

**Department of Legislative Services**  
Maryland General Assembly  
2019 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 791 (Senators Hayes and Carter)  
Budget and Taxation

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**State Treasurer - Task Force to Study Alternative Financial Investment Bonds**

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This bill establishes the Task Force to Study Alternative Financial Investment Bonds. The State Treasurer must chair the task force and the Department of Legislative Services (DLS) must provide staff for the task force. The task force must report its findings and recommendations to the Governor and the General Assembly by January 1, 2020. **The bill takes effect July 1, 2019, and terminates September 30, 2020.**

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**Fiscal Summary**

**State Effect:** None. DLS can handle the staffing requirement with existing budgeted resources. In addition, any expense reimbursements for task force members are assumed to be minimal and absorbable within existing budgeted resources.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** The bill defines an “alternative financial investment bond” as a certificate of equal value representing undivided shares of ownership of tangible assets, usufructs, and services, or assets of particular projects or special investment activity.

The bill defines an “alternative financial investment bond agreement” as an agreement for an alternative financial investment bond that provides for a bond holder to pay a sum of money to the bond issuer and identifies (1) the assets, or class of assets, that the bond issuer will acquire for the purpose of generating income or gains and (2) the termination date of

the agreement. The bill specifies that under this agreement, the bond issuer agrees (1) to make a redemption payment to the bond holder during or at the end of the bond term, (2) to pay to the bond holder additional payments on one or more occasions during or at the end of the bond term, and (3) that the amount of the additional payments will not exceed an amount that would be a reasonable commercial return on a loan of the capital.

The task force must:

- study alternative financial investment bonds;
- make recommendations regarding the adoption and implementation of alternative financial investment bonds in the State; and
- create a model investment instrument for the State that is compliant with the definition of alternative financial investment bonds and is regulated comparably with traditional bonds and other debt instruments.

**Current Law:** Currently, State Finance and Procurement § 6-222 allows the Treasurer to invest or reinvest unexpended or surplus money in:

- (1) an obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
- (2) an obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
- (3) an obligation issued and unconditionally guaranteed by a supranational issuer, as specified;
- (4) a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies, or instrumentalities;
- (5) bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission or the Treasurer;
- (6) with respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this item;

- (7) commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States Securities and Exchange Commission;
- (8) money market mutual funds with certain restrictions; and
- (9) any investment portfolio created under the Maryland Local Government Investment Pool.

The Treasurer is required to report to the General Assembly annually by January 3 on investment activities. At a minimum, the report must contain the following information for general fund investments and all other investments:

- the inventory of investments with maturity dates and the book and market value as of June 30;
- the earned net income;
- the percentage share of each category of investment in the portfolio; and
- sales of investments prior to the maturity date.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 431 (Delegate Barron) - Appropriations.

**Information Source(s):** Maryland Economic Development Corporation; Maryland State Treasurer's Office; University System of Maryland; Department of Housing and Community Development; Department of Legislative Services

**Fiscal Note History:** First Reader - February 11, 2019  
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