earnings on unspent bond and note proceeds.**

**OBJECTIVE:** To maximize earnings on unspent bond and note proceeds while minimizing borrowing costs and meeting the Internal Revenue Service arbitrage requirements.

**PROGRAM STRATEGY:**

1. Invest bond proceeds and track arbitrage.

**PERFORMANCE MEASURE:****Met (Y/N)**

1a	Ensure avoidance of arbitrage penalties.	Y
1b	Maximize bond proceed earnings and ensure compliance with arbitrage requirements.	Y

**GOAL 5: To oversee compliance with all internal borrowing, line of credit, and bond anticipation note responsibilities.****OBJECTIVES:**

- To oversee the use of proceeds in compliance with state and federal law.
- To ensure compliance with all applicable debt indentures.
- To ensure continued disclosure of facts and information important to investors.

**PROGRAM STRATEGIES:**

1. Work with bond counsel and Attorney General's office to assure legal compliance.
2. Track and make timely debt service payments.
3. Track the use of borrowed funds to assure their proper use pursuant to authorization requirements.

**PERFORMANCE MEASURES:****Met (Y/N)**

1	Ensure compliance with all state and federal laws and avoid fines.	Y
2	Ensure appropriate internal controls exist to anticipate and effectuate timely debt service payment.	Y
3	Ensure proper accounting of borrowed funds.	Y

**Municipal Revenue Sharing: 014-28A-002001**  
**Disproportionate Tax Burden Fund: 010-28A-047201**

**GOAL:** To apportion and distribute to local governments a share of the state's sales tax, individual and corporate income tax and service provider tax revenues.

**OBJECTIVES:**

- To monitor the State Controller's timely transfers into the revenue sharing accounts.
- To allocate and distribute revenue sharing funds in an accurate and timely manner.
- To publish and maintain records of revenue sharing distributions.
- To generate and publish distribution projections for each municipality.

**PROGRAM STRATEGIES:**

1. Monitor transfer of tax revenues to the appropriate revenue sharing accounts.
2. Monitor Local Government Fund (REVI) distributions, confirm funds available through the Disproportionate Tax Burden Fund (REVII), and distribute appropriately.
3. Timely acquisition of the tax assessment, population, mil-rate and REVI cap information needed to complete the revenue sharing distribution formulas.
4. Issue monthly municipal payments consistent with statute.
5. Publish revenue sharing projections for each municipality by April 15th.

**PERFORMANCE MEASURES:**

**Met (Y/N)**

1	Request/receive and review journal vouchers from the State Controller monthly.	Y
2	Calculate and tally transfers to the revenue sharing funds to ensure compliance with statute for Disproportionate Tax Burden Fund.	Y
3	Request all statistical data from sources to publish timely projections.	Y
4	Ensure checks are issued to municipalities on or before the 20 <sup>th</sup> of each month.	Y
5	Update website annually for projections and monthly for distributions.	Y

**RELATED STATISTICS:**

	2012-13	2013-14	2014-15
1. Total distributions	\$95.9 mil	\$66 mil	\$63.6 mil
2. Number of municipalities	493	493	493
3. Timely processing of monthly payments to municipalities	100%	100%	100%
4. Date of projection publication	4/10/2013	4/7/2014	3/20/2015

## Unclaimed Property: 071-28A-002201

**GOAL 1: To receive and safeguard lost or unclaimed financial assets from holders.**

**OBJECTIVE:** To ensure timely receipt by the state of all unclaimed properties from holders.

### PROGRAM STRATEGIES:

1. Receive and record reports of unclaimed property remitted by business entities to the state.
2. Streamline reporting processes and make online filing available.
3. Provide holder education and facilitate convenient filing of holder reports.
4. Provide compliance information for businesses subject to Maine's Unclaimed Property Act.
5. Engage professionals for audits of large national companies.
6. Provide secure and accessible storage of permanent, confidential records.

### PERFORMANCE MEASURES:

Met (Y/N)

1	Timely process holder reports to ensure accuracy and availability to claimants.	Y
2	Provide efficient and convenient filing processes to holders.	Y
3	Accept a variety of secure, electronic reporting methods.	Y
4	Maintain up-to-date website and provide adequate holder resources.	Y
5	Participate in as many contract audits as possible to increase compliance.	Y
6	Ensure adequate storage is available for all confidential documents.	Y

### RELATED STATISTICS:

	2012-13	2013-14	2014-15
Number of unclaimed property annual reports filed by business entities	3963	4086	4071
Value of unclaimed property remitted to the state	\$21.4 mil	\$22.3 mil	\$25.2 mil
Value of property received from contracted auditing professionals	\$3.8 mil	\$3.2 mil	\$3.4 mil

**GOAL 2: To reunite Maine citizens with unclaimed financial assets.**

**OBJECTIVE 2:** Efficiently and effectively return financial assets to rightful owners.

**PROGRAM STRATEGIES:**

1. Provide prompt claims processing.
2. Provide a centralized search location for owners of unclaimed property.
3. Maintain a permanent and current database documenting properties received and returned.
4. Streamline the claims process to create efficiencies while not jeopardizing the integrity of the process.
5. Partner with state legislators to locate property owners.
6. Participate in responsible national search location efforts.
7. Provide secure and accessible storage of confidential, long-term documents.

**PERFORMANCE MEASURES:**

**Met (Y/N)**

1	Timely process claims to reunite lost property with rightful owner.	Y
2	Provide searchable online database of unclaimed property.	Y
3	Ensure integrity of data received and processed through the use of state-of-the-art systems.	Y
4	Constantly review and enhance the claims process.	Y
5	Provide legislators with lists specific to their district.	Y
6	Extend owner outreach efforts beyond state boundaries to locate former Maine residents.	Y
7	Ensure adequate storage is available for all confidential documents.	Y

**RELATED STATISTICS:**

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Number of claims paid to property owners	16,009	18,691	26,934
Value of property returned to owners	\$10.3 mil	\$11.4 mil	\$15.1 mil
Number of claims initiated /online	22,153/18,590	25,678/22,260	37,790/34,512
Amount paid (claims) as % of revenue	48%	51%	60%
Average days to pay a claim	10	21	30

## Cash Management Improvement Act

**GOAL:** To facilitate state-wide compliance with the federal Cash Management Improvement Act of 1990.

**OBJECTIVE:** To facilitate compliance and carry out the administrative functions prescribed in 31 CFR Part 205.

### PROGRAM STRATEGIES:

- Negotiate annual Treasury-State Agreement (TSA) between state agencies and the federal government.
- Calculate and forward liability to U.S. Department of Treasury as appropriate.
- Monitor state agencies for compliance with the Cash Management Improvement Act.
- Provide information and guidance to state agencies that administer federal programs.
- Ensure check clearance patterns are current and accurate.
- Report annual liability statistics.

### PERFORMANCE MEASURES:

Met (Y/N)

1	Negotiate and execute annual contract.	Y
2	Sample state agency draw-downs for compliance with clearance pattern prescribed.	Y
3	Provide assistance to state agency staff when requested.	Y*
4	Review and update clearance patterns as required by the federal government.	Y
5	Compile and forward annual liability statistics.	Y
6	Maintain website with current data.	Y

### RELATED STATISTICS:

	2012-13	2013-14	2014-15
1. Number of federal programs included in TSA	11	11	11
2. Amount of liability to federal government	\$223.00	\$149.00	\$125.00

\*OST was included in Audit finding (2014-023) which cited the TANF cluster for ‘inadequate controls over Federal cash management.’ The Auditor recommended that DHHS ‘work with the State Treasurer to amend the TSA as necessary.’ OST disagreed with the premise that it is responsible for statewide controls over cash management, but agreed to assist DHHS in identifying a new funding technique to use in the TSA. <http://www.maine.gov/audit/reports/2014sareport.pdf>.

## C. Organizational Structure

OST has sixteen (16) positions. In addition to the Treasurer and Deputy Treasurer, the following positions comprise OST staff:

	Director of Internal Operations Asst. Director of Internal Operations	Manages the daily operations of all programs within the office.
	Managing Staff Accountant	Responsible for accounting systems, internal and external to OST; Handles debt service, arbitrage, and the OST operations budget.
	Treasury Services Specialist	Develops agency RFPs, contracts. Coordinates OST services for other state agencies.
	Sr. Unclaimed Property Specialist	Maintains ongoing communication with and provides services to the unclaimed property holder community; coordinates claim processing workflow.
	Senior Staff Accountant Staff Accountant (2)	Ensures all state funds are accounted for appropriately and timely.
	Unclaimed Property Specialist (2) Unclaimed Property Associate	Processes unclaimed property claims, safekeeping, holder refunds, and unclaimed property customer service.
	Office Specialist II Office Specialist I	Records, reconciles, and reports daily investment and check processing activities.
	Office Associate II	Processes returned payments, bank transfers, as well as post-processing of all outgoing state-issued checks; provides administrative support services.

## D. Financial Summary

OST's budget consists of appropriations covering the administrative expenses for 5 programs of varying size and complexity: Treasury Administration, Debt Service, Unclaimed Property, State Municipal Revenue Sharing, and the Passamaquoddy Sales Tax Fund.

### Treasury Administration 010-28A-002201

Treasury Administration provides funding for all 16 staff positions and general administrative functions of all OST programs, including, but not limited to: cash management, statewide banking services, reconciliation, debt service administration, unclaimed property, trusts administration, and directorships. The table below shows a summary of amounts received as revenue, appropriated and expended over the past 10 fiscal years. A few items of note:

1. Revenues – This represents earnings on investments of the Treasurer's cash pool credited to the general fund. The subprime mortgage crisis of 2007, followed by the Great Recession of 2008 is evident in this line of revenue and continues to affect investment earnings. The Federal Reserve's federal funds target rate was lowered to a range of 0 to .25% in December of 2008 and has remained at that level to date.
2. Expenditures, Personal Services – The increase in 2008 over 2007 was a result of bringing two positions funded by unclaimed property and federal funds, respectively, into the general fund allocation.
3. Expenditures, All Other – Increases in 2009 and 2010 reflect the cost of banking services, which were previously paid using compensating balances. This expenditure was moved to this line to increase transparency. Additionally, the decrease in expenditures beginning in 2011 and continuing through 2015 primarily reflects the shift from check issuance to other, less costly forms of payments like ACH and payment cards, in addition to cost savings resulting from a more competitive banking services RFP structure (2013 – 2015).

### REVENUES

Source Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Protested checks, miscellaneous income	75,000	75,000	85,280	79,500	61,220	63,580	58,480	56,260	67,840	54,680
Earnings on investments	6,563,582	1,424,000	901,571	911,295	265,006	277,397	155,372	147,694	301,127	602,824
Service Charges	3,000	3,000	24,766	6,634	2,870	1,865	863	3,460	53	0
Transfers from other funds	9,550,000	18,703,693	11,114,735	13,212,409	5,855,999	2,333,420	7,517,760	10,801,929	10,504,312	9,615,011
Miscellaneous adjustments	0	-72,000	0	0	0	0	-84,575	0	0	-4,653
<b>Totals</b>	<b>16,191,582</b>	<b>20,133,693</b>	<b>12,126,352</b>	<b>14,209,838</b>	<b>6,185,095</b>	<b>2,676,262</b>	<b>7,647,900</b>	<b>11,009,343</b>	<b>10,873,332</b>	<b>10,267,862</b>

### EXPENDITURES

Line Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Appropriated</b>	<b>1,155,154</b>	<b>1,122,836</b>	<b>1,286,675</b>	<b>1,651,597</b>	<b>2,010,769</b>	<b>1,867,190</b>	<b>1,786,282</b>	<b>1,786,373</b>	<b>1,839,295</b>	<b>1,860,533</b>
Personal Services	886,639	867,967	1,032,652	1,129,873	1,060,869	1,021,697	1,001,379	990,049	1,029,404	1,098,729
All Other	268,515	254,869	251,067	456,091	826,107	697,456	655,480	536,563	539,848	514,405
<b>Expended</b>	<b>1,155,154</b>	<b>1,122,836</b>	<b>1,283,719</b>	<b>1,585,964</b>	<b>1,886,976</b>	<b>1,719,153</b>	<b>1,656,860</b>	<b>1,526,612</b>	<b>1,569,252</b>	<b>1,613,133</b>

### **Debt Service Payments 010-28A-002101**

The Debt Service Payments program provides funding for the debt services obligations resulting from the issuance of general obligation bonds. Since FY06, the OST debt service program has averaged \$86 million in debt service payments annually. FY13 saw a peak in debt service of \$98.5 million, while the FY15 total amounted to just over \$77 million, representing a 21% decline against the FY13 peak period and 8.5% lower than the average 10 year period. As the state continues to issue bonded debt, OST is consistently charged with implementing an efficient and financially sound debt strategy to pay off such obligations and safeguard Maine's bond rating. The table below shows a summary of amounts received as revenue, appropriated and expended over the past 10 fiscal years.

#### **REVENUES**

Source Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Transfers to/from other funds	1,801,775	2,372,750	0	901,000	-5,556,322	0	0	0	0	3,000,000
Totals	1,801,775	2,372,750	0	901,000	-5,556,322	0	0	0	0	3,000,000

#### **EXPENDITURES**

Line Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Appropriated	78,905,807	88,004,339	84,211,918	88,733,356	90,575,976	88,361,310	95,166,649	98,515,558	78,839,542	77,548,404
All Other	78,905,807	88,004,339	83,332,439	82,340,034	90,575,786	87,623,247	95,138,277	98,515,556	77,711,895	77,477,976
Expended	78,905,807	88,004,339	83,332,439	82,340,034	90,575,786	87,623,247	95,138,277	98,515,556	77,711,895	77,477,976

### **Unclaimed Property 071-28A-002201**

The Unclaimed Property program is a self-funded program that seeks to reunite owners with their lost financial assets. Funds are received primarily during two deadlines: November 1, and May 1 of each year. From those revenues, rightful owners are paid the value of their claim. The cash received, but not paid out during the fiscal year, is transferred to the general fund as revenue. The value of the financial property is recorded and maintained at OST in perpetuity for the rightful owner to claim at any point in the future. Due to the nature of unclaimed property, the program provides millions of dollars to the general fund each year. In FY 2015, over \$9.6 million was transferred to the General Fund. The table below shows a summary of amounts received as revenue, appropriated and expended over the past 10 fiscal years.

#### **REVENUES**

Source Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Holder reports (less paid claims)	9,753,402	13,883,937	11,063,910	13,289,348	6,102,315	10,181,051	7,739,355	11,022,831	10,761,027	9,799,028
Earnings on investments	90,000	90,000	281,158	133,612	18,437	12,333	22,855	19,433	19,372	30,050
Transfers to General Fund	-9,550,000	-13,703,693	-11,114,735	-13,212,409	-5,855,999	-9,955,203	-7,517,760	-10,801,929	-10,504,312	-9,615,011
Totals	293,402	270,244	230,333	210,551	264,754	238,181	244,451	240,335	276,087	214,067

#### **EXPENDITURES**

Line Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Appropriated	315,724	271,184	217,686	217,686	217,686	217,686	202,345	209,844	208,149	223,649
Personal Services	80,808	57,558	0	0	0	0	0	0	0	0
All Other	234,916	213,626	206,594	209,332	203,592	211,868	201,988	196,210	180,855	202,810
Expended	315,724	271,184	206,594	209,332	203,592	211,868	201,988	196,210	180,855	202,810

### **State Municipal Revenue Sharing 014-28A-002001**

The Municipal Revenue Sharing program provides funds for the distribution of revenue sharing to Maine municipalities according to the distribution outlined in Title 30-A, section 5681. In FY15, OST distributed approximately \$63,600,000 to 493 municipalities. The table below shows a summary of amounts received as revenue, appropriated and expended over the past ten (10) fiscal years. Items of note:

1. The Bureau of Budget implements the appropriation in this account. The State Controller completes the revenue transfer in accordance with the formula prescribed in statute. OST provides the associated administration of those payments and projections.
2. Since FY10, municipal revenue sharing distributions have been reduced by a specified amount pursuant to subsection 5-C.

#### **REVENUES**

Source Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue sharing transfer	121,737,736	122,880,733	133,103,773	120,837,794	97,425,079	93,156,122	96,876,964	95,974,153	66,063,110	63,600,996
Totals	121,737,736	122,880,733	133,103,773	120,837,794	97,425,079	93,156,122	96,876,964	95,974,153	66,063,110	63,600,996

#### **EXPENDITURES**

Line Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Appropriated	121,380,174	121,236,618	133,009,157	127,068,047	97,424,335	90,213,027	95,042,144	93,822,283	66,062,807	63,600,937
All Other	121,380,174	121,236,618	133,009,157	120,837,771	97,424,335	93,156,510	96,877,016	95,974,323	66,062,807	63,600,937
Expended	121,380,174	121,236,618	133,009,157	120,837,771	97,424,335	93,156,510	96,877,016	95,974,323	66,062,807	63,600,937

### **Passamaquoddy Sales Tax Fund 014-28A-091501**

The Passamaquoddy Sales Tax Fund provides allocation for refunding of sales tax collected by the Passamaquoddy Tribe. When the Bureau of Maine Revenue Services receives sales tax from the Tribe, the amount due the state revenue sharing program is withheld, and the amount remaining is refunded to the Tribe. There has been no activity since 2011.

#### **REVENUES**

Source Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales Tax	28,809	17,607	0	3,930	11,010	1,481	0	0	0	0
Totals	28,809	17,607	0	3,930	11,010	1,481	0	0	0	0

#### **EXPENDITURES**

Line Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Appropriated	28,809	17,607	17,607	17,607	17,607	17,607	17,607	17,607	17,607	17,607
All Other	0	0	0	3,930	11,010	1,481	0	0	0	0
Expended	0	0	0	3,930	11,010	1,481	0	0	0	0

## E. Coordinated Efforts

OST coordinates and participates regularly in several projects that require collaboration with other state agencies. Being a financial services agency that serves the entire state, many of the functions of OST directly impact other departments. This makes many improvements a joint venture.

- OST works in coordination with the *State Legislature* to achieve many of the related outreach and owner reunification goals of the unclaimed property program. This relationship is integral to each outreach cycle and ultimately results in millions of dollars being reunited with rightful owners.
- The Cash Management Improvement Act (CMIA) began in 1990. Every year OST negotiates a contract on behalf of *all State of Maine agencies* receiving federal funds that exceed a certain threshold and the *U.S. Department of Treasury*. At the end of the year, a report is filed to show the liability, if any, the state has to the federal government.
- OST works collaboratively with the *Executive Branch* and other state agencies to provide adequate funding for capital projects through the issuance of bonds.
- OST works closely with the *Department of Administrative and Financial Services'* Commissioner, Budget Officer, and State Controller in an ongoing commitment to provide relevant and timely information to the bond rating agencies and bond holders through the periodic and constant disclosure of the state's financial position.
- OST regularly monitors unspent bond proceeds of *ALL state agencies* prior to issuing additional bonds in an effort to reduce the overall cost of arbitrage to the state.
- Collaborative efforts with the *Office of Information Technology* will soon result in a launch of the Treasury

Payment Portal that will be available to all state agencies for acceptance of online electronic payments. This system increases convenience for customers and decreases the cost of manual processing for agencies.

- OST recently completed a collaborative effort with stakeholders including the *State Controller, Department of Labor, Bureau of Purchases, and Department of Health and Human Services* to procure services for a statewide payment card product. This product can be used as a means to issue single and recurring payments to customers as a safe and cost-effective alternative to costly check issuance. This collaborative effort produces tangible savings across state government. For example, the transition of child support payments program from paper checks to payment cards produces annual savings of over \$140,000 in postage costs alone.

## **F. Constituencies**

OST is a central service agency with constituencies and services including:

### **Cash Pool Participants**

Provide investment earnings on funds invested and same-day liquidity.

### **Heirfinders**

Provide list of unclaimed properties to private investigators to assist in their search for owners of unclaimed property.

### **Bond holders**

Make timely debt service payments.

### **Legislature**

Report on bonded indebtedness, tobacco funds, and investment earnings. Provide information, text, charts, and graphs on debt and cash pool earnings. Provide a district-specific unclaimed property list to each legislator annually.

### **Maine Citizens**

Serve the public interest through trustworthy and competent management of the state's cash, general obligation debt, and unclaimed properties.

### **Municipal Governments**

Publish state municipal revenue sharing projections, distributions, delinquent tax rates and information.

### **Rating Agencies**

Provide Official Statement of the state's financial condition to investors; provide information to bond rating agencies as requested.

### **Revenue Forecasting Committee**

Provide projections on cash pool earnings, unclaimed property fund transfers, tobacco settlement payments, and other information as requested.

### **State Agencies**

Provide banking services; cash pool management and reporting; bond issuance and debt service; custodial and trust fund services; investment of and earnings distribution dedicated funds; safekeeping management and reporting; reconciliation management; returned check processing and maintenance; credit card acceptance set-up and maintenance; cash receipt training and guidance; disbursement maintenance, processing and recordkeeping; unclaimed property law compliance; Cash Management Improvement Act training, sampling, guidance and compliance liaison services; and LUPC assessment withholding.

### **Unclaimed Property Holders**

Provides assistance to all holders of unclaimed property to ensure compliance with Title 33, chapter 41 of M.R.S.A.

### **Quasi-State Agencies**

Serve on the board of quasi-governmental agencies having the capacity to implicate the credit of the State of Maine.

### **Unclaimed Property Claimants**

Assist apparent owners (claimants) of unclaimed property with their claim(s) and ensure protection of the assets for the rightful owner.

## **G. Alternative Delivery**

Alternative deliveries, including technologically advanced methods and outsourcing, have been or will soon be implemented in the following areas:

### **Delinquent Tax Rate**

OST provides the annual and historic delinquent tax rate established by statute to municipalities online.

### **Investment Reporting**

OST contracts with an investment advisor that provides customized and GASB-compliant investment reporting services for the Treasurer's cash pool. Improvements were made in balancing the portfolio, tracking maturities, and asset allocation as a result of the services provided.

### **Municipal Revenue Sharing**

OST provides current and historical monthly distribution details and annual projections on the web to assist municipalities with budgeting, and identifying electronic deposit of funds.

### **Unclaimed Property Audits**

OST outsources the auditing of national corporations to multiple firms that specialize in unclaimed property auditing. This provides Maine leverage with large corporations and saves the state the cost of doing an independent audit.

### **Unclaimed Property Claims**

OST is working with a third-party vendor to improve the online unclaimed property claim process. The new process will allow for a higher volume of claims processing with existing personnel resources, thereby reducing the backlog that can develop during successful outreach campaigns. In addition, this new process will allow for the implementation of user authentication for claims submitted online, a process that prevents most electronic fraud activity.

### **Unclaimed Property Holder Reports**

OST offers several electronic reporting options utilizing the OST website and third-party providers. Holders can efficiently and inexpensively report sensitive customer information and remit the value of the report utilizing secure, electronic remittance technology.

### **Unclaimed Stock Certificates**

OST outsources custodial and accounting services for the unclaimed property stock portfolio. OST receives monthly statements used to reconcile these to AdvantageME.

## H. Emerging Issues

**Uncertain Markets/Basel III** – The 2008 financial crisis marked the beginning of a turbulent time period in global markets. Increasing government regulation (including, but not limited to Basel III) underscore the heightened awareness and presence of future market disturbances. More recently, the Greek financial crisis, beginning in 2010 and continuing in 2015, has created uncertainty in the markets about sovereign debt and related economies. OST is in continuous discussions with its banking partners and investment and debt consultants to ensure that the investment portfolio is managed with liquidity and safety in mind. Debt issuance is timed to ensure temporary market disturbances are considered.

**Statewide Payment Portal** – As more customers eschew paper check writing in favor of electronic payments, state agencies are increasingly looking for alternate methods of receiving payment. Currently, the primary electronic means of receiving payments for most state agencies is credit/debit card. As discussed in the Coordinated Efforts section (page 34), the creation of the Treasury Payment Portal will allow state agencies to accept ACH debit payments.

**Federal ACH Requirements** – In two recent cases, the federal government has required the state to provide routing and account information so that a federal agency can initiate an ACH debit for a payment. This requires the state to allow an outside entity access to our account and authorize debits. This is a challenge, both for internal controls and administrative feasibility. While this requirement has been accommodated in these two scenarios, OST is concerned that a trend is developing, and must plan for additional ACH debit requirements by the federal government.

**EMV Liability Shift** – EMV is the global standard for chip-based debit and credit card transactions. EMV cards store payment information in a secure chip rather than on a magnetic stripe and the personalization of EMV cards is done using issuer-specific ‘keys.’

Unlike a magnetic stripe card, it is virtually impossible to create a counterfeit EMV card that can be used to authorize an EMV payment transaction successfully. EMV cards will be issued with a magnetic stripe for a few years while the country is converting. Fueling stations have until October 1, 2017 to become compliant with EMV terminals.

Since October 1, 2015, any counterfeit transaction initiated by an EMV-capable card at a magnetic stripe-only terminal (not EMV capable) is solely the liability of the merchant, not the issuer of the card. For example, if an EMV card is used by swiping or hand entering, a chargeback dispute will always go against the merchant. Alternatively, a non-EMV capable card swiped at an EMV-capable terminal that results in a chargeback would be the liability of the card issuer. Additionally, an EMV card used in an EMV transaction gives the merchant the leverage needed to dispute a chargeback with the customer’s signature, if supplied.

The state has approximately 180 merchants (agencies/locations) that process credit card payments) and 241 payment terminals. Twenty seven (27) payment terminals are EMV ready, 198 need a hardware attachment (chip reader), and 23 require replacement. OST is encouraging merchants to upgrade to EMV terminals as soon as possible. These upgrades are at the discretion of the agency, as their chargeback (fraud/dispute) experience will be the determining factor in choosing when to invest in new hardware.

**Technology and Fraud** – While in many cases technology can be used to prevent fraud, it can also increase the risk of fraud. OST is committed to staying abreast of national fraud issues through a variety of networks because technology is ever-changing.

## I. Other Information

OST leverages the services of third parties to efficiently provide for the needs of its customers. The following tables list the current contracted vendors and the amount of funds paid for their services during FY15. The services are broken into two categories: the blue table indicates contacts paid directly out of Treasury operations, while the green table represents contracts paid from other sources.

Service	Vendor	Term	FY15 Cost
<b>Banking Services</b>	US Bank	06/05/12 to 06/30/17	\$220,155.29
<b>Branch Deposit &amp; Merchant Services</b>	T.D. Bank	07/24/12 to 06/30/17	\$42,068.25
<b>Custodian</b>	JP Morgan	01/01/12 to 12/31/15	\$25,000.00
<b>Electronic Payment Card**</b>	US Bank	07/01/14 to 06/30/17	\$0.00
<b>Investment Consultant</b>	PFM Asset Management	03/01/14 to 02/29/16	\$161,590.57
<b>Securities Custody Services</b>	Xerox State & Local Solutions	01/01/12 to 12/31/15	\$67,023.21
<b>Unclaimed Property Database Management</b>	Wagers & Associates, Inc.	07/01/12 to 06/30/16	\$33,000.00
<b>UP Web Claims Fast-Tracking</b>	Xerox State & Local Solutions	07/01/14 to 06/30/16	\$20,500.00

Service	Vendor	Term	FY15 Cost
<b>Bond Counsel</b>	Locke Lord Edwards LLP	02/01/12 to 01/31/16	\$15,484.35
<b>Debt Management Financial Advisor</b>	First Southwest	03/01/15 to 02/28/17	\$0.00
<b>Electronic Payment Card**</b>	US Bank	07/01/14 to 06/30/17	\$0.00
<b>Investment Consultant</b>	PFM Asset Management	03/01/14 to 02/29/16	\$161,590.57
<b>Trusts Investments</b>	Key National Association	01/01/12 to 12/31/15	\$0.00
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Xerox State & Local Solutions	07/01/10 to 07/31/18	\$10,091.12
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Verus Financial, LLC	07/01/10 to 07/31/18	\$322,671.63
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Audit Services, U.S., LLC	07/01/10 to 07/31/18	\$24,765.18
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Discovery Audit Services	09/01/15 to 07/31/18	N/A
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Hertz Herson LLC	09/01/15 to 07/31/18	N/A
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Kelmar	09/01/15 to 07/31/18	N/A
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	PRA Governmental Services	07/01/10 to 07/31/18	N/A
<b>Unclaimed Property Audit &amp; Recovery Services*</b>	Treasury Services Group	07/01/10 to 07/31/18	N/A

\*Contingency fee based, \*\*No-fee contract, N/A – indicates no payments made in FY15

## **J. Comparison of Federal Laws and Regulations to State Laws and Rules**

The federal laws relating to OST primarily exist in Title 26 of the Internal Revenue Code. One important duty of OST is to track and report to the Federal Government arbitrage liabilities of the state with respect to federal money and tax-exempt borrowing. Proper reporting to the federal government allows for Maine's continued tax-exempt status.

State statutes related to bond issues, taxable wage withholding, NextGen, and the Cash Management Improvement Act follow the form of the federal laws.

OST has not established rules.

## **K. Agency Policies for Collecting, Managing, and Using Personal Information**

OST requires each employee to review, understand, and execute a standard confidentiality policy and an email usage and management policy both of which protect the confidential handling of personal information.

Unclaimed property holders are required to remit reports that contain personal data, such as Social Security numbers or dates of birth, either encrypted, password protected, or through secure FTP transfer.

## **L. Agency Reports, Applications, and Required Filings**

### **Holder Reports**

Unclaimed Property holders are required to submit annual holder reports per Title 33, chapter 41, § 1958, last amended in 2005. In FY14 and FY15, OST received 4,086 and 4,071 reports, respectively. For the upcoming FY16 reporting period, the Treasurer anticipates more than 4,000 reports to be filed.

To reduce the burden of this filing on holders, the Treasurer provides several electronic methods for the reports to be filed.

## **M. Reports Required by the Legislature**

Other than this report, the only other direct report required by the Legislature is the Tobacco Settlement Payments Report.

Tobacco Settlement Payments Report – OST is required to report the status of Maine's Tobacco Settlement Payments each December to the Joint Standing Committees on Appropriation and Financial Affairs and Health and Human Services. The report must summarize the activity in any funds or accounts directly related to the Fund for a Healthy Maine. See 22 M.R.S.A. s. 1511(8).