

# Transition Report



The Honorable Curtis M. Loftis, Jr.  
Treasurer, South Carolina

February 2011

# Table of Contents

---

Introduction	4
The Transition Team	5
Mission of the Transition Team	5
Organization of the Transition Team	5
Members of the Transition Team	7
Transition Team Report Summary of Recommendations	8
Budget and Control Board Subcommittee Report	12
Introduction and Purpose	12
A. Pension and OPEB Crisis	13
A.1. Immediate Changes to Pension Systems	13
A.2. Immediate Review of Pension Systems Disclosure Practices	17
A.3. Defined Contribution Retirement Plan as Sole Option for New Employees	21
A.4. Review Actuarial Rate of Return Assumption	25
A.5. Use Existing State Assets and Opportunities to Bolster Pension Plans	27
B. External Audit	29
B.1. External Audit of Budget and Control Board	29
C. Procurement Procedures	30
C.1. Interstate Cooperative Purchasing	30
C.2. Acquisition of Intellectual Property Rights	30
C.3. South Carolina Small Business “Buy Local” Measures	31
C.4. Share-in-Savings Contracts	32
D. Fraud, Waste, and Abuse	33
D.1. Debt Report	33
D.2. P-Card (Procurement Card) Program	34
D.3. Recovery Audits	36
D.4. Utilize State-Owned Office Facilities	38
D.5. General Services Division Management of Real Property	38
D.6. Property Use Guidelines and Exemptions	39
D.7. Board Meeting Facilities	40
D.8. Board Meeting Schedules	40
State Treasurer’s Office Subcommittee Report	42
Introduction and Purpose	42
E. Economic Development	43
E.1. Retirement Systems Assets	43
E.2. Collateralization	47
F. Bond Provisions	51
F.1. Debt Report	51
F.2. State Treasurer’s Debt Issuance Responsibility Analysis, Report, and Procedures	52
F.3. State Bond Counsel and Disclosure Counsel Services	53
F.4. State Bond Rating Strategy	55
F.5. Savings to be Generated from Restructured or Refunded General Obligation Bonds	57
F.6. Concerns Regarding the Scheduled Expiration of Credit Support Instruments	57

for State Transportation Infrastructure Bank Debt	
F.7. State Investment Banking Relations	58
F.8. “Build America Bonds” and other Recent Federal Bond Programs	58
F.9. Unemployment Compensation System and Unemployment Trust Fund Loans	59
F.10. Bond Recodification	59
G. STO’s Depository Contract with Bank of America	60
G.1. Depository Banking Review	60
H. STO’s Trust Function	62
H.1. Outsource Indenture Trustee Services	62
H.2. Procurement of Trustee and Paying Agent Services	64
H.3. Audit Debt Management Group	68
I. SCEIS	69
I.1. South Carolina Enterprise Information System (SCEIS)	69
J. 529 Plan	70
J.1. Regular Bids for 529 Plan	70
K. Local Treasurers and Local Government Pool	72
K.1. SCDMV	73
L. Independent Audit	74
L.1. Independent Audit	74
Board of Financial Institutions Subcommittee Report	75
Introduction and Purpose	75
M. Attracting and Keeping State-Chartered Banks	79
M.1. Increased STO Involvement in State-Chartered Bank Retention and Expansion	79
N. BFI Budget, Workforce, and Performance	82
N.1. Review of Banking Division Staffing and Revenue Needs	82
N.2. Review of Banking Division Hiring Practices and Budget	84
N.3. Review of Banking Division Management Succession Plan	84
N.4. Review of Banking Division Turnover	85
O. Taxation Realignment Commission (TRAC) Review	85
O.1. TRAC Economic Study	85
P. Business with State-Chartered Banks	87
P.1. Collateralization and Pooling Mechanism	87
Q. BFI Technology	91
Q.1. Uniformity in Reporting	91
R. Payday Lending	91
R.1. Compare Payday Lending Revenue Lost to Mortgage Lending Revenue Gained	98
R.2. Continued Legality of Payday Lending and Consideration of Rate Cap	103
S. Frank-Dodd Act	110
S.1. Effects of Frank-Dodd Act on South Carolina	110
Appendix	112

# Introduction

---

February 2011

As I traveled across South Carolina this past year, I shared my message with South Carolinians at every opportunity – at election rallies and civic clubs, on radio and television, by mail and e-mail, on the sidewalk and in their homes and backyard gatherings.

I shared with them my message of fiscal conservatism and my desire for smaller government with more accountability, transparency and openness, elimination of waste, fraud and abuse, and my goal of a government more responsive to the needs of South Carolinians. I shared with them that, as a small businessman, I understand the need for government to help small business by lifting the burden of unnecessary regulation, thereby allowing them to create jobs for South Carolinians and a stronger economy for South Carolina.

The State Treasurer's Office is a critically important office. It requires the full time, attention, and effort of a state treasurer who will improve the functioning of the State Treasurer's Office and make it more effective, efficient, productive, and responsive as it serves the best interests of South Carolinians.

In each of South Carolina's 46 counties, citizens heard my message and voted in support. It was a humbling message to me from the electorate and one that affirmed my convictions. I set out on a path to develop a plan of action to meet the wishes, the mandate, of the people of South Carolina.

I assembled a Transition Team composed of volunteers from across South Carolina to lead the effort in identifying and prioritizing my agenda, so that I could be effective immediately upon inauguration. These men and women willingly came together, with their variety of relevant backgrounds and experiences, to develop a sensible and direct plan of action that will benefit the citizens of South Carolina.

The recommendations of the Transition Team are realistic, meaningful and attainable. They are not idealistic and long range – rather they are practical and address the real and current need for change. While the report of the Transition Team focuses on the role and responsibilities of the State Treasurer, its recommendations go beyond the realm of those the State Treasurer can accomplish by individual action. Some of the recommendations will require the collaborative assistance and approval of other State officials, including the Governor, the State Legislature and the Budget and Control Board. I invite all parties to join me in addressing these recommendations.

Respectfully,



Curtis M. Loftis, Jr.  
State Treasurer, South Carolina

# The Transition Team

---

## Mission of the Transition Team

The Curtis Loftis Transition Team is a skilled and diverse group of leaders from around the state. Its mission is to engage in thoughtful discussion, observation, and investigation in order to facilitate an orderly transfer of duties from one administration to another, to identify strengths and uncover weaknesses and inefficiencies in the sphere of responsibility of the South Carolina State Treasurer's Office, to greater promote economic development using the resources of the Treasurer's Office, and to recommend solutions and opportunities for reform.

The Team worked to recommend appropriate and meaningful changes to the Treasurer's Office designed to increase efficiency and accountability while making the office the most transparent Treasurer's Office in the nation.

## Organization of the Transition Team

The Team was organized into three subcommittees:

- Budget and Control Board Subcommittee
- State Treasurer Subcommittee
- Board of Financial Institutions Subcommittee

### **Budget and Control Board Subcommittee**

The Budget and Control Board Subcommittee focused on the meaningful and material aspects of the State Retirement System investments, investment management, rates of return, investment policies, independent/internal auditor, periodic independent outside review of all aspects of investment program, and other significant matters approved by the Transition Team.

The Subcommittee considered the procurement procedures and how to use this process as an economic development tool.

The Subcommittee also considered the use of retirement investment funds and all state financial assets as an economic development tool and examined what other states are doing in this regard.

### **State Treasurer's Office Subcommittee**

The State Treasurer's Office Subcommittee focused on the meaningful and material aspects of the functions and operations of the State Treasurer's Office including:

Banking and Accounting: The Subcommittee researched the use of State deposits and investments as an economic development tool what other states are doing in this regard; the type and number of South Carolina and out-of-state depositories; the competitive nature for selecting depositories;

current rates of return; depository management and independent review of all aspects of depository activities and programs; collateralization types, requirements, and options; and the Local Government Investment Pool.

Debt: The Subcommittee examined debt policy and practices; the current process of independent review of State debt policy and practices; and the use of sufficient available debt capacity as economic development tool and examination of what other states are doing in this regard. It reviewed State and local government bond statutes for modernization and re-codification, identified additional measures to maintain State's AAA rating; reviewed the rotational system of bond counsel and other parties engaged by State in the issuance of debt; and investigated opportunities to strengthen local government debt policies and practices, including a review of the use of derivatives.

Technology: The Subcommittee reviewed and made appropriate recommendations regarding the need to upgrade/acquire/retire any stand-alone IT systems in the Treasurer's Office to achieve economies, efficiencies, savings, and increased productivity. Members ascertained the Treasurer's Office progress in implementing SCEIS, the State's enterprise system, and considered the benefits and merits of the State implementing modules of the State's new enterprise information system beyond the accounting, HR, and payroll, and procurement modules initially being implemented state-wide.

Programs:

Unclaimed Property: The Subcommittee investigated opportunities for improvements in employed processes to improve return of unclaimed property and reduce levels of outstanding unclaimed property, including a review of "Best Practices" by other states.

Investments: The Subcommittee considered investment programs conducted by the Treasurer's Office, utilizing the same considerations given to the State Retirement Systems. The Subcommittee coordinated in this area with the subcommittee reviewing the functions and operations of the Treasurer's Office.

Higher Education: The Subcommittee reviewed the marketing and advertising plan for the 529 college tuition program, and reviewed tuition prepayment plan fee options.

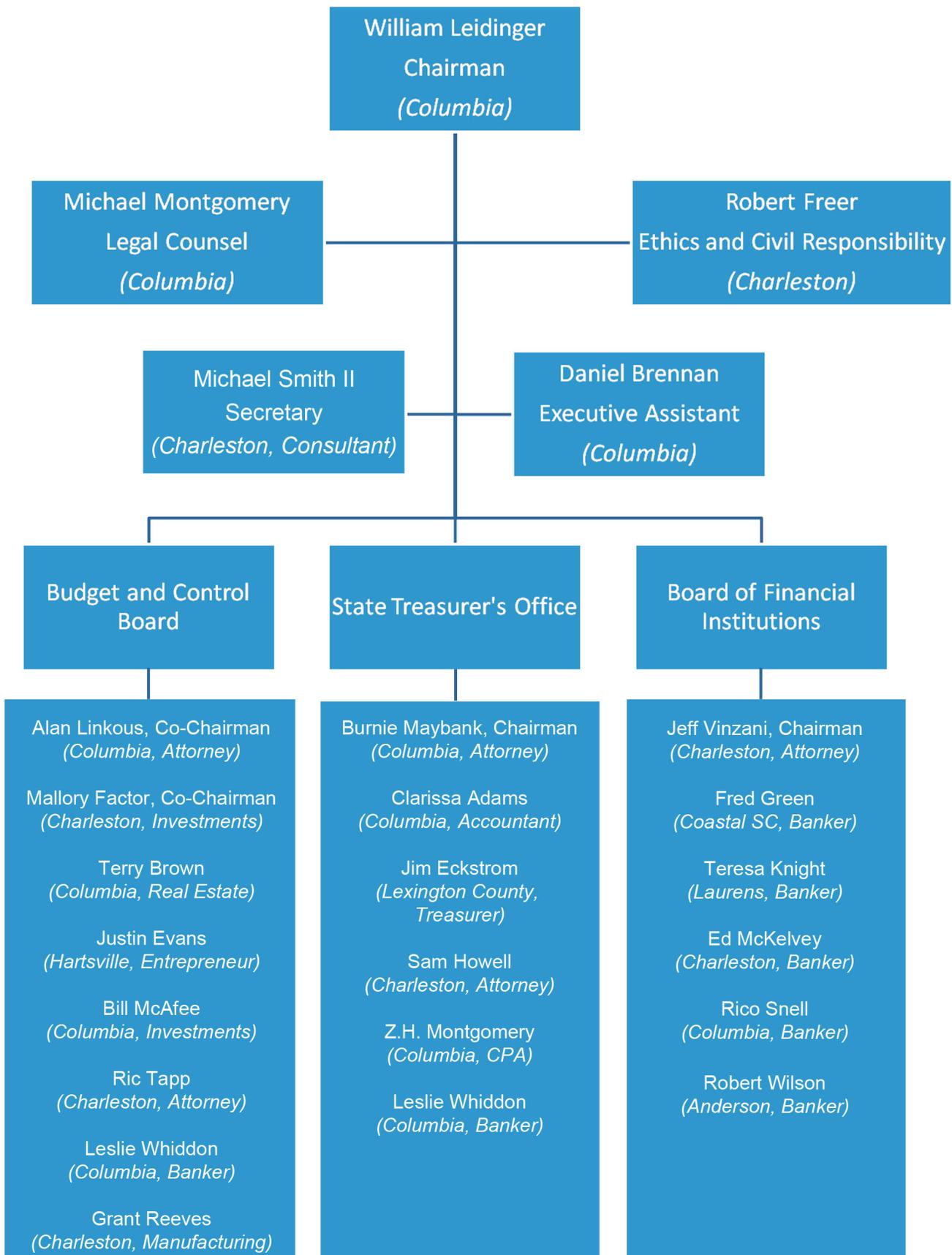
Local Government: The Subcommittee reviewed opportunities to increase communication between the State Treasurer's Office and county and municipal treasurers and officers, as well as ways to conduct training and creating availability for experts in the field.

## **Board of Financial Institutions Subcommittee**

The Board of Financial Institutions Subcommittee focused on the meaningful and material aspects and operations of the State's supervision and regulation of State chartered banks, trust companies, savings banks, and credit unions, and identified opportunities for improving its supervisory and regulatory services and function.

The Subcommittee likewise reviewed the licensing and regulation of consumer finance deferred presentment, check cashing, and mortgage lending companies, and identified opportunities for improving its licensing and regulatory services and function.

# Members of the Transition Team



# Transition Team Report

## Summary of Recommendations

---

This summary is provided to assist the reader. Readers are encouraged to read the entire Transition Team Report and its detailed recommendations, including related discussion and background information for each specific recommendation, in order to gain a full appreciation of the recommendations.

### Summary of Report and Recommendations of the Budget and Control Board Subcommittee

The Loftis Transition Team Budget and Control Board Subcommittee was organized to assist Mr. Loftis in preparing for his duties as a voting member of the South Carolina State Budget and Control Board. The Subcommittee Report is divided into four categories of recommendations, as follows: Pension and OPEB Needs; External Audit; Procurement Procedures; and Fraud, Waste, and Abuse.

Acknowledging that there appears no greater challenge facing the new Treasurer, Section A of the Subcommittee Report focuses on South Carolina's public pension and other post employment benefits (OPEB) funding needs. This section explains the decade-long trend of falling funding levels for the South Carolina Retirement Systems, the State's public pension systems. In it, the Subcommittee recommends both specific and immediate modifications to the State's pension systems. The Subcommittee next recommends an immediate review of our State's pension systems' disclosure practices. This recommendation is put forth in light of anticipated industry and regulatory responses to the nationwide public pension crisis, and the Subcommittee suggests this review could help South Carolina avoid potential liability for deficient disclosure. The Subcommittee next recommends that South Carolina shift away from its traditional defined benefit retirement plan, which represents the State's "default" plan, and position a defined contribution retirement plan structure as the sole option for all new State employees. The Subcommittee further recommends that the Budget and Control Board require a review of the State pension systems' 8.0 percent Actuarial Rate of Return Assumption to determine whether such an assumed rate is reasonably based on market realities. Finally, the Subcommittee recommends the use of existing assets and financial opportunities to bolster the funding level of South Carolina's public pension plans.

Section B of the Subcommittee Report explores our State's unique Budget and Control Board model. This agency possesses the enormous responsibility to provide basic administrative functions necessary for the day-to-day operation of the State of South Carolina and its various other governmental agencies. The Subcommittee Report urges that annual management and financial audits of the Budget and Control Board be performed by an external auditing entity, such as the Legislative Audit Council of the South Carolina General Assembly, in order to establish an independent baseline against which to measure the effectiveness of the organization.

Section C of the Subcommittee Report contains recommendations which highlight specific oppor-

tunities to improve present-day procurement procedures administered by the Budget and Control Board with changes to the South Carolina Consolidated Procurement Code, including: interstate cooperative purchasing, acquisition of certain intellectual property rights by the State, South Carolina small business “buy local” measures, and share-in-savings contracts.

Finally, the title of Section D of the Subcommittee Report, “Fraud, Waste, and Abuse,” is a catchall category for the Subcommittee’s specific recommendations for the Treasurer and other members of the Budget and Control Board. These recommendations reveal opportunities to increase the efficiency of State government, enhance accountability by increasing transparency, and, through their implementations, save money for South Carolina taxpayers. The Subcommittee urges the Treasurer to prepare, maintain, and make available to the public, a report which lists and provides detailed information regarding the terms of each of the State’s debt obligations, its agencies, and institutions. The Subcommittee next asserts that corrective actions should be implemented as recommended in the Legislative Audit Council’s report regarding the State’s procurement card (P-Card) program and that on-going, periodic, independent reviews of the State’s P-Card program are required to prevent future fraud and abuse of State resources. The Subcommittee also suggests that the Treasurer’s Office should take the lead role in implementing the recovery audit process required by the 2010–2011 General Appropriations Act, Proviso 89.148, and then manage this process to achieve the maximum benefit for the State.

The Subcommittee Report concludes with general recommendations regarding the utilization of State-owned office facilities by State agencies, and by making specific recommendations regarding the Budget and Control Board’s meeting facilities and the Board’s meeting schedule.

## Summary of Report and Recommendations of the State Treasurer’s Office Subcommittee

The Loftis Transition Team Treasury Subcommittee examined and contemplated the use of a small portion of the South Carolina Retirement Systems’ assets to promote economic development in our State, the State’s bond provision, the STO’s depository contract, the STO’s trust functions, SCEIS, the STO’s 529 plans, local treasurers and the Local Government Investment Pool, and independent audits.

With regards to economic development, the Subcommittee recommends dedicating a small percentage (0.5 to 1 percent) of the South Carolina Retirement Systems’ assets to promote economic development in South Carolina.

Concerning the state’s bonds, the Subcommittee recommends that the Treasurer’s Office provide the public considerably more information pertaining to the debt obligations of the State, and that the Treasurer’s Office aggressively pursues the identifications of savings which may be generated from restructured or refunded General Obligation debt arising from historically low long-term interest rates.

With reference to the State’s depository contract, the Subcommittee recommends a thorough review of the State’s banking activity. Through this review, officials should seek to identify opportuni-

ties to reduce service charges. They should also consider implementing an account analysis system similar to that developed by the Weiland Financial Group.

Regarding the STO's trust functions, the Subcommittee recommends that the Treasurer's Office determine whether indenture trust functions currently performed internally should be outsourced, and that the STO conduct an open procurement for trustee services.

With reference to the South Carolina Enterprise Information System (SCEIS), the Subcommittee recommends the STO should endeavor to fully implement SCEIS by June 2011.

Regarding the State's 529 plans, the Subcommittee recommends the STO regularly bid out the 529 plans through a request for proposals (RFP) issued by the National Association of State Treasurers (NAST).

Regarding local treasurers and the Local Government Investment Pool (LGIP), the Subcommittee recommends the STO regularly consult with local treasurers about the advantages of the LGIP, assigning specific deputies to a manageable group of counties.

Lastly, the Subcommittee recommends that the Treasurer request a GAAS and Internal Control Audit.

## Summary of Report and Recommendations of the Board of Financial Institutions Subcommittee

The Loftis Transition Team Board of Financial Institutions Subcommittee examined the following critical issues: how the State can attract more state-chartered banks and keep existing ones; the Banking Division staffing and revenue needs; the possibility of term limits for members of the Board of Financial Institutions; whether an economic impact study should be completed to determine the impacts of the Taxation Realignment Commission (TRAC) changes on banks; the business relationships of the State with its state-chartered banks and the implementation of the pooling mechanism; whether there is a need to update the technology of the Board of Financial Institutions (BFI); the revenue and fees of the Consumer Finance Division, and its proper regulation of the various consumer finance and mortgage companies; payday lending in the State, and whether it should be further regulated; and effects of the new Federal Consumer Protection aspects of the Dodd-Frank Act, with much attention given to the question of how this legislation will impact the Consumer Finance Division and the State.

With regards to state-chartered banks, the Subcommittee recommends that the BFI become involved at the organizational stage when any new banks are being formed; that the BFI contact federal thrifts and other federal banks headquartered in the State to determine if there is any interest in converting to a state-chartered bank; and that the BFI contact existing state-chartered banks to confirm they are both satisfied and have full knowledge of the benefits of being chartered in our State.

Concerning the Banking Division's staffing and revenue needs, the Subcommittee recommends that the Treasurer's Office meet with the Banking Division's leadership to review its expected rev-

enue, its budget, and its staffing needs and hiring practices.

With regards to term limits for the Board of Financial Institutions, the Subcommittee urges the Treasurer's Office to review the current situation and determine whether there should be term limits imposed on Board membership.

Regarding the TRAC recommendations, the Subcommittee recommends that the Treasurer meet with the necessary stakeholders to determine if it would be feasible to conduct an economic impact study to determine how TRAC will impact banks in the State.

With regards to doing business with state-chartered banks, the Subcommittee recommends that the Treasurer take the lead in both implementing the pooling mechanism and educating state-chartered banks on the various methods of collateralization which could allow them to gain more deposit business from the State.

With reference for the need to update the technology of the BFI, the Subcommittee recommends that the Treasurer seek uniformity with the Federal regulators in the reporting process and determine how best to fund such technology updates.

Concerning the Consumer Finance Division, the Subcommittee recommends that the Treasurer work with the Division to review its current revenue streams, along with its proper implementation of regulation of mortgage companies.

On the payday lending issue, the Subcommittee recommends that the Treasurer initiate conversations with officials from Georgia and North Carolina to develop a better understanding of their positions on this issue. Further examination of other states' experiences this issue will help determine if further regulation in South Carolina is advisable.

Finally, the Subcommittee recommends that the Treasurer encourage the Consumer Finance Division to fully educate its staff on Dodd-Frank-related issues, especially the powers of the Federal Bureau of Consumer Financial Protection.

# Budget and Control Board Subcommittee Report

---

## Introduction and Purpose

The Loftis Transition Team Budget and Control Board Subcommittee was organized on August 25, 2010, as one of three subcommittees comprising South Carolina Treasurer-Elect Curtis Loftis' transition team. The State Treasurer, by virtue of his office (ex officio), is one of the five voting members of the South Carolina State Budget and Control Board, which calls itself the Central Administrative Agency for South Carolina State Government. The Budget and Control Board employs more than 1,000 people, and possesses broad statutory authority and powers in administering many aspects of the State's finances, property, personnel, and records, including responsibility for the South Carolina Retirement Systems, approval of State debt issuance, purchasing/procurement on behalf of the State (including real property, motor vehicle fleet, and other products and services), insurance services, asset management, contract administration, and much more. The Subcommittee was organized to assist Mr. Loftis in preparing for his duties as a member of the Budget and Control Board, and make recommendations for immediate action by the Treasurer upon his taking office in January 2011.

Specifically, the Subcommittee's focus areas included the meaningful and material aspects of the South Carolina Retirement Systems' investments, investment management, rates of return on these investments, investment policies, independent/internal auditor, and periodic independent outside review of all aspects of the investment program. The Subcommittee was asked to examine the State's procurement procedures and how to use this process as an economic development tool. The Subcommittee was also asked, along with the Treasury Subcommittee, to consider the use of retirement investment funds and all State financial assets as an economic development tool, and its members studied what other states are doing in this regard. Finally, the Subcommittee was encouraged to investigate and make recommendations with regard to other significant matters approved by the Transition Team upon which the Treasurer could have a positive impact.

It is important to note that, unlike most of the recommendations of the Treasury Subcommittee and Board of Financial Institutions Subcommittee, the recommendations of the Budget and Control Board Subcommittee can only be implemented with the affirmative vote of a majority of the other Members of the Budget and Control Board and, in some cases, upon the passage of legislation. It is the Subcommittee's view that the Treasurer can be most effective showing leadership on these issues through his consensus-building efforts among the Members, and through his work with State legislators.

The Subcommittee has chosen to divide its recommendations into four categories: A) Pension and OPEB Crisis; B) External Audit; C) Procurement Procedures; and D) Fraud, Waste, and Abuse. This report and the recommendations of the Subcommittee are organized in this manner.

# A. Pension and OPEB Crisis

## A.1. Immediate Changes to Pension Systems

**Specific Recommendation:** Advocate immediate legislative action that limits prospective pension and OPEB benefits, and implements changes that reduce the unfunded South Carolina Retirement Systems' liability to a funded ratio of 80 percent or greater within five years.

**Rationale:** There is no greater challenge for the newly-elected Treasurers of each state than reforming state pension plans, particularly as half of these states are likely to exhaust their pension assets in the next decade. According to some accounts, South Carolina will exhaust its pension assets within 10-14 years. Across the nation, state Treasurers are realizing their stewardship of state finances leaves them exposed to unfunded pension liabilities that are complex, difficult to quantify, and quite large. In South Carolina the official estimate of the unfunded pension liability is \$12 billion, or approximately a 70 percent funded ratio, and the funding percentage continues to fall each year. The official estimate of the unfunded liability of other post-employment medical benefits (OPEB) is \$10 billion, which is essentially a pay-as-you-go system.<sup>1</sup> Paying for these benefits could exceed 30 percent of tax revenues in future years if left unchecked. Independent experts also suggest the liability is greatly understated because of unrealistic discount rates and 30-year amortization rules used in the calculations that push the costs into the future. Meredith Whitney, an analyst who made her name forecasting the banking crisis, believes the states could be the next source of systemic financial risk.<sup>2</sup>

Acknowledging the scope of the problem and committing to a sustainable solution must be a top priority of South Carolina's legislative agenda if the State is to keep its promise to the 522,000 participants in the South Carolina Retirement Systems (SCRS). It will require an honest and stark assessment of the benefits given earlier this decade, and the true cost that future taxpayers face if nothing changes. Likewise, pensioners must face the growing threat of an insolvent plan, or more severe cuts in benefits later. An underfunded pension system means higher contribution rates, less money for services, higher taxes, lower bond ratings, and potentially worse problems down the road. South Carolina's problem is one shared with at least 21 other states that have less than 80 percent of their pension obligations funded, a level suggested by the U.S. Governmental Accounting Office to be "healthy."<sup>3</sup>

**Discussion:** As recently as 1999, our State's pension plans were fully funded with ratios of 98.9 percent and 97.2 percent for SCRS and Police Officers Retirement System (PORS) plans, respectively. Since then, the amount of unfunded actuarial accrued liability (UAAL) for the state's two largest plans has grown from \$232 million to \$12 billion, and it continues to grow by about \$1 billion each year.<sup>4</sup> It is therefore helpful to understand the events that contributed to this gap so that the right corrective action is prescribed.

The first significant change became effective in July 2000, when eligibility for an unreduced pension under SCRS was reduced from 30 years' service to 28 years' service for 193,000

---

<sup>1</sup> "A Trillion Dollar Gap," The Pew Center on the States, February 20, 2010.

<sup>2</sup> "A Gold-plated Burden," *The Economist*, October 16, 2010.

<sup>3</sup> "A Trillion Dollar Gap," The Pew Center on the States, February 20, 2010.

<sup>4</sup> State of South Carolina 2009 Comprehensive Annual Financial Report, Actuarial Section, available at <http://www.cg.sc.gov/publications/cafrfy2009.html>.

active members in 1999. A deferred retirement option plan (TERI) was also adopted that year. The UAAL increased \$2 billion that year, and the funded ratio dropped from 99 percent to 89 percent.

Effective July 2003, actuarial assumptions were changed as a result of a five-year experience study. The net effect of changes to salary rates, retirement rates, disability rates, and mortality rates resulted in the UAAL increasing \$1 billion and the funded ratio dropping from 86 percent in 2002 to 83 percent in 2003. Actual experience had been unfavorable as compared to plan assumptions.

In 2004, the South Carolina Retirement Systems reported they could no longer absorb ad hoc Cost of Living Adjustments (COLAs) as early as 2006-07, which led to changes enacted by the General Assembly in 2005.

In 2005, the General Assembly recognized the unfunded liability trend and enacted reforms that included increased member contributions, requiring retired members who return to work to make contributions, and guaranteed a 1 percent COLA. The UAAL increased by \$3.4 billion in 2005 and the funded ratio dropped from 80 percent to 72 percent. The unfunded liability grew to \$9 billion in just six years.

Effective July 2008, actuarial assumptions were changed once again as a result of a five-year experience study. At the same time, the investment rate of return assumption was changed from 7.25 percent to 8.0 percent and the COLA was amended, in accordance with state law, by increasing the limit from 1 percent to 2 percent, creating over \$2.6 billion of net new liabilities. One final act of financial engineering by the Budget and Control Board was approving a revised method to determine asset values that effectively uses a 10-year average to smooth volatility in the market, while 87 percent of similar plans have a five-year or less smoothing period and only 3 percent use ten years or longer.<sup>5</sup> This allows the plan to defer recognizing asset losses from the 2008 recession, and maintain the appearance of level contribution. Because only a portion of the 2008 losses are recognized each year, funding levels will continue to be negatively affected for the next several years even at an assumed 8.0 percent return.

SCRS provides a breakdown of the UAAL changes since 1999 and resulting cost as follows:

- TERI and 28 Year Retirement – \$1.8 billion;
- Automatic COLA's – \$4.9 billion;
- Ad-hoc COLAs – \$2.3 billion;
- Actuarial assumption changes – \$1.2 billion;
- Experience – \$4.5 billion; and
- An offset gain of \$3 billion for the change to an 8 percent rate of return.<sup>6</sup>

It is evident that increased benefits are a main reason for the growth in the UAAL. Unfavorable investment performance in recent years, however, has failed to provide the funding expected to pay for the added benefits. The actuarial assumptions that reflect salary rates, disability rates, retirement rates, and mortality rates were changed to recognize the actual ex-

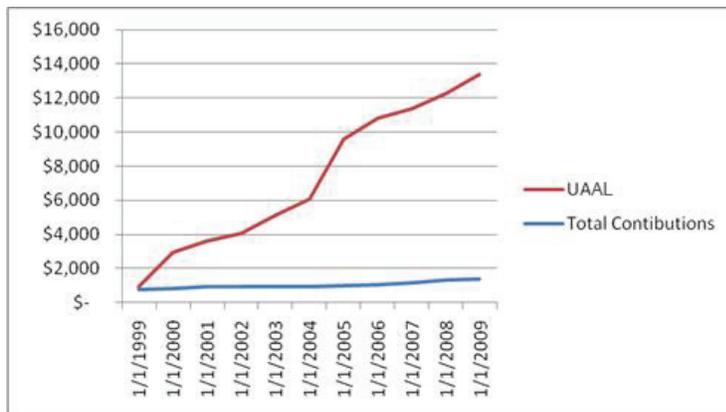
---

<sup>5</sup> "Long-term Liability Challenges for South Carolina Taxpayers," by Richard C. Dreyfuss, in cooperation with The South Carolina Policy Council, April, 2009.

<sup>6</sup> "South Carolina Retirement Systems Update," by Peggy G. Boykin, CPA, September 1, 2010.

perience, the cost of which was greater than expected - further widening the gap. Changing the rate of return assumption to 8.0 percent, and other actuarial changes, temporarily made it appear the State did not have to increase its funding and kept the UAAL within the require 30-year amortization period, but just barely.

The net impact of these events on the UAAL can be illustrated graphically as follows:



The harshness of hindsight should be enough inspiration to reverse many of the changes of the past decade and make recommendations that are sustainable and fair. Learning from other states and applying some of the best practices to South Carolina’s situation is the most sensible approach for moving forward.

Specific changes that should be seriously considered include:

- Increase eligibility for an unreduced retirement annuity under SCRS, based on an extension of the anniversary for eligibility from 28 years of service to 30 years of service, and establish a minimum age for retirement. Pension reform nationally and internationally has focused on raising the retirement ages as the logical offset for longer life spans which result in more expensive pensions. The retirement age for new employees should be increased if a defined benefit plan is going to be supported in the future. One estimate indicates that raising the retirement age by one year would trim costs by 2 to 4 percent.
- Limit the amount of cost of living increases to current and future retirees. Lawmakers in Colorado, Minnesota, and South Dakota voted earlier this year to limit COLAs to current and future employees. Expectedly, a legal challenge was filed and many states are closely watching the outcome. The lawmakers are hoping the courts will agree that the current financial turmoil the states face will imperil public pensions, which calls for a new approach. The argument is that if legislatures are not permitted to cut retirement costs now, the ability of the pension systems to pay future benefits is jeopardized. There are numerous examples of private pension plans that went bust, including United Airlines, and General Motors.<sup>7</sup> If South Carolina is the guarantor of pension promises and it also has exhausted its resources to fund contributions,

<sup>7</sup> “States Test Whether Public Pension Benefits Given Can Be Taken Away,” by Stephen C. Fehr, stateline.org, August 10, 2010.

then default becomes a very real risk. California and New Jersey also favor scaling back benefits already promised. A 1 percentage point reduction in the annual COLA could reduce the liability by 9 to 11 percent.

- Close the TERI program, and wind it down. Participation has been declining and the program prevents other active employees from taking those jobs. The program appears to address the problem of generous early retirement options by creating counter incentives to stay at work. The assets held in trust for future payment of accrued TERI benefits decreased from \$552 million to \$431 million in fiscal year 2009, with members active in the program declining from 7,899 to 6,571 at fiscal year-end 2009. The independent auditor's report for June 2009 states there are a large number of retirees who continue to work for covered employers after retirement or after ending TERI participation.<sup>8</sup> Once an employee retires, there should be a policy that prevents employees from coming back to work and "double dipping" by collecting a pension and working for a new salary. New Mexico lawmakers, for example, say they will approve a bill preventing state workers from retiring with a monthly check and going right back on state payroll. While not a major source of abuse, Utah's Auditor found this practice would cost his state \$879 million over the next decade if not changed.<sup>9</sup>
- Eliminate the practice of "spiking" final salary. For non-vested employees, base retirement income on salary from the last five years. This will prevent the current practice of giving large raises and promotions to employees at the end of employment, as a way of increasing benefits. Discontinue the practice of applying unused vacation pay when calculating retirement pay. Discontinue the practice of adding unused sick pay to length of service.
- Increase employee and employer contributions to start paying down the unfunded liability. Members of SCRS and PORS contribute 6.5 percent to the plan, whereas employer contributions are established by the Budget and Control Board. The employer's 9.385 percent contribution rate effective July 1, 2011 and 9.53 percent rate effective July 1, 2012 may be responsible contribution levels while the economy rebuilds from the recession, but there must be a committed effort to phase-in higher contribution rates beginning with 2013 to offset lower investment income and reduce the unfunded liability.
- Lengthen the period for full vesting eligibility in the plan.
- Advocate the sale, at nominal cost to SCRS, and lease-back at market rates, of State owned office buildings and other income-producing properties to bolster the plan asset value and revenue stream.
- Advocate a special appropriation from the General Assembly to pay down the unfunded liability over a 5-year period, to maintain a funding ratio of 80 percent.
- Advocate a sustainable funding mechanism for OPEB benefits with greater prefunding rather than a "pay-as-you-go" approach.

South Carolina's growing unfunded pension liability trend can be compared to a rising needle on an engine's temperature gauge. We all know that the problem can go on for a while before catastrophe occurs, but at some point the crisis manifests. In this circumstance, the sheer size of the growing liability is such that failing to address the problem threatens the overall financial stability of South Carolina, as well as the retirement needs of hundreds of

---

<sup>8</sup> State of South Carolina 2009 Comprehensive Annual Financial Report, Actuarial Section, available at <http://www.cg.sc.gov/publications/cafrfy2009.html>.

<sup>9</sup> "States Tackling Public Employee Retirement Benefits in 2010," by Stephen C. Fehr, [stateline.org](http://stateline.org) February 19, 2010.

thousands of our State's retirees.

## A.2. Immediate Review of Pension Systems Disclosure Practices

**Specific Recommendation:** Implement an immediate review of the disclosure materials produced by the State in bond offering documents, assessing their quality, accuracy, and completeness with regard to the description of the State's obligations and financial liabilities related to the South Carolina Retirement Systems.

**Specific Recommendation:** Develop disclosure procedures and best practices in light of anticipated regulatory and industry changes.

**Rationale:** Changes in industry standards and regulatory requirements, as well as the interest of greater transparency, compel a top-down review of what South Carolina is telling its bond investors, and how it goes about the process of preparing that disclosure.

**Discussion:** The pension funding crisis is not limited to South Carolina. In fact, the level of unfunded pension liability has reached a crisis point in many states, and, for some, much more so than the Palmetto State. These looming financial crises will threaten the overall financial stability of some states in the current economic environment. This growing problem has become more of the norm than the exception. Still, there is little comfort to be had in the fact that South Carolina is not alone, particularly as one unpleasant consequence of this fiscal epidemic will be a wave of responsive regulatory and financial industry action. Three important forces are now converging. Each of them could perpetuate a dramatic shift in public perceptions about the underfunded pension liability problem, and as they converge during the next few years these forces will radically change the public pension landscape. They are:

- 1) New, unprecedented securities fraud enforcement actions being brought by the U.S. Securities and Exchange Commission (SEC);
- 2) Significantly-revised accounting standards being promulgated by the Government Accounting Standards Board (GASB); and
- 3) Focused attention to pension-related credit weakness being directed by the national credit rating agencies.

These changes are happening now, and will take place whether or not the State of South Carolina takes action to improve the level of actuarial funding for the South Carolina Retirement Systems. It would be prudent for South Carolina to take immediate steps to meet this coming challenge.

**Criminal and Civil Liability for Deficient Disclosure:** In October,<sup>10</sup> as part of its response to

---

<sup>10</sup> On September 30, 2010, in prepared testimony presented to the U.S. Senate Banking Committee, U.S. Securities and Exchange Commission Chairman Mary Schapiro announced the SEC's plans to launch a new office of municipal securities and public pension fund enforcement by the end of October.

the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC launched a new office of municipal securities and public pension fund enforcement. From this office, it is anticipated the SEC will launch a vigorous regulatory response to address the problem of underfunded public pension liabilities. The SEC's strategy, which has already been put into action, is to hold individuals responsible for incomplete, misleading, or poor quality disclosure regarding public pension systems in offering documents for the sale of securities. When used to sell securities, such defective disclosure violates the U.S. securities laws<sup>11</sup> in the form of securities fraud committed against the purchasers of such securities. Although the antifraud laws are not new, the SEC's specific focus on the issue of adequate disclosure with regard to pension liability is, and it is in direct response to the growth of enormous unfunded liabilities. This new focus will have far-reaching consequences since each time a state or other governmental entity with an underfunded pension plan tries to access the credit markets, it must prepare and distribute an offering document related to the transaction. The likely outcome of the SEC's campaign, and also its goal, is a much more thorough, complete, and honest explanation of the issues and problems associated with public pension plans. As part of this new focus the SEC has embarked on an educational campaign for securities industries professionals and the general public,<sup>12</sup> including tough talk on disclosure practices.<sup>13</sup>

But in addition to tough talk about the coming crack-down on pension system disclosure, there is already ample evidence the SEC will follow through. Two recent examples are worth noting. First, in August 2010, the SEC filed a lawsuit against the State of New Jersey<sup>14</sup> in which the agency charged New Jersey with securities fraud, a criminal offense, by failing to disclose to bond investors that it was underfunding its two largest pension plans. The case marked the first time a state has ever been charged with securities fraud. The SEC actually used both the official statements for the state's bond offerings and the New Jersey State Treasurer's Annual Reports made for continuing disclosure purposes as the sources of the alleged fraudulent representations. Had the case not been settled,<sup>15</sup> someone in the New Jersey State Treasurer's Office would likely have faced jail time.

Secondly, at the end of October 2010, the SEC again broke new ground when it secured financial penalties totaling \$80,000 against four individual city officials<sup>16</sup> (former City Manager, City Auditor and Comptroller, Deputy City Manager of Finance, and City Treasurer) of

---

<sup>11</sup> Namely, Section 17 of the Securities Act of 1933, and Section 10 of the Securities Exchange Act of 1934 (the "antifraud provisions"), and SEC Rule 10b-5, promulgated thereunder, which states in pertinent part, "It shall be unlawful for any person . . . to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security."

<sup>12</sup> On September 21, 2010, in San Francisco, California, the SEC conducted the first in a series of planned "Field Hearings" entitled, "The State of the Municipal Securities Market." The hearing panels were focused largely on disclosure, and included panels entitled, "Selected Disclosure Practices: Transparency and Presentation," and "Disclosure of Certain Liabilities," which focused on disclosure practices with regard to public pensions and retiree health plans. See Appendix page 115 for the introductory speech of SEC Commissioner Elisse B. Walter.

<sup>13</sup> "SEC Stresses Disclosure Procedures," by Andrew Ackerman, *The Bond Buyer*, Monday, November 1, 2010 ("Issuers that want to avoid disclosure mishaps – and possible federal enforcement action – should develop and closely follow policies as well as procedures that lay out who must review and sign off on their disclosure documents, Securities and Exchange Commission officials are stressing.")

<sup>14</sup> The lawsuit was subsequently settled by consent Order Instituting Cease-and-Desist Proceedings, attached hereto on page 122.

<sup>15</sup> As a mitigating factor in its decision to settle the charges by consent Order, the SEC highlighted the subsequent remedial measures taken by the State of New Jersey to improve disclosure practices, stating, "With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures." See Order at paragraph 45.

<sup>16</sup> The consent agreements which settled the case prohibited the individuals from seeking any form of reimbursement, including compensation from employers or insurance.

the City of San Diego, California, for securities fraud violations stemming from pension disclosure. The SEC charges against these individuals alleged they knew San Diego had been intentionally underfunding its pension obligations to increase benefits while deferring costs. Concurrently, the SEC alleged these officials were aware the city would encounter severe difficulty funding its future retirement obligations without new revenues or cuts to employee benefits or city services. The case marks the first time the SEC has secured civil financial penalties against individual city officials in a municipal bond fraud case.

It is likely the SEC will bring about rapid change to pension plan disclosure practices by holding individuals liable for poor disclosure. It is worth noting, however, that in addition to this new level of regulatory scrutiny of pension plan disclosure, some help is also on the way. The National Association of Bond Lawyers is currently in the process of drafting model pension plan disclosure guidance,<sup>17</sup> but it is not certain when that guidance will be available.

What kind of inconsistencies may lurk in South Carolina's State Pension Systems disclosure, and what formal process is in place to ensure the best possible disclosure regarding the pension plans is being made in South Carolina's offering documents? Can investors in South Carolina's bonds be certain they are getting the whole story, and are those employees of the Treasurer's Office, Comptroller General's Office, and Budget and Control Board who are responsible for the disclosure confident they are not risking criminal and civil liability in their current approach to preparing the disclosure?

*Changing the Way Liabilities Are Reported:* The Government Accounting Standards Board (GASB) is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments.<sup>18</sup> GASB's accounting and reporting standards are almost universally adhered to by large governmental entities in the U.S., including states. But GASB's valuation and accounting standards for public pension plans have been criticized as very vague and sometimes arbitrary<sup>19</sup> because of, among other things, the wide variety of permissible cost accounting methods, the ability to choose amortization and smoothing periods, and the ability to change methodologies from year to year. This variety of accounting options, and the ability to change from one to another, makes understanding the financial "health" of a pension plan difficult, makes comparing one plan to another nearly impossible, and lends itself to abuse. Now, in response to industry-wide pressure, GASB is moving rapidly through its processes to streamline its standards for public pension plan accounting. The move will bring much-needed transparency and consistency to this area of government accounting, but is also likely to have the effect of "pulling back the curtain" on the states' pension problems.

Although GASB's changes to public pension accounting standards have not yet been finally determined, there are indications that they will include: a move to make the unfunded portion of a plan a reportable liability on the balance sheet, rather than a note to the financial statement; a move to require more conservative (lower) discount rates with regard to the calculation of expected payments of benefits (significantly increasing the present value of the

---

<sup>17</sup> The initiative to draft model pension plan disclosure guidance was announced at the National Association of Bond Lawyers' Bond Lawyer Workshop in San Antonio, Texas, October 27-29, 2010.

<sup>18</sup> "GASB at a Glance," <http://gasb.org>.

<sup>19</sup> See, for example, 2010 State Pension Funding Review, by Loop Capital Markets, October 22, 2010, at p.1, attached on page 138.

plan's future payments, and the size of the unfunded liability); and a move to decrease the period over which retroactive plan benefits are amortized (reflected in the actuarial calculations as liabilities that occur sooner, and therefore inflate the unfunded liability).<sup>20</sup> All of the contemplated changes are a move toward more conservative and consistent accounting practices, and it is fair to say that the result will reflect a new accounting "reality" which shows the pension plans to have greater financial problems than before the changes were implemented. This is almost certainly bad news for South Carolina's overall financial picture, but just how bad is anyone's guess.

*Pension Liabilities are "Increasingly Important" to Rating Agencies:* There are three major credit rating agencies for state and municipal government credits in the United States. These agencies review the credit quality of a state or other government entity, and issue a rating (based on an applicable scale) that indicates the agency's overall assessment of the credit risk. Although they use similar criteria to make their evaluations, each rating agency employs a slightly different methodology based upon its view of the appropriate credit criteria and appropriate weight to be given to each criterion in the analysis. The ratings are then used by investors, lenders, investment bankers, other government entities, bond insurers, credit enhancement providers, and other participants in the governmental finance industry to assess the financial risk of doing business with the rated entity and to set the price (normally in the form of an interest rate) for bonds, loans, and other financial products.

The rating agencies have been criticized for failing to forewarn the financial sector about the present financial crisis, and have even been accused of failing to issue such warnings because of conflicts of interest. Whether as a response to the criticism or simply out of a legitimate growing concern about the size of the states' unfunded pension liabilities, the rating agencies now appear poised to direct a very critical eye toward the problem. As one recent report stated, "While state and local unfunded pension levels have been part of the [Moody's Investors Service] rating methodology 'for quite some time,' they are playing an increasingly important role as the liabilities have soared in size."<sup>21</sup> While that statement hardly inspires panic, the rating agencies are loath to sound alarmist. Yet proof of their resolve can be found in their recent ratings actions and stated rationale for those actions. After downgrading the credit rating of the State of Illinois in June 2010, based in part on the size of the state's pension obligations, on September 24, 2010, Moody's Ratings Service again revised the outlook for Illinois to negative (anticipating a future downgrade) from stable, due to "escalating strains from massive pension obligations."<sup>22</sup> Likewise, on September 23, 2010, Moody's took similar action against the State of New Jersey, changing the outlook to negative from stable, due largely to the same stated concerns about unfunded retirement costs.<sup>23</sup> In the same period, Moody's has placed a number of large municipalities on negative watch, or downgraded them, based upon the same concerns.

Readers should be slow to embrace a complete comparison of South Carolina's financial condition, which is relatively strong compared to many states, to states like Illinois and New Jersey, which have a reputation for constant financial problems. But in this case, it is South Carolina's triple-A credit rating that is at risk, and our State's most recent credit reports,

---

<sup>20</sup> "GASB to Hold Pension Disclosure Hearings," by Andrew Ackerman, *The Bond Buyer*, October 7, 2010.

<sup>21</sup> "Zehner: Don't Bury Key Info – Warns Against Murky Disclosure," by Andrew Ackerman, *The Bond Buyer*, September 16, 2010 (quoting Robert Kurtter, Managing Director for State and Regional Ratings, Moody's Investors Service).

<sup>22</sup> "Moody's Changes Illinois' Outlook to Negative," by Yvette Shields, *The Bond Buyer*, September 24, 2010.

<sup>23</sup> "Moody's Drops New Jersey Outlook to Negative from Stable," by Michelle Kaske, *The Bond Buyer*, September 23, 2010.

dated March 19, 2010, from both Moody's and Standard and Poor's, include similarly ominous language regarding our unfunded pension liabilities.<sup>24</sup>

So the SEC and GASB are about to force an unvarnished, more conservative "story" to be told about the states' unfunded public pension plan liabilities, and the rating agencies are determined to punish the offending states accordingly. The result is likely to be a much more somber view of the South Carolina Retirement Systems, and South Carolina's general financial condition. This could precipitate a ratings downgrade for South Carolina (especially if combined with other bad financial news, like the end of the federal stimulus money disbursements to the State, lingering high unemployment, etc.). This ratings downgrade would have a significant, measurable, long-term cost in the form of higher interest rates for State borrowing. And perhaps less obviously, it would adversely impact the cost of borrowing for the towns, cities, counties, and other local governments in the State.<sup>25</sup>

The changes coming to the pension landscape are considerable. Moreover, these changes should prompt a vigorous effort to anticipate and mitigate the detrimental impacts they could have on South Carolina's financial condition.

### A.3. Defined Contribution Retirement Plan as Sole Option for New Employees

**Specific Recommendation:** Close the defined benefit pension plan to new entries and only offer the defined contribution plan for new employees. Consider conversion of existing defined benefit plan to a hybrid option such as a cash balance plan.

**Rationale:** There is a growing sense that the compensation structure for state employees, with guaranteed pensions for life, are out of touch with today's economic realities. Defined contribution plans are the norm for most taxpayers who are fortunate enough to have a retirement plan, and South Carolina's financial condition compels evaluation of the question: Is it time to close the defined benefit plan to new hires?

**Discussion:** There are two basic forms of pension plans: The defined benefit (DB) plan and the defined contribution (DC) plan. The defined benefit plan pays a level, predetermined benefit to its pensioners from the point of their retirement until death, based on salary, years of service, and other factors from the period of employment. The SCRS plans, and many other public pension plans, are DB plans. The defined contribution plan is based on an account established for each participant, where the pension benefits eventually paid from the account are a function of the amount of money paid into the account during the period of employment and the investments associated with that account. Most private sector retirement plans are DC plans.

In fact, DB pension plans have essentially vanished in the private sector, and the actuarial

---

<sup>24</sup> The Moody's report states, "Low Pension Funding Levels" under the section entitled, "Credit Challenges" at p.2. The S&P report states, "Offsetting factors in our opinion include . . . a sizable unfunded pension liability and other post employment benefits" at p.2.

<sup>25</sup> See, for example, "Paying a Penalty for Illinois – Chicago Seeks to Ease Investor Fears," by Yvette Shields, The Bond Buyer, November 3, 2010.

math of what it really costs to fund a state pension is largely misunderstood and understated. Since the 1980's, private sector workers' participation in DB plans dropped from 60 percent to 10 percent by 2006, while DC plans have increased from 17 percent in 1980 to 65 percent by 2006.<sup>26</sup> This represents a total shift in individual responsibility and market risk in the last 26 years. According to Tower Watson, a global consulting firm, only 17 Fortune 100 companies still offer a DB plan, down from 68 percent in 1998 – while DC plans have grown from only 11 plans at Fortune 100 companies in 1985, to 83 percent today.<sup>27</sup>

This shift is a natural evolution of demographics, mobility of new generations and individual responsibility and independence over retirement decisions. The old notion of cradle-to-grave service at one employer is obsolete. Whether induced by layoffs and downsizing, or pursuing career advancement, changing jobs is normal in today's times. Given the gap in retirement benefits for job-hoppers at retirement, the traditional DB plans designed for career service with one employer were no longer attractive to the suddenly mobile workforce. Boomers set to retire in the next decade will stress public pension plans in unprecedented ways. Standard and Poor's Global Aging 2010: An Irreversible Truth defines the problem in stark terms: "No other force is likely to shape the future of national economic health, public finances and policy making as the irreversible rate at which the world's population is aging." The report predicts, "Population aging will lead to profound changes in economic growth prospects for countries around the world, alongside heightened budgetary pressures from greater age-related spending needs. In the absence of appropriate budgetary adjustment, additional reforms to pension and health-care systems, or structural measures to improve sovereign's growth potential, our projections show future fiscal burden will increase significantly across the board."<sup>28</sup> Contribution rates over 30 percent within 14 years for South Carolina, for example, are projected if there are no changes to existing SCRS plan structure.

The traditional argument that the State needs to offer a generous pension to offset lower pay and recruit employees does not resonate with most taxpayers anymore. Most citizens are rebuilding their own portfolios and will increasingly loath higher taxes so that public employees can have a guaranteed pension. As times change so should outdated compensation models such as state guaranteed pensions, and just as the private sector has benefited from the mobility of its workforce, so will the government sector. The concern over a lost pension should not be the reason successful State employees cling to positions they have outgrown, nor should it be the reason managers hesitate to fire employees that are no longer productive.

Historically there have been two divergent views on the best type of pension scheme for government workers. It is well observed and accepted that private industry has migrated away from DB plans because they are cumbersome to administer and retain market risk for the plan's provider. Now a wave of reform-minded citizens call for reducing the role of state and local government in providing DB pension benefits and switching state pension plans to defined contribution models. Politically, this has been primarily a Republican Party position with Democratic Party opponents preferring to keep the current system with tweaks to trimming cost, increasing contributions and changing the retirement age and COLA adjustments. The contrast reflects a fundamental political reality that public employee unions want to pre-

---

<sup>26</sup> "The American Retirement Security Crisis: An Introduction," by Lauren Damme, New America Foundation, May 27, 2010.

<sup>27</sup> "Only 17 Fortune 100 Companies Still Offer Defined Benefit Retirement Plans", by Tim Cavanaugh, [reason.com](http://reason.com), August 20, 2010.

<sup>28</sup> "Global Aging 2010: An Irreversible Truth," Standard & Poor's, October 7, 2010.

serve DB plans and usually provide support for Democrats.

Changes should be transitioned so all members in the plan are treated fairly and with recognition of accrued benefits under existing rules, but with the understanding that prospective changes are necessary and within the authority of the State. It is just as important that we keep our promises to those who have served South Carolina as it is that we restore the financial health of our State, but it is imperative that we move to a financially-sustainable retirement plan model.

There is a growing perception the State should not be in the pension business, as this is a service that is best provided by the private sector. The popular argument that DB plans provide the same retirement income for less cost does not fully tell the story. A study by the Center for Retirement Research at Boston College finds DB plans outperform DC plans by only 1 percent.<sup>29</sup> The small gain by DB plans is primarily due to their size and longer investment horizon. This small advantage is far outweighed by advantages of a DC plan. Employees should be able to leave State jobs without losing accrued benefits as is the case with DB plans. A DC plan is portable when a person changes jobs, allowing the assets and liabilities to follow the person. This is the best practice adopted by most private companies to manage funding contributions and reduce liabilities.

The most persuasive point for closing the DB plan is its structural flaw that allows lawmakers to make promises today about benefits that have to be paid in the future. The incentive to give pension benefits instead of cash compensation is a clever way to push cost into the future, and because the actuarial math is complicated and subjective, it is difficult for legislators and pension experts to agree on the real cost. "This accounting suggests that government can provide pension benefits at half the cost of a private-sector fund," says Andrew Biggs of the American Enterprise Institute, a conservative think-tank.<sup>30</sup> It is interesting that SCRS states that, "SCRS is financially and actuarially sound, and that there is a current funding mechanism in place to pay off the UAAL in 30 years if all actuarial assumptions are met,"<sup>31</sup> and yet the funding ratio has dropped consecutively for the last 10 years as a result of not adequately funding promised benefits. By changing actuarial assumptions, contributions have been kept relatively low and the burden has been shifted to future taxpayers. This actuarial affect of shifting the financial burden into the future has been coined "generational theft" by Pennsylvania State Representative Sam Rohrer.

More Sustainable Structures: Four states and the District of Columbia have adopted DC plans, including Alaska in 2005, D.C. in 1987, Michigan in 1997, Nebraska in 1967, and West Virginia in 1991. Utah is closing its DB plan to new hires next June. Other states including Colorado, Florida, Georgia, Montana, North Dakota, and Ohio have created optional DC plans. Florida, Georgia, Indiana, Ohio, Oregon, and Washington have created what is known as hybrid plans over the last 10 years.<sup>32</sup> In Michigan and Utah, new state workers will get a combination of DC plan and DB plan that shifts more responsibility for funding the benefits and investment risk to employees. This is a trend that is growing and should be

---

<sup>29</sup> "Investment Returns: Defined Benefit vs. 401(k) Plans," by Alicia Munnell, Mauricio Soto, Jerilyn Libby, and John Prinzivalli, Center for Retirement Research at Boston College, September, 2006.

<sup>30</sup> "A Gold-plated Burden," *The Economist*, October 16, 2010.

<sup>31</sup> "South Carolina Retirement Systems Update," by Peggy G. Boykin, CPA, September 1, 2010.

<sup>32</sup> "2010 State Pension Funding Review," by Ann Kibler, Tiffany Glover, and Chris Mier of Loop Capital Markets, October 22, 2010.

seriously considered as a way to significantly reduce future costs.<sup>33</sup>

Conversion could be employee choice, giving employees a choice between the old plan and the new plan. The employer still has the investment risk because the company was contributing to the hybrid plans, and they were “defined benefit” because they had to pay out these promised accounts with an option for an annuity at retirement. The fundamental concept of a secure retirement remains, where the employer is taking the investment risk coupled with the option to pool the employees’ longevity risks through the payment of annuity benefits. The employer can limit market risk by purchasing an annuity and have an insurance company cover the risk.

Additionally the hybrid plan is portable when an employee chooses to change jobs by simply taking the accrued benefit at termination as a lump sum and rolling it over into the new employer’s 401(k) plan or an IRA account.

Another option is known as a Pension Equity Plan (PEP) where the benefit is paid as a lump sum based on a percentage of final average pay. Each year employees would earn a certain percentage of final average pay, ultimately payable as a lump sum rather than as an annuity. Unlike a cash balance plan which is an account-based, indexed career average plan, a PEP plan was truly based on final average pay.

Current federal law protects benefits earned at the time of a conversion. Future hybrid plan conversions would have to satisfy one of three requirements under new rules proposed by Congress, known as the HELP Substitute, that would:

- Prohibit wear-away of normal and early retirement benefits and offer specified transition benefits (benefits for all participants at least as great as under the prior formula for five years or choice or “greater of” for those at least age 40 whose age and service combined is at least 55);
- Provide to all participants the choice between the prior and new formula or the greater of the benefits under the prior or new formulas; or
- Provide additional pay credits or opening account balance amounts substantially equivalent to the benefits under the first and second requirements.

These guidelines and related IRS regulations have established ground rules for converting traditional defined benefit plans to hybrid DB plans and how to treat accrued benefits. The new rules clarify the terminology, protect earned benefits at the time of conversion and address age discrimination issues that stalled earlier conversions.

**Results/Benefits:** Conversion to hybrid defined benefit plans should be seriously considered as an option for restructuring the SCRS pension plans. Vested employees would be

---

<sup>33</sup> Policy makers looking for middle ground in the debate between differing views may want to consider hybrid plans that are defined benefit plans with an individual account feature that resembles a defined contribution plan. A hybrid defined pension plan is generally a DB plan where the accumulated benefit of the employee is expressed as the balance of a hypothetical individual account or as the current value of the accumulated percentage of an employee’s final average salary. The primary distinction is that employees earn pay and interest credits evenly over their careers that are determined in hypothetical individual account balances. The balance at retirement is used to purchase an annuity or provide a lump-sum distribution. The state employer is still responsible for the investment risk while the employee is guaranteed a specific annuity on retirement. However, that is where things change, once an employee retires, the state’s liability is locked-in either through an annuity, as covered in a large traditional DB plan, or the plan could purchase an annuity and have an insurance company cover the risk. The accounting is less confusing and employees earn accruals evenly. Employees near retirement age could be “grandfathered” to provide guaranteed annuity benefits.

protected with existing pension benefits whereas non-vested employees would be given reasonable options to encourage conversion. The adoption of cash balance actuarial math will allow lawmakers and policy leaders to calculate liabilities more objectively. The result should be sensible reforms to benefits based on what is affordable, contribution rates that are sustainable over the long-term, and liabilities that are easily calculated.

#### A.4. Review Actuarial Rate of Return Assumption

***Specific Recommendation:*** That the Budget and Control Board, as part of its oversight function of the South Carolina Investment Commission, require a review and report by that body regarding the appropriate actuarial rate of return assumption for the SCRS pension plans.

***Rationale:*** In June of 2008, at the peak of the last economic cycle, the South Carolina Investment Commission (Investment Commission) voted to raise the assumed actuarial rate of investment return (Assumed Rate) on the SCRS plans' assets to 8.0 percent from the historical, more conservative assumption of 7.25 percent. Since that time, our economy has reversed course in an unprecedented way, and investment values and returns in nearly all sectors have plummeted. The higher Assumed Rate now seems unrealistic, and many large public pension plans have now revised their Assumed Rates downward to reflect this unpleasant reality. Since the Assumed Rate drives many important policy decisions about the pension plans, it is critical that South Carolina's rate assumption is realistic.

***Discussion:*** At the time when the Assumed Rate was raised to 8.0 percent, our economy was at the peak of an unprecedented expansion, and investment yields had consistently exceeded expectations for a decade. Those conditions created a seductive atmosphere in which even the most seasoned financial professionals were tempted to ignore the other part of the economic cycle that inevitably ensues – the correction. This temptation was especially strong in light of the appealing affect on the SCRS pension plans' unfunded accrued actuarial liability (UAAL) of raising the Assumed Rate, which was to immediately make a large portion of the UAAL disappear. And had the economy continued on its upward trend, that higher Assumed Rate might have been reasonable. Unfortunately, however, the economic downturn that has followed the last decade's economic expansion has also proven to be of historic proportions and almost certainly makes an 8.0 percent Assumed Rate unrealistic.

***Higher Assumed Rate Means Greater Risk:*** But the 8.0 percent Assumed Rate not only understates the UAAL, it also creates greater risk for the SCRS pension plans. An increase in assumed rates of return means the pension plans must also take on greater risks (risk and return are linear in terms of their relative increases) in order to achieve those returns. In other words, the pension plans must take on additional investment risks at least as great as the expected increase in returns. These risks mean that the likelihood of downside exposure, and thus plan underperformance and underfunding, actually increases as the plan strives for the additional returns that supposedly will make up the gap in the current plan funding.

According to a presentation made by the South Carolina Retirement Systems, 48 percent of all plan funding is associated with the investment performance of the plan's investments while 22 percent comes from employee contributions. With this high level of pressure to

earn returns to keep the plan solvent, it is highly likely that the plan will continue to take higher levels of risk than would otherwise be prudent.

The risks associated with the drive for greater return are illustrated in the recent proposal to form a state-owned private equity investment company to manage SCRS pension funds, which was defeated by vote of the Budget and Control Board at its September 29, 2010, meeting. Under this proposal, the new company (NewCo) would have received 24 percent of SCRS funds, or approximately \$5.8 billion, for investment in equity positions in emerging companies in pursuit of greater yield on pension investments through cost savings and the opportunity for higher returns.<sup>34</sup> The complicated investment vehicle would have required an enormous fixed investment in a highly-specialized staff of investment managers, and would have resulted in nearly a quarter of the State's pension investments in relatively illiquid investments that are difficult to value. Cost savings and higher investment yields would have been uncertain, and transparency with regard to the SCRS plans' investments would surely have suffered.

There are no recorded returns for the investments of SCRS plan assets already made into similar private investments. In fact, the Commission's 2009 report states that it does not record the investment returns for those types of investments in reports because the valuations on those investments can only be understood at exit. With no way to understand the returns South Carolina is getting on these alternative investments, it is virtually impossible to understand whether we are getting any closer to the Assumed Rate and a reduced UAAL. Likewise, although the thought of the pension system making direct investments into South Carolina based companies is attractive politically, there are significant risks in a geographical/market concentration of investments in any investment portfolio. There are also additional risks to private equity investments, generally, that are not found in other, more traditional pension fund investments.

Finally, if there is a significant increase in direct private equity investments (as proposed in the NewCo plan), it significantly limits our options on pension reform since the largest portion of the plan assets will be tied up in relatively illiquid investments for an inestimable period of time.

*South Carolina Was Adding Risk While Other Retirement Plans Were Reducing Risk:* Most private industry plans have terminated in the last 15 years, meaning they have closed to new participants. Those that remain in place have significantly reduced investment risks by limiting exposure to equity investments. In fact, according to The Wall Street Journal:

*“Boeing Co. began de-emphasizing stocks in late 2006. Its pension plan had been hurt by the crushing 2000-2002 bear market. During the bull market that followed, Boeing decided it needed to make its holdings less volatile.*

*‘In the past four or five years it dawned on us that it would be better to find a different*

---

<sup>34</sup> It was also discussed in the September 29, 2010, Budget and Control Board meeting by one of the Investment Commission members that the “NewCo” idea originated as a concept to allow for Investment Commission employees to own a stake in the company and receive higher compensation as a result. The legality of this concept is questionable, however, as Code of Laws of South Carolina 1976 Annotated, as amended, §§ 8-13-760 states, “. . . it is a breach of ethical standards for a public official, public member, or public employee who is participating directly in procurements, . . . to resign and accept employment with a person contracting with the governmental body if the contract falls or would fall under the public official's, public member's, or public employee's responsibilities.”

way,' said a Boeing spokesman, Todd Blecher. 'We wanted to bring more stability to the assets.'

*At the end of last year, Boeing cut the plan's stock holdings to 34% of assets, from 60% in 2004.*<sup>35</sup>

At the same time that Boeing was cutting its exposure to riskier assets, the South Carolina Retirement Systems were moving toward greater risks by increasing exposure to higher risk assets and increasing the expected return for the plan. Even if there are increases in returns, they will not be great enough to "catch up" the previously lost ground represented by current liabilities given the need to provide funding for the future average investment returns required for plan distributions.

*Excessively High Assumed Rate Creates the Wrong Incentives for Investment Managers:*  
The Investment Commission provides compensation incentives for the investment management team of the SCRS for the performance of the plans' investments. These incentives are based on performance above market rates of return in each period.

In investment management, tying incentives purely to outperforming a relative market index is dangerous for two reasons:

- 1) It creates an incentive to take on additional risk; and
- 2) It fails to align the objectives of the plan participants with those of the investment managers.

When managers receive their maximum incentive compensation for achieving a return that is better than the market index by which they are measured, but fail to achieve the plan's actuarially required rate of return, they have been paid for performance deemed to be superior yet without achieving the plan's objectives. The managers win and the State employees and taxpayers lose in this scenario.

**Results/Benefits:** It is impossible to estimate the savings to the State that are possible if these recommendations are implemented or, conversely, the cost to the State for failing to do so. The unfunded pension liability problem is one of the largest financial issues South Carolina has ever faced – quite possibly the largest – and it is not unrealistic to estimate the potential savings, over time, in the tens of billions of dollars.

## A.5. Use Existing State Assets and Opportunities to Bolster Pension Plans

**Specific Recommendation:** That the Budget and Control Board examine the State's real property assets and provide a detailed proposal as to how these assets and other infrastructure may be used to provide value to offset the SCRS unfunded pension liability.

---

<sup>35</sup> "Pension Funds Flee stocks in Search of Less-Risky Bets," by E.S. Browning, The Wall Street Journal, October 16, 2010.

**Rationale and Discussion:** The State of South Carolina and its agencies and institutions own or lease substantial real property holdings in the form of office and commercial properties and undeveloped land. They also hold investments in port facilities and other infrastructure that have great economic value. Many of these properties are recognized at little or no book value on the State's financial statements since they were acquired many years ago and are reflected at depreciated book values. Despite having little or no book value, these assets have significant actual market value and many provide substantial opportunities to exploit significant commercial value and revenue through leasing, timber harvesting, mineral extraction, and through other creative economic opportunities.

With the SCRS pension plans experiencing crisis-level funding problems, it makes sense to transfer a portion of the value of the State's assets to the pension funds. This could be done by transferring some of the State's income-producing properties directly into the pension funds, thereby boosting the funds' asset holdings (by recognizing the current fair market value of the assets upon the transfer), and bolstering the funds' revenue streams through long-term lease revenues and other income streams. This could also be accomplished by the outright sale of some of these assets, and the transfer of the proceeds of sale into the pension funds.

Some possible examples include:

- Transferring a portion of the State's port facilities to the pension funds, allowing the funds to reap the benefit of a regular stream of revenue from port operations for the indefinite future.
- Managing timber on a portion of the State's forest holdings for regular cash infusions to the plan from periodic, managed timber harvesting.
- Transferring some State-owned, agency-occupied office buildings to the plans, and creating a regular stream of revenue to the funds through long-term leasing arrangements.
- Sale of some State-owned, agency-occupied office buildings to real estate investment trusts, under a sale and lease-back arrangement. The proceeds of the sale could then be contributed into the pension funds and invested as other fund assets are invested.

The SCRS pension plans are in desperate need of financial help, and the State has assets with unrecognized value that could be used to address the problem. We have reached a point where South Carolina's existing assets must be examined to determine if they can be made more productive, or if value can be created by using the assets in a new way.

There will also be opportunities in the future to invest a portion of the pension plans' assets in revenue-producing South Carolina infrastructure projects, which would produce the dual benefit of in-state job creation. Pension funds around the world consider infrastructure investments an appropriate aspect of their investment portfolios,<sup>36</sup> and there is no reason why South Carolina, using a measured approach, should not also. For example, in the years during which our State has been debating whether a port facility should be built in Jasper County and, if so, how the State would fund it, the SCRS could have funded the construction of a port facility which would now have created, by some accounts, 10,000 jobs in one of our

---

<sup>36</sup> "Pension Fund Investment in Infrastructure," by Georg Inderst, OECD Working Papers on Insurance and Private Pensions, No. 32, OECD Publishing, 2009.

State's most unemployment-plagued regions and which would have been entirely owned by the State's retirement systems.

**Results/Benefits:** The degree of value generated by this measure is uncertain, but potentially substantial. The most significant benefit of this recommendation is that it utilizes existing resources to create value that would otherwise go untapped.

## B. External Audit

### B.1. External Audit of Budget and Control Board

**Specific Recommendation:** That annual management and financial audits of the Budget and Control Board be performed by an external auditing entity, such as the Legislative Audit Council of the South Carolina General Assembly.

**Rationale and Discussion:** The Budget and Control Board is a unique aspect of South Carolina State government, with enormous responsibility to provide basic administrative functions necessary for the day-to-day operation of the State and its governmental agencies. The functions performed by the Budget and Control Board are so basic and essential to the State's operations, that the mechanism for providing them should be impartial, politically neutral, and, for the most part, insulated from "tinkering." Such services should be delivered from a stabilized platform. Ensuring that the State receives the most competitive contract terms for its Prescription Drug Card program, for example, should be a matter of good business practices, rather than a matter of politics.

Unfortunately, such political neutrality has not always been the case. In recent years the Budget and Control Board has been the subject of significant political debate and a major funding battle. Today, it remains to be seen whether the Budget and Control Board will survive in its current state.

But the functions of the Budget and Control Board, in whatever form the entity takes in the future, are nevertheless ones that should be measured objectively, based on sound financial and managerial practices. While the staff of the Budget and Control Board has worked hard to foster best management practices, they also acknowledge that there have been fewer audits than would be ideal due to funding pressures in recent years. Through annual management and financial audits provided by an independent, outside auditing entity, free of political motivation, an appropriate critique of the Budget and Control Board is possible. Such an independent analysis will provide an apolitical basis upon which to determine where improvement can be made and, perhaps, whether the Budget and Control should be restructured.

With its track record of delivering an excellent work product at a reasonable cost, the Legislative Audit Council<sup>37</sup> of the South Carolina General Assembly (LAC) is ideally suited to perform this external audit function. But the LAC is not the only option for such services. Selection of an auditing entity should entail examination of the entity's independence and

---

<sup>37</sup> The Legislative Audit Council's website is accessed at the following address: <http://www.lac.sc.gov/>.

reputation for integrity.

**Results/Benefits:** It is impossible to quantify the potential benefits of the recommended external management and financial audits in advance. They are, nevertheless, an essential step toward ensuring the integrity and stabilized functioning of the Budget and Control Board. At a minimum, such audits will establish an independent baseline against which to measure the effectiveness of the organization. A similar audit of the South Carolina Department of Social Services might have identified the fraud that eventually led to the theft of more than \$5 million from that agency. The Subcommittee believes that the most likely outcome of these audits will be the establishment of a mechanism to provide the members of the Budget and Control Board, the State Legislature, and the citizens of South Carolina with a valuable, periodic critique of the financial and management practices used in the operation of the Budget and Control Board. Ultimately, these audits could be used to increase the efficiency and stability of this necessary and important aspect of South Carolina government.

## C. Procurement Procedures

### C.1. Interstate Cooperative Purchasing

**Specific Recommendation:** Advocate amending portions of the South Carolina Consolidated Procurement Code<sup>38</sup> to permit the State to better participate in cooperative purchasing with another state or another state's agencies (using source selection methods substantially equivalent to South Carolina's) to exploit volume discounts and pricing benefits.

**Rationale and Discussion:** The South Carolina Consolidated Procurement Code (State Procurement Code) provides for the cooperative purchasing of goods and services by agencies<sup>39</sup> but does not expressly contemplate interstate cooperative purchasing – a common practice in many states. By permitting interstate cooperative purchasing and allowing the procurement staff the flexibility to exploit pricing by participating in awards after their issuance, the State can save money. Such savings are particularly beneficial for materials that are infrequently purchased or purchased only in small quantities (for example, outboard motors or patrol boats by the Department of Natural Resources).

**Results/Benefits:** The State should be able, through cooperative purchasing with another state or another state's agencies (using source selection methods substantially equivalent to South Carolina's), to exploit volume discounts and pricing benefits and, resultantly, save money.

### C.2. Acquisition of Intellectual Property Rights

**Specific Recommendation:** Advocate amending portions of the State Procurement Code to provide that the intellectual property rights in the design and drawings prepared by engineers and architects in response to State procure-

---

<sup>38</sup> Codified as Code of Laws of South Carolina 1976 Annotated, as amended, §§ 11-35-10, *et. seq.*

<sup>39</sup> Code of Laws of South Carolina 1976 Annotated, as amended, §§ 11-35-4810 through 4840.

ment contracts become the property of the State.

**Rationale and Discussion:** Currently, the State Procurement Code does not address the property rights in the design and drawings prepared by engineers and architects in response to State procurement contracts. In practice, no rights beyond the final construction of the contemplated project inure to the State (or, typically, to those political subdivisions which follow procurement policies substantially similar to the State Procurement Code). Simply stated, although the State has, in fact, paid for the design of buildings, bridges, and other facilities, the State is unable to reuse such designs and drawings for other projects. Conversely, other states – such as North Carolina – are deemed to have procured such intellectual property rights and are, therefore, able to utilize design and drawings prepared by engineers and architects in response to prior state procurement contracts for future projects. While every project would presumably still require engineers or architects to confirm that all or portions of any prior design and drawings are adequate, avoiding having to “re-create the wheel” so-to-speak on each and every project should result in substantial savings over time as projects are replicated.

**Results/Benefits:** The ability to use historic designs and drawings prepared by engineers and architects in response to prior State procurement contracts is expected to save money and presumably reduce construction time in State construction projects.

### C.3. South Carolina Small Business “Buy Local” Measures

**Specific Recommendation:** Advocate reserving a portion of the State procurement budget (for example, \$10 million to \$15 million) for South Carolina small businesses<sup>40</sup> producing end products in South Carolina.<sup>41</sup>

**Specific Recommendation:** Evaluate establishment of a small business enterprise program for South Carolina small businesses.

**Rationale and Discussion:** A more in-depth analysis of the benefits of retaining taxpayer cash in-State is presumably better handled by others (for example, the Board of Economic Advisors<sup>42</sup>), but the commonly understood benefits of infusing cash into communities – the foundation of the State’s economic development efforts – supports the concept. A capped amount reserved for the State’s small businesses represents a small fraction of the overall procurement - the State of South Carolina’s Materials Management Office processes procurements valued at more than \$1 billion annually. The use of a criterion based upon size – for example in the lower 50<sup>th</sup> percentile of gross revenue<sup>43</sup> – avoids certain of the legal issues associated with selection of vendors using a weighted preference based upon gender or race while still benefitting those targeted groups.

There is also an alternative to the traditional set-aside program which is considered by some as a more innovative, affirmative small business measure. This program – a small business certification program – was pioneered by the procurement office of one of South Carolina’s

---

<sup>40</sup> The Procurement Code currently recognizes minority businesses at § 11-35-5010, but small businesses are undefined.

<sup>41</sup> This is similar to a recommendation made by the Governor’s Commission on Management, Accountability and Performance, September 30, 2003, p.135, 137-138.

<sup>42</sup> This would be a function, in part, of the State’s citizenry’s average propensity to consume.

<sup>43</sup> The Governor’s Office of Small and Minority Business Assistance should provide guidance as to a determination of what size business would qualify.

local governments.<sup>44</sup> It has dramatically increased the successful participation of local small businesses in that government's procurement opportunities without sacrificing competitive pricing, and can serve as a model for State procurement opportunities. This program, known as the Small Business Enterprise Program,<sup>45</sup> is a race- and gender-neutral program which seeks to pre-certify local small businesses for procurement opportunities and ensure those businesses have an opportunity to participate in the competitive bidding process. This innovative initiative assists local small businesses in overcoming the disadvantages those businesses typically face before the procurement process begins, ensuring that local small businesses are ready to compete – without set asides – when the opportunity arises. This certification system prepares local businesses for procurement opportunities and streamlines subsequent procurements. Anyone can participate.

**Results/Benefits:** The economic impact of ensuring that a portion of the procurement expenditures remain in-State via small businesses would outweigh the benefit of mere “best value” purchasing criteria, and it is possible through a small business enterprise program to achieve the most competitive pricing using South Carolina companies.

#### C.4. Share-in-Savings Contracts

**Specific Recommendation:** Advocate that South Carolina's Materials Management Office study the concept of potentially adopting share-in-savings contracts similar to the procurement processes contemplated by the federal government.<sup>46</sup>

**Rationale and Discussion:** Share-in-savings contracts are those in which the vendor is compensated, in an agreed amount, based upon a pre-agreed calculation of savings recognized by the government as a result of the vendors' efforts – typically in an information technology setting. Share-in-savings contracts embody the risk-reward concept in that the vendor risks not being compensated should its efforts not result in a pre-agreed amount of savings. Conversely, should the vendors' efforts result in vast savings, then the vendor, consistent with the agreement, may be compensated in excess of the compensation available under historic procurement contracts. One possible example where such a contract may be productive is the Department of Social Services' child support payment tracking software (the failure of which has resulted in tens of millions of dollars in federal fines being levied against the State). The key to the success of share-in-savings contracts is to very clearly define both the savings calculation and the potential compensation calculation, each of which can be very complex.

**Results/Benefits:** Share-in-savings contracts motivate the private sector to scrutinize government spending and proactively seek ways to reduce government costs. Share-in-savings contracts have the potential to dramatically reduce costs. Moreover, during very tight budgeting years, share-in-savings contracts would permit the State to invest in cost saving contracts which would otherwise be unaffordable.

---

<sup>44</sup> The Small Business Enterprise Program is an initiative of Charleston County, South Carolina.

<sup>45</sup> Learn more about Charleston County's Small Business Enterprise Program at <http://www.charlestoncounty.org/SBE/index.htm>.

<sup>46</sup> See, for example, 10 U.S.C. § 2332.

## D. Fraud, Waste, and Abuse

### D.1. Debt Report

**Specific Recommendation:** That the Treasurer’s Office prepare, maintain, and make available to the public a report which lists and provides detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions.

**Rationale and Discussion:** While the responsibilities of authorizing and issuing State debt obligations, accounting for them, and managing their proceeds are shared among the State Budget and Control Board,<sup>47</sup> the State Comptroller General,<sup>48</sup> and the State Treasurer, the Treasurer possesses primary responsibility for reporting<sup>49</sup> with regard to at least some of the State’s bond issues. And regardless of the statutory responsibility, in order to adequately perform the debt management function of the Treasurer’s Office there must be readily-accessible information regarding the details of debt issues. Making this information readily available to the public will expand fiscal transparency in State government. Further, common sense suggests that this information should be maintained by the Treasurer’s Office and made available to the other divisions of State government and the general public.

Despite this obvious need, the Subcommittee was unable to find a publicly-available source of this information. Surprisingly, in the Subcommittee’s investigation, we were informed by the Budget and Control Board’s Executive Director that he is also unaware of an available source for this information. The Executive Director also advised the absence of this information substantially hinders his staff’s planning capabilities.

An immediate example of the problem was apparent in the context of the recent debate about the uncontrolled, rising tuition cost at South Carolina colleges and universities, and the resulting moratorium on college construction projects<sup>50</sup> imposed by the Budget and Control Board. It was revealed in our discussions that the Budget and Control Board staff had not evaluated, due to a lack of necessary information, the impact of the policy of the present Treasurer’s Office to require that bonds which finance college dormitories be repaid over 15 years, despite the fact that the dormitories themselves have useful lives of 40 years or more. The obvious result is that those paying college tuitions at South Carolina colleges and universities are paying more than their share of the costs associated with these facilities, driving up tuition unnecessarily. While the decision as to the appropriate length of time for amortization of State institution bonds is an obvious matter for policy makers, the missing information could have provided unexplored alternatives in the analysis.

It seems unimaginable that the administrative body of South Carolina government with sole responsibility for borrowing on behalf of the State does not have ready access to detailed

---

<sup>47</sup> See, for example, Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-9-230.

<sup>48</sup> See, for example, Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-9-340.

<sup>49</sup> See Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-5-220, which states “The State Treasurer shall report to the Joint Bond Review Committee, the House Ways and Means Committee, and the Senate Finance Committee immediately after selling any General Obligation Bonds or Anticipation Notes. The report shall include the total amount of the issue, the interest rate charged . . . , the time contracted to pay the debt service, and the principal payment schedule.”

<sup>50</sup> At the Budget and Control Board’s September 29, 2010, meeting, the Board took the extraordinary measure of voting unanimously to suspend building projects at four-year schools that had raised in-state tuition more than seven percent as a means of controlling tuition costs.

information regarding the terms and conditions of the State's existing debt obligations. Whether the present Treasurer maintains this information, but does not provide ready access to it, or simply does not maintain this information in a form that lends itself to dissemination is not clear. The Treasurer's Office does, however, seem to be the appropriate repository for that information under State law, and should maintain it and provide public access to it.

**Results/Benefits:** The benefit of maintaining and providing this information publicly is potentially substantial, has several aspects, and yet is difficult to quantify. By making this information available to the public, those who need it for planning purposes (like the staff of the Budget and Control Board) will be able to work more effectively, public finance professionals will be encouraged to bring creative ideas for cost savings to the Treasurer's attention, and the taxpayers of South Carolina will have a better understanding of the true cost of the State's public projects.

## D.2. P-Card (Procurement Card) Program

**Specific Recommendation:** That the Treasurer, in conjunction with the Budget and Control Board and the Comptroller General, ensure corrective action is implemented as recommended in the upcoming Legislative Audit Council's P-Card report<sup>51</sup> and champion the initiative to require on-going, periodic, independent reviews of the State's P-Card program to prevent future fraud and abuse of State resources.

**Rationale and Discussion:** The State's Procurement Card (P-Card) is simply a Visa credit card issued and serviced by Bank of America, based on a multi-year contractual arrangement with the bank. Authorized, full-time employees of State agencies and certain State colleges and universities are empowered to use the P-Cards to purchase job-related supplies and merchandise on behalf of their employer. There are currently approximately 17,200 "open" P-Cards accounts in use in South Carolina, with approximately 11,000 of those considered "active" accounts.

The P-Card program provides an electronic purchasing tool which offers an alternative to the traditional State purchasing process, enabling employees to obtain supplies directly from vendors without first completing purchase orders or departmental orders requiring pre-approval by managers. The P-Card streamlines the purchasing process, significantly reducing the manual workload and processing costs for smaller transactions, generally limited to \$2,500 or less.

As part of the P-Card program, merchandise category codes (MCCs) are assigned by the bank to each merchant/vendor based on the types of goods and services that merchant/vendor typically provides. Allowing or blocking transactions based on certain MCCs provides a threshold measure of control against unauthorized or prohibited purchases. But the MCC controls do not provide a fail-safe protection against prohibited transactions.

The P-Card program is also a source of revenue, as Bank of America rebates a negotiated

---

<sup>51</sup> See the reference to the State Agencies' Use of Procurement Cards audit at the "Work in Progress" section of The Legislative Audit Council's website at the following address: <http://www.lac.sc.gov/>.

portion of merchant card service revenues to the State each year. Under the current contract the annual rebate is approximately \$3 million.

The virtues of a P-Card program are many; however, the potential for fraud and abuse of State resources exists. Fraud in P-Card programs can take many forms. It can be as simple as an employee buying a personal item with the intent of having the employer pay the bill. Or an employee can appear to be making legitimate purchases based on job duties, but actually making unauthorized buys, such as:

- Facilities maintenance staff buying paint, wall coverings, tools and other maintenance related items for part-time, non-business related, personal handyman businesses.
- Information systems staff purchasing excessive quantities of peripherals and electronic components for repairs and upgrades to friends' and family members' personal computers, or outright sale to an unsuspecting customer through part-time computer businesses.
- Mixed purchases (i.e., business and personal items on one purchase receipt) at discount stores that are fully charged to the organization because of inadequate after-the-fact monitoring.
- Purchases of materials that, under any other purchasing process, would have been questioned before the transaction was completed, but ease of use of the P-Card allowed unsupervised purchases.<sup>52</sup>

Initiate an internet search on P-Cards and one finds numerous examples where employees of states, their agencies, and municipalities have been cited for fraud and abusive waste. Hundreds of thousands of dollars have been stolen and government resources misdirected due to deceptive employees and weak internal accounting controls. As described in a Knoxnews.com news article dated March 5, 2009,<sup>53</sup> "An item intended to empower individual workers with a level of responsibility for buying supplies they need for their jobs has proved too tempting for some who consider the card a blank check to spend money they don't have to pay back."

More examples of abuse can be found in recent news articles,<sup>54</sup> including one egregious example right here in South Carolina. In a story from September 2010, a Winthrop University employee was arrested for misuse of the State P-Card, the cost of which totaled more than \$200,000. In this case, increased costs in printing services, when all units of the University had been required to reduce costs, alerted officials to the fraud. An internal audit of the print shop where the suspect worked revealed someone was ". . . defrauding the University and receiving payment from a Winthrop credit card through PayPal." Other recent examples of P-Card fraud also illustrate how employees in Georgia have purchased TVs, computers, gift cards, clothing, jewelry, video games, furniture, bedding, patio furniture, and music compact discs.

The South Carolina Comptroller General's Office (CG) recently began to post P-Card usage reports on its website for all state agencies, and colleges and universities. Details of the purpose for the charges found in the "monthly spending details" report, however, are only avail-

---

<sup>52</sup> See, "Fraud Resistant P-Cards: Procurement Card Programs Can't Be Foolproof, but There Is Help," by Donald Holdegraver, Internal Audit, April, 2005.

<sup>53</sup> "Editorial: TVA P-Card Holders Should Be on a Tight Leash," [www.knoxnews.com](http://www.knoxnews.com), March 5, 2009.

<sup>54</sup> See P-Card fraud news articles, beginning on page 173 in the Appendix.

able for State agencies. Unlike State agencies, similar spending reports for State-supported colleges and universities are not on the CG's website since details of their spending are not available to the CG. Each State-supported college and university independently operates its own accounting system rather than using the State's centralized accounting system, SCEIS.<sup>55</sup>

According to the South Carolina Legislative Audit Council's (LAC) website, the LAC is in the process of independently reviewing the effectiveness of the State's procurement card program. LAC is focusing on identifying cost savings associated with using the P-Card, and whether there are adequate controls in place to prevent fraud and misuse. A report of LAC's findings is expected to be completed in due course.

**Results/Benefits:** Even though the State's P-Card usage reports are being posted on the Comptroller General's website as a method to provide transparency with regard to the State's expenditures, the opportunity for fraud is present and this website is only one control of several needed to prevent fraudulent P-Card transactions. The benefits of acting on this recommendation include increased transparency and, potentially, substantial savings by thwarting fraud and waste.

### D.3. Recovery Audits

**Specific Recommendation:** That the Treasurer's Office take the lead role in implementation of the Recovery Audit Process as required in 2010–2011 General Appropriations Act, Proviso 89.148,<sup>56</sup> and manage/fine tune the Recovery Audit Process to achieve the maximum benefit for the State.

**Rationale and Discussion:** Each year government and private sector entities lose untold millions of dollars to accounts payable errors and fraud. But most of the lost revenues can be reclaimed and fraud thwarted with an effective recovery audit. Recovery consultants are specialized auditing firms that employ state-of-the-art tools and technology to examine an entity's bookkeeping records and uncover potential problems with:

- Duplicate payments
- Fictitious vendors
- Missed cash discounts
- Contract compliance issues
- Improperly applied taxes
- Overpayments
- Pricing and shipping errors

Once a disputed item is identified and verified, the recovery consultant files a claim to recover money from the vendor. Only once the financial recovery is complete, the recovery consultant is paid a contingency fee based on the amount of the recovery. Additionally, the recovery consultant provides a detailed assessment report outlining audit findings, and recommends specific actions to improve accounts payable operations and internal controls. In a recent development, the South Carolina General Appropriations Act, Proviso 89.148,

---

<sup>55</sup> See State Government Spending Transparency website at the following address: <http://www.cg.state.sc.us/agencytransparency/>.

<sup>56</sup> See excerpt from the 2010-2011 General Appropriations Act, Proviso 89.148, attached hereto on Appendix page 179.

directs the Budget and Control Board to contract with one or more consultants to conduct recovery audits of payments made by state agencies to vendors. The audits must be designed to detect and recover overpayments and erroneous payments to the vendors and to recommend improved State agency accounting operations. The Budget and Control Board released a Request for Proposals (RFP) for these audit services on November 5, 2010, and expects to award the contract on January 28, 2011.<sup>57</sup>

As the State Treasurer is charged with the responsibility to provide fiscal management services, including receipt and disbursement of State funds, we recommend the State Treasurer's Office takes a proactive role in this important audit process to recover misspent resources and ensure proper accounting weaknesses are corrected to protect State funds. Discussions with accounting consultants and Budget and Control Board management revealed deficiencies in both the Recovery Audit budget proviso and the outstanding RFP. Some examples include:

#### Budget Proviso Weakness:

- The Budget Proviso dictates the consultant's compensation based on non-standard terms and rates that are below market rates. It also provides an arbitrary cap on the amount of money the consultant can be paid under the contract. Since the consultant is paid on a contingency arrangement based on the amount of money recovered, why should there be any cap on how much the consultant is paid? It is anticipated that either few consultants will respond to the RFP or, more likely, services will not be sufficiently tailored to the specific needs of State agencies. The budget proviso should be revised either to allow for competitive, market-based compensation terms, or simply allow RFP respondents to price the requested services through a competitive bid process.

#### RFP Weaknesses:

- The Budget and Control Board expects to select one consultant to win the solicitation for all State agencies with minimum annual expenditures of \$100,000,000. Given the diversity in each agency's activities and related expenditures, an RFP awarded to a one-size-fits-all consultant may not be the best option for the State. Most recovery audit firms specialize in the recovery of certain types of expenditures (for example Medicare/Medicaid), and may be best suited to bid for a particular agency's audit rather than every large agency of State government. As such, the State may be limiting its ability to maximize recovery efforts by selecting a single consultant to review all applicable agency expenditures.
- The RFP indicated the State utilizes the SCEIS accounting system, an SAP product. This statement will lead the RFP respondents to believe expenditure data for the last several years is available for their data mining on SCEIS. Instead, we know the State is in its final phase of converting to SCEIS and information from prior years is available on various replaced systems as well as the SCEIS system. This representation alone regarding the availability of the data is misleading and will potentially lead to a disgruntled consultant, and a renegotiated contract.
- The RFP does not list the names of agencies included in the review. The RFP

---

<sup>57</sup> See The Budget and Control Board's procurement website at the following address <http://webprod.cio.sc.gov/SCSolicitation-Web/contractSearch.do?solicitnumber=5400002053> to view the Recovery Audit Services solicitation currently pending award.

respondents do not know how many or which agencies qualify for review under the budget requirement, so how can they know whether they are capable of meeting the specific audit needs of each agency?

Respondents typically price their services or decide to submit a bid based upon several factors, including the difficulty or ease at which information is made available, the scope of the audit and potential for a profitable engagement, and their past experiences and expertise. A well-written solicitation for services would benefit both the State and the RFP respondents.

**Results/Benefits:** An audit encompassing all eligible State units, either directly funded with State resources or funded with other revenues, is necessary to enhance efficiency and minimize error recurrence. Ensuring several, well-qualified vendors submit proposals is essential to maximizing recovery opportunities.

Based upon discussion with recovery consultants, these types of audits usually recover significant amounts of money for the entities being audited and identify accounting control weaknesses. Taking a proactive role in the recovery audits will allow the State Treasurer to meet his goals of reducing fraud and waste in state government. The potential recovery from these audits, if done correctly, is enormous.

#### D.4. Utilize State-Owned Office Facilities

**Specific Recommendation:** Require the General Services Division to report to the Board all agencies which refuse to move from commercial space to State space when adequate State space is available to meet the agency's needs.

**Specific Recommendation:** Propose legislation authorizing the General Services Division to require the relocation and termination of all funding of the leased commercial space, including necessary regulations to effect the same.

**Rationale and Discussion:** Although the use of commercial space is authorized only when adequate State space is not available, a state agency which occupies commercial facilities cannot be required to vacate the commercial space it leases when adequate State space subsequently becomes available. This is true despite the fact that the commercial lease contains a provision that permits State agencies to terminate the lease to move into State space.

**Results/Benefits:** Reduced waste.

#### D.5. General Services Division Management of Real Property

**Specific Recommendation:** Authorize the General Services Division to (1) obtain all information necessary to make determinations concerning available State space and the status of real property as surplus and (2) to require the reporting of information in an electronic format to be used to populate an efficient

data base designed for property management reporting.

**Specific Recommendation:** Authorize the General Services Division to report and seek Board authorization for the sale, as surplus, of any real property for which there is inadequate justification to retain.

**Specific Recommendation:** Require all State agencies, boards, and commissions to provide all information, data and documents electronically to populate the data base of the RPMS system. (The data required consists of detailed explanations concerning the number of FTEs by floor, space allocated, the use of space, the amount of vacant space, surplus property, and other information concerning how the State leases and utilizes space. This will be a task which requires all State agencies and other entities, depending upon the amount of property in possession, to devote an estimated seven to 100 man hours to the task.) Attempting to perform this task without the full cooperation of State agencies would require at least two persons assigned to the task for two years.

**Rationale and Discussion:** Although each agency currently makes annual reports to the General Services Division of real property in its possession, the agencies are not required to provide detailed information concerning use of the space such as the number of employees or persons using the space, the frequency of use, and other information needed by the Division to determine if the real property should be declared surplus property.

In addition, for several years there have been insufficient funds and personnel to populate the Real Property Management System (RPMS) as designed with the minimum data required to properly utilize the system. There are insufficient funds to staff an operable RPMS at the level required. (See 2010 Act No. 291 § 90.2.) It is possible to populate the system electronically if the agencies using or in possession of the real property throughout the State will provide the necessary information. If the necessary information is provided in a timely manner, it is expected that the system will be operational within six months.

## D.6. Property Use Guidelines and Exemptions

**Specific Recommendation:** Limit the use of commercial space to actual need.

**Specific Recommendation:** Require State agencies to vacate commercial space when State-owned space is available or other commercial space is available and less expensive.

**Specific Recommendation:** Require the Division of General Services to study and propose space management and property use guidelines for adoption by the Board.

**Specific Recommendation:** Revoke all property reporting exemptions issued

by the Board from all agencies, commissions and institutions. Require that a new application (and justification) be submitted for any such exemption after an initial report of owned property is provided.

**Rationale and Discussion:** The General Services Division has no authority to limit the use of State or commercial space sought by agencies to only the space necessary to accomplish the mission of the agency nor to apply efficiency and space guidelines for the use of such space and property. Some agencies refuse to occupy State space, claiming that the State has no available space which is sufficiently attractive.

All State property use and ownership is not reported annually as required by S.C.Code Ann. § 1-11-58. Complete reports have not been received from all agencies as defined by section 1-19-40 and as a result there is no central record of all real property owned by the State.

## D.7. Board Meeting Facilities

**Specific Recommendation:** That the Budget and Control Board move its public meetings to a larger meeting space that will better accommodate participants in the meeting.

**Rationale and Discussion:** The Budget and Control Board's public meetings have long been held in the Governor's Conference Room, on the first floor of the Wade Hampton Building, Statehouse Grounds, at 1200 Senate Street. Although the meeting location is convenient for the Board Members and most participants, the meeting room is not adequately-sized to accommodate the many participants with business before the Board. As a result, the room tends to be packed, with standing room only, and attendees spill out into the hallway – hoping to be able to make their way into the conference room at the appropriate moment when their business comes up for a vote. The arrangement is not conducive to a productive meeting, does not promote the exchange of information, and in fact discourages public attendance and participation. The Budget and Control Board, those with business before the Board, and the public interest in transparency deserve and require a better arrangement.

The Budget and Control Board has alternative space available in the nearby Edgar Brown Building, also located on the Statehouse Grounds at 1205 Pendleton Street. This space could be modified to create a large public meeting room. Unlike the Governor's Conference Room, this space could also be permanently wired to permit the live broadcast of the Board's meetings.

**Results/Benefits:** The benefits of this recommendation are much-needed added transparency and increased efficiency for Budget and Control Board meetings.

## D.8. Board Meeting Schedules

**Specific Recommendation:** That the Budget and Control Board establish a fixed schedule of meetings, to include at least six meetings each year at regular

## intervals.

**Rationale and Discussion:** Much of the business of the Budget and Control Board requires the approval of the Members of the Board in an assembled public meeting. Until approved at such a meeting, many transactions cannot proceed. In recent years, the Board has reduced the number of planned meetings down to four meetings per year, with an extra meeting scheduled as needed. Meetings do not occur according to a predictable schedule. For example, in 2010 meetings were planned for February 23, June 30, August 12, and December 14. Additional meetings were added to the schedule based on specific needs on January 13 and September 29, but there were limitations as to what business could be conducted at those meetings.

The financing schedules for many public finance transactions, for example, must be planned around the meeting and agenda deadline cycle of the Budget and Control Board. This is difficult to do without a fixed schedule of meetings, especially during the busy cycle for such transactions prior to the calendar year end. It would increase the efficiency of those transactions, and many others, if Board meetings occurred more frequently, and at fixed intervals.

An example of an improved meeting schedule would be for meetings to take place every other month, on the first Tuesday of the month, beginning in February. So, according to that methodology, the necessary approvals could be obtained on the first Tuesday of February, April, June, August, October, and December. The Board's corresponding agenda deadline could likewise be set for the first Tuesday of January, March, May, July, September, and November.

**Results/Benefits:** The result of a greater number of meetings would be to decrease time necessary to complete the approval process for many transactions, with corresponding savings in some of them. The benefit of a more predictable schedule would be greater efficiency.

# State Treasurer's Office

## Subcommittee Report

---

### Introduction and Purpose

The State Treasurer is responsible for: receipt, investment, and disbursement of all public funds for the State; collateral pledged by banks to secure state deposits; coordination of all banking relationships for the State; issuance of all state debt, including the payment of principal and interest on outstanding debt issues; communications with bonding rating services; and acting as trustee for abandoned property holdings, the S.C. Tuition Prepayment Program and the S.C. College Investment Program. The Treasurer serves as member of the State Budget and Control Board along with the Governor, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The Treasurer also serves as Chairman ex officio of the State Board of Financial Institutions and as a member of the S.C. Retirement System Investment Commission, the Tobacco Settlement Revenue Management Authority, and the South Carolina Education Assistance Authority.

In August 2010, Curtis Loftis established a transition team that he divided into three subcommittees. This is the report of the Treasury Subcommittee. As detailed below, this subcommittee reviewed the following subject areas: (E) economic development; (F) bond provisions; (G) the STO's depository contract with Bank of America; (H) the STO's Trust relationships; (I) the SCEIS software system; (J) the state's 529 Plan; (K) local treasurers and the Local Government Investment Pool; and (L) the need for an independent audit of the Treasurer's Office.

# E. Economic Development

## E.1. Retirement Systems Assets

**Specific Recommendation:** The Retirement Systems should consider dedicating a small percentage of assets (0.5 to 1 percent) to be used for economic development in South Carolina. Such assets could be used for (1) bridge loans; (2) acquiring and leasing unimproved real property; or (3) constructing and leasing improved real property (e.g. sale and leaseback of buildings).

**Rationale and Discussion:**

1. SC Retirement Systems Assets

The State Retirement Systems Investment Commission was established in 2005 to invest the state's retirement funds (some \$17 billion). The State Treasurer sits ex-officio on the Board. The enabling legislation is in Article 3 of Chapter 16 of Title 9 of the S.C. Code. Section 9-6-315 provides:

SECTION 9 16 315. Retirement System Investment Commission; membership; terms; qualifications; chief investment officer and administrative staff.

*(A) There is established the Retirement System Investment Commission (RSIC) consisting of six members as follows:*

*(1) one member appointed by the Governor;*

*(2) the State Treasurer, ex officio;*

*(3) one member appointed by the Comptroller General;*

*(4) one member appointed by the Chairman of the Senate Finance Committee;*

*(5) one member appointed by the Chairman of the Ways and Means Committee of the House of Representatives;*

*(6) one member who is a retired member of the retirement system who shall serve without voting privileges. This representative member must be appointed by unanimous vote of the voting members of the commission.*

*(B) The State Treasurer may appoint a member to serve in his stead. A member appointed by the State Treasurer shall serve for a term coterminous with the State Treasurer and must possess at least one of the qualifications provided in subsection (E). Once appointed, this member may not be removed except as provided in subsection (C).*

*(C) Except as provided in subsection (B), members shall serve for terms of five years and until their successors are appointed and qualify, except that of those first appointed, the appointees of the Comptroller General and the Chairman of the Senate Finance Committee shall serve for terms of three years and the appointee of the Chairman of the Committee on Ways and Means and the representative appointee shall serve for terms of one year. Terms are deemed to expire after June thirtieth of the year in which the term is due to expire. Members are appointed for a term and may be removed before the term expires only by the Governor for the reasons provided in Section 1 3 240(C).*

*(D) The commission shall select one of the voting members to serve as chairman and shall select those other officers it determines necessary, but the State Treasurer may not serve as chairman.*

*(E) A person may not be appointed to the commission unless the person possesses at least one of the following qualifications:*

*(1) the Chartered Financial Analyst credential of the CFA Institute;*

*(2) the Certified Financial Planner credential of the Certified Financial Planner Board of Standards;*

*(3) at least ten years professional securities broker experience;*

*(4) at least ten years professional actuarial experience;*

*(5) at least ten years professional teaching experience in economics or finance; or*

*(6) an earned Ph.D. in economics or finance.*

*(F) Not including the State Treasurer, no person may be appointed or continue to serve who is an elected or appointed officer or employee of the State or any of its political subdivisions, including school districts.*

*(G) The Retirement System Investment Commission is established to invest the funds of the retirement system. All of the powers and duties of the State Budget and Control Board as investor in equity securities and the State Treasurer's function of investing in fixed income instruments are transferred to and devolved upon the Retirement System Investment Commission. To assist the commission in its investment function, it shall employ a chief investment officer, who under the direction and supervision of the commission, and as its agent, shall develop and maintain annual investment plans and invest and oversee the investment of retirement system funds. The chief investment officer serves at the pleasure of the commission and must receive the compensation the commission determines appropriate. The commission may employ the other professional, administrative, and clerical personnel it determines necessary and fix their compensation. All employees of the commission are employees at will. The compensation of the chief investment officer and other employees of the commission is not subject to the state compensation plan.*

*(H) The administrative costs of the Retirement System Investment Commission must be paid from the earnings of the state retirement system in the manner provided in Section 9 1 1310.*

Section 9-6-315 states:

SECTION 9 16 320. Adoption of annual investment plan; quarterly review; deliberations in executive session; independent advisors.

*(A) The commission shall meet no later than May first of each year to adopt the proposed annual investment plan for the retirement systems for the next fiscal year. The annual investment plan must be developed by the chief investment officer. No later than April first of each year, the chief investment officer shall submit the proposed plan to the commission. Amendments may be made to the plan by the commission during the fiscal year.*

*(B) The commission shall meet at least once during each fiscal year quarter for the purposes of reviewing the performance of investments, assessing compliance with the annual investment plan, and determining whether to amend the plan. The commission shall meet at such other times as are set by the commission or the chairman or requested by the board.*

*(C) The commission may discuss, deliberate on, and make decisions on a portion of the annual investment plan or other related financial or investment matters in execu-*

*tive session if disclosure thereof would jeopardize the ability to implement that portion of the plan or achieve investment objectives.*

*(D) A record of the commission that discloses discussions, deliberations, or decisions on portions of the annual investment plan or other related financial or investment matters is not a public record under Section 30 4 20 to the extent and so long as its disclosure would jeopardize the ability to implement that portion of the plan or achieve investment objectives.*

*(E) [Reserved]*

*(F) [Reserved]*

*(G) The commission may retain independent advisors to assist it and periodically shall provide for an outside evaluation of the investment strategy.*

Lastly, Section 9-16-330 provides:

SECTION 9 16 330. Statement of actuarial assumptions and investment objectives; components of plan; diversification; verification of investment facts.

*(A) The commission shall provide the chief investment officer with a statement of general investment objectives. The commission shall also provide the chief investment officer with a statement of actuarial assumptions developed by the system's actuary and approved by the board. The commission shall review the statement of general investment objectives annually for the purpose of affirming or changing it and advise the chief investment officer of its actions. The retirement system shall provide the commission and its chief investment officer that data or other information needed to prepare the annual investment plan.*

*(B) The annual investment plan must be consistent with actions taken by the commission pursuant to subsection (A) and must include, but is not limited to, the following components:*

*(1) general operational and investment policies;*

*(2) investment objectives and performance standards;*

*(3) investment strategies, which may include indexed or enhanced indexed strategies as the preferred or exclusive strategies for equity investing, and an explanation of the reasons for the selection of each strategy;*

*(4) industry sector, market sector, issuer, and other allocations of assets that provide diversification in accordance with prudent investment standards, including desired rates of return and acceptable levels of risks for each asset class;*

*(5) policies and procedures providing flexibility in responding to market contingencies;*

*(6) procedures and policies for selecting, monitoring, compensating, and terminating investment consultants, equity investment managers, and other necessary professional service providers; and*

*(7) methods for managing the costs of the investment activities.*

*(C) In developing the annual investment plan, the chief investment officer shall:*

*(1) diversify the investments of the retirement systems, unless the commission reasonably determines that, because of special circumstances, it is clearly not prudent to do so; and*

*(2) make a reasonable effort to verify facts relevant to the investment of assets of the retirement systems.*

At issue is whether Treasurer elect Loftis should recommend that a certain percentage of the Retirement System's considerable assets be dedicated to economic development within the state of South Carolina. The percentage of the total assets dedicated to economic development would be small (0.5 to 1 percent) and any amounts so invested would be done in conjunction with the South Carolina Department of Commerce and the Coordinating Council for Economic Development. Alabama has followed this model as detailed in the next section.

## 2. Alabama Pension Fund

The Treasury Subcommittee interviewed several persons with extensive knowledge of the Alabama Retirement Systems. These include real estate developer Dom Tomlin; Clarke Gillespi, who works on economic development matters for Duke Energy; site selection consultants Ed McCallum and Mark Williams; and, on the tourism side, Chad Prosser, PRT Director, and Dr. Rich Hamill, Director of the International Tourism Research Institute at the University of South Carolina.

The Subcommittee learned that the Alabama Retirement System's role in economic development was extremely helpful to that state. Specifically, one of the national site selection consultants testified that he brought large projects to look at Alabama because of the Alabama Retirement Systems' willingness to loan funds on very little notice. While the Retirement Systems did make equity investments, the majority of its support was in the form of short-term (2 year) bridge loans at market or above market interest rates. These loans are extremely attractive from an economic development perspective because the Alabama Retirement Systems was able to make a loan commitment on a remarkably short timeframe with a minimum of bureaucracy. (Presumably, once the commitment was made and the project committed and came to Alabama, the Systems "papered" the deal in a commercially reasonable fashion.)

According to a study commissioned by the Retirement Systems of Alabama, Economic Impacts of RSA-Owned Investments on Alabama (Dec. 2008), the RSA also made direct equity investments.

The RSA-owned investments in Alabama are diverse, involving at least 14 primary recipient companies in various manufacturing and service sector industries, with activities in many different parts of the state for the time period considered in this report. Capital expenditures over the 2002-2008 period totaled \$854.3 million. Operating expenditures by the companies in 2007 were nearly \$1.6 billion and included a \$254.3 million payroll for 5,836 workers. The report found that during 2002-2008, the \$854.3 million capital expenditures had statewide impacts of \$1,947 billion in output, \$620.9 million in earnings to Alabama households, 19,225 direct and indirect jobs, and \$42.9 million local (county and city) sales taxes.

The RSA has also invested heavily in tourism. According to the report, Best Practices in Southern Tourism and Destination Management (RGA 2006), the RSA lured famed golf architect Robert Trent Jones out of retirement to design an acclaimed 24-course public golf trail. Funding for the effort came from the Retirement System of Alabama (RSA). The three-year construction effort of the greens, reportedly the largest golf construction project in history, cost \$165 million. It was recently expanded and, at the time of the report, averaged 2 to 3 percent in cash returns. Because of the trail, Alabama was named one of the top 10 destinations in the world for golf by the International Association of Golf Tour Operators.

Since it opened in 1992, approximately half a million golfers have hit the trail through 2006, an estimated 300,000 of them having come from out-of-state. According to a Business Alabama article, tourism in the state was a \$1.9 billion industry in 1992. In the following years, it grew to \$6.8 billion, driven in part by golf visitors.

The New York Times noted in September 2002 that the trail pulled in a \$6 million profit the preceding year, also observing that the trail serves as “the centerpiece of a roundly successful effort to bolster tourism and attract industry to Alabama over the past decade.”

As part of its community and economic development activities, RSA has provided more than \$670 million in advertisement benefits that have helped expand Alabama tourism into a \$9.3 billion industry from \$1.8 billion. The ad benefits comprise \$30 million per year in TV for 13 years, \$25.4 million per year in print for 11 years, and \$362,400 per year in billboards for the last three or four years. The RSA has an ownership interest in the media outlets and derived “free” advertising.

In summary, the major attraction of the Alabama Retirement Systems is the speed of the loan commitment, rather than below-market interest rates or any relaxation of collateral requirements. (Indeed, some, if not most, loans were at or above market interest rates.)

The South Carolina Retirement Systems could obtain an even greater economic development advantage by, for example, purchasing and leasing real property or making below market interest rates.

## E.2. Collateralization

**Specific Recommendation:** The STO should implement the Pooling Mechanism set forth in the 2008 legislation. The STO should seek legislation conforming to state and local public subdivisions’ collateral requirement.

**Rationale and Discussion:** The state deposits hundreds of millions of dollars in state depository institutions each year. While the safety and security of public funds deposited with financial institutions is of paramount concern to the Treasurer’s Office, state deposits, particularly those made with in-state banks, can be a vital economic development tool. Banks, of course, make loans based on deposits in accordance with FDIC margin requirements. The greater the deposits banks enjoy, the more loans they can make. This is particularly true for South Carolina, which historically has suffered from a lack of capital.

The Committee researched whether the state’s collateralization requirements have hampered economic development. South Carolina has two collateralization statutes. State deposits are regulated by Title 11, Chapter 13. Section 11-13-20 provides:

SECTION 11 13 20. Deposit of State funds in banks or trust companies.

*To facilitate the disbursement of public moneys, the State Treasurer shall deposit in such bank or banks or trust companies in this State as shall be agreed upon by the*

*State Budget and Control Board or a majority thereof, and as in its opinion shall be secure, all moneys belonging to the State, other than those he may keep in the safe in the vault of the designated bank or trust company, the moneys so deposited to be placed to the credit of the State Treasurer. Such deposits shall draw the best rate of interest obtainable.*

Section 11-13-60 is the substantive collateralization statute. It provides:

SECTION 11 13 60. Security for state funds deposited in excess of FDIC coverage.

*(A) A qualified public depository, as defined in subsection (E) of this section, upon the deposit of state funds by the State Treasurer, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository, at the time of deposit, shall:*

*(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or*

*(2) pledge as collateral:*

*(a) obligations of the United States;*

*(b) obligations fully guaranteed both as to principal and interest by the United States;*

*(c) general obligations of this State or any political subdivision of this State; or*

*(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or*

*(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the State Treasurer is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the State Treasurer. The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.*

*(B)(1) A qualified public depository has the following options:*

*(a) To secure all or a portion of uninsured state funds under the Dedicated Method where all or a portion of the uninsured state funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.*

*(b) To secure all or the remainder of uninsured state funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of the State. The State Treasurer shall determine the requirements and operating procedures for this pool. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.*

*(2) Notwithstanding the provisions of item (1) of this subsection, the State Treasurer,*

*when other federal or state law applies, may require a qualified public depository to secure all uninsured state funds separately under the Dedicated Method.*

*(C) A qualified public depository shall not accept or retain any state funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.*

*(D) The State Treasurer may assess a fee against the investment earnings of various state funds managed or invested by the State Treasurer to cover the operation and management costs associated with this section and Section 6 5 15(E)(1)(b). These fees may be retained and expended to provide these services and may not exceed the actual costs associated with providing the services.*

*(E) "Qualified public depository" means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State, and any bank, trust company, or savings institution organized under the law of this State that receives or holds state funds that are secured pursuant to this chapter.*

Deposits made by political subdivisions (e.g., cities and counties) are regulated by Section 6-5-10. It states:

SECTION 6 5 10. Authorized investments by political subdivisions.

*(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:*

*(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.*

*(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.*

*(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.*

*(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.*

*(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.*

*(6) Repurchase agreements when collateralized by securities as set forth in this section.*

*(7) No load open end or closed end management type investment companies or invest-*

*ment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.*

*(8) A political subdivision receiving Medicaid funds appropriated by the General Assembly in the annual general appropriations act may utilize appropriated funds and other monies generated by hospital operations to participate in principal protected investments in the form of notes, bonds, guaranteed investment contracts, debentures, or other contracts issued by a bank chartered in the United States or agency of a bank if chartered in the United States, financial institution, insurance company, or other entity which provides for full principal payment at the end of a contract term not to exceed twelve years if the issuer has received a rating in one of three highest general rating categories issued by no fewer than two nationally recognized credit rating organizations. No more than forty percent of the appropriated funds and other monies generated by hospital operations may be invested in the manner provided in this item. Revenue realized pursuant to these investments must be expended on health care services.*

*(b) The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.*

*(c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.*

*(d) For purposes of subsection (a), in the case of a defeased obligation, an obligation shall be treated as the obligation of the issuer of the obligation included in the qualifying defeasance escrow for the defeased obligation. A "defeased obligation" means any obligation the payment of which is secured and payable solely from a qualifying defeasance escrow and the terms of which may not be amended or modified without the consent of each of the holders of the defeased obligation. A "qualifying defeasance escrow" means a deposit of securities, including defeasance obligations, with a trustee or similar fiduciary under the terms of an agreement that requires the trustee or fiduciary to apply the proceeds of any interest payments or maturity of the defeasance obligation to the payment of the defeased obligation and when the trustee or fiduciary has received verification from a certified public accountant that the payments will be sufficient to pay the defeased obligation timely. A defeasance obligation must not be callable or subject to prepayment by the issuer and it must be a direct general obligation of the United States and its agencies, or an obligation the payment of principal and interest on which is fully and unconditionally guaranteed by the United States.*

There are key differences in the state and local collateralization requirements. This is likely to lead to confusion.

The Committee contacted the National Association of State Treasurers (NAST) for a recommendation of another state treasurer who had recently revamped or modernized his state's collateralization requirements. Pursuant to NAST's recommendations, the Committee spoke with Wolfgang Opity with the Washington State Treasurer's Office and reviewed the Office of State Treasurer's 2009 Report to the Washington State Legislature on actions taken by the Public Deposit Protection Commission.

The Washington State Treasurer's Office told the Committee that the South Carolina State statutes were an excellent model and he offered no further recommendations.

The Committee also took testimony from some 6-8 large and small banks, including Bank of America, NBSC, BB&T, First Citizens, and the South Carolina Banker's Association (SCBA). With one exception (see below), all expressed no desire or need to expand or otherwise liberalize the collateralization statutes. Specifically, the general consensus among the bankers were that banks are currently flush with cash and that poor loan demand (for non-real estate based loans) was a much greater problem to the economy than a lack of bank liquidity.

The one issue for action is that the Treasurer's Office has not fully implemented the statutory reforms passed in 2008. In 2008, then State Treasurer Thomas Ravenel convened a committee composed of his office, the SCBA, and a number of banks for purposes of modernizing and liberalizing the collateralization requirements. Legislation that modestly liberalized the requirements was passed into law effective January 1, 2009. The new legislation authorized a pooling mechanism under the Treasurer's Office. The Committee heard testimony that the Treasurer's Office has not implemented the pooling mechanism.

## F. Bond Provisions – Debt Management and Bond Transaction Administration

### F.1. Debt Report

**Specific Recommendation:** That the Treasurer's Office prepare, maintain, and make available to the public a report that lists and provides detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions.

**Rationale and Discussion:** As described in the Report and Recommendations of the Budget and Control Board Subcommittee of the Transition Team, there is currently no publicly-available source of detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions. As discussed later in this report, several State constitutional officers and State boards and agencies, including the State Treasurer, have various roles and responsibilities regarding debt issuance and administration. Depending on the type of debt instrument, the issuer of the debt instrument, the beneficiary of the debt instrument, and specific statutory requirements, these roles vary from issue to issue. Under current conditions, it appears that each of the constitutional officers, members of boards and commissions, and members of the general public are nearly completely dependent on the

“institutional memories” of the bureaucracy and a small cadre of lawyers who are familiar with the particular debt obligation for fundamental information necessary for them to perform their statutory and fiscal responsibilities.

Whether the present Treasurer maintains this information, but does not provide ready access to it, or simply does not maintain this information in a form that lends itself to dissemination is not clear. As the Budget and Control Board Subcommittee noted, the Treasurer’s Office does seem to be the appropriate repository for that information under State law and should maintain it and provide public access to it.

**Results/Benefits:** For the State’s constitutional officers and the boards and commissions charged by law with responsibilities regarding the issuance and administration of debt obligations, the benefits of such a report include:

- Providing the historical record upon which to base current decisions regarding debt issues
- Providing the data necessary to recognize and understand trends in debt issues
- Providing a basis upon which to measure current performance
- Providing a factual foundation for policy decisions which impact debt issuance.

For policymakers and staff of other State agencies, the report will provide needed data to evaluate anticipated consequences of short-term and long-term planning decisions.

For the general public, critical review of the activities of the State, its agencies and institutions becomes more meaningful as it is factually-based. Moreover, the public can apply performance standards to decisions of the applicable elected official or agency.

## F.2. State Treasurer’s Debt Issuance Responsibility Analysis, Report, and Procedures

**Specific Recommendation:** After a thorough analysis, prepare a report that identifies (i) the statutory responsibilities of the State Treasurer for each specific type of debt issue and (ii) the responsibilities of the State Treasurer to the Budget and Control Board and other boards and commissions for each type of debt issue.

**Specific Recommendation:** After completion of the report, prepare publicly-available applications to be submitted and procedures followed by the agencies and institutions requesting debt issuance.

**Rationale and Discussion:** The role of the State Treasurer in the planning and approval of debt obligations varies considerably from one obligation to another, based primarily upon statutory provisions contained in the state bond acts. The Treasurer’s role can be as involved as actually “issuing the Bonds” or as removed as merely receiving a report filed with his office from the issuing board after the transaction has closed. As to the administration of debt obligations, the Treasurer may be responsible like a bond trustee for the administration

of construction funding, or as a paying agent for paying the bondholders principal and interest when due, or providing periodic review, reports, and disclosure regarding the debt obligation. Under other statutes, the Treasurer may have no role or responsibility after the bonds are issued.

Similarly, the Budget and Control Board has statutory duties and responsibilities regarding the issuance and administration of debt obligations of the State, its agencies, institutions, and local governments across South Carolina. The practice has developed that many of the responsibilities of the Budget and Control Board regarding debt obligations have become the de facto responsibilities of the State Treasurer's Office, without clear guidance regarding that "delegation" of responsibility.

**Results/Benefits:** As discussed elsewhere in this report, this Subcommittee is recommending that State Bond Statutes be recodified for the reasons discussed in that section. As part of that recodification process, the role and responsibility of the State Treasurer (directly and as a member of the Budget and Control Board) should be considered before recodification takes final form. The identification and analysis report recommended in this section will assist recodification of the Bond Statutes so that they take into account the resources of the State Treasurer's Office when duties and responsibilities are imposed on the Treasurer for debt issuance and administration.

As discussed in the Indenture Trustee Services section of this report, the role and responsibilities of the Treasurer's Office, with respect to those aspects of debt obligation administration which are routinely provided by corporate trustees, will also be impacted by the analysis and report recommended in this section.

After the identification and analysis report has been prepared (and any expected statutory changes in the responsibility of the State Treasurer as the result of recodification of the Bond Statutes have been passed), formal application and procedures should be developed for each category of debt obligation that requires the review, approval, or administration by the State Treasurer's Office. The benefits of such procedures include:

- Establishment of a transparent approval process for all boards and commissions
- Uniformity and streamlining of data necessary for debt issuance
- Documentation of all required information and procedures for the State Treasurer to perform his statutory responsibilities
- Provides more open government for the general public.

### F.3. State Bond Counsel and Disclosure Counsel Services

**Specific Recommendation:** Implementation of the report and recommendation regarding engagement of bond counsel, disclosure counsel, and underwriter's counsel, including rigorous enforcement of fee caps and conflict of interest rules.

**Rationale and Discussion:** On June 29, 2009, the Budget and Control Board approved the report and recommendation on the engagement of bond counsel, disclosure counsel, and

underwriter's counsel for the State and certain of its designated agencies and institutions named in that report. The report, based on the study of best practices for the selection and engagement of bond counsel, commits to follow the guidelines published by the Government Finance Officers Association and the National Association of Bond Lawyers. That report appears to have been the first time that the State affirmatively recognized the need for an independent disclosure counsel distinct from bond counsel. It also appears to be the first time the State Treasurer's Office considered a formal written policy regarding the identification and management of conflicts of interest by bond counsel.

The use of independent disclosure counsel in state bond finance has become more commonplace, especially in light of recent enforcement action by the Securities and Exchange Commission against the State of New Jersey and the City of San Diego. In August 2010, the SEC filed a lawsuit against the State of New Jersey<sup>58</sup> in which the agency charged New Jersey with securities fraud, a criminal offense, for failing to disclose to bond investors that it was underfunding its two largest pension plans. The case marked the first time a state has ever been charged with securities fraud. The SEC actually used both the official statements for the state's bond offerings and the New Jersey State Treasurer's Annual Reports made for continuing disclosure purposes as the sources of the alleged fraudulent representations. Had the case not been settled,<sup>59</sup> someone in the New Jersey State Treasurer's Office would likely have faced jail time.

Secondly, at the end of October 2010, the SEC again broke new ground when it secured financial penalties totaling \$80,000 against four individual city officials<sup>60</sup> (former City Manager, City Auditor and Comptroller, Deputy City Manager of Finance, and City Treasurer) of the City of San Diego, California, for securities fraud violations stemming from pension disclosure. The SEC charges against these individuals alleged they knew San Diego had been intentionally underfunding its pension obligations to increase benefits while deferring costs. Concurrently, the SEC alleged these officials were aware the city would encounter severe difficulty funding its future retirement obligations without new revenues or cuts to employee benefits or city services. The case marks the first time the SEC has secured civil financial penalties against individual city officials in a municipal bond fraud case.

It is likely the SEC will bring about rapid change to pension plan disclosure practices by holding individuals liable for poor disclosure. The engagement of independent disclosure counsel by the State Treasurer in accordance with the report would go a long way to satisfying the expected changes regarding disclosure requirements for State bonds. It is also worth noting that in addition to this new level of regulatory scrutiny of pension plan disclosure, some help is also on the way. The National Association of Bond Lawyers is currently in the process of drafting model guidelines regarding the role of disclosure counsel,<sup>61</sup> but it is not certain when that guidance will be available.

**Results/Benefits:** Although approved by the Budget and Control Board in 2009, it appears

---

<sup>58</sup> The lawsuit was subsequently settled by consent Order Instituting Cease-and-Desist Proceedings, attached on page 122.

<sup>59</sup> As a mitigating factor in its decision to settle the charges by consent Order, the SEC highlighted the subsequent remedial measures taken by the State of New Jersey to improve disclosure practices, stating, "With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures." See Order at paragraph 45.

<sup>60</sup> The consent agreements that settled the case prohibited the individuals from seeking any form of reimbursement, including compensation from employers or insurance.

<sup>61</sup> The initiative to draft model pension plan disclosure guidance was announced at the National Association of Bond Lawyers' Bond Lawyer Workshop in San Antonio, Texas, October 27-29, 2010.

that the implementation of the report by the State Treasurer's Office has been slow. Only in 2010 does there appear to have been a State institution transaction where independent disclosure counsel may have been engaged. Given the problems identified by the SEC with disclosure regarding state pension plans (and discussed at length in the Budget and Control Board Subcommittee Report) and the recommendations of this Subcommittee regarding maintenance and improvement of bond ratings discussed later in this report, this Subcommittee advises that it is time to fully implement the provisions of the report regarding the engagement of independent disclosure counsel by the State Treasurer for all issues, agencies, and institutions covered by the report. As part of its responsibilities, disclosure counsel would be expected to develop standardized disclosure for the retirement system for use by all relevant State agencies, institutions, and other political subdivisions of the State, in addition to the agencies covered by the report.

The report describes the responsibilities of the various counsel roles, which have been implemented since approval of the report by the Budget and Control Board, and the compensation schedule for the services described in the report. It is not clear if the State Treasurer has enforced the caps on maximum legal fees by bond counsel and disclosure counsel to date. It is the Subcommittee's recommendation that the State Treasurer's Office rigorously enforce the cap on the maximum amount of legal fees charged by bond counsel and disclosure counsel. This enforcement should produce substantial savings to the State and its agencies and institutions over the level of fees charged under the past fee schedule, under which bond counsel law firms enjoyed windfall profits as a result of handling the larger bond issues for the State. In addition, the Subcommittee recommends elimination of the separate fees for the maintenance of a forms depository permitted by the report, as they are a superfluous charge on all transactions for services that should be included in basic bond counsel services under the report. A copy of the salient provisions of the report (describing the responsibilities of the various counsel roles and approved compensation schedules) is attached to this report.

It is also unclear if the provisions of the report (including the fee caps and conflict of interest rules) have been implemented and enforced with respect to the agencies and institutions covered by the report. The Subcommittee recommends implementation and enforcement of those provisions, as well as the use of the State's disclosure counsel to assure uniform disclosure practices.

As with his predecessor, the State Treasurer-elect should continue the policy of selecting bond counsel from the approved list of qualifying firms named in the report on an as-needed basis. The requirements of the report that underwriter's counsel and conduit bond counsel should likewise be selected from the approved list of qualifying firms named in the report should also be fully-implemented and enforced.

#### F.4. State Bond Rating Strategy

***Specific Recommendation:*** Implement immediate action to maintain and improve the State's bond ratings by developing (i) effective and timely communications with the rating agencies and (ii) strategies to address the credit weaknesses and concerns voiced by the rating agencies.

**Rationale and Discussion:** There are three major credit rating agencies for U.S. state and municipal government credits. These agencies review the credit quality of a state or other government entity and issue a rating (based on an applicable scale) that indicates the agency's overall assessment of the credit risk. Although they use similar criteria to make their evaluations, each rating agency employs a slightly different methodology based upon its view of the appropriate credit criteria and appropriate weight for each criterion in the analysis. The ratings are then used by investors, lenders, investment bankers, other government entities, bond insurers, credit enhancement providers, and other participants in the governmental finance industry to assess the financial risk of doing business with the rated entity and to set the price (normally in the form of an interest rate) for bonds, loans, and other financial products.

The bond ratings impact the costs of not only the State's direct borrowing, but also the borrowings by the State agencies, institutions, and political subdivisions. They also are the basis for the more efficient provision of funding and investment programs that are or can be sponsored by the State.

The State's current general obligation bond ratings are AA+ (Standard & Poor's), AAA (Moody's), and AAA (Fitch). All have a "stable outlook." S&P's credit assessment of the State appears to put greater emphasis on the wealth levels and the composition of the State's economy. State government can influence economy and wealth levels on a policy basis and by helping to develop and formulate the necessary capital formation.

A concern with all three rating agencies would be continued revenue shortfalls with the State budget. Effective and timely communication with the bond market in general, and the rating agencies in particular, can help to avoid surprises and manage expectations. Managing expectations of municipal bond market participants could influence credit outlooks and rating trends. It has been suggested by a major investment banking firm that a highly regarded independent disclosure counsel providing uniform disclosure standards can enhance market confidence, creating a qualitative positive at the initial offering, while helping to set the tone for future disclosures that can impact secondary trading levels and liquidity. This Subcommittee discusses the need for independent disclosure counsel in another section of this report. The Budget and Control Board Subcommittee discusses the importance of independent disclosure counsel in their recommendation for an immediate review of Pension System disclosure practices.

As discussed in depth in the Budget and Control Board Subcommittee Report, the unfunded pension obligation of the State Retirement System, and related disclosure of its status, has become a grave credit concern. At the very least, it is a headline risk factor.

**Results/Benefits:** The maintenance and improvement of the State's bond ratings are important to providing services to citizens at the most cost-effective rates (tax levels) by delivering capital improvements at lower costs than would otherwise prevail with lower bond ratings.

## F.5. Savings to be Generated from Restructured or Refunded General Obligation Bonds

**Specific Recommendation:** Review the current policy of the Treasurer's Office to schedule the rapid retirement of State bonded indebtedness and its impact on the State's current revenues, bond ratings, and fairness and equity to taxpayers and ratepayers.

**Rationale and Discussion:** As with a lack of a published report on the terms of all outstanding State bond issues, there appear to be no systems in place in the State Treasurer's Office to monitor opportunities to generate present value savings through the refunding of the State's bond issues. In light of the historically low long-term interest rates that currently prevail in the financial markets, the State's taxpayers and ratepayers would benefit by securing lower debt service payments on those issues of State bonds that can be refunded under current market conditions, resulting in savings. From information regarding the State's bond issues that is available in the public bond market, it appears that issues of State School Bonds, State Capital Improvement Bonds, and State Institution Bonds can be refunded to generate savings with a present value of over \$32 million.

**Results/Benefits:** From information available in the public bond market, it appears that much of the State's general obligation debt will mature in 10 years. The assets funded with those bonds could be expected to have a useful life well in excess of that period of time. Although it reduces the overall interest costs of the bonds, rapid retirement of public bond debt has the effect of making the current taxpayers pay more than their fair share of the costs of the assets, and thereby relieving taxpayers 20 to 30 years in the future from paying for a portion of the costs of those assets still in use at that time. Moreover, the rapid retirement of bonded debt creates additional strain on current revenues needed to provide services to taxpayers and ratepayers. The State Treasurer should consider the policy of scheduling the rapid retirement of debt and its impact on current revenues, bond ratings, and fairness and equity to the taxpayers.

## F.6. Concerns Regarding the Scheduled Expiration of Credit Support Instruments for State Transportation Infrastructure Bank Debt

**Specific Recommendation:** Immediately form a task force to make recommendations to the State Treasurer on determining and negotiating the optimal course of action and terms regarding the scheduled expiration, in June 2011, of credit support instruments for \$320 million of State Transportation Infrastructure Bank Bonds.

**Rationale and Discussion:** The State Transportation Infrastructure Bank (SIB) issued auction rate bonds in 2003, which were converted to variable rate demand bonds in June 2008 when the auction rate market collapsed. SIB also entered into three interest rate swap agreements in 2003 with respect to the bonds. The three bank letters of credit (LOCs) which support the variable rate bonds are scheduled to expire in June 2011. With that deadline coming fast on the heels of the Treasurer taking office in January 2011, major decisions must

be made fairly quickly regarding this large transaction. Options include:

- Continue the variable rate bond structure, notwithstanding greatly increased costs for the LOCs.
- Synthetic Fixed Rate Swap, which also has associated risks.

**Results/Benefits:** Immediately forming a task force of staff and necessary professionals will allow the Treasurer the most time in which to consider all options, develop a plan of finance, and negotiate the most favorable terms for the SIB.

## F.7. State Investment Banking Relations

**Specific Recommendation:** Collect data regarding the current investment banking relations of the State, its agencies, and institutions, including data regarding terms of any contracts, method and history of procurement of services, and history of services of current providers in order to develop guidelines based on best practices in the procurement and use of investment banking firms.

**Rationale and Discussion:** From the information that the Subcommittee has been able to garner, there does not appear to be any master program monitored or administered by the State Treasurer's Office regarding the procurement of investment banking services by the State, its agencies, and its institutions.

**Results/Benefits:** In order to consider any reforms necessary to implement best practices for these services, the State Treasurer should form a task force of staff and any necessary professionals to collect the data and report to him its findings. Guidelines, including any necessary statutory or regulatory changes, should then be developed to conform the past practices to current best practices as promulgated by industry regulators and watchdogs.

## F.8. "Build America Bonds" and other Recent Federal Bond Programs

**Specific Recommendation:** In order to avoid the problems experienced in South Carolina with the initial round of federal bond programs included in the Stimulus Act, implement monitoring activities to follow the possible extensions to these programs so that the State Treasurer can recommend timely action to be taken by the State Legislature, the Budget and Control Board, or other bodies in order to maximize the benefits of these programs for South Carolina.

**Rationale and Discussion:** When the initial round of federal bond programs was approved by Congress in February 2009, many of the programs required State implementing or conforming action in order to make them available to State and local government, their agencies, and qualifying businesses. No statutory action, however, was taken in South Carolina until June 2010. Implementing procedures by the Budget and Control Board were not completed until August 2010. With many of these federal programs scheduled to expire on December 31, 2010, there was little time to utilize these federal programs effectively. Many

are expected to expire without having been fully used.

**Results/Benefits:** To avoid repetition of this underutilization, the State Treasurer should appoint staff or qualified professionals to monitor and promptly report to him on any extensions of the expiring programs or the creation of new programs that could benefit the citizens of the State, through their governments or qualifying businesses. Any report should contain recommendations as to any necessary statutory or regulatory action needed to maximize the programs' benefits to the State and its citizens.

## F.9. Unemployment Compensation System and Unemployment Trust Fund Loans

**Specific Recommendation:** Appoint a task force of staff and qualified professionals to review and recommend action regarding funding for the interest payments due to the federal government beginning in 2011, for the State's loan from the U.S. Treasury for unemployment benefits during the current recession.

**Rationale and Discussion:** Basic unemployment benefits are primarily funded by State payroll taxes on employers, which are deposited in the Unemployment Trust Fund held by the U.S. Treasury. States are required to pay out benefits even if the State's account in the Trust Fund is fully depleted. Under those circumstances, the State borrows the necessary moneys from the U.S. Treasury. As of September 30, 2010, South Carolina had borrowed \$886 million from the U.S. Treasury. Newspaper accounts quote estimates that the State's borrowing could grow to \$2 billion.

Interest accrues on this balance at a rate of approximately 4 percent. Interest payments are due by September 30, 2011. Legally, the interest payment is an obligation of the State, but historically most states have paid interest with a separate tax on employers, which is what South Carolina is doing. The State repays principal of the loan with a combination of (i) annual statutory increases in the federal unemployment compensation taxes on employers and (ii) increases in State unemployment taxes.

**Results/Benefits:** Major policy concerns are impacted by the funding mechanism or combination of mechanisms that are chosen to repay these amounts. The federal funding provisions for the loan include increases in the tax rates if the loan is not repaid by certain designated dates. The interest rate charged by the U.S. Treasury is higher than rates the State could get by selling short-term obligations based on special assessments levied against employers. These savings could be used to soften the increased burden on employers to repay this loan and reduce the period of time needed to repay the loan.

## F.10. Bond Recodification

**Specific Recommendation:** That Treasurer-Elect Loftis recommend that the state's General Obligation Statutes be recodified and appoint a drafting committee for such recodification.

**Rationale and Discussion:** The Subcommittee met with attorneys from the state's major bond and public finance law firms. These included Haynsworth Sinkler Boyd, McGuire Woods, Nexsen Pruet, and Pope Zeigler. The law firms unanimously recommended that the General Obligation (GO) bond statutes be recodified. (The law firms also suggested looking at the state's Utility Bond and Revenue Bond statutes.) The rationale for recodification is that the relevant statutes are scattered through the public finance portions of the South Carolina Code and constitute a pitfall for the unwary; are replete with old and antiquated provisions and "rifle-shot corrections," and accordingly lack transparency and efficiency. The net effect is an increase in legal fees for both borrower and lender counsel.

Note that recodification would be a major effort and would require resources from the Treasurer's Office to accomplish.

## G. STO's Depository Contract with Bank of America

### G.1. Depository Banking Review

**Specific Recommendation:** That the State Treasurer undertake a review of its depository banking relationship with Bank of America to ensure the State is paying a competitive rate for services.

**Specific Recommendation:** That the State Treasurer perform an analytical review of STO banking activity to determine which day-to-day processing can be eliminated, modified and/or automated to reduce banking service charges. Additionally, that the State Treasurer's Office consider implementing an account analysis system, like Weiland Financial Group, Inc.'s, a nationally recognized provider of software, to assist with the periodic management and verification of banking activities and fees.

**Specific Recommendation:** That the State Treasurer evaluate the effectiveness of adding a second daily repurchase agreement provider to ensure the State earns a competitive rate on daily available funds.

#### **Rationale and Discussion:**

##### Review of Depository Banking Relationship

By way of background, the 2009 NAST Report, State Treasury profiles, stated that the Treasurer's Office has 61 employees. Of these, 15 are involved in Treasury Management, four in Bond Management, one in Cash Management and five in Investment.

The State Treasurer's Office has 10 or more depository accounts with banks doing business in South Carolina. The large number of accounts is probably necessary and exists as a convenience to the State Treasurer's Office.

The State Treasurer's Office primary deposit banking relationship is with the Bank of America. This depository account is for daily operations and has an average balance of approximately \$250 million. The relationship with the Bank of America has existed for at least 15 years and probably originated through the merger of various banks into Bank of America.

It is our understanding the State Treasurer's Office has not solicited a request for proposals from banks for depository account relationship for at least a decade and for reasons outlined below, the State Treasurer's Office may not be able to legally move it at the current time without settling a carry-forward deficit.

Due to the large size and processing complexities, relatively few banks would desire the account, could properly manage it and could offer competitive pricing. It is doubtful if any domestic South Carolina bank could adequately service it and provide the necessary collateralization.

The State Treasurer's Office does not actually pay service fees to the Bank of America. Indeed, the Subcommittee heard testimony that (incredibly) the State Treasurer's Office lacks the necessary statutory authorization to pay deficit service fees. Instead, depending upon the size of the balances on deposit with Bank of America, the State Treasurer's Office generates Earnings Credits, which are applied against accrued Service Charges. Any deficit or balance is then routinely rolled over to the next year. For example, for the month ending October 31, 2010, the State Treasurer Office's had an earnings credit of \$86,260.92, which was applied against service charges for the month of \$95,316, equaling a deficit for the month of \$9,055.42. The year to date service charge balance was a deficit of \$233,837.

Presumably, the State Treasurer's Office would have to pay the \$234,000 deficit or negotiate a reduction before transferring the account to another (more competitive) bank; however, it lacks the statutory authorization to settle the deficit with current funds.

#### Analytical Review of Banking Activity

The State Treasurer's Office provided the Subcommittee a copy of its' master contract with the Bank of America, as well as monthly account statements for August, September, and October of 2010. The account statements contain a lengthy list of itemized service charges for various banking services, including depository, cash vault, ACH, wire transfer, account reconciliation information, automated, EDI, international, cashpay, remote deposits, image and miscellaneous. There were well over 100 different itemized service charges.

The Subcommittee reviewed the three monthly analysis statements to gain an understanding of banking services provided and their related costs. The Subcommittee heard testimony concerning these statements from industry and state agency users and providers of complex, high-volume banking services. Their comments for areas of review and improvement are presented in the Appendix on page 185.

Overall, the results of the review revealed the following areas of concern:

- The Subcommittee was not provided with a schedule of fees and, apparently, none exists. As such, we could accordingly find no basis for the respective charges.
- Testimony revealed certain charges were above market rate and should be re-negotiated.

- Certain service charges appeared contradictory (different charges for the same services and pricing higher for services performed by the State instead of the bank.)
- A thorough, detailed analysis of each banking service utilized by each agency is required to determine if the State has implemented the most cost efficient and effective operational procedures.
- Active, day-to-day management of banking services is required to drive down pricing and at the same time decrease cash held for compensating balances, thereby allowing the State Treasurer to re-invest cash in other investment vehicles earning a higher rate of return. Utilization of an account analysis system, like one provided by Wieland Financial Group, Inc., will assist the State in identifying processing trends, variances and perform an audit of services charged versus agreed upon pricing. Additionally, the system will provide valuable metrics needed when negotiating pricing with banks. See page 186 for a detailed description of the account analysis services provided by Wieland. Other providers could provide similar services.

#### Consideration of Establishing a Second Repurchase Agreement Provider

Cash balances needed for daily operations, but not required for service charge compensating balances, are swept into a daily repurchase agreement (repo) with Bank of America. Unlike other large corporations or Santee Cooper, the State Treasurer's Office maintains a repo only with the Bank of America. Other entities invest in more than one repo to ensure competitive pricing and to allocate their business to more than one provider.

**Results/Benefits:** Active, day-to-day management of banking services utilized will drive down pricing, improve operational efficiencies, and result in savings to the citizens of the State of South Carolina.

## H. STO's Trust Function

### H.1. Outsource Indenture Trustee Services

**Specific Recommendation:** That the State Treasurer's Office determine whether indenture trustee functions currently performed by its Debt Management Group should be outsourced to a corporate trustee bank.

**Rationale and Discussion:** The State Treasurer's Office can save money, significantly reduce liability, and avoid conflicts of interest by avoiding the practice of serving as indenture trustee in the State's bond issues.

The Debt Management Group (DMG) of the Treasurer's Office provides debt management services to the State, its agencies, and institutions. Debt management functions include: paying all debt accurately and on time, closing all new debt issuances by deadlines, issuing debt at lowest possible interest rate, and developing debt and finance policies to optimize value to taxpayers and constituency. To provide a system of controls and automation, the group utilizes the Debt Management System (DMS). This system provides a mechanism for recordkeeping and reporting, and provides automation for electronic debt payment through the Automated Clearing House to the State's paying agents. It also provides functionality

for tracking agency payments for authorized capital projects to ensure timely and accurate payments for projects approved by the Joint Bond Review Committee of the South Carolina General Assembly and as appropriated by the General Assembly.<sup>62</sup> The DMG currently manages over 130 bond issues totaling more than several billion dollars in outstanding debt.<sup>63</sup>

While the payment of principal and interest, when due, for these issues is the DMG's top priority, there are also other on-going administrative functions performed by the DMG for debt issues over which it has oversight. For some number<sup>64</sup> of bond issues, the State has actually appointed the State Treasurer as its indenture trustee, a role typically handled by an independent, third-party corporate trust department.

When the State Treasurer serves as indenture trustee, the DMG's role and duties are expanded and include:

- Assumption of significant fiduciary duties to the bondholders.
- Monitoring fund balances for adequate debt service reserve funds and capital reserve fund allocations.
- Ensuring issuers adhere to provisions of the trust indenture and other bond documents.
- Undertaking other operational risks.

Not surprisingly, the State Treasurer also assumes significantly more liability in the role of indenture trustee.

Again, the State Treasurer is not appointed as indenture trustee on all state revenue bond issues, but may be appointed as indenture trustee when fixed rate revenue bonds are issued. For other types of revenue bonds, the State selects a bank to serve as corporate trustee. For State general obligation bonds, only a paying agent is required to serve the bondholders and the Treasurer's Office appoints a bank to perform this service. Further review of South Carolina Code regarding the selection of a trustee revealed several provisions permitting selection of the State Treasurer or a corporate trustee.

Due in large part to the added liability associated with serving in the capacity of indenture trustee, South Carolina is now unique in appointing the State Treasurer as indenture trustee for our State's own debt obligations. Our subcommittee's review of municipal bond data from Securities Data Corporation for the last five years revealed that only California also had a consistent practice of serving as its own trustee. In the southern states, only Virginia had served as its own trustee on a few transactions in 2005.<sup>65</sup>

The inherent conflict of interest in the practice is another reason why most states refuse to act as trustee of their own bond issues. When acting as indenture trustee, the State Treasurer has a fiduciary duty to serve the best interest of the bondholders (the lenders) in en-

---

<sup>62</sup> Description of the DMG is taken from the 2009 - 2010 Annual Accountability Report for the Office of State Treasurer.

<sup>63</sup> Data provided by the DMG.

<sup>64</sup> At the time of submission of this report, the DMG had only confirmed State Treasurer as trustee for the State Infrastructure Bank bond issues. However, a review of a website source of municipal disclosure and market data called EMMA (Electronic Municipal Market Access) at [www.emma.msrb.org](http://www.emma.msrb.org) indicated a great number of instances where the State Treasurer was appointed trustee. For example, the State Treasurer was appointed trustee of the University of South Carolina bond issuances.

<sup>65</sup> Bond issuance data from 2005 to present from Securities Data Corporation, a Thomson Reuters business and trusted source of municipal securities information, are attached on page 186.

forcing certain provisions and covenants under the bond documents as against the State (the borrower). As a component of South Carolina State government, a member of both the Budget & Control Board and the State Retirement System Investment Committee, he is generally considered the State's fiscal "watchdog." The State Treasurer also has a duty to serve the best interest of the citizens of the State. This places the State Treasurer in an untenable position when asked to enforce provisions in bond documents against the State. This should be a primary factor to consider when completing the out-sourcing review.

Other states avoid this conflict of interest by appointing an independent bank trust department to serve as corporate trustee. Likewise, in the corporate debt arena the Trust Indenture Act actually prohibits corporate borrowers from acting as trustee for their own debt obligations.<sup>66</sup> The Trust Indenture Act's purpose is to protect the interest of investors in debt securities. It created standards of care for trustees and, although it only applies to publicly-issued corporate bond issues, its rules are the basis for the standards of care used by trustees for municipal bond issues.

Finally, the cost of hiring a trustee bank to act as indenture trustee is likely to be insignificant compared to the efficiencies created by placing these responsibilities in the hands of a qualified entity set up solely for the purpose of handling these types of transactions. In fact, there will likely be a cost savings that can be measured, such as reduced personnel costs, and operational risks will be transferred to a bank, permitting staff resources to be re-allocated to other debt-related functions. The added benefits of employing a professional organization with industry-standard tracking software, and free of potential conflicts of interest, are much greater than any cost associated with outsourcing.

**Results/Benefits:** The State Treasurer's Office can save money, significantly reduce liability, and avoid conflicts of interest by avoiding the practice of serving as indenture trustee in the State's bond issues. The cost savings are uncertain, and should be quantified prior to outsourcing, but the added efficiencies, avoidance of operational risks, and mitigation of potential liability would produce significant immediate, albeit unquantifiable, benefits.

## H.2. Procurement of Trustee and Paying Agent Services

**Specific Recommendation:** That the State Treasurer serve as the State's paying agent in State bond transactions, rather than continue to pay for these services.

**Specific Recommendation:** That, as soon as reasonably practicable, the State Treasurer publish criteria for trustee minimum competency, and conduct a competitive, open, and fair procurement for trustee services from qualified bidders.

**Rationale and Discussion:** The State Treasurer's Office currently pays for agent services it does not need, and potentially pays more than the market rate for trustee services it does

---

<sup>66</sup> Section 310(5) of the Trust Indenture Act of 1939, as amended in 1990, states in pertinent part, "No obligor upon the indenture securities or person directly or indirectly controlling, controlled by, or under common control with such obligor shall serve as trustee upon such indenture securities."

need. There appears to be an opportunity for substantial savings through a competitive, open, and fair procurement process for trustee services. South Carolina law and basic notions of fairness require such a process.

#### Eliminate Outside Paying Agents:

The State of South Carolina can save money and eliminate a “middle man” by undertaking the activities of paying agent in each of the State’s bond issues. In fact, due to the functionality of the Depository Trust and Clearing Corporation (DTCC) in recent years, this has become a common practice among state debt issuers. South Carolina, however, continues to pay for this service.

The traditional role of paying agent in a bond transaction was to receive debt service payments from the issuer of bonds and distribute those payments to the bondholders in a timely way. Due to the creation and popular use of DTCC, however, the role of paying agent has been dramatically simplified in all but a rare few bond transactions. Established in 1973, DTCC was created to reduce costs and provide clearing and settlement efficiencies by immobilizing securities and making “book-entry” changes to ownership of debt and equity securities.<sup>67</sup> This company’s processing lead to the elimination of most certificated securities held in physical form and instead to an evolution to “book-entry” bonds, where DTCC is the registered security owner. Excluding mini-bonds, the State’s debt is now issued in book-entry form. Paying agents can now send DTCC wire transfers for principal and interest payments due on each payment date, and DTCC distributes those payments to the ultimate owners of the bonds. Likewise, South Carolina, acting as its own paying agent, can send debt service payments directly to the DTCC for further processing.

The subcommittee’s review of data from Securities Data Corporation<sup>68</sup> revealed that other southern states as well as many other states across the country serve as their own paying agent. Unlike the case of the State Treasurer serving as trustee, there are no conflict of interest concerns for the State acting as paying agent, since the same fiduciary duties do not apply.

Presently, the State employs The Bank of New York/Mellon as independent paying agent for each of the State’s bond transactions. Based upon information provided to the Subcommittee by the State Treasurer’s Office, the terms of that relationship are as follows:

- The Bank of New York/Mellon typically charges a one-time, up-front fee (versus an annual fee) to administer services over the life of each bond issue.
- The Bank of New York/Mellon is charging ten times more than the market rate in South Carolina for this service based on competitive bids submitted in response to the 2006 Request for Proposals,<sup>69</sup> or an average annual fee of \$601 per bond issue compared to the proposed annual fee of \$60<sup>70</sup> per bond issue of one of the losing bidders in 2006.<sup>71</sup>

---

<sup>67</sup> Description from DTCC’s website at [www.dtcc.com](http://www.dtcc.com).

<sup>68</sup> See page 194.

<sup>69</sup> The Treasurer’s Office initiated a request for proposals for trustee services in 2006, which was terminated without an award. See “Competitive, Open, and Fair Procurement” below for a detailed explanation of the Subcommittee’s findings regarding the 2006 Request for Proposals.

<sup>70</sup> The Subcommittee confirmed that this bank would charge approximately the same fee today as was submitted in 2006.

<sup>71</sup> See fee comparison report prepared by the subcommittee, attached on page 206, which was compiled from actual fee information of The Bank of New York/Mellon provided by the Treasurer’s Office and the actual responses of two proposing banks to the 2006 Request for Proposals. One-time fees were converted to average annual fees by dividing fee by the number of years to original bond maturity.

- The Treasurer’s Office pays \$70,000 a year in average annual paying agency fees.<sup>72</sup>
- Implementing the direct pay to DTCC will reduce future paying agency costs, but will not recapture one-time fees already paid to The Bank of New York/Mellon.

Despite the issue of the appropriate amount of the paying agent’s fee, accepting a one-time fee for long-term contracts (15 years is the average maturity of State debt) is not always the best option when considering possible future events. For example, the State may desire to replace the paying agent due to poor performance; the paying agent may sell the business and the State could end up working with an unhappy successor paying agent that is not earning a fee; the State may have pre-paid for a multi-year service no longer required due to an early bond redemption; or technology may change, and the paying agent may no longer be needed.

**Results/Benefits:** For future bond issues, the State Treasurer should undertake the responsibilities of paying agent, saving taxpayers approximately \$70,000 annually.

Competitive, Open, and Fair Procurement:

Prior to 2006, the Treasurer’s Office awarded trustee and paying agent business to a variety of banks based upon a competitive procurement process. That practice ended abruptly in 2006, when a procurement process initiated by the Treasurer’s Office ended without an official award trustee. The Subcommittee’s inquiry regarding the procurement (the 2006 Request for Proposals) produced testimony and other information supporting the following conclusions:

- In 2006, the Treasurer’s Office opened a request for proposals from corporate trustees to serve as a master paying agent on the State’s existing and future debt obligations.
- Several banks submitted proposals in response to the 2006 Request for Proposals.
- No bank was ever formally awarded the State’s business, and the Treasurer’s Office neither produced documentation nor answered questions as to the outcome of the procurement.
- When banks inquired about new business opportunities with the State, they were advised by the Debt Management Group (DMG) that The Bank of New York/Mellon was the only qualified provider of services. Further, banks were told the Treasurer’s Office did not believe these other banks would remain in the corporate trust business and the Treasurer Office’s did not want its business “sold” to another bank.
- The State Treasurer entered into a Master Paying Agent Agreement with The Bank of New York/Mellon in 2008 (the Master Paying Agent Agreement). The agreement covered services for State bonds issued after the agreement’s execution date. Other banks were not afforded the opportunity to submit their qualifications or a fee proposal for the Master Paying Agent Agreement.
- Some banks have also encountered resistance from the DMG to serving as trustee on other State debt not managed by the Treasurer’s Office. Despite the fact that the Treasurer’s Office does not publish a listing of qualifications to serve as a corporate trustee, some banks (including national banks) were advised that they were not qualified to conduct corporate trust business in the State.

---

<sup>72</sup> This total was extrapolated from information provided by the Treasurer’s Office.

- The DMG has requested that other issuers of State debt select The Bank of New York/Mellon to serve as trustee, instead of the bank of their choosing.
- The Master Paying Agent Agreement references The Bank of New York/Mellon’s “standard fee schedule” in place when bonds are issued as the governing fee schedule for South Carolina’s transactions, and has no specific information about fees.
- DMG indicated they do not have The Bank of New York/Mellon’s standard schedule of fees nor do they have a standing fee agreement with the bank. Instead, the bank provides proposed pricing for each issue at inception, which is reviewed by the office of state Treasurer for reasonableness.

Although no informed conclusions can be made about what happened to the 2006 Request for Qualifications or why all but one of the responding financial institutions were eliminated from consideration, it is clear that the process failed. First, there were, and still are, no published criteria for qualifying trustees to serve the State. Secondly, transparency was completely absent from the process.

There are several very capable banks doing business in South Carolina that regularly provide corporate trust services, some of which are recognized nationally as leading competitors in this service area. These banks are good corporate citizens employing, in some cases, hundreds of South Carolinians. They have branches throughout our State, and pay millions of dollars in property, payroll, and other taxes to our State and its subdivisions each year. These banks have a significant financial impact on the State’s economy, and are actively involved in our communities. All they have asked for is an opportunity to win the State’s business by being the most competitive. The Treasurer’s Office owes them a competitive, open, and fair procurement process.

The Treasurer’s Office should distribute a request for proposals for trustee services from qualified banks, based on published criteria for qualification. The proposal’s scope should be for existing trustee business based on a competitive fee and other delineated factors of importance to the Treasurer’s Office.<sup>73</sup> As new bonds are issued, subsequent or periodic requests for proposals should then be distributed. As legislated by the General Assembly in Act 72, all requests for proposals should afford the appropriate preference to banks with a presence in our State to encourage employment and economic development when the State expends funds.<sup>74</sup>

The establishment of formalized qualifications to serve as trustee for debt of the State, its agencies, and institutions will provide much-needed transparency and consistency. Qualifications should be incorporated into the DMG’s procedures and posted on the State Treasurer’s website for reference purposes. Indenture trustee qualifications should include, among other things:

- Standard rating threshold of Investment Grade.
- Audited annual financial statements.
- No major audit findings in Statement of Accounting Standards (SAS) 70 report of

<sup>73</sup> Example of a Trustee Requests for Proposal where preference is awarded to entities operating in the State of South Carolina is attached hereto on page 204.

<sup>74</sup> South Carolina General Assembly , 118 Session, 2009-2010, Act 72, states, “Whereas, the General Assembly finds that it is crucial to this state’s economic recovery to purchase goods manufactured and produced in the State, maintain the circulation of the funds of the citizens of this State within this State, and encourage and facilitate job development and economic growth by providing both assistance and opportunity to this state’s small businesses to participate as providers and vendors of goods and services to the State...”

- trustee operations.
- Minimum Errors & Omission and other insurance coverages.
- Minimum capital requirements.

**Results/Benefits:** Transparency, fairness, and lowest cost provider.

### H.3. Audit Debt Management Group

**Specific Recommendation:** That the Treasurer's Office hire a qualified auditor to conduct a review of bond activities performed by the Debt Management Group.

**Rationale and Discussion:** As previously stated, the Treasurer's Office manages several billion dollars of outstanding debt. The office administers various types of debt including general obligation and revenue bonds. Legal documents can be voluminous and contain complex compliance and regulatory reporting requirements. Ever changing market conditions affect revenue streams, investment options, and regulatory oversight. Given the dollar amount of the transactions, errors or oversights may result in potentially significant exposure to State. These factors mandate a thorough review of Treasurer's Office functions by an auditor who is well versed in the nuances of public finance to ensure State resources are adequately protected.

The Treasurer's Office is audited annually. Both the Independent Accountant's review of agreed upon procedures and the statewide GAAP audit test appropriateness and accuracy of cash receipts and revenues, non payroll disbursements and expenditures, journal entries, operating transfers and appropriation transfers.<sup>75</sup> However, the typical scope of these exams involves the review of isolated, large dollar transactions versus the review of bond activity by issuance over the course of a year. Such recommended review should examine compliance, investment, fund balance, cash flows, and bond payments. An auditor should review a sample of various types of bond accounts in their entirety to verify adherence to terms of governing documents and department policy and procedures, identify internal control weaknesses, and recommend areas of improvement. Additionally, the review should examine the processing capabilities, reporting and access controls of the Debt Management System, and the legacy system developed and supported internally.

**Results/Benefits:** Sound operating practices dictate a thorough review of significant department functions where the potential risk for exposure is high. Periodic review of bond activity by a qualified auditor will provide the State Treasurer with an independent report indicating whether the bond issuances have been administered in accordance with legal documents and regulatory requirements.<sup>76</sup>

---

<sup>75</sup> Descriptions of examinations are extracted from State Treasurer's Office Accountability Report and Independent Auditors Agreed Upon Procedures Report as listed on the State Treasurer's website.

<sup>76</sup> Draft example of Debt Management Group audit scope and bond issuance review form is attached on page 212.

# I. SCEIS

## I.1. South Carolina Enterprise Information System (SCEIS)

**Specific Recommendation:** That the Treasurer's Office evaluate and consolidate existing technology to reduce the number of systems, in an effort to increase efficiencies and streamline technology. Ensure the implementation of the South Carolina Enterprise Information System (SCEIS) is successfully completed by June 2011.

**Rationale and Discussion:** The STO has approximately fourteen (14) different systems in addition to SCEIS.

SCEIS, built on SAP software and mandated by the SC Legislature (Act 151 of 2005), has been successfully implemented in 69 agencies. The enterprise system has human resource, payroll, finance, and procurement functions. The goal of the single integrated platform is to streamline processes and increase efficiencies.

SCEIS, when fully implemented, will include seventy-two state entities, including the legislative branch; higher education institutions are exempt from SCEIS. The Department of Transportation and the legislative branch have not converted to SCEIS. This is a critical step in the successful retirement of the legacy Statewide Accounting and Reporting System (STARS). Conversion of legislative branch entities has yet to be resolved. The interface between the two systems requires a "cross walk" of almost every transaction between the two systems that will continue until these remaining agencies are converted. The Comprehensive Annual Financial Report (CAFR) was recently completed using the 30-year-old legacy accounting system – not SCEIS.

In addition to SCEIS, other STO systems (approximately 14) include debt management, investment, and cash management. The sheer number of STO systems, is difficult to manage and many of the systems have been in existence for a number of years and often do not integrate with SCEIS. The integration of these systems to SCIES should be examined.

**Results/Benefits:** STO involvement in SCEIS is critical to ensure the legacy system is retired and all 71 agencies are converted to SCEIS by the end of the 2010-2011 fiscal year. Timely, accurate, and complete information provided through SCEIS will benefit and empower decision-makers, ensure transparency, and improve the way government works for the citizens of South Carolina.

All other systems should be reviewed to ensure they are necessary and benefit the agency's mission.

# J. 529 Plan

## J.1. Regular Bids for 529 Plan

**Specific Recommendation:** That the STO regularly bid out the state's 529 Plan. The STO could issue a RFP Plan, issue a RFP through NAST, or issue select RFPs to the top five plan administrators, as selected by the 2010 Morningstar Survey.

**Rationale and Discussion:** The State Treasurer's Office currently administers three 529 College Savings Plans: (1) Future Scholar 529 College Savings Plans – Advisor Programs; (2) SC Tuition Prepayment Program; and (3) Future Scholar 529 College Savings Plan – Direct Investment Program. (One of these programs, the Prepayment Program, is currently inactive.) These programs are administered through Banc of America Capital management, LLC, a subsidiary of Bank of America, N.A. The subcommittee reviewed a Contract for Program Management Services to the South Carolina College Investment Program, dated January 1, 2002. It does not appear that the program has been put out for bids since that time.

The Subcommittee heard conflicting reports regarding the plan's performance. Savingforcollege.com's website ranked state's performances for direct-sold 529 Plans. These rankings (page 221) were updated for September 1, 2010. South Carolina's Future Scholar 529 College Savings Plan (direct-sold) were ranked (2010, 2nd Qtr) as follows (with 1 being the best and 51st the worst):

One-year top Performing: 34<sup>th</sup>  
Three-year: 12<sup>th</sup>  
Five-year: 6<sup>th</sup>

This website also provided five cap rankings, which report their opinion of the overall usefulness of the state's 529 Plan based upon many considerations. South Carolina's Plan ranked as follows, with one to five caps, with one being least attractive:

<u>Program</u>	<u>Resident Ranking</u>	<u>Non-Resident</u>
Future Scholar (Advisor Sold)	5 Caps	4 Caps
Future Scholar (Direct Sold)	5 Caps	(Not Open)
Tuition Prepayment Program	(Not Open)	(Not Open)

Morningstar recently issued a detailed survey in 2010 called the 2010 529 College – Savings Plans Research Paper and Industry Survey. The Morningstar Report noted that 529 college-savings plans were created in 1997 by Internal Revenue Code Section 529, which allowed individuals to grow college savings in tax-free programs sponsored by the states. The plans

took off in the early 2000s after a set of 2001 tax reforms made withdrawals for postsecondary educational expenses tax-free. Savers don't get federal tax breaks on their contributions, but many states provide incentives such as fee waivers, matching grants, scholarship programs, and, perhaps most importantly, state income-tax breaks on at least a portion of one's annual contributions to a 529 account.

As of October 2010, there were 82 529 plans, with many states having more than one plan, and three states –Washington, Wyoming, and Tennessee—having none. Often, states have one plan sold directly to individuals (direct-sold plans) and another plan sold through financial advisors (advisor-sold plans). Direct-sold and advisor-sold plans from the same states often feature different sets of options run by different asset-management companies, and the fee schedules usually are wide apart, with direct-sold plan options costing a fraction of their advisor-sold counterparts. Those lower-cost, direct-sold plans represent \$57 billion of assets, or 48 percent of the industry's total. (As may be seen below, South Carolina has a considerably smaller percentage of direct-sold plans.

South Carolina's assets under management were structured as follows:

<u>Total Assets</u>	<u>Advisor-Sold Assets \$</u>	<u>Advisor-Sold %</u>	<u>Direct-Sold Assets \$</u>	<u>Direct-Sold %</u>
\$1,126,786,173	\$815,673,488	72%	\$311,112,685	38%

The Morningstar Report contains a host of surveys. One was the average Morningstar Ratings for Investment Options within 529 Plans. Franklin Templeton 529 College Savings Plan for New Jersey topped the list with an average Morningstar Rating of 4.29 stars. Three of the top ten Plans were administered by College America, College Advantage and Vanguard 529 College Savings Plan. South Carolina's rankings out of 76 ranked were as follows:

Future Scholar 529 (Direct): 25<sup>th</sup>  
 Future Scholar 529 (Advisor): 46<sup>th</sup>

Morningstar also looked at five year annualized returns for 529 Plans' age-based tracks. Out of the 81 Plans measured with 1st being the best, South Carolina ranked as follows:

Future Scholar 529 (direct): 47<sup>th</sup>  
 Future Scholar 529 (Advisor): 54<sup>th</sup>

Morningstar also looked at fees. Morningstar noted that program-management fees coming down as 529 contracts have been put up for bid or renewed with existing program managers. For example, Nebraska's College Savings Plan recently announced it was hiring First National Bank of Omaha as its program manager, replacing Union Bank & Trust, and cutting the program-management fee to 0.29 percent from 0.60 percent - a considerable savings for shareholders. Fidelity, T. Rowe Price, and Vanguard also made high-profile cuts to many of the fees associated with their plans, and those savings typically came by lowering the program-management fee. The Fidelity plans in states such as California and New Hampshire, for instance, trimmed their program-management fees on the indexed age-based options by half, to 0.15 percent. Meanwhile, the program-management fees on its actively managed

age-based options dropped by a third, to 0.10 percent.

Much of the variability in fees among 529 plans stems from the program-management fees. Some 39 plans had greater asset-weighted program management fees than South Carolina's (0.20 percent). Thirteen states had the same fees (0.20 percent), and 19 plans had lower fees.

Morningstar also looked at a Plan's asset-weighted expense ratios. South Carolina fared poorly in this regard. Only eight Plans have a higher expense ratio than the Future Scholar 529 (Advisor) with an expense ratio of 1.69 percent. Future Scholar 529 (Direct) fared much better at 0.52 percent).

Lastly, Morningstar evaluated 529 plans in five different areas – portfolio, performance, price, parent, and people – to determine an overall analyst rating.

Plans that earned the top rating were best-in-class across all five areas. The plan's investment options are easy to own and are run by experienced managers who work for firms with excellent stewardship practices. These plans have performed well given their strategies and charge a fair price.

<u>Morningstar 529 Plan Analyst Rating — Top</u>		
<u>State</u>	<u>Plan Name</u>	<u>Sales Channel</u>
Alaska	T. Rowe Price College Savings Plan	Direct
Maryland	Maryland College Investment Plan	Direct
Nevada	The Vanguard 529 College Savings Plan	Direct
Ohio	CollegeAdvantage 529 Savings Plan	Direct
Virginia	CollegeAmerica	Advisor

Morningstar's rankings were Top, Above Average, Average, Below Average and Bottom. (Only three states received Below Average, and only one state was rated Bottom.) South Carolina's Plan was ranked Average. As Morningstar noted, "there's nothing wrong with investing in a plan that earns Morningstar's Average rating, particularly if an investor is sticking with a local plan to take advantage of in-state tax benefits and probably isn't going to save more than \$20,000 for a beneficiary. To be sure, Average plans aren't best-in-class in all areas. Usually, the quality of their investments is fine but not outstanding. Some Average plans' fees are too high — especially absent tax breaks from the state."

## K. Local Treasurers and Local Government Pool

Treasurer-Elect Curtis Loftis has expressed the desire to manage the State Treasurer's Office (STO) with an emphasis on how the STO may better serve the local county treasurers. It is anticipated that this approach will include a renewed degree of communication between the STO and local treasurers. The initial objective would be to establish a training curriculum

to make the STO's resources of experts available to the local treasurers on a regular basis. Training would be driven by current needs of the local governments.

Specifically, in regards to the Local Government Investment Pool (LGIP), the Subcommittee discovered that a number of counties are not aware of this state-run investment pool. It is the intent of the STO to promote this resource and further educate local governments regarding the benefits of this investment option.

Furthermore, the STO proposes to assign a specific deputy to a manageable number of counties taken from every population group (see source, Table 1, Population Groups, S. C. Association of Counties) so that every local treasurer would have personal access to the STO.

Finally, in an attempt to establish a new paradigm, the STO anticipates that it would be a ready resource for the interpretation of the duties of the county treasurers as per the codification of duties enumerated in the SCATT (S.C. Auditors, Treasurers and Tax Collectors)

Treasurers Manual. A centralized, interpretative resource at the STO would keep forty-six (46) individual local treasurers from having to seek Attorney General's opinions.

Table 1  
Population Groups

	Group 1	Group 2	Group 3	Group 4
Population -- 2000 Census	Over 100,000	50,001-100,000	25,001-50,000	25,000 and under
Counties	Aiken Anderson Beaufort Berkeley Charleston Florence Greenville Horry Lexington Pickens Richlands Spartanburg Sumter York	Cherokee Darlington Dorchester Georgetown Greenwood Kershaw Lancaster Laurens Oconee Orangeburg	Abbeville Chester Chesterfield Clarendon Colleton Dillon Marion Marlboro Newberry Union Williamsburg	Allendale Bamberg Barnwell Calhoun Edgefield Fairfield Hampton Jasper Lee McCormick Saluda
	14 Counties	10 Counties	11 Counties	11 Counties

## K.1. SCDMV

**Specific Recommendation:** That the SC Department of Motor Vehicles (SCDMV) print and mail county vehicle tax receipts along with registration renewals and decals.

**Rationale and Discussion:** There is sufficient room on SCDMV vehicle registration stock (491-AVC Registration Mailer Forms) to add a generic county paid tax receipt.

This move would eliminate duplication of services and save a significant amount of taxpayer dollars.

**Results/Benefits:** (Annual and Recurring ) Savings of approximately \$2,000,000 per year to the counties.

## L. Independent Audit

### L.1. Independent Audit

**Specific Recommendation:** That the Treasurer-Elect request a GAAS and Internal Control Audit.

**Rationale and Discussion:** In light of the vast responsibilities of the STO, an audit of the agency will:

- Provide assurance to the taxpayers, the Governor, the Legislature, the rating agencies, and the financial community
- Could produce findings and recommendations that would ultimately lead to improving performance, internal controls, and stewardship
- Demonstrate openness and transparency
- Set a high and consistent standard that could be followed annually

The Request for Proposal (RFP) should include the cost of each audit and an estimated ending date. Timely completion of the audit is critical to the transition.

**Results/Benefits:** A GAAS and internal control audit is necessary. The STO will benefit from the audit and the cost should be considered reasonable bearing in mind the billions of dollars for which the Office of the State Treasurer is responsible.

# Board of Financial Institutions

## Subcommittee Report

---

### Introduction and Purpose

The South Carolina State Treasurer and accompanying State Treasurer's Office (STO) serve as the 'private banker' for South Carolina. The STO is responsible for the investment, cash management, and safekeeping of the State's general and restricted funds, as well as a portion of the assets of the South Carolina Retirement Systems. The office also provides fiscal management services, including the receipt and disbursement of all funds; coordination of all banking services; issuance and maintenance of all State debt; and trusteeship of unclaimed property. The STO works and communicates regularly with the credit rating agencies about the State's debt in order to achieve the highest credit rating possible.

The Treasurer is also Vice Chairman of the State Budget & Control Board. The five-member Board is the core of South Carolina's State Government, handling functions managed by the Governor's office such as the SC Retirement System, State Procurement, State Insurance Programs, The Budget Office, the State Auditor's Office, the State Human Resources' Office, and the State Technology Office.

The Treasurer is additionally one of the five members in the South Carolina Retirement System Investment Commission, which controls a thirty billion dollar investment pool that endeavors to maximize the return of the System's assets while safeguarding the funds for the State's retirees.

Lastly, the Treasurer is the Chairman of the State Board of Financial Institutions (BFI). The BFI supervises the financial institutions under its jurisdiction through two divisions: the Bank Examining Division and the Consumer Finance Division. Oversight of the divisions includes the promulgation of regulations and instructions relating to the supervision of financial institutions; the consideration of applications for new banks, trust companies, savings and loan associations, credit unions, consumer finance licenses, and pre-need funeral contract licenses for funeral homes; and the consideration of applications for branches of banks, savings and loan associations, credit unions, and trust companies.

As set forth below, this subcommittee reviewed the following subject areas:

- M. Attracting and Keeping State-Chartered Banks
- N. BFI Budget, Workforce, and Performance
- O. Taxation Realignment Commission (TRAC) Review
- P. State Business with State-Chartered Banks
- Q. BFI Technology
- R. Payday Lending
- S. Frank-Dodd Act

## **THE SOUTH CAROLINA BOARD OF FINANCIAL INSTITUTIONS**

The South Carolina Board of Financial Institutions, formerly known as the South Carolina State Board of Bank Control, supervises financial institutions under its jurisdiction. This supervision is handled through its two divisions – the Banking Division and the Consumer Finance Division.

The mission of the State Board of Financial Institutions is to serve the citizens of the State of South Carolina by preserving a sound State-chartered financial community and protecting the borrowing public by ensuring that the state banking and consumer finance laws and regulations are followed. The State Board of Financial Institutions is responsible for the supervision, licensing and examination of all State chartered banks, savings banks, credit unions, trust companies, mortgage companies (non-depository), consumer finance companies, deferred presentment companies, and regular check cashing companies.

The State Board of Financial Institutions consists of a ten member board that meets monthly. The State Treasurer is the Chairman and ex officio member. The Governor appoints the other nine members with the advice and consent of the Senate. The Commissioner of Banking heads the Banking Division, which examines and supervises State chartered banks, savings banks, credit unions and trust companies. The Consumer Finance Commissioner heads the Consumer Finance Division, which examines and supervises consumer finance companies, deferred presentment companies, and regular check cashing companies.

From 1936 to 1976, the Board was known as the South Carolina State Board of Bank Control. Effective July 1, 1976, all references to “the Board” means the State Board of Financial Institutions.

## **LEGISLATION RELATED TO THE BOARD OF FINANCIAL INSTITUTIONS**

SECTION 34-1-10. Definitions applicable to Title.

*Except when otherwise specifically provided “bank” as used in this title must be construed to include all institutions doing any kind of banking business whose deposits are eligible for insurance by the Federal Deposit Insurance Corporation, excluding a savings bank, and “building and loan association” as used in this title must be construed to include a mutual or stock savings association, savings and loan association, or savings bank and all other institutions doing any kind of building and loan business whose deposits are eligible for insurance by the Federal Savings and Loan Insurance Corporation.*

SECTION 34-1-20. Appointment of members.

*The State Board of Financial Institutions is composed of ten members, one of whom is the State Treasurer as an ex officio member and as the chairman. The remaining nine members must be appointed by the Governor with the advice and consent of the Senate. Four must be engaged in banking and recommended by the South Carolina Bankers Association, one must be recommended by the association of supervised lenders, one must be engaged in the licensed consumer finance business as a restricted lender or a supervised lender and recommended by the Independent Consumer Finance Association, two must be engaged*

*in the cooperative credit union business and recommended by the State Cooperative Credit Union League, and one must be unaffiliated with a financial organization and serve as a representative of the consumer of the State. The terms of the present members are not affected. Each member shall represent the best interests of the public and shall not serve more than two consecutive four-year terms. The association which is to provide a member to fill a vacancy on the board, except for a consumer representative, shall submit three names, from three different institutions, from which the Governor shall select one.*

#### SECTION 34-1-20. Appointment of members.

*The State Board of Financial Institutions is composed of eleven members, one of whom is the State Treasurer as an ex officio member and as the chairman. The remaining ten members must be appointed by the Governor with the advice and consent of the Senate. Four must be engaged in banking and recommended by the South Carolina Bankers Association, one must be recommended by the association of supervised lenders, one must be engaged in the mortgage lending business and recommended by the Mortgage Bankers Association of the Carolinas, one must be engaged in the licensed consumer finance business as a restricted lender or a supervised lender and recommended by the Independent Consumer Finance Association, two must be engaged in the cooperative credit union business and recommended by the State Cooperative Credit Union League, and one must be unaffiliated with a financial organization and serve as a representative of the consumers of the State. The terms of the present members are not affected. Each member shall represent the best interests of the public and shall not serve more than two consecutive four-year terms. The association which is to provide a member to fill a vacancy on the board, except for a consumer representative, shall submit three names, from three different institutions, from which the Governor shall select one.*

This Section indicates that there are eleven (11) members of the Board. This should be reviewed.

#### SECTION 34-1-30. Terms of members; vacancies.

*The Governor originally having appointed four members of the Board, one to serve for the term of one year, one for the term of two years, one for the term of three years and one for the term of four years, the successors of the present members, upon the expiration of their respective terms of office, shall be appointed for a term of four years and until their successors are appointed and have qualified. All vacancies shall be filled in the same manner as regular appointments.*

### **BANKING DIVISION**

The Commissioner of Banking heads the Banking Division, which examines and supervises State chartered banks, savings banks, credit unions and trust companies. Laws governing entities regulated by the Office of the Commissioner of Banking are primarily found in Title 34 of the South Carolina Code of Laws and Chapter 15 of the South Carolina Code of Regulations.

In addition to meeting the statutory requirements for the establishment and supervision of state-chartered banks, savings and loan associations, savings banks, and credit unions, the Bank Exam-

ining Division has several significant other duties. A review of capital adequacy, earnings, and past due and nonaccrual loans is performed quarterly on all banks, and the reviews are utilized to determine supervisory strategies. All examinations of financial institutions are completed within the time frames required by law. In addition to on-the-job training in the field, examiners are sent to Federal Deposit Insurance Corporation and Federal Reserve Board sponsored schools. Some examiners also attended the Graduate School of Bank Investments and Financial Management at the University of South Carolina. The Division continuously reviews and solicits ideas through staff meetings on ways to improve operations without compromising the mission of the agency. During fiscal year 2009, there were no bank failures, and in the last 30 years, there have been only two failures of institutions regulated by the Board of Financial Institutions.

The powers of the Board are enumerated in Section 34-1-60:

SECTION 34-1- 60. Powers.

*The Board may supervise all banks and building and loan associations and provide regulations and instructions for the direction, control and protection of all such institutions, the conservation of their assets and the liquidation thereof, as may be necessary or proper to effectuate the purposes of this Title.*

The duties are more fully spelled out in Section 34-1-70:

SECTION 34 1 70. Approval of charters of banks, building and loan associations, savings and loan associations, and savings banks; approval of branches.

*No bank, building and loan association, savings and loan association, or savings bank may be granted a charter by the Secretary of State unless and until the Board has approved the application in writing. No branch bank, branch building and loan association, branch savings and loan association, or branch savings bank may be established without the approval in writing of the Board. Before any application for the incorporation of a bank, building and loan association, savings and loan association, or savings bank, or the establishment of a branch thereof may be approved, the Board shall make an investigation to determine whether or not the applicants have complied with all the provisions of law, whether in the judgment of the Board they are qualified to operate the institution and whether the establishment of the bank, building and loan association, savings and loan association, or savings bank or of a branch thereof, would serve the public interest, taking into consideration local circumstances and conditions at the place where it proposes to do business. A remote service unit as defined in Section 34 28 30 is not considered a branch of a bank, building and loan association, savings and loan association, or a savings bank and is not subject to any of the provisions of this section applicable to branch applications.*

As the main role of the Commissioner of Banking is to examine banks, it is more fully explained in Section 34-1-80 and Section 34-3-310:

SECTION 34 1 80. Examining department; Commissioner of Banking.

*The board shall set up an examining department, appointing a Commissioner of Banking in*

*charge with assistants, to be appointed by him subject to the consent of the board, as necessary to perform the duties incidental to the work of the board. The term of office of the Commissioner of Banking and his assistants is at the pleasure of the board. The board may also examine the Business Development Corporation of South Carolina and Carolina Capital Investment Corporation.*

#### SECTION 34-3-310. Examination of banks.

*The State Board of Bank Control may cause to be made at any time such examination of the affairs of any bank as it may deem necessary to inform it as to the financial condition of such bank and the Commissioner shall make a report thereon to the Board at the earliest practicable date.*

### **COMMISSIONER OF BANKING DIVISION**

The current Commissioner of Banking is nearing retirement age. Members of the subcommittee met with the Commissioner on November 10, 2010. He stated that the main job of the Banking Division is to determine compliance with the laws and regulations of the State and to monitor the operations of these institutions. Currently the Division supervises 49 banks, 15 credit unions, a savings and loan, a savings bank and two trust companies. Assets under the Banking Division's supervision total approximately \$24 billion.

The Banking Division currently has a staff of 18 (six office, 11 bank examiners, one credit union examiner), but has seven vacancies – 25 full-time employees.

### **INTERVIEWS WITH STATE-CHARTERED BANKS**

The Subcommittee interviewed 8-10 state-chartered banks as well as the South Carolina Banker's Association. Many issues were touched upon during the interviews.

## M. Attracting and Keeping State-Chartered Banks

### M.1. Increased STO Involvement in State-Chartered Bank Retention and Expansion

***Specific Recommendation:*** Become involved at the organizational stage when any new banks are being formed.

***Specific Recommendation:*** Contact federal thrifts and other federal banks headquartered in the state and see if there is an interest in converting to a state-chartered bank.

**Specific Recommendation:** Reach out to existing state-chartered banks to be sure they are happy and have full knowledge of the benefits of being chartered here.

**Rationale and Discussion:** The key goal of the Banking Division is to ensure that procedures are in place to adequately monitor the safety and soundness of financial institutions under the State Board of Financial Institutions jurisdiction, to ensure that statutory responsibilities are met, and to ensure that the interests of the citizens of South Carolina are protected.

It was apparent the two main benefits for being a state chartered financial institution are as follows:

- Direct contact with the regulator, who is assigned to your bank, and with the Commissioners over each division.
- Supporting the State of South Carolina.

Here are some of the comments from the interviews, not in any particular order:

- “State banks can do all that a Federal bank can do, interstate banking, etc.”
- “As a state-chartered bank he can’t open a branch in North Carolina without a new charter with the state of North Carolina. The Dodd-Frank law may have overruled that.”
- “There is not much difference between a state bank and a Federal bank. You still need FDIC approval to sell stock.”
- “The main advantage of being state-chartered bank is that you can use political clout with state guys.”
- “The State needs to take a bigger role in governing banks rather than letting the FDIC be in charge.”
- “The income tax rate on banks in South Carolina is only four and a half percent.”
- “There is no personal property tax on banks’ personal property in South Carolina.”
- “We feel like our destiny is controlled by someone in Columbia rather than in Dallas, Atlanta or D.C.”
- “Whether to be a state or federal bank is up to where we are in the ‘life cycle.’ Right now the OCC is very rigid. It changes over time.”
- “Several federal banks that are regulated by the OCC would probably prefer to be a state bank. The OCC has become draconian.”
- “I think the state could get more banks to become state-chartered banks if the BFI would be more pro-active in the organizational stage.”
- “I think the OCC has taken a draconian approach to bank exams.”
- “OCC has told its supervisors to get rid of community banks. BFI should not take risky banks but build the department up with state-chartered banks. OCC is on a mission. They like the Canadian model – only 8 or so banks in the whole country. Our banking industry employs a great number of folks. OCC has no concern about closing banks and putting people out of work.”

## **IS THE NUMBER OF STATE CHARTERED BANKS SHRINKING?**

The first challenge facing the Banking Division is the shrinking number of state chartered banks and credit unions in South Carolina. This is a concern as the operating budget of The State Board of Financial Institutions is met from the operating fees assessed to the financial institutions which it regulates and licenses. This means that the agency operates on 100 percent Other Funds (revenue derived from supervisory and licensing fees). As a reduction in financial institutions occurs, it seems logical the remaining financial institutions operating fees will have to increase to offset the decline in number. We need small banks as banks with assets of less than \$1 billion have been declining. These trends are worrisome as small banks originate a disproportionately large share of small business credit.

In evaluating whether to be maintain a federal charter or state charter, each financial institution must analyze the “Value Equation” and/or “Value Proposition”. That means that organizations make choices based upon what they value. Many people will pay more for a high-quality product, outstanding service, or for the ultimate in convenience.

All indications are that, over the next five years, the total number of financial institutions will shrink due to mergers, closures, and/or liquidations. It stands to reason that some state chartered financial institutions may look to convert to federal charter if they do not see the overall “value” of remaining state chartered. Hypothetically, federal chartered financial institutions may consider converting to state chartered if there is a perceived “value” to warrant and/or encourage such a conversion. If an increase in state chartered financial institutions occurs, it should result in operating fees leveling off or declining.

The BFI may see an increase in state-chartered banks due to the enactment of the Dodd-Frank Act. The Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) is a federal statute that was signed into law by President Barack Obama on July 21, 2010. In the past, state-chartered banks were at a disadvantage with regards to *de novo* branching into neighboring states. With the passage of the Dodd-Frank Act, the Federal Deposit Insurance Act and the National Bank Act have been amended to remove the “opt-in” concept introduced by the Riegle-Neal Act. The FDIC and the OCC now have the authority to approve applications by insured state nonmember banks and national banks, respectively, to establish *de novo* branches in states other than the bank’s home state if “the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State.” Accordingly, if a bank located in the target state can branch, then so can all other out-of-state banks – subject, of course, to standard regulatory reviews and approvals. It will certainly take some time for community bankers and regulators to fully digest the complete regulatory impact of the Dodd-Frank Act, and interpretations of certain provisions of the Act are likely to vary until final regulations are issued. However, bank regulators in many states have indicated that they will begin accepting *de novo* interstate branch applications from out-of-state institutions effective immediately.

It’s interesting to note that, in the past, the Riegle-Neal Act barred all financial institutions, **except for federal savings associations**, from branching into other states unless they purchased or merged with a bank located in the other state. This change makes state and national banks more competitive with savings associations, which have always been able to

create *de novo* branches in other states. Now that there is one less competitive advantage to being a federal thrift, such savings associations based in South Carolina may want to convert to state chartered status.

Another reason a federal savings association may want to convert to a state charter is that they will soon be regulated by the OCC. Previously they have been regulated by the OTS. The Dodd-Frank Act will eliminate the OTS. The supervision of federal savings associations will be transferred to the OCC, and supervision of state savings associations will be transferred to the FDIC. The OCC will also have rulemaking authority over both state and federal savings associations, except that the Federal Reserve Board will have rulemaking authority with regard to affiliate transactions, loans to insiders and tying arrangements. Supervision and rulemaking authority over savings and loan holding companies will be vested in the Federal Reserve Board.

The Home Owners Loan Act, which currently governs savings associations, will remain largely intact. The federal thrift charter is preserved, and the OCC is given the authority to grant new thrift charters at its discretion, although the OCC has not indicated whether it intends to authorize new federal savings associations in the future.

The transfer of OTS authority to the other regulators will occur in July 2011 unless extended for six additional months, as is permitted in the Act. While these changes do not occur immediately, the pending change in the oversight of savings associations, along with certain provisions of the Dodd-Frank Act that even the playing field between savings associations and other banks (such as the *de novo* branching provisions), may affect the value of thrift charters today.

Many believe that regulation by the OCC instead of the OTS will be more difficult and expensive. Is it easy for a Federal bank or thrift (supervised by the OCC) to convert to a state-chartered bank? One banker interviewed thinks the STO should call every bank that is regulated by the OCC. He says every one of them would prefer not to be regulated by the OCC. OCC regulators are inconsistent and have sometimes told a bank that they are “satisfactory” one year and then, the very next year, issue a “cease and desist”.

Southern Bank & Trust, based out of the Aiken area, is an example of a federal thrift that converted to a state chartered bank. Their conversion occurred in 2010. The process to convert was very smooth and BFI was very accommodating. The time may be right to determine if any of the remaining 21 federal savings associations based in South Carolina would be interested in converting to a state charter.

## N. BFI Budget, Workforce, and Performance

### N.1. Review of Banking Division Staffing and Revenue Needs

**Specific Recommendation:** Meet with the Banking Division to determine its staffing needs and what revenue is expected. If increased salaries and more

staff are needed, closely review license fees and determine if an increase is needed and viable.

**Rationale and Discussion:** As stated previously, the operating budget of The State Board of Financial Institutions is met from the operating fees assessed to the financial institutions which it regulates and licenses. This means that the agency operates on 100 percent Other Funds (revenue derived from supervisory and licensing fees). This applies to the Banking Division as well as the Consumer Finance Division. The following code sections make it clear that the fees must be sufficient to defray the cost of operating the BFI.

SECTION 34-3-320. Examination fees; number of examinations annually.

*The State Board of Financial Institutions shall fix the examination fees of banks and savings and loan associations on a scale which will yield sufficient revenue to defray the entire expense of examinations for each bank and savings and loan association. Provided, that the board shall make at least one examination every twenty-four months of all banks and savings and loan associations.*

SECTION 34-29-30. Application for license; fees.

*Application for a license shall be in writing under oath and in the form prescribed by the Board. The application shall contain such information as the Board may require, including the names and addresses of the partners, officers, directors or trustees, and such of the principal owners or members as will provide the basis for investigations and findings contemplated by Section 34-29-40. At the time of making such application, the applicant shall pay to the Board a fee for investigating the application and the sum for a license, as prescribed by the Board, which will yield sufficient revenue to defray the entire expense of operating the Consumer Finance Division of the Board of Financial Institutions for the period ending on the last day of the current calendar year. Such fee shall be computed on the outstanding loan balance of the applicant for license at the end of the last previous calendar year.*

To make matters more interesting, the two divisions have their own revenue and it is not commingled. According to the Consumer Finance Division, there is a “carry over” fund because they collect most of their funds in the third quarter (September-December) of the state fiscal year. The BFI can’t get funds from the state general fund, but this may not be a bad thing. Although it would nice to have more revenue, BFI would have to go before the state legislature in order to raise its fees – they need legislative approval. Licensing fees are set by statute. It may be difficult to get the legislature to approve an increase (similar to a tax increase) unless BFI got the backing of its member institutions. As our interviews indicated, some bankers were fine with a fee increase if it meant more and better examiners and thus better exams; however, some bankers that were interviewed already feel like they are being hit hard with fees because they pay fees to both the federal government and the state government.

Is this a bad thing for the BFI? As the State of South Carolina has had to face a 17 percent across the board cut, the BFI’s revenues have not taken such a hit. The BFI has not had to lay anyone off. Their revenue has been somewhat steady. It does seem clear that fill-

ing examiner positions has been difficult as the pay is not sufficient to keep examiners from jumping to jobs in the private sector. A thorough review of the budgeting issues should be a priority for the STO.

## N.2. Review of Banking Division Hiring Practices and Budget

**Specific Recommendation:** The STO needs to review the Banking Division's current hiring practices and budget. The Banking Division currently has seven openings and it is not shown how the Division is going about filling these positions or even if the budget allows for seven additional full-time employees.

**Rationale and Discussion:** It is critical that the Banking Division, as well as the Consumer Finance Division, maintain a competent workforce. Because of the travel required for the agency's examiners, attracting and retaining competent employees is a major challenge, which ties into the "Value Proposition" discussed above. If financial institutions do not feel they are receiving a quality examination from their regulator, what is the "value" of remaining state chartered?

Since having a competent and effective staff is crucial to fulfilling the mission of the agency, the agency must seek new opportunities for examiners and support staff development and effective recruitment procedures. This stood out as a major challenge for the agency.

In the area of maintaining a competent workforce, it was mentioned that with the increasing complexity of financial products and the ever-changing regulatory environment, more training of examiners and detailed review are required. The agency must ensure a systematic approach is taken with regards to ensuring that on-going training and education is continued for the examiners and support staff of the agency. As the training and education occurs, the examiners and support staff need to be held accountable for understanding and communicating effectively with the financial institutions they are regulating.

An examiner and/or regulatory agency will lose immediate credibility if they do not know or understand the information that they are reviewing and on which they must pass findings. This of course ties back into the "Value Proposition" discussed above. The bankers interviewed believe that the young examiners leave and go to work for a CPA firm or a bank. State examiners are not the brightest or best; federal examiners are much better. Banks could actually mislead state examiners and get away with it. It's a real challenge.

One good way of educating and training the examiners would involve working closely with the Federal Deposit Insurance Corporation, Office of the Comptroller Currency, and the National Credit Union Administration as well as other regulatory bodies. These agencies have good training and education programs, many of which are online.

## N.3. Review of Banking Division Management Succession Plan

**Specific Recommendation:** As the current Commissioner of Banking is reaching retirement age, there is a need to examine what plans the Banking Division

has for succession. Finding a good person may not be easy, as the Banking Commissioner only makes between \$70,000 and \$80,000. The head of the Consumer Finance Division also recently retired. Succession planning within both divisions of the State Board of Financial Institutions would ensure a smooth transition.

**Rationale and Discussion:** Obviously, there is a fine line between the regulators and the regulated. That does not mean that the BFI and the bankers that it governs can't get to know each other better. The consensus among the bankers interviewed is that the current Commissioner of Banking does a good job, but could do an even better job if he spent more time visiting banks and bankers and learning first hand from them the issues the banks face every day. The BFI needs to conduct more "outreach" as well as conduct an annual conference focused on industry trends, challenges, opportunities, and information exchange.

#### N.4. Review of Banking Division Turnover

**Specific Recommendation:** Consider term limits for Board members.

**Rationale and Discussion:** Some of the bankers interviewed think there should be term limits. It's important for the Board to benefit from the various perspectives in the banking community.

### O. Taxation Realignment Commission (TRAC) Review

#### O.1. TRAC Economic Impact Study

**Specific Recommendation:** Meet with necessary stakeholders and determine if an economic impact study should be economically completed to determine the effect of the TRAC changes on banks. It may be that the tax revenue generated may be offset by loss of jobs and loss of bank business in the State.

**Rationale and Discussion:** Banks and other financial institutions currently enjoy a break on the rate at which they are taxed and are exempt from payment of personal property tax. The Final Report of the South Carolina Taxation Realignment Commission (TRAC) dated December 2010 recommends that both of these breaks be repealed.

The relevant code sections are as follows:

SECTION 12-11-10. "Banks" and "taxpayers" defined.

*For the purpose of this chapter and unless otherwise required by the context, the*

*words “banks” and “taxpayers,” whenever used in this chapter, shall mean any person engaged in a banking business, whether incorporated under the laws of this State, any other state or the United States or whether unincorporated, except cash depositors.*

SECTION 12-11-20. Tax on income of banks; rate.

*A tax is imposed upon every bank engaged in business in the State which shall be levied, collected and paid annually with respect to the entire net income of the taxpayer doing a banking business within this State or from the sales or rentals of property within this State, computed at the rate of four and one half per cent of the entire net income of such bank or taxpayer.*

SECTION 12-11-30. Income tax to be instead of other taxes; exceptions.

*The income tax provided for in this chapter is instead of all other taxes on banks, except the use tax, the deed recording fee, and taxes on real property. The real property of a bank is taxed in the place where it is located.*

As a result of legislation passed in the 1940s, banks, savings and loans, and certain credit unions pay income tax in lieu of all other taxes except deed recording fees, real property, and use taxes. As such, these institutions pay no sales taxes, personal property taxes, or local business license taxes. One would surmise that such financial institutions would therefore pay an income tax at a higher rate than other businesses. In fact, the converse is true; the income tax rate for banks is lower than virtually every other business enterprise tax rate (4.5 percent versus five percent for C Corporations and five or seven percent for individuals, LLCs, S Corporations and the like.) In addition, federally chartered credit unions pay no income taxes.

TRAC has recommended the repeal of the property tax exemption for banks, credit unions, and savings and loans.

As stated above, South Carolina Code Section 12-11-30 (Banks) provides that the income tax paid by banks is in lieu of all other taxes on banks, except the use tax, the deed recording fee, and taxes on real property. The real property of a bank is taxed in the place where it is located.

In addition to banks, South Carolina Code Section 12-13-50 (Building and Loan Associations) provides that the income tax paid by building and loan associations shall be in lieu of any and all other taxes on such association except use taxes, deed recording fees, and taxes on real property. The real property of any such association shall be taxed in the place where it may be located, the same as the real property of individuals.

Although this seems fair and reasonable, don't tell that to the banks. TRAC is looking for revenue and is proposing comprehensive tax reform. Banks pay a flat 4½ percent for every dollar they earn – it is not graduated. Banks plan five to 10 years in advance and to change the tax rate would be disastrous. Banks need time to implement this change in tax rate.

HEREIN IS THE PROBLEM:

1. For every \$100,000 in capital that a bank has, it can generate \$2.5 million in loans. If you increase their tax rate, that decreases their capital and thus does not allow the bank to grow. This is because of regulated capital/asset ratios.
2. Banks started to move their data centers out of state, but because SC does not charge personal property taxes on banks they elected to stay. If TRAC changes this, then all data centers and other services will move out of state (except retail centers).

According to the bankers interviewed, these TRAC changes will be harmful. No economic impact study has been done to determine the effect of such a dramatic change in the way banks do business. They are concerned that jobs will be lost and banks may go out of business.

## P. State Business with State-Chartered Banks

### P.1. Collateralization and Pooling Mechanism

**Specific Recommendation:** The STO should implement the Pooling Mechanism set forth in the 2008 legislation. The STO should seek legislation conforming to state and local public subdivision's collateral requirement. The STO and BFI should educate state-chartered banks on the various methods of collateralization.

**Rationale and Discussion:** It would make sense for the State of South Carolina to give more of its banking business to state-chartered banks. As many of these banks are small community banks, it has been very difficult for them to compete for the State's deposits. The State of South Carolina deposits millions of dollars in banks big and small. As mentioned above, the bankers interviewed used as a rule of thumb that for every \$100,000 in capital (or deposits) that a bank has, it can generate \$2.5 million in loans. Therefore, placing state deposits with state-chartered banks will help them to grow. South Carolina has two collateralization statutes. State deposits are regulated by Title 11, Chapter 13. Section 11-13-20 provides:

SECTION 11 13 20. Deposit of State funds in banks or trust companies.

*To facilitate the disbursement of public moneys, the State Treasurer shall deposit in such bank or banks or trust companies in this State as shall be agreed upon by the State Budget and Control Board or a majority thereof, and as in its opinion shall be secure, all moneys belonging to the State, other than those he may keep in the safe in the vault of the designated bank or trust company, the moneys so deposited to be placed to the credit of the State Treasurer. Such deposits shall draw the best rate of interest obtainable.*

SECTION 11 13 60. Security for state funds deposited in excess of FDIC coverage.

*(A) A qualified public depository, as defined in subsection (E) of this section, upon the deposit of state funds by the State Treasurer, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository, at the time of deposit, shall:*

*(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or*

*(2) pledge as collateral:*

*(a) obligations of the United States;*

*(b) obligations fully guaranteed both as to principal and interest by the United States;*

*(c) general obligations of this State or any political subdivision of this State; or*

*(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation;*

*or*

*(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the State Treasurer is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the State Treasurer. The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.*

*(B)(1) A qualified public depository has the following options:*

*(a) To secure all or a portion of uninsured state funds under the Dedicated Method where all or a portion of the uninsured state funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.*

*(b) To secure all or the remainder of uninsured state funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of the State. The State Treasurer shall determine the requirements and operating procedures for this pool. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.*

*(2) Notwithstanding the provisions of item (1) of this subsection, the State Treasurer, when other federal or state law applies, may require a qualified public depository to secure all uninsured state funds separately under the Dedicated Method.*

*(C) A qualified public depository shall not accept or retain any state funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.*

*(D) The State Treasurer may assess a fee against the investment earnings of various state funds managed or invested by the State Treasurer to cover the operation and management costs associated with this section and Section 6 5 15(E)(1)(b). These*

*fees may be retained and expended to provide these services and may not exceed the actual costs associated with providing the services.*

*(E) "Qualified public depository" means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State, and any bank, trust company, or savings institution organized under the law of this State that receives or holds state funds that are secured pursuant to this chapter.*

The deposits made by cities and counties are covered by Section 6-5-10.

#### SECTION 6 5 10. Authorized investments by political subdivisions.

*(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:*

*(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.*

*(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.*

*(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.*

*(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.*

*(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.*

*(6) Repurchase agreements when collateralized by securities as set forth in this section.*

*(7) No load open end or closed end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this*

*subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.*

*(8) A political subdivision receiving Medicaid funds appropriated by the General Assembly in the annual general appropriations act may utilize appropriated funds and other monies generated by hospital operations to participate in principal protected investments in the form of notes, bonds, guaranteed investment contracts, debentures, or other contracts issued by a bank chartered in the United States or agency of a bank if chartered in the United States, financial institution, insurance company, or other entity which provides for full principal payment at the end of a contract term not to exceed twelve years if the issuer has received a rating in one of three highest general rating categories issued by no fewer than two nationally recognized credit rating organizations. No more than forty percent of the appropriated funds and other monies generated by hospital operations may be invested in the manner provided in this item. Revenue realized pursuant to these investments must be expended on health care services.*

*(b) The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.*

*(c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.*

*(d) For purposes of subsection (a), in the case of a defeased obligation, an obligation shall be treated as the obligation of the issuer of the obligation included in the qualifying defeasance escrow for the defeased obligation. A "defeased obligation" means any obligation the payment of which is secured and payable solely from a qualifying defeasance escrow and the terms of which may not be amended or modified without the consent of each of the holders of the defeased obligation. A "qualifying defeasance escrow" means a deposit of securities, including defeasance obligations, with a trustee or similar fiduciary under the terms of an agreement that requires the trustee or fiduciary to apply the proceeds of any interest payments or maturity of the defeasance obligation to the payment of the defeased obligation and when the trustee or fiduciary has received verification from a certified public accountant that the payments will be sufficient to pay the defeased obligation timely. A defeasance obligation must not be callable or subject to prepayment by the issuer and it must be a direct general obligation of the United States and its agencies, or an obligation the payment of principal and interest on which is fully and unconditionally guaranteed by the United States.*

Many state banks do not realize that the 2008 legislation created a "Pooling Method" which greatly increases their chance at getting more deposits from the state. It is imperative that the STO push to have these new measures enforced. It would also be beneficial for the STO to look at the different method that cities and counties are using under Section 6-5-10.

Lastly, it was suggested that it would be very beneficial to community banks if they could pledge qualified South Carolina municipal paper for collateralization of state and local deposits.

## Q. BFI Technology

### Q.1. Uniformity in Reporting

**Specific Recommendation:** It is clear that the STO should push to have uniformity with the Federal regulations in the reporting process. That will require new technology that could be costly. The STO should determine whether the BFI can secure the funding from its own revenue and, if not, explore other funding sources.

**Rationale and Discussion:** This leads to the area of technology used by the State Board of Financial Institutions. A thorough review should be performed to ensure the agency uses technology to remain competitive, knowledgeable, and to create efficiencies. The agency wants to ensure key processes are revised to make them more efficient and effective. As knowledge grows and technology changes, key processes must be revised to make them more efficient and effective.

Interviews revealed that the agency uses computers and specialized computer software which assist in producing the primary product, which is the examination report. It was noted that information technology is evaluated periodically within the agency to ensure that examiners and support staff have the necessary tools and training to effectively and efficiently perform their jobs. How this review is performed and completed should be scrutinized to ensure the objectives being discussed are met.

Adequate use of technology could eliminate any duplication of process that may occur between federal regulators and the State Board of Financial Institutions, or any other entity the agency may be in contact with. For example, some state chartered financial institutions stated they send their Call Reports required by the federal regulator electronically via a secure website while sending a printed copy to the State Board of Financial Institutions via the mail system. Some question whether a better use of technology could be served to reduce any duplication processes between regulators. There have been complaints that paper reports sent to the state have been lost.

## R. Payday Lending

### CONSUMER FINANCE DIVISION

The mission of the Consumer Finance Division is to serve the citizens of the State of South Carolina by protecting the borrowing public by ensuring that state consumer finance, check cashing, and mortgage lending laws and regulations are followed. To this end, the Consumer Finance Division is responsible for supervision, licensing, and examination of all non-depository mortgage lenders and their loan originators, consumer finance companies, deferred presentment companies, and regular check cashing companies.

It seems the key issue facing the Consumer Finance Division will be “predatory lenders” and legislation related to the consumer lenders. The industry of check cashing companies and finance companies have earned the label of “predatory lenders” by some in the financial industry, where customers allegedly are charged excessive fees, interest rates, and/or penalty rates for services provided. It has caught the attention of legislators in many states due to what many consider unfavorable practices.

The Commissioner of the Consumer Finance Division retired effective December 1, 2010. It is not known when he will be replaced.

The Consumer Finance Division is responsible for regulating licensing and compliance examinations for non-depository consumer lending licensed under Title 34 and Title 37. Consumer loans made by non-bank/depository lenders with an interest rate exceeding 12 percent must be licensed whether located in or outside of South Carolina. The lenders involved in these activities fall into the following licensing categories:

Restricted Lenders – Consumer Loans less than \$7,500

Supervised Lenders – Consumer Loans up to \$85,000

Mortgage Lenders/Servicers – All non-depository real estate secured transaction activity

(A) Mortgage Branch License

(B) Mortgage Loan Originator License

Deferred Presentment License – Nationally known as “Payday Lending”  
\$550 maximum

Level I Check Cashing License

Level II Check Cashing License

## DISCUSSION OF CONSUMER LENDING IN SOUTH CAROLINA

Two laws regulate consumer lenders in South Carolina. The major loan statute is the South Carolina Consumer Protection Code, Section 37-1-101 *et seq.* (Consumer Protection Code). Chapter 3 of the Consumer Protection Code governs loans. The second body of law relevant to loans is the Consumer Finance Act, S.C. Code Section 34-29-10 *et seq.* The Consumer Finance Act regulates “restricted lenders.” Restricted lenders are “restricted” to lending amounts of \$7,500 or less. (See Section 34-29-20(a).) All other consumer lenders in South Carolina are regulated solely by the Consumer Protection Code and are known as “supervised lenders.” The Code defines supervised loans as those having finance charges in excess of 12 percent a year. (See Section 37-3-501(1).)

The Consumer Finance Act regulates licensing procedures, rates, and charges for restricted lenders. In all other areas, such as advertising, disclosure, and limitations on remedies and penalties, restricted lenders are subject to the Consumer Protection Code (See Section 37-3-102). Sometimes inconsistencies between the two Acts occur in areas where the Consum-

er Protection Code would otherwise be followed. In those cases, the Consumer Protection Code provides that inconsistencies shall be resolved in favor of the Consumer Finance Act. (See Section 37-1-106.)

To make matters more complicated, one must remember the interplay between state and federal law when dealing with loans. The Truth in Lending Act (TILA) regulates the form of information contained in a loan contract, whereas state law regulates the content. The Consumer Protection Code incorporates TILA by requiring lenders to comply with TILA's provisions (Section 37-3-301) and also authorizes a state cause of action for disclosure violations (see Section 37-5-203). This cause of action is in lieu of and not in addition to the federal cause of action. The Consumer Finance Act, at Section 34-29-150, also requires disclosures similar to those required under TILA except that the Consumer Finance Act contains no penalties for borrowers in the event a restricted lender does not follow the disclosure requirements.

In analyzing a loan contract, it is important to remember that everything in the contract is regulated in some fashion and violations of those regulatory provisions may give rise to claims in favor of the borrower. These claims usually arise in response to a collection action by a creditor following a default by the borrower.

#### DISCUSSION OF "RESTRICTED LENDERS"

Restricted Lenders – There are currently 13 licensed restricted lenders in South Carolina.

Licensed and regulated under Title 34 Chapter 29 (Consumer Finance Act) to make consumer loans less than \$7,500. Interest rates and terms are regulated by statute.

Requirements for licensure:

- \$25,000 unencumbered assets for each license
- Location separate and distinct from any other business where goods are sold or leased
- Owners/officers must meet character and fitness criteria (via credit checks, business references, regulatory references in operating in another state, personal references, name based criminal background searches through SLED)
- Meet convenience and advantage to public by written explanation of business model. Other license types in area may protest additional license issuance unless there is less than two in area.
- Disclosure of any regulatory actions, fines, and/or revocations from any governmental entity
- File rates with SC Department of Consumer Affairs and post rates in location
- Renewal fees paid annually
- Exams required annually by statute for compliance with Title 34, Chapter 29, and Federal Truth in Lending guidelines
- Submission of annual reports for review and analysis

According to the Consumer Finance Division, the number of restricted lenders has decreased substantially over the years and has plummeted since Section 34-29-140 put a

legislative cap on loans of less than \$600. There are only 13 left. Act 602, enacted in 1994, restricted loans of less than \$600. It created a formula that determined what the interest rate would be. Therefore, payday lenders got out of that business. For loans over \$600, the rate is not restricted.

### DISCUSSION OF “SUPERVISED LENDERS”

Supervised Lenders – There are currently 1,402 licensed supervised lenders in South Carolina.

“Supervised Lenders” are licensed under Title 37 Chapter 3 to make consumer loans up to \$85,000. They are regulated under Title 37 Chapters 1, 3, 4, 5, 6, 10; portions of Title 36 (UCCC). Terms and rates on loans \$600 and less are regulated by statute. Loans over \$600 have unregulated interest rates as long as rates are filed with SC Department of Consumer Affairs and posted in location and/or internet site if applicable.

Requirements for licensure:

- \$25,000 unencumbered assets for each license
- Location separate and distinct from any other business where goods are sold or leased
- Owners/officers must meet character and fitness criteria (via credit checks, business references, regulatory references in operating in another state, personal references, name based criminal background searches through SLED)
- Meet convenience and advantage to public by written explanation of business model. Other license types in area may not protest additional license issuance.
- Disclosure of any regulatory actions, fines and or revocations from any governmental entity
- File rates with SC Department of Consumer Affairs and post rates in location
- Examinations per statute are determined as needed by Director and/or Board
- Submission of annual reports for review and analysis

### DISCUSSION OF MORTGAGE LENDING ACT ENACTED AS OF JANUARY 1, 2010

Senate Bill #673 (Now Section 37-22-110 et. seq.) enacted the South Carolina Mortgage Lending Act in response to the national S.A.F.E Mortgage Licensing Act of 2008. South Carolina’s Mortgage Lending Act requires the licensing of mortgage lenders and loan originators and establishes qualifications for licensure and grounds for revocation, suspension, renewal, and termination; describes prohibited activities; outlines record-keeping, annual reporting and renewal requirements; provides for enforcement through administrative action by the Commissioner of Consumer Finance Division of the Board of Financial Institutions and through criminal penalties. It also authorizes participation in the National Mortgage Registry, a nationwide database licensing system for the residential mortgage industry that will improve supervision of the mortgage industry, streamline the licensing process and enhance consumer protection.

Mortgage Lenders/Service Providers/Mortgage Loan Originators (Effective 1/1/10)

(Current company applications received 327; 407 branch applications received; 2796 mortgage loan originator (MLO) applications received)

- Licensed and regulated under Title 37 Chapter 22. Other licensing and regulation also mandated by Title 37 Chapter 23, Chapter 10, Chapter 3
- Federal S.A.F.E. Act, Federal Truth in Lending, Federal Reserve Regulation Z and Federal Real Estate Settlement and Procedures ACT (RESPA)
- Under federal and state statutes, licensing applications are facilitated through the National Mortgage Licensing Systems & Registry (NMLS) and forwarded via internet-based database to respective state jurisdictions requested by applicant.

Requirements for licensure:

- Companies must disclose their financial condition and obtain and assign surety bond based on prior year's volume of business state. A minimum of \$50,000 must be assigned to Consumer Finance Division.
- National and state fingerprint criminal background checks are required for officers, control persons, managing principals, branch managers and mortgage loan originators.
- Non conviction of any felony in last ten years. Non conviction of felony that is financial services related (ever) and non conviction of misdemeanor involving financial services or breach of trust last ten years
- Submission of credit reports on all officers, control persons, managing principals, branch managers and mortgage loan originators
- Disclosure of business history on all above and business plan regarding lending and/or servicing operation
- Disclosure of any regulatory actions, fines or penalties by any governmental entity
- Disclosure of any civil action/lawsuits that any control person or officer was involved or named
- Filing and posting of interest rates (rates not regulated)
- Submission of annual reports, annual mortgage log and quarterly call reports for review and analysis
- Annual renewal fee paid
- Managing principals, branch managers and mortgage loan originator have additional requirements
- Twenty hours of pre-licensing education approved by NMLS
- Passage of a federal and state test
- Completion of 8 hours continuing education annually approved by NMLS

SECTION 37-22-200. Powers of commissioner relating to denial, suspension, revocation or refusal to renew license; surrender; investigations and subpoena of documents.

SECTION 37-22-210. Commissioner's records; segregated escrow funds; licensee ceasing business activities.

*(A) The commissioner shall keep a list of all applicants for licensure pursuant to this chapter which includes the date of application, name, and place of residence and*

*whether the license was granted or refused.*

SECTION 37-22-220. Maintenance of records by licensee; annual mortgage reports.

*(A) A licensee shall maintain records in conformity with generally accepted accounting principles and practices in a manner that will enable the commissioner to determine if the licensee is complying with the provisions of this chapter and other state and federal laws. The recordkeeping system of a licensee is sufficient if it makes the required information reasonably available. The records need not be kept in the place of business where loans are made if the commissioner is given free access to the records wherever located and the licensee pays the reasonable cost of their examination.*

*(B) On or before March thirty-first each year, a licensee shall file with the commissioner an annual report in the form prescribed by the commissioner relating to all mortgage loans made, serviced, or brokered by it. The licensee shall pay a fine of one hundred dollars a day for each late or incomplete annual report.*

*(C) The mortgage loan report shall include, but is not limited to, the total number and dollar amounts in connection with all mortgage loans, of:*

*(1) first and subordinate lien loans originated by licensee and closed in the name of another party;*

*(2) first and subordinate lien loans originated by another party and closed in the name of the licensee;*

*(3) first and subordinate lien loans originated by and closed in the name of the licensee;*

*(4) first and subordinate lien loans originated by and closed in the name of another party but funded by licensee;*

*(5) loans purchased by licensee;*

*(6) first and subordinate lien loans serviced by licensee;*

*(7) loans owned with and without servicing rights;*

*(8) loans sold with and without servicing rights;*

*(9) loans paid off before and at maturity;*

*(10) unpaid loans at the beginning and end of the reporting year;*

*(11) delinquent loans that are 30-59, 60-89, and ninety days or more delinquent, of all the loans the licensee owned as of December thirty-first;*

*(12) loans in foreclosure as of December thirty-first and foreclosed in the previous calendar year by licensee;*

*(13) mortgage loans charged against reserve for loan losses as a result of foreclosures during the reporting year; and*

*(14) loans repurchased during the previous calendar year.*

*(D) The annual report also must include the total gross revenue earned in this State under this license, the total dollar amount of points paid to the licensee by borrowers on first and subordinate lien mortgage loans, the total dollar amount of points paid to brokers by the licensee on first and subordinate lien mortgage loans, including yield spread premiums, and the lending institution, maximum amount available, outstanding balance, and expiration date of licensee's four largest warehouse lines of credit during the previous calendar year.*

*(E) Information contained in annual reports is confidential and may be published only in composite form.*

*(F) The commissioner annually shall submit to the department, in a form prescribed*

*by the Department of Consumer Affairs and no later than April thirtieth, the data that it collected. The department shall prepare and make available to the public a report based on the data. The report must be available by June thirtieth each year.*

## DISCUSSION OF PAYDAY LENDING

The Subcommittee reviewed Deferred Presentment also known as payday lending. There are currently 532 licensed payday lenders in South Carolina.

Licensed and regulated under Title 34 Chapter 39 for providers to accept a personal check, provide cash, and hold or defer presentment of the check for a specified time (maximum 31 days) for a fee of 15 percent of the face amount of check. The maximum allowable transaction amount is \$550. Disclosures must be in compliance with Federal Truth in Lending Act.

Required for licensure:

- Minimum net worth of \$25,000 available to operate each license
- Owners/officers meet financial responsibility, character and fitness criteria to command confidence of public. (audited financials or certified bank letters or statements)
- Credit checks on owners/officers as well as name based criminal background checks
- Have location separate from any other business
- Filed rates with Consumer Finance Division
- Licensee and all locations must utilize third-party databases to enter all transaction activity limited consumer to one open transaction at a time pursuant to §34-39-175
- Compliance exams required annually
- Submissions of annual reports for reviews and analysis

## DISCUSSION OF CHECK CASHING

Level I and Level II Check Cashing (# Currently Licensed – 431)

Section 34-41-10(3) “Level I check-cashing service” means any person or entity engaged in the business of cashing checks, drafts, or money orders for a fee, service charge, or other consideration.

Section 34-41-10(4) “Level II check-cashing service” means any person or entity engaged in the business of cashing checks, drafts, or money orders for a fee, service charge, or other consideration. A Level II licensee may not be licensed to engaged in the business of deferred presentment

- Licensed and regulated under Title 34 Chapter 41 for Level 1 and mobile armored car check cashers and Level II check cashers to cash checks, money orders, drafts, etc. for fee

Requirements for licensure:

- Applicant must have and maintain \$50,000 in liquid assets for operation of license verified by audited financial statements, banking letters or certificate of deposit in a depository institution
- Owners/officers must submit credit reports and have a name based criminal background search to meet character and fitness requirements
- Level I licenses only allowed in Deferred Presentment location with same restrictions on activity
- Level II licenses may be in any retail establishment except one where money is loaned.
- File rates with Consumer Finance Division and post in location
- Examinations are not on a required schedule, but as needed for compliance concerns
- No required annual reporting

### Check Cashing Services

Often times, businesses offering deferred presentment services also engage in check-cashing services where the business does not “hold” the check before cashing it. Section 34-41-10, *et seq.*, governs check cashing services. In order for a business to receive a license authorizing the business to provide check-cashing services, the business must have \$50,000 in liquid assets for each licensee. Like with deferred presentment licenses, the business must also post the license as well as the fees charged for the check-cashing service.

Section 34-41-60 limits the fees check-cashing businesses can charge as follows:

- (i) for government, county, municipality, or any printed payroll check, the greater of either 2% of the check’s face value or \$3.00;*
- (ii) for all other checks (e.g. handwritten payroll checks) and money orders, the greater of 7 % of the check’s face value or \$5.00.*

Each check that the licensee cashes must have a written agreement accompanying it that both the customer and licensee signs. §34-41-60(E). The penalties for violating this Chapter mirror the deferred presentment penalties and can be found in §§34-41-110 and -120.

## R.1. Compare Payday Lending Revenue Lost to Mortgage Lending Revenue Gained

**Specific Recommendation:** Although fees received from restricted lenders and payday lenders will continue to decrease, the Consumer Finance Division is receiving new revenue from the licensing of mortgage lenders, mortgage branches and mortgage loan originators. The STO must determine whether the new revenue will be sufficient.

The STO must work with the Consumer Finance Division to get a better handle on exactly what remains to be done in order to complete the work required to regulate mortgage lenders. The main issues are: (1) It is very important for the

Consumer Finance Division to get all the new programs implemented; and (2) It must have staff that truly understands the new law so that it can determine whether further regulations will be required (See Section 37-22-260 which states that the commissioner may promulgate regulations necessary to effectuate the purposes of the Mortgage Lending Act).

Once these questions are answered, the STO and the Consumer Finance Division can determine if revenues are sufficient.

***Rationale and Discussion:*** The Subcommittee interviewed representatives of the Consumer Finance Division as well as others involved in consumer finance issues. Information provided indicates examinations decreased, as did the number of licensees, over the course of 2009 into early 2010. This was comparable to other Southeastern state agencies, which showed a decline in the number of licensed lenders and applications, indicative of a market that has slowed. However, other states experienced an increase in the number of check cashing applications, resulting from the continued cooperation between the banking industry and the Federal Government, which requires licensing of money service businesses. However, examinations have skyrocketed in 2010 now that mortgage companies are regulated by the Consumer Finance Division.

Six hundred payday licenses have not been renewed because of changes to the law; therefore, there has been a hit in revenue. With the enactment of the South Carolina Mortgage Lending Act, the Consumer Finance Division now supervises mortgage companies (non-depository lenders). As this law is new, it is now up to the Consumer Finance Division to devise an examination program for lending compliance for mortgage companies and safety and soundness reports. They also have to review quarterly call reports under the Home Mortgage Disclosure Act.

The National Mortgage Licensing System under HUD went live as of January 4, 2010, in South Carolina. The Consumer Finance Division received approximately 3,700 applications from existing non-depository mortgage lenders who are required to file applications with South Carolina to be regulated. By January 2011, if they hadn't applied for the license, they can no longer operate. This has been a staffing nightmare. The Consumer Finance Division has, however, hired two new employees. The only money they have to run the department is from licensing fees and renewal fees as well as examination fees. They take nothing from the state General Fund. It is very important for the Consumer Finance Division to get all the new programs implemented. Although there is a lack of funding, they have to deal with what they have with the limited funds.

The Consumer Finance Division was forced to pull examiners out of the field to work on the mortgage licenses. They have to determine if the applicant is qualified. It's a complicated law, and the staff needs to understand what the statute says. Applications for 292 out of 320 companies have been processed. Applications for 300 out of 450 branches have been processed. Now, they need to run all the mortgage loan originators (MLO's). Applications for 1,700 of 3,100 MLO's have been approved. The Consumer Finance Division has to review the person's education, criminal background check (FBI), and state background check (SLED), and follow up with the state and federal statutes for the approval.

As mentioned above, the two divisions have their own revenue and it is not comingled. According to the Consumer Finance Division, there is a “carry over” fund because they collect most of their funds in the third quarter (September-December) of the state fiscal year. The STO must work with the Board of Financial Institutions to assure that both Divisions are adequately funded to fully meet their responsibilities.

## WHAT FEES ARE COLLECTED?

### Restricted Lender Fees: 34-29-30

#### SECTION 34-29-30. Application for license; fees.

*Application for a license shall be in writing under oath and in the form prescribed by the Board. The application shall contain such information as the Board may require, including the names and addresses of the partners, officers, directors or trustees, and such of the principal owners or members as will provide the basis for investigations and findings contemplated by Section 34-29-40. At the time of making such application, the applicant shall pay to the Board a fee for investigating the application and the sum for a license, as prescribed by the Board, which will yield sufficient revenue to defray the entire expense of operating the Consumer Finance Division of the Board of Financial Institutions for the period ending on the last day of the current calendar year. Such fee shall be computed on the outstanding loan balance of the applicant for license at the end of the last previous calendar year.*

#### SECTION 34-29-50. Contents of license; posting; nonassignability; duration; annual fee.

*(a) Each license shall state the address at which the business is to be conducted and shall state fully the name of the licensee, and if the licensee is a copartnership or association, the names of the members thereof, and if a corporation, the date and place of its incorporation. Each license shall be kept posted in the licensed place of business and shall not be transferable or assignable.*

*(b) Each license shall remain in full force and effect until surrendered, revoked or suspended as hereinafter provided. Each licensee shall, on or before the first day of each February, pay to the Board the sum, as prescribed by the Board, for each license held by the licensee as a license renewal fee for the current year, computed as of December thirty-first of the preceding calendar year.*

#### SECTION 34-29-190. Disposition of fees and other funds.

*All license fees, investigation fees, and other funds collected by the Board under the terms of this chapter, shall be paid over to the State Treasurer and shall be used to defray costs of administering this chapter, including salaries of assistant examiners and other clerical help found necessary and necessary travel expenses and subsistence.*

### Payday lender fees:

SECTION 34-39-150. Application for licensure.

*(A) An application for licensure pursuant to this chapter must be in writing, under oath, and on a form prescribed by the board. The application must set forth all of the following:*

- (1) the legal name and residence and business addresses of the applicant and, if the applicant is a partnership, association, or corporation, of every member, officer, managing employee, and director of it;*
- (2) the location of the registered office of the applicant;*
- (3) the registered agent of the applicant if the applicant is required by other law to have a registered agent;*
- (4) the addresses of the locations to be licensed; and*
- (5) other information concerning the financial responsibility, background experience, and activities, such as other partnerships, associations, and corporations located at or adjacent to the licensed location of the applicant and its members, officers, managing employees, and directors as the board requires.*

*(B) Upon receipt of an application in the form prescribed by the board, accompanied by the required fee, the board shall investigate whether the qualifications for licensure are satisfied. If the board finds that the qualifications are satisfied, it shall issue to the applicant a license to engage in the deferred presentment services business. If the board fails to issue a license, it shall notify the applicant of the denial and the reasons for it. The provisions of the Administrative Procedures Act apply to the appeal of the denial of a license.*

*(C) The application must be accompanied by payment of an application fee of one thousand dollars and an investigation fee of five hundred dollars. These fees are not refundable or abatable. If the license is granted, however, payment of the application fee satisfies the fee requirement for the first license year or its remainder.*

*(D) A license expires annually and may be renewed upon payment of a license fee of one thousand dollars. The annual license renewal fee for an applicant with more than one location is one thousand dollars for the first location and two hundred fifty dollars for each additional location.*

*(E) One-half of the renewal fees collected pursuant to subsection (D) must be credited to the Board of Financial Institutions for enforcement of this chapter and one-half must be credited to the Attorney General to prosecute actions brought for violations of this chapter.*

Supervised lender fees:

*See 37-3-503(8) - The State Board of Financial Institutions, for the purposes of execution of its responsibilities under this Title, shall be entitled to collect from applicants and licensees the regulatory fees provided in Chapter 29 of Title 34. But all lenders shall pay the notification fee provided in this Title to the Administrator of the Department of Consumer Affairs.*

Mortgage Lending fees:

*37-22-140 (E) Every applicant for initial licensure shall pay a filing fee of one thousand dollars for licensure as a mortgage lender or fifty dollars for licensure as a loan origi-*

*nator, in addition to the actual cost of obtaining credit reports and national and state fingerprint-based criminal history record checks. If a licensed loan originator changes employment, a new license must be issued and a fee of twenty-five dollars must be paid.*

*37-22-140 (H) Each principal office and each branch office of a licensed mortgage lender at which business is conducted must be licensed pursuant to this chapter and must be issued a separate license. A licensed mortgage lender shall file with the commissioner an application on a form prescribed by the commissioner which identifies the address of the principal office and each branch office and branch manager. A licensing fee of one hundred fifty dollars must be assessed by the commissioner for each branch office issued a license.*

SECTION 37-22-150. Expiration and renewal of licenses; fingerprint check; assignment or transfer of license.

*(A) All licenses issued by the commissioner pursuant to this chapter expire annually on the thirty-first day of December or on another date that the commissioner may determine. The license is invalid after that date unless renewed. The renewal period for all licensees is from November first through December thirty-first annually or on another date the commissioner may determine. A licensee desiring to renew its license must submit an application to the commissioner on forms and containing information the commissioner requires. Applications received after December thirty-first or another date the commissioner determines, are late and the late fees in subsection (B) apply. A license may be renewed by compliance with this section and by paying to the commissioner, in addition to the actual cost of obtaining credit reports and national and state fingerprint-based criminal history record checks as the commissioner may require, a renewal fee as prescribed by the board for each of the following:*

*(1) for a licensed mortgage lender, an annual renewal fee of no more than eight hundred dollars and no more than one hundred fifty dollars for each branch office; and  
(2) for a licensed loan originator, an annual fee of no more than fifty dollars.*

*(B) If a license of a licensed mortgage lender is not renewed during the renewal period, a late fee of not more than five hundred dollars as prescribed by the board, in addition to the renewal fee in subsection (A)(1), must be assessed. If a license of a licensed loan originator is not renewed during the renewal period, a late fee of not more than one hundred dollars as prescribed by the board, in addition to the renewal fee in subsection (A)(2) of this section, must be assessed as a late fee to a renewal. If a licensee fails to renew its license within thirty days after the date the license expires or otherwise fails to maintain a valid license, the commissioner shall require the licensee to comply with the requirements for the initial issuance of a license pursuant to this chapter, in addition to paying any fee that has accrued.*

*(C) At any time required by the commissioner, each person described in Section 37-22-140 shall furnish to the commissioner consent to a national and state fingerprint-based criminal history record check and a set of fingerprints in a form acceptable to the commissioner. Refusal to consent to a criminal history record check may constitute grounds for the commissioner to deny renewal of the license of the person as well as the license of another person by which he is employed, over which he has control,*

*or as to which he is the current or proposed managing principal or a current or proposed branch manager.*

*(D) A license issued pursuant to this chapter is not assignable or transferable. Control of a licensee must not be acquired through a stock purchase or other device without the prior written consent of the commissioner. The commissioner may not give written consent if the commissioner finds that any of the grounds for denial, revocation, or suspension of a license pursuant to Section 37-22-200 are applicable to the acquiring person.*

SECTION 37-22-250. Funds payable to commissioner.

*All funds specified in this chapter must be paid to the commissioner, must be used to implement the provisions of this chapter, and are nonrefundable.*

Check Cashing License Fees:

*Section 34-41-40 (C) The application must be accompanied by payment of a two hundred fifty dollar application fee and a five hundred dollar investigation fee. These fees are not refundable or abatable, but, if the license is granted, payment of the application fee shall satisfy the fee requirement for the first license year or remaining part of it.*

*(D) Licenses shall expire annually and may be renewed upon payment of a license fee of two hundred fifty dollars plus a fifty dollar fee for each branch location certificate issued under a license.*

## R.2. Continued Legality of Payday Lending and Consideration of Rate Cap

***Specific Recommendation:*** As our two closest states, North Carolina and Georgia, have prohibited payday lending, the STO should initiate conversations with officials from those states to get a better understanding of their position on this issue.

If the STO determines that prohibiting payday lending is not the appropriate course of action, then an interest rate cap should be considered. Under the Military Lending Act of 2007, the amount of interest that can be charged to any active military employee or family member is limited to 36 percent APR. The Act also instituted a complete ban on securing a loan with a personal check, electronic authorization to debit a bank account, or title to a car or military allotment. If such limitations are sufficient for the military, they should protect the citizens of South Carolina.

If prohibiting payday lending or capping the interest rate is not possible, then

further review of existing laws would be prudent. Where payday lending causes the most harm is with chronic, repeat borrowers. These individuals use one payday loan to pay off the last, and find themselves in a continual cycle of borrowing that becomes nearly impossible to break. The new payday lending law has limited the number and frequency of payday loans which hopefully will allow repeat borrowers to break out of the payday loan cycle. Whether the law is restrictive enough should be determined.

Two other areas that should be reviewed are as follows:

1. Review the disclosures payday lenders must provide to borrowers. Information is power, and borrowers should fully understand the implications of their choices.
2. Educate consumers about personal finance. Sound personal financial decisions can help avoid the need to access payday loans or many other sources of credit. The BFI should develop and conduct a public information campaign via the internet and utilizing state and local consumer-oriented groups to assist in carrying the message to consumers.

***Rationale and Discussion:***

Deferred Presentment (Payday Lending)

The Law prior to February 1, 2010:

When low-income consumers need money, they often turn to businesses offering “payday loans” rather than banks or other more traditional lenders. The payday lender allows the borrower to write a post-dated check for the amount the borrower needs. In the legislation passed in 1999 lenders were limited to advancing up to \$300.00, plus the lender’s fee of 15 percent. This amount has been increased to \$550.00, plus the lenders fee of 15 percent beginning February 1, 2010.

For example, if a borrower needs \$100, he would write a check for \$115, and the lender would not cash it until the borrower’s next payday. This practice of holding a consumer’s check in exchange for a fee is called “deferred presentment.” When this industry first began to emerge, businesses providing deferred presentment services have thrived by charging high fees and allowing borrowers to extend, or “flip,” the original loan if they still did not have the money to cover the check in exchange for another fee.

For example, the borrower could pay \$20 every two weeks for a year to avoid having their check deposited. This would result in paying \$520 in fees for “borrowing” \$100.00. In an effort to protect the consumer from this perpetuation of debt, the Legislature in 1999 passed the South Carolina Deferred Presentment Services Act, §34-39-110, et. seq. which regulates payday lenders.

Under this Act, businesses offering deferred presentment services, as defined in §34-39-120(3), must obtain (and post thereafter) a license from the State Board of Financial

Institutions for each of its locations. §34-39-130(A). To receive a license, the business must, among other things, have a minimum net worth of \$25,000 for each location it wishes to operate. §34-39-160(1). As of February 1, 2010, a company wishing to engage in this business with a consumer who resides in South Carolina, whether or not the company has a location in the state, must be licensed by the Board of Financial Institutions. This is intended to make internet lending illegal for those who are not licensed and complying with the limitations on number of and amount of loans.

Once a business obtains a license, §34-39-180 regulates the deferred presentment transaction. Under this section, the licensee cannot: (i) lend more than \$300; (ii) hold the check longer than 31 days; (iii) charge more than 15 percent of the amount loaned; (iv) extend, or “flip,” the loan; (v) accept another deferred presentment check to pay for a previous check; or (vii) prosecute or threaten to prosecute for a check that does not clear due to lack of funds.

Furthermore, businesses offering deferred presentment services may not sell retail goods unless those goods are among the very limited list of items set forth in §34-39-200(9), such as money orders, postage stamps, and food/beverages in vending machines.

For each check, both the borrower and the lender must sign a written agreement documenting the business’s name, the transaction date, the amount of the check, the actual fee charged, and the fee’s corresponding annual percentage rate. (§34-39-180(C).) Also, the lender must comply with the notification and disclosure requirements of the Truth in Lending Act and must give these forms to the borrower before he enters into the deferred presentment agreement. (§34-3-180(D).)

In addition to these disclosure requirements, licensees must also to post their fees in a conspicuous spot at each of their locations. (§34-39-170(B).)

The State Board of Financial Institutions may impose civil penalties on check cashers who violate the provisions of this Act. For each violation, the Board can fine up to \$1,000, and the Board may also order the business to refund any unlawful or excessive fee. (§34-9-230.) On top of civil penalties, the Board can refer any person it believes to have willfully violated the provisions of this Act to the prosecutor for criminal sanctions. (§34-39-240.)

The Subcommittee interviewed advocates who are against payday lending. It was their view that, under the old law, the lenders were very clever in their effort to keep consumers in the cycle of debt of payday loans and consumers began running into difficulty with deferred presentment when they entered into multiple contracts. What often happened was the consumer entered into a contract with a second company to payoff an existing check. Then, the consumer entered into a second contract with the original company in order to maintain cash flow. Although this is a form of “flipping,” since the same business was not used to pay off the original check, it did not violate the letter of the law. It was not unusual to encounter consumers indebted to more than ten companies at one time and who paid over \$500 every two weeks in fees.

#### The Law after February 1, 2010:

In 2009, the legislature amended the deferred presentment statutes. While the initial effort in-

cluded an attempt to mirror federal laws that protect military borrowers, this ultimately did not pass. Federal law limits the amount of interest that can be charged to any active military employee or family member to 36 percent APR (See the Military Lending Act). While the new South Carolina law, effective February 1, 2010, does not cap the interest rate, it will provide some additional protections for consumers to limit the number or loans that can be entered into at any given time to just one per consumer. (§34-39-270.) To enforce the provision mandating that a consumer shall not have more than one loan at a time from any lender, the legislature has authorized the enactment of a database and requires that every lender shall: (i) Check the data base before entering into a loan with a consumer; (ii) Note in the data base when it enters into a loan with a consumer and then when the loan is paid in full; (iii) Note if the consumer has entered into an Extended Payment Plan (EPP) with the lender and when the loan is paid through the EPP; (iv) Not make a loan to a consumer that has an outstanding payday loan or EPP with any lender; (v) Not make a loan to a consumer on the same day that s/he has paid her loan off in full and once the consumer has made seven consecutive loans the lender must wait two full business days; (vi) The consumer can be charged one-half of the actual fee charged by the database provider, but the consumer cannot be charged more than \$0.50, and only when the loan is consummated. (§34-29-270)

While the new law will finally limit the number of loans that a consumer may have to one at a time, the amount that can be borrowed has been increased to \$550.00. (§34-39-180(B).) The lender must give the consumer the right to rescind the loan, at no cost, on or before the close of the next business day.

A consumer must be afforded the right by each lender, to enter into an Extended Payment Plan (EPP) once during a 12 month period of time. (§34-39-280.) Consumer advocates feel that, unfortunately, this section provides little to no protection for the consumer. An EPP must be provided to a consumer if the consumer makes a request for the payment plan prior to the due date of the loan. Most borrowers will not even attempt to contact the lender until the day the loan is due, thus the mandate to provide this service will never really be available to those who could use it to get out of debt. More troubling is that the law only requires that the lender provide a consumer an EPP with four substantially equal payments to pay the debt in full. This provision is likely to create a greater financial hardship to the consumer than if he paid the loan in full and entered into a new loan the following day. For example, a consumer that borrows \$550.00 on the first of the month will owe the lender \$632.50 on the 15th (\$550.00 +\$82.50). If the consumer cannot afford to turn over her entire paycheck to the lender for the two week period her choice is:

1. Pay \$632.50 and come back the next day and borrow \$550.00. By borrowing the \$550.00 the consumer will only be spending \$82.50 during that two week period of time.
2. The consumer enters into an EPP with four installments of \$158.13 every two weeks. This is \$75 more each week than example #1 and for someone on a tight budget could be attractive.

For a consumer that is living paycheck to paycheck, it may appear to be less financially burdensome to pay the loan in full and then borrow the money the following day, regardless of whether or not she is incurring a new charge each time. It seems much easier to pay “only” \$82.50 during the pay period rather than the higher amount of \$158.13. Clearly, for the lend-

er the financial incentive is to collect that fee with each new contract rather than enter into a plan for repayment. In those states where this program has been legislated, the percentage of borrowers entering into these plans has been extremely low. It really does not address the problem of getting out of the cycle of debt. This explains why it has been pushed so hard by the industry in states that are looking at reform. .

The new law has increased the licensing fee for payday lenders with one half of the fee going to the SC Attorney General's office to prosecute violations. In addition, a detailed report on payday lending activity must be presented to both chambers of the legislature to provide information as to trends in the industry based on information from the database.

Regardless of when a payday loan was entered into, there are steps that can be taken to help consumers protect themselves. First, it is important to remember that a consumer cannot be prosecuted if a check is returned due to insufficient funds, closed account or stop payment order.

The only remedy that is available is to pursue the consumer in a civil action. (§34-39-180(G).) A payday lender cannot even threaten criminal prosecution as it is prohibited act under the statute and doing so would violate our state debt collection laws. (§37-5-108.)

Payday lenders are subject to the provisions of the SC Consumer Protection Code that prohibit unconscionable activity. (§34-39-200(5).) Unconscionable activity is defined by prohibitions contained in §37-5-108. This means that if a lender enters into a loan with a consumer without determining whether or not he has the ability to repay and the individual defaults, this can be used as a defense to a collection action. In addition, payday lenders are prohibited from acting in an unfair, deceptive and fraudulent manner and doing so would trigger a South Carolina Unfair Trade Practices Claim.

Consumer Advocates would love to see payday lending outlawed. They have fought for years on behalf of poor and elderly consumers who they believe have been exploited. At a minimum, they would like to see an interest rate cap to rein in what they believe to be exorbitant and unconscionable interest rates. When asked what would be reasonable, they responded 99 percent APR!

#### Payday Lenders Response:

In May 2001, the Credit Research Center at the McDonough School of Business at Georgetown University released "Payday Advance in America: An Analysis of Customer Demand," the first-ever, comprehensive economic analysis of consumer demand for and use of payday advance services. Until the release of this study, only anecdotal evidence has been used to discuss the payday advance consumer. The Georgetown study presents the first impartial observation of payday advance in America. Highlights of the analysis include:

Payday advance fees are lower than many of consumers' alternatives. Bank NSF and merchant fees on a bounced check typically cost more than three times the cost of a \$100 payday advance

Payday advance APRs are often lower than customers' alternatives, even on the same two-week term. For example, on a 30-day term, a standard \$29 late fee on a \$100 credit card

payment would have an APR of 771 percent. Similarly, a \$100 check with a \$25 NSF and a \$25 merchant fee would have an APR of 1,303 percent.

Consider a consumer who incurs a \$1.00 fee to withdraw \$100 from an ATM. Under the interpretation of annualizing payday advance fees, the APR for withdrawing \$100 for one day for a \$1 fee would be 365 percent.

PricewaterhouseCoopers conducted a survey that examines the interest rates associated with payday advances, and found that when compared to other types of short-term loans, payday loans are a common sense financial option.

Customers overwhelmingly appreciate payday advances. Ninety-two percent of payday advance customers believe payday advance is a useful service. Over 75 percent of customers were satisfied with their most recent payday advance transaction and only 12 percent were dissatisfied.

Payday advance consumers take responsibility for their own financial situations. More than three quarters of customers (79 percent) believe overspending is the responsibility of the consumer, not the lender.

Payday advance customers use the service responsibly. Sixty-six percent of customers use payday advances to pay unexpected expenses or a temporary reduction in income. Thirty-four percent use payday advance for planned expenses or other discretionary uses.

Payday advance customers understand the cost of the service. Ninety-six percent of customers were aware of and reported the finance charge and could compare it with similar fees, including late fees.

Most customers use payday advance infrequently or moderately. Sixty percent either did not renew payday advances at all in the last year or renewed only one to four times. ("Renewals" include both rollovers and new advances taken out on the same day a prior advance was paid in full.)

Most customers fit the expected economic profile of consumers in early life-cycle stages. Forty-two percent own homes and 100 percent have steady incomes and checking accounts. Only one in ten payday advance customers is 55 or older, while seniors represent three out of 10 of all adults in America.

## **PAYDAY LENDING IN NORTH CAROLINA AND GEORGIA**

### **North Carolina:**

North Carolina became the first state to close down a once legal payday lending industry. The state allowed the law that authorized payday lending to sunset in 2001. Some payday lending chains continued to operate under partnerships with out-of-state banks, arguing that this arrangement exempted them from North Carolina laws. The North Carolina Attorney General prosecuted one of these chains, Advance America, and the North Carolina Commissioner of Banks ruled against Advance America's continued payday lending in the state. On March 1, 2006, the remaining chains entered consent agreements with the Attorney General, and all stores operated by out-of-state chains were eliminated. Internet payday lending in the

state is also subject to North Carolina law, even if the offer comes from outside the state.

The UNC Center for Community Capital undertook a study at the request of the North Carolina Office of the Commissioner of Banks to assess the household credit market since the closure of payday lending stores in North Carolina. The study entitled North Carolina Consumers After Payday Lending: Attitude and Experiences With Credit Options (November 2007).

Researchers were asked to determine:

- What effect has the end of storefront payday lending had on low- and middle-income households?
- Do residents have adequate options to deal with financial hardships?
- What options are most commonly used, and how do they compare to payday loans?
- Are North Carolina residents faring better or worse without payday lending?

The Center conducted two phases of consumer research:

1. A survey of 400 low- and middle-income North Carolinians about financial shortfalls their households faced, and how they managed these shortfalls when they occurred.
2. Focus groups of former payday borrowers to understand their experiences with payday lending, and the impact payday de-authorization had on their ability to manage financial shortfalls.

Researchers concluded that the absence of storefront payday lending has had no significant impact on the availability of credit for households in North Carolina. The vast majority of households surveyed reported being unaffected by the end of payday lending. Households reported using an array of options to manage financial shortfalls, and few are impacted by the absence of a single option - in this case, payday lending.

More than twice as many former payday borrowers reported that the absence of payday lending has had a positive rather than negative effect on their household. The ban on payday lending has made no difference to most, and helped more households than it has harmed.

Payday borrowers gave first-hand accounts of how payday loans are easy to get into but a struggle to get out of. These borrowers universally agreed that the cost of payday loans was excessive.

Nearly nine out of 10 households surveyed think that payday lending is a bad thing. This overwhelming negative view of the product did not vary significantly for households that had experienced a financial shortfall.

#### Georgia:

On April 15, 2004, Georgia passed a law that makes payday loans lending punishable with a one-year prison term and a \$5,000 maximum fine per loan. After due consideration, the bill was passed prescribing harsh felony penalties to those who violate the law. The new law prohibits loans of \$3,000 or less if the loan violates Georgia's usury laws. The new payday lending law caps the annual percentage rate at 16 percent. The Payday Lending Act of 2004

authorizes felony and racketeering charges against violators as well as a fine of \$25,000 and a possible jail sentence of 25 years. Payday loans are illegal in the State of Georgia. The Georgia State Payday Lending law has been regarded as model legislation in the fight against what some call “the plague of payday lending.”

## S. Frank-Dodd Act

### S.1. Effects of Frank-Dodd Act on South Carolina

***Specific Recommendation:*** The Dodd-Frank Act is complicated Federal legislation, and it may be years before it is truly understood. The STO should encourage the Consumer Finance Division to have its staff fully educated on Dodd-Frank issues, especially the powers of the Federal Bureau of Consumer Financial Protection.

***Rationale and Discussion:*** The Dodd-Frank Act created the Federal Bureau of Consumer Financial Protection. The Bureau will gain exclusive rulemaking authority over a wide range of Federal consumer protection laws. The Bureau will also have authority over any non-depository company that provides payday loans to consumers. It is clear that the substantive consumer protection provisions of the Dodd-Frank Act and the regulations issued by the Bureau do not prevent State laws and regulations that afford greater protection to consumers, as determined by the Bureau. It is also clear that an appropriate state regulator may enforce the Dodd-Frank Act and the Bureau’s regulations against a state-chartered or licensed entity or that is authorized to do business in the state.



# Appendix



# Appendix

- 114 – Budget and Control Board Subcommittee Summary
- 115 – Speech by SEC Commissioner: Statement at SEC Field Hearing on the State of the Municipal Securities Market
- 122 – Order Instituting Cease-and-Desist Proceedings
- 138 – 2010 State Pension Funding Review
- 173 – P-Card Fraud News Articles
- 179 – Excerpt from Budget Proviso 89.148
- 180 – State Treasurer’s Office Subcommittee Summary
- 181 – Review of Bank of America Analysis Statement
- 186 – Account Analysis Benefits Summary (The Weiland Financial Group, Inc.)
- 190 – Securities Data Corporation Reports
- 206 – Fee Comparison Report
- 208 – Sample Trustee Requests for Proposal
- 216 – Debt Management Audit Scopes
- 221 – Performances for Direct Sold 529 Plans

# Budget and Control Board Subcommittee Summary:

## **Subcommittee Meetings and Action:**

In addition to numerous interviews, meetings, and research sessions conducted by individual members of the Subcommittee, the Subcommittee met formally on the following dates:

Wednesday, August 25, 2010, 2:00 pm. (Organizational meeting)

Friday, September 24, 2010, 2:30 pm.

Friday, October 15, 2010, 2:30 pm.

Friday, October 22, 2010, 2:30 pm.

Friday, November 5, 2010, 10:30 am.

Wednesday, November 17, 2010, 10:00 am.

Monday, November 29, 2010, 10:30 am.

This report was approved in meeting of the Subcommittee at Charleston, South Carolina, on November 29, 2010.

## **Members of the Subcommittee:**

Justin Evans

Mallory Factor, Co-Chairman

Alan B. Linkous, Esq., Co-Chairman

William H. McAfee, Jr.

Grant Reeves

Michael S. Smith II

Ric Tapp, Esq.

Leslie Whiddon

# Speech by SEC Commissioner:

SEC Speech: Statement at SEC Field Hearing on the State of the Municipal Securities Ma... Page 1 of 7



[Home](#) | [Previous Page](#)

U.S. Securities and Exchange Commission

## **Speech by SEC Commissioner: Statement at SEC Field Hearing on the State of the Municipal Securities Market**

*by*

**Commissioner Elisse B. Walter**

*U.S. Securities and Exchange Commission*

San Francisco, California  
September 21, 2010

Good morning. Welcome to the Securities and Exchange Commission's inaugural field hearing on the State of the Municipal Securities Market. We are grateful that state and local government officials, municipal securities investors, and experienced municipal market professionals have agreed to participate as panelists in today's meeting. Thank you so much for devoting your valuable time to this important effort. And, we are looking forward to an instructive day, listening to these participants' comments, insights, and recommendations on critical issues in the municipal securities market — particularly in the areas of disclosure, credit ratings, significant liabilities, internal controls and investor experiences. We also look forward to any written materials the participants here today and all other interested persons submit for the record.

As you know, the purpose of these hearings is to explore the issues relating to the municipal securities market that arise under the federal securities laws. At the conclusion of all of the hearings, the Commission staff will prepare a report concerning what we have learned, including their recommendations for further action that we should pursue, which may include legislation, rulemaking and changes in industry practice. These hearings will be instrumental in informing those recommendations. Thus, the Commission's standard disclaimer, which I make for myself and all other Commission participants, is particularly apt — that our remarks today represent our own views, and not necessarily those of the Commission, other Commissioners, or members of the staff.<sup>1</sup> And, I would like to add that the views we express today may well change in light of the valuable input we will receive today and throughout the course of the field hearing process.

Before I go any further, I would like to introduce you to my colleagues and our fellow regulators, who are here with us today. Joining me on the stage will be two of the Commission's senior experts in this area — Meredith Cross, Director of our Division of Corporation Finance and Henry Hu, Director of our Division of Risk, Strategy, and Financial Innovation.

The moderators of today's panels are two staff members, well-known to

most of you — Amy Starr, Senior Special Counsel for Capital Markets, Office of the Chief Counsel, Division of Corporation Finance and Martha Haines, Chief of the Office of Municipal Securities, Division of Trading and Markets. My appreciation goes as well to Kayla Gillan, Chairman Schapiro's Deputy Chief of Staff, who is leading this effort for the Commission, my counsels Alicia Goldin and Lesli Sheppard who have been indispensable to this effort, and Rachel Hurnyak from Chairman Schapiro's office who has handled the logistics for this hearing and has done a phenomenal job of keeping us all organized.

I am also very pleased that we are joined today by Mike Rufino of FINRA and Alan Polsky and Lynette Hotchkiss of the Municipal Securities Rulemaking Board (MSRB). The MSRB and FINRA, as you well know, play critical roles in regulating professionals who operate in the municipal market and their assistance has been invaluable. Among those participating as panelists are several knowledgeable state and local officials — the Honorable Bill Lockyer, California State Treasurer; the Honorable Jim McIntire, Washington State Treasurer; the Honorable Michael Belsky, Mayor of Highland Park, Ill.; David Crane with the Office of Governor Schwarzenegger; Mark Blake, Deputy City Attorney of San Francisco; Brian Mayhew, Chief Financial Officer for the Bay Area Toll Authority; and Ed Harrington, General Manager of the San Francisco Public Utilities Commission. Additionally, in the audience with us today is California Corporations Commissioner Preston DuFauchard. Welcome and our thanks to you all.

Next, I'd like to provide a brief overview of the current state of the municipal securities market, which will be followed by a description of today's field hearing. And finally, I will highlight for you the types of issues we are hoping to explore during today's panel discussion.

### **Overview of the Municipal Securities Market**

Over the past 30 years, the municipal securities market has grown tremendously on many fronts, and serves as an increasingly significant part of the U.S. capital markets. The current amount of municipal bonds outstanding is estimated to be roughly 2.8 trillion<sup>2</sup> and more than \$470.5 billion of new bonds and notes were issued last year.<sup>3</sup> The Build America Bonds ("BAB") program was launched in April 2009, and as of April 2010, it had enabled states and localities to issue more than \$90 billion of BAB bonds to fund new building projects.<sup>4</sup>

Despite the reputation of the muni market as a "buy and hold" market, trading volume is substantial, with approximately \$3.8 trillion of long and short-term municipal securities traded in 2009 in over 10 million transactions.<sup>5</sup>

With an estimated 51,000 or more state and local issuers<sup>6</sup>, it is an extremely diverse market. Depending on the type of financing, payments may come from general revenues of the municipal issuer, specific tax receipts, revenues generated from a public project or other specific revenue, payments from private entities or from a combination of sources. The interest paid on municipal debt securities is often, but not always, exempt from federal income taxation and, in some cases, also may be exempt from state income and other taxes.

Retail investors hold approximately 36 percent of outstanding municipal securities directly, up to another 34 percent indirectly through mutual funds and closed-end funds<sup>7</sup>, and retail-sized trades account for roughly 81 percent of trading volume.<sup>8</sup>

And, in spite of their well-deserved reputation for safety, municipal securities can and do default. From 1999 to 2009, issuers defaulted on over \$24 billion in municipal bonds out of a total of \$3.4 trillion issued. In 2009 alone, 194 municipal bond issues defaulted with an overall dollar amount of almost \$7 billion in bonds.<sup>9</sup>

It is hard to overestimate the importance of the municipal securities market to building and maintaining the infrastructure of our nation. The billions of dollars that the muni market raises each year supports projects that are needed by all of us as taxpayers and residents in the towns, cities, counties, and states across our country. Many of us also play a dual role in the market. Not only are we recipients of the benefits that our states and localities provide with the funds they raise, we are also the source of those funds — as purchasers of municipal securities. A core mission of the SEC is to protect investors and we are here today in furtherance of that mission — specifically, to focus on protection of those purchasers of municipal securities.

Despite its size and obvious importance, the municipal securities market lacks many of the protections customary in many other sectors of the U.S. capital markets. Investors in municipal securities should have the same rights as investors in other types of securities to receive information that is not materially misleading and does not contain material omissions — that includes receiving financial and other material information that is not stale. These precepts are central to informed investment decision-making and investor protection. As I have previously bemoaned, investors in municipal securities are, in certain respects, afforded "second-class treatment" today.<sup>10</sup> I, for one, believe that needs a hard look.

Some have suggested looking to the corporate disclosure scheme as a framework for municipal disclosure. I believe that we can learn from the corporate world, but it is also essential that we recognize the differences in the municipal and corporate finance worlds and that we work together to evaluate what an appropriate framework for municipal finance disclosure should be in the future.

### **Introduction and Format of Today's Field Hearing**

Chairman Schapiro shares my interest in strengthening investor protection mechanisms applicable in this important sector of the capital markets, which is why she has asked me to lead a series of field hearings across the country to elicit the analyses and opinions of a broad array of municipal market participants.<sup>11</sup> As the Chairman has noted, to grapple with the complex issues presented by the municipal securities market, we need to harness the ideas of a wide range of people who have experienced this market from many different perspectives.<sup>12</sup>

Over the course of the next several months, we anticipate holding additional field hearings in Chicago, Washington D.C., Birmingham, Ala., Tallahassee, Fla. and Austin, Texas. Each field hearing will include

participants from the local region and will examine different sets of issues. The Western Region is an essential player in this market, and holding our first hearing here in San Francisco will provide us an important base of information going forward.

I view these field hearings as a fantastic opportunity to take a fresh look at the way the municipal securities market works and to effect real regulatory change. I am confident that by soliciting input from market participants around the country, our staff will be well equipped to develop meaningful and practical recommendations to improve the state of the market.

We have an impressive group of panelists lined up for the day, and on behalf of my colleagues and myself, I would like to thank all of them for so generously agreeing to participate in this field hearing. A heartfelt thank you also goes to our host for today's event — the Port of San Francisco — and Monique Moyer, its Executive Director, who has been incredibly helpful and welcoming to us.

The format of today's field hearing will entail five panels covering topics relating to disclosure, credit ratings, significant liabilities, internal controls and investor experiences. Once I conclude my opening remarks, we'll launch right into the first panel.

As moderators, Amy and Martha will introduce their topics and panelists. Each panelist will then make brief opening remarks. The moderator, Meredith, Henry, and I will then ask the panelists some questions. We look forward to a lively and fruitful discussion, and I encourage the panelists to engage in a dialogue with each other in addition to addressing our questions.

#### **Discussion**

Our agenda for today is certainly ambitious. We will be covering a number of complex and interesting topics and will look to each panel to help us to understand better the particular concerns of different market participants, highlight key areas for improvement, and provide some concrete ideas for moving forward. I want to emphasize that last point — this endeavor is about the desired future state of the market.

I am particularly excited about this first field hearing, as today's panels will be addressing two areas that I care deeply about: transparency and the investor experience. Let me tell you a bit about what we hope to address on each of the panels:

Our first panel of the day — entitled *Selected Disclosure Practices: Transparency and Presentation* — will touch on a number of important substantive topics, including: disclosure of "key" or material events and conflicts of interest, such as broker-dealer affiliate relationships and issues relating to the role of insurers and credit enhancers, including, for example, credit worthiness and consequences of default by an insurer or credit enhancer and disclosure of issuer information in the presence of insurance or credit enhancement.

The disclosure panel will also address important issues surrounding timing, availability, and format of disclosure, including: transparency of pre- and

post-trade information; timeliness, accessibility and clarity of disclosure; and presentation or format of disclosure, including disclosure principles, use of an executive summary, comparability of disclosures by different issuers, possible tiering of disclosure requirements, and voluntary data-tagging.

Because it has long been my view that our principal goal in this area should be to improve the quality and timeliness of information available to municipal securities investors,<sup>13</sup> I am especially interested in hearing from this first panel.

Our second panel: *Ratings — Impact and Practices* — will explore: rating agency practices and protocols, for example, comparing the way ratings firms handle municipal securities and corporate securities; the impact of bond insurance on ratings; comparability of ratings from different agencies; and conflicts of interest.

After lunch, we will jump into our third panel — *Disclosure of Certain Significant Liabilities* — which will focus on public pensions, retiree health, and derivatives. For instance, how reliable are asset and liability valuations and underlying assumptions with respect to pensions and retiree health? Do we have appropriate accounting standards for reporting the economic value of pension liabilities? How do issuers of variable rate debt use derivatives for purposes of hedging interest rate risk? What kinds of disclosure do issuers make regarding their use of derivatives? How can we address better the needs of investors and regulators?

Next, we will focus on disclosure controls and internal controls, including standards for issuer officials who approve offering documents and best practices for disclosure controls involving securities offerings and secondary market disclosure.

Last, but certainly not least, we will hear from investors. In order to think about ways in which we can combat the "second-class" treatment of municipal securities investors, we need to listen to investors and understand their needs: Tell us about yourselves. What prompted you to invest in municipal securities? How do you go about investing? Do you use an intermediary? What kinds of information does your advisor or salesperson provide you about your investing options? Do you conduct other research before investing? Have you found information about the municipal securities market to be accessible and clear? What kind of information would be most helpful to you in making investing decisions in the municipal market? In what form would that information be most useful? Do you have specific complaints about your experience as a municipal securities investor? How does your experience investing in the municipal securities market compare with your experience investing in other parts of the capital markets? Do you think the municipal securities market is fair?

At our future hearings, we will revisit some of these topics, and cover many others, such as: investor protection; investor education; financial reporting and accounting; the Municipal Securities Rulemaking Board; municipalities acting as conduit borrowers for private companies or non-profit entities; market stability and liquidity; offering participants, professionals and market intermediaries; Build America Bonds and other taxable municipal securities; and 529 Plans.

We encourage investors and all other interested parties to submit comments related to the field hearing topics and any other topics related to the municipal securities market to assist the Commission staff in determining whether to recommend changes to laws, regulations, or best practices to better protect municipal securities investors. Comments may be submitted by using the comment form on the SEC website or sending an e-mail to [munifieldhearings@sec.gov](mailto:munifieldhearings@sec.gov).

### **Conclusion**

The Commission is committed to a strong and vibrant municipal securities market, and I know that our talented and dedicated staff is already hard at work thinking about these issues and developing possible regulatory and market participant responses. I hope that today's presentations and our upcoming field hearings will help inform us in taking the right steps to ensure the integrity of this vital market. Our panelists today represent a range of constituencies, including: state and local government, regulators, national associations, retail and institutional investors, and various market participants. We are privileged to have them here, and grateful for the effort they have made to take part. We look forward to a spirited and substantive discussion.

A few housekeeping items. First, we'd like to ask the panelists, moderators, and other questioners to please stand your nameplate vertically when you would like a turn to speak. Second, there will be a lunch break from 12:15 to 1 p.m. and our last panel of the day will conclude at 4:30 p.m. Finally, a transcript of today's event will be made available on the Commission's website, in addition to any written statements provided by the panelists.

I'll now turn it over to Amy Starr, who will introduce our first panel to you.

### **Endnotes**

---

<sup>1</sup> The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publications or statements by any of its employee. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission, other Commissioners, or the staff.

<sup>2</sup> Federal Reserve Board, Flow of Funds Accounts, Flows and Outstandings (Second Quarter 2010) *available at* <http://www.federalreserve.gov/releases/z1/current/z1.pdf>.

<sup>3</sup> Thomson Reuters' SDC Platinum, Global Public Finance Module. Statistics are based on 2009 public issuances of U.S. municipal debt.

<sup>4</sup> Treasury Analysis of Build America Bonds and Issuer Net Borrowing Costs, U.S. Treasury Department, April 2, 2010 *available at* <http://treas.gov/offices/economic-policy/4%202%2010%20BABS%20Savings%20Report%20FINAL.pdf>.

<sup>5</sup> See the Municipal Securities Rulemaking Board 2009 Fact Book ("MSRB

Fact Book"), *available at* <http://www.msrb.org/msrb1/pdfs/MSRB2009FactBook.pdf>.

<sup>6</sup> *See, e.g., Report on Transactions in Municipal Securities* prepared by Office of Economic Analysis and Office of Municipal Securities, the Division of Market Regulation, Commission, (July 1, 2004) (*available at* <http://www.sec.gov/news/studies/munireport2004.pdf>).

<sup>7</sup> *See Securities Industry and Financial Markets Association, US Municipal Securities Holders* (quarterly data to Q1 2010), *available at* <http://www.sifma.org/research/research.aspx?ID=10806>.

<sup>8</sup> *See* MSRB Fact Book.

<sup>9</sup> *See* Mysak, Joe, "Buy Stocks as Municipal Yields Reach 43-Year Lows: Joe Mysak," Bloomberg (August 30, 2010).

<sup>10</sup> Commissioner Elisse B. Walter, Regulation of the Municipal Securities Market: Investors Are Not Second-Class Citizens, 10th Annual A. A. Sommer, Jr. Corporate, Securities and Financial Law Lecture, New York, NY (October 28, 2009) *available at* <http://www.sec.gov/news/speech/2009/spch102809ebw.htm>.

<sup>11</sup> Chairman Mary L. Schapiro, Remarks at Investment Company Institute 2010 General Membership Meeting (as delivered by Andrew J. Donohue), Washington, D.C. (May 7, 2010) *available at* <http://www.sec.gov/news/speech/2010/spch050710mls.htm>.

<sup>12</sup> *Id.*

<sup>13</sup> *See, e.g.,* Commissioner Elisse B. Walter, Remarks at 42nd Annual Rocky Mountain Securities Conference, Marriott City Center, Denver, Colorado (May 7, 2010) *available at* <http://www.sec.gov/news/speech/2010/spch050710ebw.htm>.

<http://www.sec.gov/news/speech/2010/spch092110ebw.htm>

# Order Instituting Cease-and-Desist Proceedings:

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933  
Release No. 9135 / August 18, 2010

ADMINISTRATIVE PROCEEDING  
File No. 3-14009

In the Matter of  
  
STATE OF NEW JERSEY,  
  
Respondent.

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 8A OF THE SECURITIES ACT  
OF 1933, MAKING FINDINGS, AND  
IMPOSING A CEASE-AND-DESIST  
ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), against the State of New Jersey (the “State,” “New Jersey” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, the State has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, the State consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

**III.**

On the basis of this Order and the State’s Offer, the Commission finds that:

**Summary**

1. This matter involves New Jersey’s violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act in connection with the offer and sale of over \$26 billion in municipal bonds from August 2001 through April 2007. In 79 municipal bond offerings, the State misrepresented and failed to disclose material information regarding its under funding of New Jersey’s two largest

pension plans, the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"). More specifically, the State did not adequately disclose that it was under funding TPAF and PERS, why it was under funding TPAF and PERS, or the potential effects of the under funding.

2. In disclosure documents prepared in connection with each of the bond offerings, including preliminary official statements, official statements,<sup>1</sup> and Treasurer's Annual Reports<sup>2</sup> (collectively, "disclosure documents" or "bond offering documents"), the State made material misrepresentations and omissions regarding: (1) legislation adopted in 2001 (the "2001 legislation") which increased retirement benefits for employees and retirees enrolled in TPAF and PERS; (2) special Benefit Enhancement Funds ("BEFs") created by the 2001 legislation initially intended to fund the costs associated with the increased benefits; (3) the State's use of the BEFs as part of a five-year "phase-in plan" to begin making contributions to TPAF and PERS; and (4) the State's alteration and eventual abandonment of the five-year phase-in plan. These misrepresentations and omissions created the fiscal illusion that TPAF and PERS were being adequately funded and masked the fact that New Jersey was unable to make contributions to TPAF and PERS without raising taxes or cutting other services, or otherwise impacting the budget. Accordingly, disclosure documents failed to provide adequate information for investors to evaluate the State's ability to fund TPAF and PERS or the impact of the State's pension obligations on the State's financial condition.

### **Respondents and Related Entities**

3. New Jersey possesses all powers, functions, rights, privileges and immunities authorized by the New Jersey Constitution and the State's laws, including the power to issue debt. The State has approximately 8.7 million residents, and is the second wealthiest State based on per capita personal income.

4. Teachers' Pension and Annuity Fund is a defined benefit plan<sup>3</sup> operated by the

---

<sup>1</sup> An official statement is a document prepared by an issuer of municipal bonds that discloses material information regarding the issuer and the particular offering. A preliminary official statement is a preliminary version of the official statement which is used to describe the proposed new issue of municipal securities prior to the determination of the interest rate(s) and offering price(s). The preliminary official statement may be used to gauge interest in an issue and is often relied upon by potential purchasers in making their investment decisions.

<sup>2</sup> Treasurer's Annual Reports are continuing disclosures filed by the State with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") under Rule 15c2-12 of the Securities Exchange Act of 1934 ("Exchange Act").

<sup>3</sup> A defined benefit plan is a pension plan that specifies the amount of pension benefits to be provided at a future date based on various factors, including age, years of service, and compensation.

State to provide retirement, death, and disability benefits to its members.<sup>4</sup> TPAF is the State's largest pension plan, and, as of June 30, 2009, had an actuarial value of assets of more than \$34 billion. As of June 30, 2009, TPAF had an active membership of 157,109 as well as 78,782 retirees and beneficiaries receiving annual pensions totaling more than \$2.8 billion.

5. Public Employees' Retirement System is a defined benefit plan operated by the State to provide retirement, death, and disability benefits to its members. PERS is the State's second largest pension plan, and, as of July 1, 2009, had an actuarial value of assets of more than \$28 billion. In addition to the State, local governments within New Jersey participate as employers. As of July 1, 2009, the State portion of PERS had assets of more than \$10 billion. As of July 1, 2009, PERS had an active membership of 316,849<sup>5</sup> as well as 136,957 retirees and beneficiaries<sup>6</sup> receiving annual pensions totaling more than \$2.2 billion.

### **State Law Requires Certain Annual Calculations and Measures of New Jersey's Pension Plans**

6. State law regulates the administration of New Jersey's pension plans. The Division of Pensions and Benefits ("DPB"), a division of New Jersey's Department of the Treasury ("Treasury"), administers all aspects of TPAF and PERS, except the investment of pension plan assets. Plan assets consist of contributions by employers, including the State, contributions by TPAF's and PERS' members, and investment returns. Liabilities of the plans consist of pension benefits owed to current and retired TPAF and PERS members based on past years of service and the plans' administrative expenses.

7. State law requires that TPAF and PERS engage actuaries to conduct actuarial valuations at the end of each fiscal year – June 30. These valuations include calculating the "annual required contribution" and the "statutory contribution." While the annual required contribution is governed by industry standards,<sup>7</sup> the statutory contribution is calculated in accordance with State law. According to State law and as disclosed in bond offering documents, employers are required to contribute to TPAF and PERS at an actuarially determined rate.

8. In addition to calculating both the annual required contribution and the statutory contribution, an actuarial valuation also calculates the actuarial accrued liability and the actuarial

---

<sup>4</sup> Plan members include employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

<sup>5</sup> This includes 93,283 State employees and 223,566 employees from local employers.

<sup>6</sup> This includes 43,764 State employees and 93,193 employees from local employers.

<sup>7</sup> The annual required contribution is calculated in accordance with Statements 25 and 27 of the Governmental Accounting Standards Board ("GASB").

value of assets of each of the pension plans.<sup>8</sup> The actuarial accrued liability estimates on the basis of demographic and economic assumptions the present value of pension benefits TPAF and PERS owe to their active and retired members based on past years of service. The actuarial value of assets is the value of cash, investments, and other property belonging to a pension plan using a five-year smoothing method that smoothes the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent short-term fluctuations that may result from economic and market conditions. For each year, this method recognizes 20 percent of the investment gains or losses for the prior five years.

9. The actuarial valuations compare the actuarial accrued liability with the actuarial value of assets for TPAF and PERS and any excess of that liability over the assets forms an unfunded actuarial accrued liability (“UAAL”). The UAAL is the State’s unfunded obligation to TPAF’s and PERS’ members for past service. The actuarial valuations also express the percentages that the plans are funded through a “funded ratio” which represents the quotient obtained by dividing the actuarial value of assets of TPAF and PERS by the actuarial accrued liability of each plan. The trend in the funded ratio provides information as to whether the financial strength of a pension plan is improving or deteriorating over time. The financial strength of a pension plan is generally improving if the funded ratio is increasing. During the relevant time period, New Jersey’s funded ratio decreased significantly. As of June 30, 2001, TPAF had a funded ratio of 108 percent and the State portion of PERS had a funded ratio of 112.5 percent. As of June 30, 2009, TPAF had a funded ratio of 63.8 percent and an unfunded actuarial accrued liability of \$18.7 billion, and the State portion of PERS had a funded ratio of 56.4 percent and an unfunded actuarial accrued liability of \$8.2 billion.<sup>9</sup>

10. The statutory contribution for TPAF and PERS consists of two main components: (1) the normal cost, which represents the portion of the present value of pension benefits that are allocated to active members’ current year of service, and (2) an amortized portion of the UAAL. TPAF and PERS use a statutorily set closed 30-year amortization period<sup>10</sup> for calculating the amount of the UAAL that is included in the statutory contribution.<sup>11</sup>

---

<sup>8</sup> The actuarial valuations calculate the actuarial accrued liability and actuarial value of assets in accordance with New Jersey statutes and Statements 25 and 27 of GASB.

<sup>9</sup> Although contributions by State and local governments to PERS are invested together, PERS segregates the actuarial accrued liabilities between the State and local governments.

<sup>10</sup> As of the June 30, 2006 actuarial valuations, the State used an open 30-year amortization period.

<sup>11</sup> The State’s amortization method amortizes the UAAL over a 30-year period as a level percentage of the projected payroll or “level percent of pay.” Under this method, the UAAL amortization payments are calculated so that they are a constant percentage of the projected payroll of active members over the 30-year period. Because the actuarial valuations assume a payroll growth rate of 4 percent each year, the amortization payments increase over time.

11. Although bond offering documents disclosed that the State was required to contribute to TPAF and PERS at an actuarially determined rate and discussed the budget process generally, bond offering documents did not adequately disclose that the amount actually contributed to the pension plans is subject to the Governor's budget request and annual appropriations by the State legislature. Each year, the Governor, based on recommendations received from Treasury, presents a budget request to the legislature, which may include a request for the State's pension contribution. Once the legislature adopts the budget, it is signed into law as the Appropriations Act for the coming fiscal year. In adopting the budget, the legislature is not required to follow the recommendations of the actuaries or the Governor in determining the State's contribution to the pension plans. The appropriations for the State contribution to the pension plans are credited to "Contingent Reserve Funds," existing funds within TPAF and PERS.

12. State law requires members of TPAF and PERS to contribute annually to the pension plans. Member contributions are based on a percentage of compensation. The State legislature must approve any changes to employer or member contributions. State law also provides that any changes in the pension benefits for TPAF's and PERS' members or any changes in the funding methods of the plans must be approved by the State legislature. In addition, each pension related bill submitted to the State legislature must be accompanied by a fiscal note stating the cost of the proposal.

### **New Jersey Has Access to the National Public Markets through Municipal Bond Offerings**

13. From August 2001 through April 2007, New Jersey issued over \$26 billion in municipal bonds in approximately 79 offerings. The State's preliminary official statements and official statements contained an appendix with several subsections, three of which provided information relating to the State's funding of TPAF and PERS (the "State Appendix"). Appendix I provided financial and other information relating to the State, including a section titled "Financing Pensions." The Financing Pensions section provided a description of the State's pension plans, a description of pension related legislation, a summary of the State's contributions to its pension plans for the current and upcoming fiscal years, and a table setting forth the actuarial accrued liability and the actuarial value of assets from the most recent actuarial valuations for each of the State's pension plans. Appendix I-A, which was an excerpt from the State's most recent Comprehensive Annual Financial Report ("CAFR"),<sup>12</sup> contained a footnote to the financial statements titled "Retirement Systems" that provided general information regarding the State's pension plans, including significant legislation and contribution requirements, as well as a table setting forth statistical information relating to the pension plans. Appendix I-D, an unaudited appendix found in the back of the State's disclosure documents, contained statistical tables for each of the State's three largest pension plans, including TPAF and PERS, that provided the actuarial value of assets and accrued liabilities, and the funded ratio for the previous six years.

14. Various divisions and offices within Treasury were responsible for the pension funding disclosures in the State Appendix. The updating of the pension funding sections generally

---

<sup>12</sup> The State's CAFR included audited financial statements prepared pursuant to standards established by GASB.

occurred three times a year – following the issuance of the Governor’s budget message, after the passage of the Appropriations Act, and following the issuance of the actuarial valuations. At these times, various divisions and offices within Treasury updated their sections of the State Appendix. They viewed the updating of the pension funding sections as a routine process, requiring the insertion of new numbers or facts into an existing document. The DPB updated the pension disclosures at the request of the Office of Public Finance (“OPF”), another office of the Treasury. The OPF inserted the new information into the State Appendix without verifying the information. The Office of Management and Budget (“OMB”) included in the State’s CAFR the pension fund related excerpts which were also found in the State Appendix.

15. Prior to the release of an official statement, the State Treasurer, or his designee, signed a Rule 10b-5 certification, certifying that the official statement did not contain any material misrepresentations or omissions. During the relevant time period, the Treasurers did not read official statements, and relied on their staff to ensure the accuracy of information contained in the documents.

16. Treasury had no written policies or procedures relating to the review or update of the bond offering documents. In addition, Treasury did not provide training to its employees concerning the State’s disclosure obligations under the accounting standards or the federal securities laws. Accordingly, the State’s procedures were inadequate for ensuring that material information concerning TPAF and PERS or the State’s financing of TPAF and PERS was disclosed and accurate in bond offering documents.

### **New Jersey Did Not Adequately Disclose the Creation of the BEFs**

17. On June 29, 2001, the State legislature approved legislation (P.L. 2001, c. 133) that, effective November 1, 2001, increased retirement benefits for employees and retirees enrolled in TPAF and PERS by 9.09 percent. In order to fund the enhanced benefits, without increased costs to the State or taxpayers, the legislation revalued TPAF and PERS assets to reflect their full market value as of June 30, 1999, near the height of the bull market.<sup>13</sup> Bond offering documents did not disclose the retroactive mark-to-market revaluation of the pension assets under the 2001 legislation until March 2003 or the reason for the reevaluation. More specifically, bond offering documents did not disclose that the State used the market value as of June 30, 1999 in order to make it appear that the State could afford the benefit improvements.

18. The legislation contemplated that the increased assets resulting from the retroactive mark-to-market revaluation would be used to offset the additional liabilities created by the increased benefits. The additional liabilities included the accrued liability resulting from providing the increased benefits to existing members and retirees as well as the normal cost to ensure that the future liability for the benefit enhancement was funded.

---

<sup>13</sup> In the actuarial valuations as of June 30, 1999 for TPAF and PERS, the actuarial value of assets was replaced with the market value of assets. Subsequent actuarial valuations, including actuarial valuations as of June 30, 2000 and June 30, 2001, applied the five-year smoothing method.

19. The legislation created “benefit enhancement funds” or BEFs in TPAF and PERS to set aside a portion of the increased assets or “excess valuation assets”<sup>14</sup> to pay the future annual normal cost associated with the enhanced benefits. After the increased assets were used to fund the accrued liability, a portion of the remaining excess valuation assets were placed in the BEFs to cover the future costs associated with the enhanced benefits. Bond offering documents did not disclose the creation of the BEFs until March 2003.

20. The BEFs were special accounts within TPAF and PERS. Each of the BEFs was credited with excess valuation assets, from the Contingent Reserve Funds, which are existing funds within TPAF and PERS used to hold employer contributions, which excess valuation assets resulted from the revaluation in 2001.

21. On July 11 and 13, 2001, approximately two weeks after the passage of the 2001 legislation, the Office of Legislative Services (“OLS”)<sup>15</sup> issued fiscal notes analyzing the impact of the Assembly and Senate bills which had been adopted as the 2001 legislation. The fiscal notes acknowledged that valuing the pension assets as of June 30, 1999 did not reflect recent market losses in TPAF and PERS. The fiscal notes further acknowledged that, had the 2001 legislation revalued the pension assets as of April 30, 2001 rather than June 30, 1999, the remaining balance of excess assets in TPAF and PERS would have been \$2.4 billion less. Bond offering documents did not disclose the \$2.4 billion decline in the market value of the pension assets used to create the BEFs.

22. Bond offering documents did not disclose the reason for and impact of the retroactive mark-to-market revaluation of the pension assets. By revaluing TPAF and PERS assets and creating the BEFs to fund the ongoing costs of the benefit enhancements, the State gave the false appearance that it could afford the increased benefits. The revaluation of the pension assets to reflect their full market value as of June 30, 1999 resulted in a significant difference between the actuarial value and market value of assets in TPAF and PERS. Because the State’s contributions to TPAF and PERS are based on the actuarial value of assets, the revaluation created the false appearance that the plans were “fully funded” and allowed the State to justify not making contributions to the pension plans despite the fact that the market values of the plans’ assets were rapidly declining.

23. On May 25, 2005, the State’s Acting Governor created the Benefits Review Task Force to examine and make recommendations regarding employee benefits. On December 1, 2005, the New Jersey Benefits Review Task Force issued its final report (the “Benefits Review Task Force Report”) which offered strong criticism of the State’s pension funding practices. In particular, the report recommended that the State stop using actuarial and valuation “gimmicks,” like the State’s alteration of the valuation method in the 2001 legislation. The report advised that

---

<sup>14</sup> Excess valuation assets is a term defined by New Jersey statute (P.L. 1997, c. 115), which refers to the difference between the valuation assets and the actuarial accrued liability, and other enumerated deductions.

<sup>15</sup> OLS is a nonpartisan agency of the State legislature that provides support services to the legislature and its members.

“[m]ethodologies for determining pension fund values and contribution requirements should not again be changed in order to mask the true cost of benefit enhancements.” The Benefits Review Task Force Report also concluded that the State must regularly contribute to its pension plans and end its use of “pension holidays” – not contributing to its pension plans.

24. The Benefits Review Task Force Report was publicly available and published on the Benefit Review Task Force’s website. New Jersey, however, did not disclose the existence of, or the findings from, the Benefits Review Task Force Report in its bond offering documents.

### **New Jersey Faced Financial Challenges Due, in Part, to Its Historical Failure to Contribute to TPAF and PERS**

25. During fiscal year 2002, the State learned from the actuaries for TPAF and PERS that New Jersey would be required to begin contributing to the State’s pension plans in fiscal year 2004 based on the actuaries’ calculations.<sup>16</sup> Between fiscal years 1997 and 2003, the State had made no or only minimal contributions to TPAF and PERS because based upon the actuarial value of assets, both plans were fully or over funded prior to fiscal year 2003. From 1997 through 2003, the State did not contribute approximately \$916.4 million and \$487.4 million to TPAF and PERS, respectively. During this period and continuing through 2006, in the context of the State’s budgetary process, the State viewed monies not contributed to pension funds as “savings” in that any monies not contributed could be used for other budgetary purposes.

26. Beginning in fiscal year 2003, TPAF and PERS experienced a significant increase in each plan’s UAAL and a decrease in the funded ratios. TPAF and the State portion of PERS went from being over funded to having UAALs of \$2.7 billion and \$1.1 billion, respectively. TPAF’s funded ratio decreased from 103.9 percent in fiscal year 1997 to 92.7 percent in fiscal year 2003. The funded ratio for the State portion of PERS decreased from 105.8 percent in fiscal year 1997 to 90.7 in fiscal year 2003. The significant change in the financial health of TPAF and PERS was due to a variety of factors, including, the State’s failure to contribute to the plans since 1997, market declines, and the enactment of various benefit enhancements, including the 2001 legislation.

27. After a seven-year pension holiday, during which virtually no monies were appropriated in the State’s budget for pensions, the State recognized that it would have to begin contributing to TPAF and PERS. The State, however, now faced significant budget pressures which made it difficult for New Jersey to fund its pension plans absent cutting other programs and services, or raising taxes. Following Treasury’s recommendation, the Governor requested and the legislature provided in the annual Appropriations Act that the BEFs be used in lieu of the State contributing to TPAF and PERS.

---

<sup>16</sup> Actuarial valuations of TPAF and PERS are completed approximately 6 to 8 months after the end of a fiscal year. Because of the delay, the statutory contribution calculated by the actuaries applies not to the fiscal year immediately following the fiscal year covered by the actuarial valuations, but to the second fiscal year. For example, the statutory contribution in the actuarial valuations as of June 30, 2003 applied to the fiscal year ended June 30, 2005.

**New Jersey Continued to Forego Making Contributions to  
Its Pension Plans Through the Use of the BEFs and the Five-Year Phase-In Plan**

28. In 2003, while preparing the 2004 fiscal year budget, the State, faced with increased UAALs and declining funded ratios, had to choose between making contributions to the pension plans, or raising taxes or reducing spending in other areas. Accordingly, Treasury recommended, and the State announced, a five-year phase-in plan, in conjunction with using the BEFs, designed to gradually put New Jersey on track to making the State's full statutory contributions to its pension plans. Under the initial five-year phase-in plan, the State would contribute, subject to Constitutional provisions restricting each legislature's ability to mandate spending by future legislatures, 20 percent of the required statutory contribution to its pension plans in fiscal year 2004, 40 percent in fiscal year 2005, 60 percent in fiscal year 2006, 80 percent in fiscal year 2007, and 100 percent in fiscal year 2008. Beginning with fiscal year 2008, the State would be making the full statutory contribution to its pension plans.

29. Disclosures in bond offering documents regarding the State's five-year phase-in plan and use of the BEFs likely falsely led investors to believe that: (1) the State would be contributing to TPAF and PERS in fiscal years 2004, 2005, and 2006; (2) the State had a plan for making its full statutory contributions; and (3) the State would begin making full statutory contributions in fiscal year 2008.

30. Rather than making phase-in contributions to the pension plans, beginning in fiscal year 2004, the State began using the BEFs in conjunction with the five-year phase-in plan. The State continued to use the BEFs as part of the phase-in plan in fiscal years 2005 and 2006. As a result, the State did not contribute any monies to TPAF and PERS in fiscal years 2004 and 2005. In fiscal year 2006, the State did not contribute to PERS, but did contribute a minimal amount to TPAF to cover the portion of the State's contribution not covered by the BEF.

31. Bond offering documents did not disclose that the State was not contributing to TPAF and PERS during this time. When assets from the BEFs were used to fund the State's pension contributions in fiscal years 2004, 2005, and 2006, funds were transferred from the BEFs back to the Contingent Reserve Funds, the original source of the assets in the BEFs. These inter-fund transfers created the false appearance that the State was making contributions to TPAF and PERS, when no actual contributions were being made. Bond offering documents did not disclose that the BEFs allowed the State to forego making contributions to TPAF and PERS. Rather, disclosures in bond offering documents created the false impression that the BEFs were being used to make New Jersey's pension contributions even though no incremental funds were being received by TPAF and PERS. Disclosure documents misleadingly referred to the BEFs as "reserves" that were being utilized to fund the State's contributions to TPAF and PERS which created the misleading impression that the State was making cash contributions to its pension plans.

32. Although bond offering documents referenced the BEFs in connection with the State's contributions, they never disclosed what they were, how they were being used, or why they

were being used. Bond offering documents did not disclose that the State was using the BEFs in conjunction with a five-year phase-in plan because of significant budgetary constraints, and was unable to contribute to TPAF and PERS. In addition, bond offering documents did not disclose the impact of using the BEFs as part of the five-year phase-in plan. The State recognized that delaying the resumption of the State's contributions could result in substantially increasing the pension plans' unfunded liabilities in the future. The State also recognized that by depleting the BEFs, the State would now be faced with paying the normal costs of the enhanced benefits granted by the 2001 legislation. More than \$704.2 million was used from the BEFs to fund the State's fiscal year 2004, 2005, and 2006 pension obligations, and thus this amount was no longer available to offset the future costs of the benefit enhancement legislation.

33. By the end of fiscal year 2006, the State had depleted the BEFs. Bond offering documents did not disclose that the State, during each budget cycle, intended to forego making contributions to TPAF and PERS until it had exhausted the BEFs. By disclosing that the State had adopted a five-year phase-in plan, the bond offering documents gave the impression that the State would be contributing its full statutory contributions to TPAF and PERS by fiscal year 2008.

#### **New Jersey Altered and Then Abandoned the Five-Year Phase-In Plan Because of Financial Difficulties**

34. Although New Jersey's bond offering documents referenced the five-year phase-in plan, the State treated the phase-in plan as a flexible plan that could be altered on a year-to-year basis depending on other budgetary demands. Because other budgetary priorities existed, the State's contributions to TPAF and PERS were reduced to 30 percent of the statutory contribution in fiscal year 2005 and 40 percent in fiscal year 2006. Bond offering documents did not disclose the changes to the phase-in plan or the reasons for the State's reduced contributions. These reduced contributions increased, in part, the UAALs for TPAF and the State portion of PERS by \$8.2 billion and \$3 billion, respectively.

35. Funding for TPAF and PERS was governed by the annual Appropriations Act. The Appropriations Act for fiscal years 2004, 2005, and 2006 also set forth the State's use of the BEFs. In fiscal year 2004, the Appropriations Act specified the amounts to be used from the BEFs in lieu of the State's contributions to TPAF and PERS. However, the Appropriations Act for fiscal years 2005 and 2006 did not identify the amounts to be used from the BEFs or the phase-in percentages. Rather, for those years, the Appropriations Act provided that the Treasurer would determine the amount to be used from the BEFs.

36. The language in the Appropriations Act for fiscal years 2005 and 2006 gave the Treasurer the flexibility to alter the amount of the BEFs to be used to cover the State's contributions to TPAF and PERS, up until the last day of the fiscal year when the contributions were due. In addition, this language gave the Treasurer the ability to alter the phase-in percentages under the phase-in plan. This was particularly important, since by adjusting the amount of the BEFs to be used in fiscal year 2005 and the phase-in percentage, the Treasurer was able to ensure that there were sufficient assets in the BEFs in fiscal year 2006 to cover all or almost all of the State's contributions to TPAF and PERS. In fiscal year 2005, the Treasurer exercised his authority

under the Appropriations Act by reducing the amount of the State's contributions to TPAF and PERS, and thus the phase-in percentage, following the enactment of the Appropriations Act. This change in the phase-in plan, however, was not disclosed in bond offering documents.

37. The State recognized that because of severe budgetary constraints, it would not be able to achieve full funding of its pension plans by fiscal year 2008 without cutting State services or finding other sources of revenue. In fact, the State only contributed 57.5 percent of the required statutory contribution to its pension plans in fiscal year 2007 and 50 percent in fiscal year 2008.

38. The State abandoned its five-year phase-in plan in approximately May 2006. Bond offering documents did not disclose that the State had abandoned the five-year phase-in plan. Rather, the State stopped using the term "five-year" when referring to the phase-in plan in disclosure documents. The State's continued use of the term "phase-in plan" gave the false impression that New Jersey still had a plan to achieve full statutory contributions. Moreover, bond offering documents did not disclose that New Jersey was unable to fully implement the five-year phase-in plan without causing New Jersey to suffer severe economic hardship.

### **New Jersey Failed to Provide Certain Present and Historical Financial Information Regarding Its Pension Funding**

39. The State's bond offering documents contained inadequate information regarding the State's present and historical contributions to TPAF and PERS. Statistical tables for TPAF and PERS found in Appendix I-D set forth the amount of the State's contributions for the most recent fiscal year and the prior five fiscal years. This information, however, was misleading to investors because the amounts set forth included pension contributions, if any, as well as payments made by the State to members of TPAF and PERS for post-retirement medical benefits.<sup>17</sup> This contribution information conflicted with other statistical information found in the Retirement Systems footnote of Appendix I-A, which showed the actual pension contributions made by the State, but did not include payments for post-retirement medical benefits, for the most recent fiscal year as well as the two prior fiscal years. In addition, the State's bond offering documents lacked sufficient information for investors to understand the State's historical failure – since 1997 – to contribute to TPAF and PERS.

40. Appendix I-A of the State's disclosure documents also excluded a key statistical table from the State's CAFR called the "Required Supplementary Information Schedule of Funding Progress" ("RSI Schedule"), which is defined by GASB. The RSI Schedule is designed to provide a long-term actuarial perspective on the State's funding of its pension plans. The RSI Schedule provided important financial information regarding TPAF and PERS for the three prior fiscal years, including the UAAL and the UAAL as a percentage of covered payroll.<sup>18</sup> The ratio of

---

<sup>17</sup> Under statutes for TPAF and PERS, the State's contributions for post-retirement medical benefits flowed through the pension plans.

<sup>18</sup> Covered payroll includes all elements of compensation paid to active employees on which contributions to the pension plans are based.

UAAL to covered payroll is a measure of the significance of the UAAL relative to the capacity to pay it. The trend in the ratio provides information as to whether the financial strength of the pension plan is improving or deteriorating over time. The financial strength of a pension plan is generally improving if the ratio of UAAL to covered payroll is decreasing. In fact, from 2002 through 2007, the UAAL as a percentage of covered payroll steadily increased. The UAAL and the UAAL to covered payroll for TPAF and PERS is shown below.

**TPAF**

Fiscal Year	UAAL	UAAL as a Percentage of Covered Payroll
2002	\$(1,654,591)	0.0%
2003	\$2,731,906,950	35.5%
2004	\$5,813,899,790	72.2%
2005	\$9,178,537,424	108.6%
2006	\$11,008,573,863	125.8%
2007	\$12,446,668,618	137.1%

**PERS (State Portion)**

Fiscal Year	UAAL	UAAL as a Percentage of Covered Payroll
2002	\$(312,599,482)	(8.9)%
2003	\$1,112,345,981	31.1%
2004	\$1,926,870,843	51.4%
2005	\$2,801,180,057	69.5%
2006	\$4,129,039,284	97.1%
2007	\$5,004,619,993	112.8%

41. The bond offering documents failed to provide information regarding the actuarial methodology used by the State to calculate the actuarial value of assets, and the impact of using this methodology on the State’s funding of its pension plans. The bond offering documents did not disclose the effect of the State’s use of a five-year smoothing method to measure the actuarial value of assets. As a result of the 2001 legislation and market declines, the actuarial value of assets exceeded the market value of assets for TPAF and PERS, resulting in net unsmoothed losses in both plans beginning in fiscal year 2002. The ratio of the actuarial value of assets to market value of assets for TPAF and PERS is shown below.

**Actuarial Value as a  
Percent of Market Value**

Fiscal Year	TPAF	PERS
2002	129.5%	126.8%
2003	131.0%	127.7%
2004	121.0%	118.3%
2005	117.4%	113.9%
2006	112.8%	106.7%

2007	104.7%	101.9%
------	--------	--------

Since the State’s contributions to TPAF and PERS are based on the actuarial value of assets, the significant difference between the actuarial value of assets and the market value of assets reduced the State’s statutory contributions to the pension plans.

42. The bond offering documents also failed to provide information regarding the actuarial methodology used by the State to calculate the actuarial accrued liabilities of TPAF and PERS, and the impact of using this methodology on the State’s funding of its pension plans. The bond offering documents did not disclose the effect of the State’s use of a closed 30-year amortization period<sup>19</sup> based on a level percent of pay for measuring the actuarial accrued liability. Under this recognized actuarial method, the UAALs of TPAF and PERS will continue to rise indefinitely even if the State were to contribute the full statutory contribution to the pension plans. Under New Jersey statute, if the UAALs for TPAF and PERS increase from one year to the next, the actuarial valuations will continue to use the full 30-year amortization period. As a result, the State has been unable to and will continue to be unable to effectively amortize TPAF’s and PERS’ UAALs.

43. In addition, although available in actuarial reports for TPAF and PERS, the bond offering documents did not provide asset and funded ratio information on a market value basis. Because of the significant difference between the actuarial value and market value of assets in TPAF and PERS, the actuarial value did not accurately present the current value of the pension plans. Rather, the actuarial value of assets for TPAF and PERS provided a limited measure of the pension plans’ financial health since they did not fully reflect the effects of the 2001 legislation or market declines. Investors lacked sufficient information to assess the current financial health of TPAF and PERS as a result of the absence of asset and funded ratio information on a market value basis. New Jersey’s historical funded ratios using actuarial value of assets and market value of assets are shown below:

**TPAF**

Fiscal Year	Actuarial Value of Assets	Market Value of Assets	Funded Ratio (actuarial value)	Funded Ratio (market value)
2002	\$35,148,246,433	\$27,121,744,264	100.0%	77.2%
2003	\$34,651,825,932	\$26,447,330,285	92.7%	70.7%
2004	\$34,633,790,549	\$28,618,463,144	85.6%	70.8%
2005	\$34,789,389,875	\$29,610,249,605	79.1%	69.0%
2006	\$35,531,294,790	\$31,495,000,296	76.4%	69.3%
2007	\$36,714,578,745	\$35,070,757,170	74.7%	72.9%

---

<sup>19</sup> As of the June 30, 2006 actuarial valuations, the State used an open 30-year amortization period.

### **PERS (State Portion)**

Fiscal Year	Actuarial Value of Assets	Market Value of Assets	Funded Ratio (actuarial value)	Funded Ratio (market value)
2002	\$11,073,156,965	\$8,727,927,022	102.9%	81.1%
2003	\$10,829,953,189	\$8,479,326,527	90.7%	71.0%
2004	\$10,693,508,592	\$9,038,299,523	84.7%	71.6%
2005	\$10,631,348,826	\$9,325,929,009	79.1%	69.4%
2006	\$10,668,645,162	\$9,996,185,459	72.1%	67.6%
2007	\$11,024,255,608	\$10,817,111,560	68.8%	67.5%

### **New Jersey Enhances Its Pension Funding Disclosures**

44. Subsequent to an April 2007 news article that raised questions regarding disclosures in the State's bond offering documents relating to New Jersey's funding of its pensions, the State hired disclosure counsel to advise the State on an on-going basis regarding its disclosure obligations under the federal securities laws. During 2007 and early 2008, the State, with the assistance of disclosure counsel, reviewed its bond offering documents and enhanced its disclosures.

45. With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures. In its written policies and procedures, among other things, the State established a committee comprised of senior Treasury officials, representatives from the Attorney General's Office, and disclosure counsel to oversee the entire disclosure process and to review and make recommendations regarding the State's disclosures and disclosure practices. In addition, the State has implemented an annual mandatory training program conducted by disclosure counsel for the State's employees involved in the disclosure process to ensure compliance with the State's disclosure obligations under the federal securities laws.

### **Legal Discussion**

46. Municipal securities represent an important part of the financial markets available to investors. At the end of 2009, individual investors held approximately 35 percent of outstanding municipal securities directly and up to another 34 percent indirectly through money market funds, mutual funds, and closed end funds. There is also substantial trading volume in the municipal securities market — almost \$3.8 trillion of long and short-term municipal securities were traded in 2009 in over 10 million transactions. Issuers of municipal securities have an obligation to ensure that financial information contained in their disclosure documents is not materially misleading. Proper disclosure allows investors to understand and evaluate the financial health of the state or local municipality in which they invest.

47. New Jersey, as an issuer of municipal securities, is subject to the antifraud provisions of the federal securities laws. In addition, the Commission has promulgated a broker-dealer rule, Exchange Act Rule 15c2-12, which in general limits market access for certain municipal securities issues to those offerings in which the issuer agrees to file annual disclosures of

specified financial and operating information as well as notices of certain events, if material, and notices of any failures to file with certain repositories designated by the Commission.<sup>20</sup> The antifraud provisions apply to such disclosure and to any other statements made to the market.

48. Section 17(a) of the Securities Act prohibits the making of any untrue statement of material fact or omitting to state a material fact in the offer or sale of securities. A fact is material if there is a substantial likelihood that its disclosure would be considered significant by a reasonable investor. Basic Inc. v. Levinson, 485 U.S. 224, 231-32 (1987); TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 449 (1976). Violations of Sections 17(a)(2) and (3) may be established by showing negligence. SEC v. Hughes Corp., 124 F.3d 449, 453-54 (3d Cir. 1997); SEC v. Steadman, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992).

### **Violations**

49. As a result of the negligent conduct described above, the State violated Sections 17(a)(2) and 17(a)(3) of the Securities Act. Specifically, the State made material misrepresentations and omissions in preliminary official statements, official statements, and continuing disclosures regarding the State's under funding of TPAF and PERS. TPAF and PERS represent a significant and growing obligation for New Jersey. The State's misrepresentations and omissions were material in that they failed, over the course of an almost six-year period, to provide investors with adequate information regarding the State's funding of TPAF and PERS as well as the financial condition of the pension plans. Information regarding the State's under funding of TPAF and PERS and their financial health was important to investors in evaluating New Jersey's overall financial condition and future financial prospects.

50. The State was aware of the under funding of TPAF and PERS and the potential effects of the under funding. However, due to a lack of disclosure training and inadequate procedures relating to the drafting and review of bond disclosure documents, the State made material representations and failed to disclose material information regarding TPAF and PERS in bond offering documents.

### **Remedial Efforts**

51. In determining to accept the State's Offer, the Commission considered the cooperation afforded the Commission's staff during the investigation and remedial acts taken by the State, referenced in paragraphs 44 and 45.

---

<sup>20</sup> On December 5, 2008, the Commission amended Rule 15c2-12 to require issuers to agree to file annual disclosures of specified financial and operating information as well as notices of certain events, if material, and notices of any failures to file with the Municipal Securities Rulemaking Board. Issuers are no longer permitted to use other repositories. Rule 15c2-12 was further amended on May 27, 2010 to eliminate the materiality determination for certain types of events and to make other changes to improve the quality and timeliness of municipal securities disclosure.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the State's Offer.

Accordingly, it is hereby ORDERED that pursuant to Section 8A of the Securities Act, the State shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act.

By the Commission.

Elizabeth M. Murphy  
Secretary

# 2010 State Pension Funding Review:

**AMENDED 10.26.10**



Pensions, keeping  
you up at night?

## 2010 State Pension Funding Review

October 22, 2010

**Ann Kibler, Analyst**

**annk@loopcap.com • 312.913.2209**

## *Loop Analytical Services*

### Special Commentary

## 2010 State Pension Funding Review

*Each year, Loop Capital Markets issues an in-depth review of state pension plans and their funded status. The following report is our eighth review and represents a significant expansion in breadth and scope from previous reports. In our 2010 analysis we have examined 244 of the largest state pension plans, up from 241 last year, and have expanded our prior focus on state employee and teacher retirement plans to capture legislative, military, and judicial plans as well. This year's report is further enhanced by two new dedicated sections and additional commentary. While our analysis encompasses all datasets previously included, the updated layout and additional data is provided in an effort to enable the reader to more easily navigate our review of this complex subject.*

*We begin the report with an overview of the current state of municipal pension plans, and explore GASB's role in increasing plan transparency, consistency, and comparability. Following our GASB update we provide an in-depth discussion of our findings regarding trends in changes of actuarial assumptions and general funding statistics. We include a detailed listing of all 244 municipal plans as well as their value of assets, amount of unfunded actuarial accrued liabilities, actuarial assumptions, and funded status from 2002—2009. In our first new section we delve into states' annual required contributions and amounts contributed over the past three years. Following this section we provide a breakdown of our "economic debt" variable, representing our calculation of states' total debt, and explore the rise in economic debt over the last three years. To conclude our pension review we investigate the changes states have made in an effort to draw down both current and future pension liabilities.*

*Our second new section is an extension of our pension report as it relates to other post employment benefits (OPEB). In this section we briefly examine other post employment benefits, their funded status and their relationship with state pension liabilities. Considering the slow implementation of GASB no. 45 reporting requirements, we expect a significant expansion of this section in years to come as more data becomes available. In this year's report we list out each state's OPEB plans, the value of assets in their OPEB trusts, amount of unfunded actuarial accrued liabilities, actuarial assumptions, and funded status from 2007—2009. We also discuss the effect of OPEB as an additional factor in our calculation of economic debt.*

*We hope that this expanded report will give analysts, investors, economists, and the general public a better understanding of the severity of underfunded pension plans in the public sector.*



**LOOP CAPITAL MARKETS  
2010 STATE PENSION FUNDING REVIEW  
TABLE OF CONTENTS**

---

DEVELOPMENTS WITH GASB.....	1
OUR FINDINGS .....	2-4
INVESTMENT RETURN ASSUMPTION .....	2
INFLATION AND SALARY INCREASE ASSUMPTIONS .....	2
AMORTIZATION PERIOD .....	3
SMOOTHING PERIOD .....	3
FUNDED RATIOS (EXHIBIT 1).....	4
PENSION SYSTEM REVIEW .....	5-21
EXPLANATION OF ACTUARIAL ASSUMPTIONS.....	5
PENSION PLAN REVIEW (TABLES 1.1-1.5).....	6
ANNUAL REQUIRED CONTRIBUTIONS (EXHIBIT 2, TABLES 2.1-2.4).....	11
ECONOMIC DEBT (EXHIBIT 3, TABLES 3-5).....	16
SHORT-TERM AND LONG-TERM SOLUTIONS.....	20
OTHER POST EMPLOYMENT BENEFITS .....	22-29
OPEB PLAN REVIEW (TABLES 6.1-6.3) .....	23
ECONOMIC DEBT (EXHIBIT 4, TABLES 7-9).....	26
FOOTNOTES.....	30

**Editors Note**

*While analysts disagree about the scope of the state pension problem and the optimal approach, essentially the problem is no more complex than the individual's need to save and invest for their retirement. Like an individual, it is very important that states contribute materially to their pension plans every year. If they do, additional steps to control pension costs will enable the financial burden facing states to be brought under control. If not, the financial burden will lead to substantial litigation and state budgetary stress beyond anything recently experienced.*

*All data presented in this report is directly gathered from each state's comprehensive annual financial reports. We have had a recommendation in the past that the report would be more useful if we made adjustments to reconcile the different accounting treatments that occur in various states. While we do agree this technique would be ideal, as a practical matter we do not have the time or ability to do so, and leave this exercise to our readers. Other clients have suggested that we use economic debt per capita, an excellent idea which we have incorporated into the report. We strive for 100% accuracy in the data presented throughout the report but acknowledge the possibility of human error. We welcome commentary and feedback to continue improving our annual report.*

### GASB Developments in Reporting Standards for Municipal Pension Plans

GASB has acknowledged that the current municipal pension accounting standards are insufficient in allowing analysts and investors the ability to use panel data. Unlike private sector pension plans, the valuation and accounting methodology for municipal plans is very vague. There are six acceptable costs methods, the ability to choose smoothing and amortization periods, and multiple other actuarial assumptions which almost seem to be arbitrarily chosen. To address this concern, GASB has taken various steps to streamline their accounting standards. After a study was begun in 2006, an official task force was appointed in January 2009, and a public invitation to comment was issued the following March. Preliminary views were released in June 2010, and an additional comment period was issued at that time that closed in September.

Out of all actuarial assumptions, the investment return assumption has been gaining the most attention. Municipal pension plans use the long term investment return assumption as the discount rate to determine their pension liability. The higher the rate, the lower the liability is stated, and the less the employer is required to contribute. Many economists and analysts have voiced their concern, and GASB issued four possible discount rates they would consider in their first invitation to comment. These options included: 1) continue using the long term investment rate of return of the plans assets, 2) using the risk-free rate of return, 3) a governments borrowing rate, and 4) the average return on a high-quality municipal bond. In GASB's second invitation to comment they have limited the possible discount rate options to a combination where each plan would use "the long-term expected rate of return on plan investments to the extent that current and expected future plan net assets available for pension benefits and a high quality municipal bond index rate beyond the point at which plan net assets available for the pension benefits are projected to be fully depleted." (GASB) Under this approach liabilities would still be grossly understated, as the largest portion of the plan, if not the whole plan, would still be discounted using fictitiously high investment return assumptions. Only in the case where assets do not cover the present value of the plans liabilities would a state use a lower discount rate on the underfunded portion.

In GASB's second invitation to comment they also refer to changing the previous six acceptable cost methods to just one - the entry age actuarial cost methodology. Using different cost methods has a significant effect on the funding ratio. As an example, the projected unit credit approach always reports a larger accrued liability regardless of the asset's value, while another methodology, the aggregate cost method, will always show a plan as being 100% funded. <sup>(1)</sup> Having just one acceptable cost method will be a huge victory for analysts, investors, economists, and all who attempt to use panel data as a basis of comparison between plans. Previously, each plan was not only allowed to choose which accounting method they wanted to use, but had the ability to change methodologies in any given year. When individual plans change methodologies in any given year, time-series data becomes irrelevant, along with the ability to use cross-sectional data amongst multiple plans. The ability to use panel data is paramount in an effort to truly assess the health of various plans.

GASB is clearly making an effort to increase transparency, consistency, and comparability of municipal pension plans. Like many others, GASB understands that pension liabilities are currently like a black box, largely due to acceptable variations in accounting methodologies. While it will take some time to phase in new accounting standards, it is a promising step in the right direction.

## Our Findings

### Investment Return

Overall, states' pension fund managers were optimistic due to last year's positive investment returns on their portfolios. While the average returns were significantly higher than the assumed average investment return assumption of 8%, the returns were still not sufficient to cover the severe losses experienced in the last two fiscal years as a result of the current recession. Out of the 244 plans we examined, the average investment return assumption was 7.81%, and the median was 8%. Many investors and economists feel the current average 8% return is far too high, as the private sector tends to assume a more conservative 6% rate of return.<sup>(2)</sup> Lowering the projected investment rate of return would vastly increase the present value of the pension liability — as Moody's notes, "as a general rule of thumb, a 100 bps movement in the discount rate results in an inverse movement in the obligation of approximately 8-12%."<sup>(3)</sup> In our report we note that five plans decreased their investment return assumption, while six plans increased their assumption. On average, those plans that did increase their investment return assumptions did so by 1.38%, while those who lowered the assumption did so on average by 0.86%. Considering the last three fiscal years of S&P 500 Index from July 1 – June 30<sup>th</sup> (-28% in 2009, -15% in 2008, and 18% in 2007), it does not seem wise that any plan should have increased their return assumption. In addition, as discussed in the GASB section, the higher the assumed return, the lower the state's annual required contribution (ARC).

In addition to lowering the investment rate of return, pension managers need to concentrate on diversification. The economic downturn exacerbated the problems with funding, as pension managers put the majority of their assets into the stock market. The most recent recession and extreme market volatility throughout the recovery should be a clear sign to pension managers that they need to be more prudent in selecting appropriate securities for their pension portfolios. While bonds or treasuries are safe in terms of risk, the average return on these products is not sufficient to cover the projected long-term rate of return of the portfolio. On the other hand, primary asset allocation in high-risk securities such as hedge-funds, private equity, REITs and derivatives may offer substantial returns, but risk the long-term solvency of the plan. The risk of the securities in the portfolio should be appropriate to cover the actuarial assumed long-term rate of return, while ensuring minimal loss.

### Spread Between Investment Return and Salary Increase Assumptions

The spread between the investment return and salary increase assumptions helps identify the amount that will need to be contributed. The larger the gap between the two, the lower the funding requirement is projected to be, as the investment returns should offset salary increases. Of the 244 plans we examined, 79 had a spread that did not include a salary range. For those 79 plans the average spread was 3.05%, slightly down from last year, when we examined 73 plans without a salary range and the average spread was 3.13%. While this is positive, the spread is still larger than we would expect, as investment returns do not seem stable enough to cover the projected salary increases.

### Inflation

Higher inflation is associated with higher expected investment returns and salary growth. Compared to last year, seven plans decreased the inflation assumption, while 26 increased it. This finding is in line with the slightly lower spread we observed between the investment return and salary increase assumptions. As liabilities have continued to grow and market conditions remain volatile, we would have hoped for the opposite trend in the inflation assumptions, as states become increasingly aware of the need to utilize more conservative accounting methods.

### Amortization

Most municipal pension plans choose to amortize their liability over a 30-year period. The amortization period directly affects the annual required contribution - the amount necessary to ensure that the liability can be paid off over the amortization period. As with the smoothing interval, the shorter the amortization period, the higher the annual required contribution. Considering current economic conditions and the immense pressure on state budgets, we would not expect to see a decrease in amortization periods of more than a year, but we would also be cautious when looking at those plans which did increase their amortization period. Increasing the amortization period could be a sign that states do not have the ability to make their annual required contributions at a rate which would suffice to cover the liability. While it is ill-advised for a state to skip or miss its annual required contribution in any given year, it should be expected that they will be able to make-up for it in the following years through increased contributions. When a state changes the amortization assumption, one would draw the conclusion that the liability has grown so vast that lengthening the amortization period is the only option. This year, there were 22 plans which increased their amortization assumption, with an average increase of eight years. Alabama and Utah were the only states that increased amortization periods for all of their plans. Alabama increased its amortization period for its plans from 20 years to 30 years, and Utah increased the period from 20 to 25 years. Neither of these states changed any other actuarial assumption, but their funded ratios have declined over the last few years.

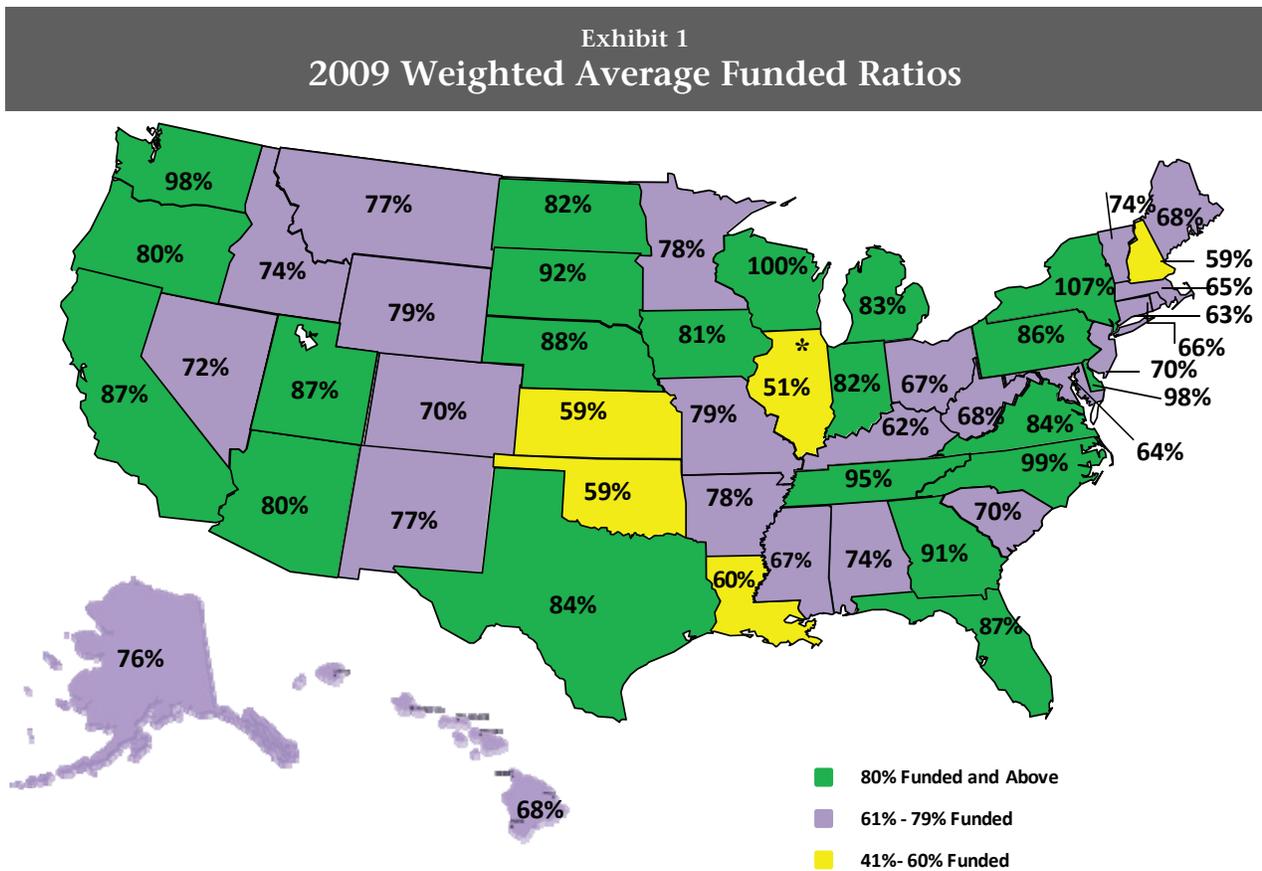
### Smoothing

Municipal pension plans allow for a smoothing period to offset market volatility. In years of market declines, the losses are not immediately recognized but smoothed generally over a period of five years. Without the smoothing period, one year of market decline would have a severe effect on the pension plan, as the dramatic increase in the liability would have to be recognized in the period it occurred. This would mean enormous increases in the annual required contribution for any given year of market downturn. As we've already seen in the current recession, states are unable to make the ARC even with the smoothing adjustment. The allowable smoothing period has been an area of controversy, as many believe that allowing smoothing masks the true health of the plan. Funded ratios appear to be more constant than they would without smoothing. While we would not expect states to decrease their smoothing period, especially in the current economic climate, it would not be wise to increase the period, as this action would further mask the market downturns of 2008 and 2009. Of the plans we examined, six raised their smoothing period, and none lowered the assumption. South Carolina increased the smoothing period for all of its plans from five to ten years.

**Funded Ratios**

Unlike private sector plans, municipal plans are considered adequately funded at 80%. As we expected, funded ratios worsened for almost all plans in 2009. Of the 149 plans with funded ratios for 2009, only 58 had funded ratios over 80%, a significant decline from last year. Out of the 145 plans with funded ratios for both 2009 and 2008, 93% were less funded than they were the previous year. Of the plans observed this year with funded ratios, 73 plans had assets in excess of \$1 billion, and of those plans only 24 were funded over 80%. The funded ratio is one of the best ways to judge the health of a pension plan. As only 24 of 73 pension plans with assets over \$1 billion are currently considered funded, it is clear there is a serious issue that needs to be addressed, as the largest funding shortfalls are in the plans with the largest liabilities.

When reviewing the overall funded status of state pension plans on a weighted average basis, as shown in Exhibit 1, our findings are concurrent with those above. While a fair amount of states are funded 80% or above, the majority of states are still underfunded. On a weighted average basis 21 states are considered funded, while 29 are not. The states in yellow, which include Louisiana, Illinois, New Hampshire, Oklahoma, and Kansas, are severely underfunded.



Source: Individual State 2009 Comprehensive Annual Financial Reports

## Explanation of the Pension Fund Chart Columns

Actuarial Valuation Date: Changes in the general level of the stock market makes the funded ratios not comparable for pension plans with different valuation dates.

Investment Return Assumptions: This assumption incorporates the actuary's long-term view of the market given assumptions concerning asset allocation and inflation.

Inflation and Salary Increase Assumptions: The inflation assumption determines the real (inflation adjusted) investment returns and is part of the payroll increase assumption. GASB 25 requires that pension systems disclose their salary increase assumptions, but does not explicitly require an aggregate number. Many retirement systems disclose the inflation assumption and then list the merit increase assumptions by age or length of service, thus producing a range of projected wage increases. This disclosure approach makes it difficult to determine the gap between the investment return assumption and the payroll increase assumption. The size of the gap is important. The larger the gap, the lower state pension funding requirements are expected to be. That is, investment returns are expected to provide a larger portion of the funds needed to keep the pension plans' promise to pay special benefits. If actuarial investment returns differ from the actuarial assumed return for a number of years, the actuary may recommend that the assumption be changed. This change would mean that states would contribute more or less each year in funding pension benefits.

Actuarial Gains and Losses: In addition to funding retroactive pension benefits, states must also fund actuarial losses (offset by gains). Actuarial gains and losses occur when the outcome differs from the previous assumptions that were made.

Actuarial Value of Assets (AVA): Pension funds amortize or "smooth" actuarial gains and losses into the value of plan assets over a period of three to five years. This means that the full impact of a market downturn, or upturn, is not felt in the first year. Subsequent market rebounds may offset actuarial losses. Note that states that use less smoothing of investment returns and shorter amortization periods for their unfunded liabilities will see a greater short-term impact on pension fund requirements after material market moves.

Amortization of the Unfunded Accrued Actuarial Liability (UAAL): When actuarial liabilities exceed the actuarial value of pension assets, an unfunded actuarial liability exists. State pension plans normally amortize this amount over a long period of time (20-30 years is not atypical). States that use more aggressive actuarial assumptions may end up with larger pension contribution requirements in the later years than more conservative states.

Final Note: As long as a state is making its required contribution, it should be able to pay its promised benefits. Actuaries do not assume future under-funding of pension plans. When a state contributes less than its required actuarial amount, it is increasing the level of required future contributions and perhaps setting up future budgetary stress, especially if the market underperforms in the interim.

Table 1.1

State Pension System Review (Alabama - Georgia)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios							Remaining Amortization Period	Investment Smoothing Years		
							2009	2008	2007	2006	2005	2004	2003			2002	
Alabama Teachers' Retirement System	\$20,582	\$6,955	2009	8.00%	4.50%	5.00%-7.75%	75%	78%	80%	83%	84%	84%	90%	94%	97%	30	5
Alabama State Employees' Retirement Fund	\$9,928	\$3,828	2009	8.00%	4.50%	4.61%-7.75%	72%	76%	79%	81%	84%	84%	90%	91%	95%	26-30	5
Alabama Judicial Retirement System	\$253	\$88	2009	8.00%	3.50%	5.00%	74%	80%	84%	86%	86%	86%	86%	87%	85%	30	5
Alaska Public Employees' Retirement System	\$7,211	\$1,944	2008	8.25%	3.50%	4.00%-9.50%	*	79%	78%	78%	86%	86%	70%	73%	75%	20	5
Alaska Teachers' Retirement System	\$3,670	\$1,562	2008	8.25%	3.50%	4.00%-6.00%	*	70%	68%	68%	61%	61%	63%	64%	68%	19	5
Alaska Judicial Retirement System	\$123	\$8	2008	8.25%	3.50%	4.00%	*	94%	*	*	69%	*	77%	*	89%	13	5
Alaska National Guard & Naval Military Retirement System	\$128	\$1	2008	7.25%	-	*	*	98%	*	*	61%	*	68%	*	59%	20	5
Alaska Elected Public Officers' Retirement System	\$0	\$22	2008	5.00%	3.50%	4.00%	*	0%	*	*	0%	*	*	*	*	25	market value
Arizona State Retirement System	\$26,613	\$5,812	2008	8.00%	4.25%	4.50%-9.50%	*	82%	83%	83%	84%	86%	93%	98%	106%	30	10
Arizona Public Safety Personnel Retirement System	\$5,445	\$2,333	2009	8.50%	5.50%	5.50%-9.00%	70%	69%	65%	77%	81%	81%	92%	101%	113%	20 or 27	7
Arizona Correctional Officers Retirement System	\$1,309	\$206	2009	8.50%	5.50%	5.50%-8.50%	86%	90%	89%	94%	96%	105%	105%	107%	124%	20 or 27	7
Arizona Elected Officials' Retirement Plan	\$361	\$361	2009	8.50%	5.00%	5.00%	73%	79%	77%	90%	92%	92%	104%	119%	126%	20 or 27	7
Arkansas Teachers' Retirement Fund	\$10,617	\$3,402	2009	8.00%	4.00%	4.00%-10.10%	76%	85%	85%	80%	80%	80%	84%	86%	92%	45	4
Arkansas Public Employees' Retirement System	\$5,413	\$1,525	2009	8.00%	4.00%	4.70%-10.60%	78%	90%	89%	83%	82%	82%	89%	95%	100%	18-30	4
Arkansas Highway Retirement System	\$1,193	\$42	2009	8.00%	3.50%	4.50%-11.50%	97%	102%	99%	97%	98%	*	*	*	*	7.4	5
Arkansas State Police Retirement System	\$206	\$120	2009	8.00%	4.00%	4.00%	63%	74%	76%	71%	73%	71%	73%	81%	89%	30	4
Arkansas Judicial Retirement System	\$167	\$13	2009	7.50%	3.00%	4.00%	93%	102%	101%	93%	90%	90%	91%	92%	100%	30	4
Arkansas District Judge Retirement System	\$10	\$16	2009	8.00%	4.00%	4.70%-9.80%	39%	50%	52%	41%	31%	*	*	*	*	26 or 28	4
California Public Employees' Retirement Fund	\$23,272	\$35,052	2008	7.75%	3.00%	varies	*	87%	87%	87%	87%	87%	87%	88%	95%	21 to 28	market value
California State Teachers' Retirement Fund	\$15,215	\$22,519	2008	8.00%	3.25%	4.25%	*	87%	89%	87%	86%	86%	85%	85%	*	30	3
California Judges Retirement Fund II	\$335	\$32	2008	7.25%	3.00%	3.25%	*	91%	91%	91%	97%	94%	94%	91%	94%	30	market value
California Legislators' Retirement Fund	\$142	-\$39	2008	7.00%	3.00%	3.25%	*	138%	139%	139%	*	*	*	*	*	*	market value
California Judges Retirement Fund	\$19	\$3,588	2008	4.50%	3.00%	3.25%	*	1%	0%	0%	*	*	*	*	*	*	market value
Colorado School Retirement System	\$21,055	\$9,358	2009	8.00%	3.75%	4.50%-10.70%	69%	70%	76%	74%	74%	74%	70%	75%	88%	30	4
Colorado State Public Employees' Retirement System	\$13,383	\$6,594	2009	8.00%	3.75%	4.50%-10.17%	67%	68%	73%	72%	72%	70%	70%	75%	88%	30	4
Colorado Local Government Retirement System	\$2,933	\$918	2009	8.00%	3.75%	4.50%-11.47%	76%	76%	81%	80%	78%	77%	80%	80%	94%	30	4
Colorado Fire & Police Retirement System	\$856	-\$8	2009	8.00%	3.50%	4.75%-16.75%	101%	119%	123%	120%	113%	111%	111%	114%	127%	30	3
Colorado Judicial Division Retirement System	\$229	\$67	2009	8.00%	3.75%	5.00%-6.00%	77%	80%	88%	85%	86%	81%	81%	84%	98%	30	4
Connecticut Teachers' Retirement Fund	\$15,271	\$6,530	2008	8.50%	4.00%	4.00%-7.50%	*	70%	*	60%	*	*	65%	*	76%	29.2	4
Connecticut State Employees' Retirement Fund	\$9,990	\$9,253	2008	8.25%	4.00%	4.00%-20.00%	*	52%	54%	53%	53%	55%	55%	57%	62%	24	5
Connecticut Judicial Retirement Fund	\$192	\$75	2008	8.25%	5.25%	5.25%	*	72%	70%	69%	68%	68%	69%	68%	66%	23	5
Delaware State Employees' Pension Plan	\$6,744	\$83	2009	8.00%	3.75%	4.30%-10.10%	99%	103%	104%	102%	102%	102%	103%	107%	110%	20	5
Delaware New State Police Pension Plan	\$229	\$12	2009	8.00%	3.75%	4.80%-16.70%	95%	101%	99%	99%	99%	100%	104%	104%	119%	20	5
Delaware County & Municipal Police and Firefighters' Pension Plan	\$120	\$3	2009	8.00%	3.75%	4.30%-15.70%	98%	99%	98%	97%	97%	97%	108%	112%	116%	10	5
Delaware Judiciary Pension Plan	\$49	\$9	2009	8.00%	3.75%	4.30%-13.10%	85%	85%	80%	77%	80%	80%	85%	96%	96%	12.9	5
Delaware County & Municipal Other Employees' Pension Plan	\$15	\$2	2009	8.00%	3.75%	4.30%-10.10%	90%	91%	90%	93%	105%	105%	128%	108%	108%	10	5
Delaware Diamond State Port Corporation Pension Plan	\$14	\$2	2009	8.00%	3.75%	4.80%	88%	95%	88%	81%	92%	90%	90%	104%	101%	16	5
Delaware Volunteer Firemen's Pension Plan	\$13	\$13	2009	8.00%	3.75%	4.80%-5.30%	50%	49%	49%	47%	47%	46%	46%	62%	63%	19	5
Delaware Closed State Police Pension Plan	\$1	\$306	2009	8.00%	3.75%	4.80%-5.30%	0%	0%	0%	0%	0%	1%	1%	1%	1%	28	5
Delaware Special Pension Plan	\$1	\$0	2009	8.00%	3.75%	*	129%	125%	127%	108%	108%	119%	119%	131%	24.7%	*	5
District Of Columbia Police & Firefighters' Retirement Fund	\$2,932	\$7	2008	7.00%	4.25%	5.30%-10.00%	*	100%	101%	92%	*	*	*	*	*	*	*
District Of Columbia Teachers' Retirement Fund	\$1,448	-\$110	2008	7.00%	4.25%	5.00%-8.90%	*	108%	112%	111%	*	*	*	*	*	*	*
Florida Retirement System	\$118,765	\$17,611	2009	7.75%	3.00%	5.85%	87%	105%	106%	106%	106%	107%	112%	114%	115%	30	5
Georgia Teachers' Retirement System	\$5,434	\$4,779	2008	7.50%	3.75%	3.20%-8.60%	*	92%	95%	97%	98%	98%	101%	101%	102%	30	7
Georgia Employees' Retirement System	\$14,017	\$1,664	2008	7.50%	3.75%	5.45%-9.25%	86%	89%	93%	95%	97%	98%	98%	101%	101%	30	7
Georgia Public School Employees' Retirement System	\$792	-\$21	2008	7.50%	3.75%	6.00%	*	103%	105%	111%	112%	112%	112%	111%	111%	10	7
Georgia Judicial System's Retirement System	\$313	-\$45	2008	7.50%	3.75%	*	*	117%	119%	124%	124%	127%	127%	128%	130%	14	7
Georgia Legislative Retirement System	\$31	-\$6	2008	7.50%	3.75%	*	*	126%	123%	125%	121%	121%	127%	124%	122%	*	7
Georgia Military Pension Plan	\$5	\$14	2008	7.50%	3.75%	*	*	28%	21%	18%	15%	15%	10%	5%	0%	*	7

All plan valuations derived from State Comprehensive Annual Financial Reports.

Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

\* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAL are stated in millions.

2010 State Pension Funding Review  
October 22, 2010

LOOP CAPITAL MARKETS  
ANALYTICAL SERVICES GROUP

Table 1.2 State Pension System Review (Hawaii - Massachusetts)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios							Remaining Amortization Period	Investment Smoothing Years	
							2009	2008	2007	2006	2005	2004	2003			2002
<b>Hawaii Employees' Retirement System</b>																
Idaho Public Employees' Retirement Fund	\$8,646	\$3,027	2009	7.75%	4.50%	5.00%-11.50%	74%	93%	106%	106%	95%	94%	92%	84%	85%	market value
Idaho Firefighters' Retirement Fund	\$44	\$100	2009	7.75%	4.50%	4.50%	69%	*	93%	94%	80%	74%	70%	59%	60%	market value
Idaho Judicial Retirement Fund	\$225	\$27	2009	7.50%	4.50%	3.00%	64%	83%	94%	90%	90%	*	*	*	*	market value
Illinois Teachers' Retirement System	\$38,026	\$35,001	2009	8.50%	3.50%	6.00%-11.10%	52%	56%	64%	62%	61%	61%	62%	49%	52%	5
Illinois State Employees' Retirement System	\$14,282	\$12,034	2009	8.50%	1.25%	5.00%-10.00%	54%	59%	68%	65%	66%	66%	66%	54%	59%	5
Illinois State Police Officers' Retirement System	\$11,000	\$14,298	2009	8.50%	3.00%	1%-5.35%	44%	54%	68%	52%	54%	54%	54%	54%	54%	5
Illinois Judges' Retirement System	\$617	\$932	2009	8.00%	4.00%	5.00%	40%	42%	48%	46%	46%	46%	46%	31%	34%	5
Illinois General Assembly Retirement System	\$72	\$174	2009	8.00%	4.00%	5.00%	29%	32%	38%	37%	39%	39%	40%	25%	29%	5
Indiana Public Employees' Retirement Fund	\$12,780	\$323	2008	7.25%	3.00%	4.00%	*	98%	98%	98%	98%	96%	100%	103%	99%	market value
Indiana Teachers' Retirement Fund	\$9,034	\$9,716	2008	7.50%	3.25%	3.50%-12.50%	*	48%	45%	44%	43%	45%	44%	42%	42%	4
Indiana 1977 Police Officers' & Firefighters' Pension & Disability Fund	\$3,281	-\$392	2008	7.25%	*	4.00%	*	114%	108%	97%	96%	96%	94%	94%	89%	market value
Indiana State Police Retirement Fund	\$356	\$98	2009	7.00%	3.50%	3.50%-9.00%	78%	88%	90%	86%	81%	82%	87%	91%	91%	*
Indiana Judges' Retirement System	\$235	\$104	2008	7.25%	3.00%	4.00%	*	69%	75%	65%	65%	65%	65%	61%	64%	*
Indiana Excise Police, Gaming, & Conservation Officers' Retirement Plan	\$65	\$12	2008	7.25%	3.00%	4.50%	*	85%	77%	75%	70%	78%	72%	67%	67%	market value
Indiana Prosecuting Attorneys' Retirement Fund	\$26	\$12	2008	7.25%	3.00%	4.00%	*	69%	74%	69%	66%	66%	65%	81%	53%	market value
Indiana Legislators' Retirement System	\$5	\$0	2008	7.25%	3.00%	3.00%	*	102%	97%	90%	87%	87%	85%	81%	81%	market value
Iowa Public Employees' Retirement System	\$21,124	\$4,895	2009	7.50%	4.00%	4.00%-12.00%	81%	89%	90%	88%	89%	89%	89%	90%	93%	*
Iowa Municipal Fire & Police Retirement System	\$1,898	\$319	2009	7.50%	4.00%	4.50%-15.11%	86%	90%	87%	87%	*	*	*	*	*	5
Iowa Peace Officers' Retirement, Accident and Disability System	\$300	\$133	2009	8.00%	4.00%	4.75%-6.75%	69%	74%	75%	75%	*	*	*	*	*	*
Iowa Judicial Retirement System	\$93	\$58	2009	7.50%	3.25%	4.50%	62%	63%	70%	70%	70%	*	*	*	25	*
Kansas Public Employees' Retirement System - State/School	\$8,252	\$6,240	2008	8.00%	3.50%	4.00%-12.00%	57%	69%	68%	67%	67%	69%	74%	82%	82%	5
Kansas Public Employees' Retirement System - Local	\$1,991	\$1,385	2008	8.00%	3.50%	4.00%-12.00%	59%	70%	69%	67%	67%	67%	74%	82%	89%	5
Kansas Police & Firemen's Retirement System	\$1,480	\$619	2008	8.00%	3.50%	4.00%-12.50%	71%	86%	82%	80%	81%	84%	84%	96%	96%	5
Kansas Retirement System for Judges	\$104	\$36	2008	8.00%	3.50%	4.50%	75%	89%	87%	85%	80%	85%	85%	82%	89%	5
Kentucky Teachers' Retirement System - Retirement Funds	\$14,886	\$8,514	2009	7.50%	4.00%	4.00%-8.20%	64%	68%	72%	73%	76%	76%	81%	84%	87%	5
Kentucky County Employees' Non-Hazardous - Pension	\$5,651	\$2,262	2009	7.75%	4.50%	4.00%	71%	79%	82%	84%	94%	94%	105%	120%	130%	*
Kentucky State Employees' Non-Hazardous - Pension	\$4,795	\$5,864	2009	7.75%	4.50%	4.75%-17.00%	45%	53%	57%	60%	74%	85%	85%	97%	110%	5
Kentucky County Employees' Hazardous - Pension	\$1,751	\$827	2009	7.75%	4.50%	4.50%	68%	73%	74%	75%	81%	89%	89%	98%	112%	*
Kentucky State Employees' Hazardous Retirement Plan - Pension	\$503	\$172	2009	7.75%	4.50%	4.50%-21.00%	75%	81%	84%	84%	92%	92%	98%	108%	117%	5
Kentucky State Police Retirement Plan - Retirement Funds	\$330	\$272	2009	7.75%	4.50%	4.50%-21.00%	55%	60%	64%	67%	77%	77%	88%	100%	115%	5
Kentucky Judicial Retirement Plan - Retirement Funds	\$212	\$79	2009	7.00%	4.50%	1.00%-4.00%	73%	89%	97%	104%	108%	108%	108%	100%	115%	5
Kentucky Legislators' Retirement System - Retirement Funds	\$43	\$17	2009	7.00%	*	1.00%-4.00%	71%	104%	108%	105%	105%	105%	*	*	*	market value
Louisiana Teachers' Retirement System	\$13,501	\$9,339	2009	8.25%	3.00%	3.50%-7.50%	59%	70%	71%	68%	65%	62%	60%	66%	74%	4
Louisiana State Employees' Retirement System	\$8,500	\$5,487	2009	8.25%	3.00%	4.25%-14.00%	61%	68%	67%	64%	64%	68%	70%	70%	70%	4
Louisiana School Employees' Retirement System	\$1,410	\$743	2009	7.50%	3.00%	4.00%-6.00%	66%	77%	80%	79%	75%	75%	76%	79%	91%	4
Louisiana State Police Retirement System	\$396	\$282	2009	7.50%	3.00%	4.00%-15.50%	58%	69%	73%	70%	70%	62%	61%	61%	70%	4
Maine State Employees and Teachers' Pension Plan	\$8,383	\$3,994	2009	7.75%	4.50%	4.75%-10.00%	68%	74%	74%	71%	70%	69%	69%	70%	70%	19
Maryland Teachers' Retirement System	\$20,606	\$10,567	2009	7.75%	3.50%	*	66%	80%	81%	84%	89%	89%	93%	93%	96%	5
Maryland State Employees' Retirement System	\$9,230	\$5,850	2009	7.75%	3.50%	*	61%	75%	77%	81%	85%	89%	89%	92%	96%	5
Maryland State Police Retirement System	\$1,120	\$591	2009	7.75%	3.50%	*	65%	84%	88%	98%	100%	107%	107%	121%	126%	5
Maryland State Law Enforcement Officers' Pension System	\$355	\$330	2009	7.75%	3.50%	*	52%	60%	60%	60%	60%	63%	60%	60%	62%	5
Maryland Judges' Retirement System	\$271	\$150	2009	7.75%	3.50%	*	64%	75%	79%	78%	79%	78%	80%	86%	88%	5
Maryland Transit Administration Pension Plan	\$143	\$194	2009	7.50%	4.00%	4.00%	42%	42%	39%	37%	39%	37%	39%	*	*	*
Massachusetts Teachers' Retirement System	\$18,928	\$13,616	2009	8.25%	*	4.50%-10.00%	58%	74%	71%	67%	68%	70%	65%	76%	76%	market value
Massachusetts State Employees' Retirement System	\$6,731	\$6,731	2009	8.25%	*	4.50%-10.00%	72%	89%	85%	82%	83%	84%	80%	94%	94%	market value

All plan valuations derived from state Comprehensive Annual Financial Reports.

Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

\* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAL are stated in millions.

Table 1.3 State Pension System Review (Michigan - New Jersey)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios							Remaining Amortization Period	Investment Smoothing Years
							2009	2008	2007	2006	2005	2004	2003		
Michigan Public School Employees' Retirement System - Pension	\$45,677	\$8,931	2008	8.00%	3.50%	3.50%-15.90%	84%	89%	88%	79%	84%	87%	92%	28	5
Michigan State Employees' Retirement System	\$11,403	\$2,363	2008	8.00%	3.50%	3.50%-14.40%	*	83%	85%	86%	85%	89%	99%	28	5
Michigan Municipal Employees' Retirement System	\$7,095	\$2	2008	8.00%	4.50%	0.00%-8.40%	*	76%	76%	77%	80%	80%	80%	28	10
Michigan State Police Retirement System	\$1,266	\$231	2008	8.00%	3.50%	3.50%-93.50%	*	85%	87%	84%	89%	96%	101%	28	5
Michigan Judges' Retirement System - Pension	\$296	\$51	2009	8.00%	3.50%	4.00%	121%	123%	116%	114%	121%	124%	127%	27	5
Michigan Legislative Retirement System	\$166	\$6	2009	7.00%	4.00%	4.00%	97%	100%	103%	101%	0%	0%	0%	5	5
Michigan Military Retirement Plan	\$0	\$42	2009	8.00%	3.50%	3.50%	0%	0%	0%	0%	0%	0%	0%	5	market value
Minnesota Teachers' Retirement Association Plan	\$17,882	\$5,232	2009	8.50%	3.00%	4.50%-5.50%	77%	82%	88%	92%	99%	103%	105%	27	5
Minnesota Public Employees' Retirement Fund	\$13,158	\$5,641	2009	8.50%	3.00%	4.00%-5.40%	70%	74%	73%	76%	77%	81%	85%	22	5
Minnesota State Employees' Retirement Fund	\$9,030	\$1,482	2009	8.50%	3.00%	4.25%-5.75%	86%	90%	92%	96%	100%	105%	105%	29	5
Minnesota Public Employees' Police & Fire Fund	\$5,240	\$1,056	2009	8.50%	3.00%	4.75%-11.00%	83%	88%	92%	95%	101%	107%	121%	29	5
Minnesota Correctional Employees' Retirement Fund	\$500	\$231	2009	8.50%	3.00%	4.75%-6.25%	72%	75%	79%	83%	92%	97%	102%	29	5
Minnesota State Patrol Retirement System	\$383	\$141	2009	8.50%	3.00%	5.25%-7.75%	81%	86%	92%	96%	106%	110%	116%	14	5
Minnesota Public Employees' Correctional Fund	\$218	\$12	2009	8.50%	3.00%	5.25%-7.75%	95%	100%	98%	94%	88%	90%	95%	14	5
Minnesota Judges' Retirement Fund	\$147	\$95	2009	8.50%	3.00%	4.00%	61%	64%	72%	75%	73%	76%	76%	*	*
Minnesota Legislators' Retirement Fund	\$29	\$62	2009	8.50%	3.00%	5.00%	32%	46%	52%	60%	55%	58%	58%	*	*
Minnesota Elective State Officers' Retirement Fund	\$0	\$4	2009	8.50%	3.00%	5.00%	5%	5%	5%	5%	5%	5%	5%	*	*
Mississippi Public Employees' Retirement System	\$20,398	\$9,997	2009	8.00%	4.25%	4.50%-15.00%	67%	73%	74%	74%	75%	79%	83%	30	5
Mississippi Highway Safety Patrol Retirement System	\$292	\$102	2009	8.00%	4.25%	5.00%-10.32%	74%	78%	77%	76%	81%	86%	92%	29.3	5
Mississippi Municipal Retirement System	\$208	\$160	2008	8.00%	4.00%	4.50%-6.00%	*	57%	56%	56%	60%	63%	66%	26	5
Mississippi Supplemental Legislative Retirement Plan	\$13	\$3	2009	8.00%	4.25%	4.50%	81%	86%	85%	83%	80%	83%	86%	26.2	5
Missouri Public School Retirement System	\$28,826	\$7,234	2009	8.00%	3.25%	5.00% - 10.25%	80%	83%	84%	83%	83%	82%	81%	30	5
Missouri State Employees' Pension Plan	\$7,876	\$1,619	2009	8.50%	3.20%	4.30% - 7.50%	83%	86%	87%	85%	85%	91%	96%	30	5
Missouri Local Government Employees' Retirement System	\$3,331	\$831	2009	7.50%	4.00%	4.00% - 8.00%	80%	98%	96%	95%	95%	96%	100%	15 - 30	5
Missouri Public Education Employees' Retirement System	\$2,792	\$666	2009	8.00%	3.25%	5.00% - 10.00%	81%	83%	83%	81%	83%	83%	82%	30	5
Missouri Dep. of Transportation and Highway Patrol Employees' Retirement System	\$1,471	\$1,642	2009	8.25%	3.25%	3.75% - 11.75%	47%	59%	58%	56%	54%	56%	62%	24	3
Missouri Judges' Pension Plan	\$81	\$288	2009	8.50%	3.20%	4.00% - 5.60%	22%	21%	19%	17%	15%	13%	12%	30	5
Montana Teachers' Retirement System - Defined Benefit Retirement Plan	\$4,002	\$791	2009	8.00%	3.25%	0.00-6.00%	84%	90%	91%	88%	85%	87%	100%	30	4
Montana Public Employees' Retirement System	\$2,762	\$1,412	2009	7.75%	3.50%	4.50%	66%	80%	80%	76%	73%	77%	87%	Infinite	4
Montana Municipal Police Officers' Retirement System	\$214	\$131	2009	8.00%	3.25%	0.00%-7.30%	62%	65%	64%	60%	58%	57%	63%	22.1	4
Montana Firefighters' Unified Retirement System	\$210	\$96	2009	8.00%	3.25%	0.00%-7.30%	69%	72%	70%	65%	61%	62%	69%	12.7	4
Montana Sheriff's Retirement System	\$201	\$23	2009	8.00%	3.25%	0.00%-7.30%	90%	98%	97%	95%	93%	95%	114%	*	4
Montana Highway Patrol Officers' Retirement System	\$100	\$38	2009	8.00%	3.25%	0.00%-7.30%	72%	75%	78%	73%	76%	76%	86%	21.5	4
Montana Game Wardens & Peace Officers' Retirement System	\$81	\$11	2009	8.00%	3.25%	0.00%-7.30%	88%	93%	94%	92%	90%	90%	99%	*	4
Montana Judges' Retirement System	\$62	\$20	2009	8.00%	3.25%	0.00%	148%	157%	139%	139%	138%	130%	146%	60	4
Montana Volunteer Firefighters' Compensation Act	\$27	\$6	2009	8.00%	3.25%	0.00%	81%	84%	82%	73%	69%	70%	72%	30	4
Nebraska School Employees' Retirement System	\$7,088	\$1,085	2009	8.00%	3.50%	4.50%-7.50%	87%	91%	87%	87%	87%	91%	95%	28	5
Nebraska State Employees' Retirement Benefit Fund	\$638	\$21	2008	7.75%	3.50%	4.50% - 5.90%	*	97%	103%	103%	114%	109%	105%	25	5
Nebraska State Patrol Retirement System	\$274	\$31	2009	8.00%	3.50%	4.50% - 9.00%	90%	94%	96%	94%	93%	97%	102%	29	5
Nebraska Judges' Retirement System	\$121	\$2	2009	8.00%	3.50%	4.50%	102%	105%	107%	99%	96%	97%	108%	30	5
Nevada Public Employees' Retirement System	\$23,972	\$9,103	2009	8.00%	3.50%	4.50% - 14.75%	73%	76%	75%	75%	76%	79%	82%	30	5
Nevada Judicial Retirement System	\$40	\$27	2009	8.00%	*	3.00% - 11.00%	59%	65%	53%	44%	38%	17%	*	30	5
Nevada Legislators' Retirement System	\$4	\$2	2009	8.00%	*	71%	71%	73%	*	70%	*	72%	*	20	5
New Hampshire Retirement System - Pension Plan	\$4,937	\$3,538	2009	8.50%	3.50%	4.50% - 16.25%	58%	68%	67%	*	*	*	*	28	5
New Hampshire Judicial Retirement Plan	\$51	\$4	2008	8.00%	*	5.74%	92%	92%	95%	98%	*	*	*	*	*
New Jersey Teachers' Pension & Annuity Fund	\$36,665	\$15,090	2008	8.25%	*	5.45%	*	71%	76%	79%	79%	93%	100%	30	5
New Jersey Public Employees' Retirement System - State	\$11,201	\$5,872	2008	8.25%	*	5.45%	*	66%	69%	72%	79%	85%	91%	30	5
New Jersey Police & Firemen's Retirement System - State	\$2,316	\$1,433	2008	8.25%	*	7.20%	*	62%	63%	68%	71%	77%	99%	30	5
New Jersey State Police Retirement System	\$2,127	\$482	2008	8.25%	*	5.45%	*	82%	83%	85%	93%	103%	107%	30	5
New Jersey Judicial Retirement System	\$381	\$172	2008	8.25%	*	5.45%	*	69%	72%	75%	79%	83%	86%	30	5
New Jersey Consolidated Police & Firemen's Pension Fund	\$16	\$2	2008	2.00%	*	*	*	91%	92%	91%	73%	62%	88%	1	5
New Jersey Prison Officers' Pension Fund	\$13	\$6	2008	5.00%	*	*	*	190%	183%	170%	163%	158%	152%	1	5

All plan valuations derived from state Comprehensive Annual Financial Reports.

Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

\* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAL are stated in millions.

Table 1.4 State Pension System Review (New Mexico - Tennessee)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios							Remaining Amortization Period	Investment Smoothing Years	
							2009	2008	2007	2006	2005	2004	2003			2002
New Mexico Public Employees' Retirement System	\$12,575	\$2,357	2009	8.00%	4.00%	4.50% - 19.00%	84%	93%	93%	92%	92%	93%	97%	103%	13	4
New Mexico Educational Employees' Retirement System	\$9,566	\$4,517	2009	8.00%	3.00%	5.00% - 13.50%	68%	72%	71%	68%	70%	75%	81%	87%	30	5
New Mexico Judicial Retirement System	\$73	\$48	2009	8.00%	4.50%	5.30%	61%	78%	79%	78%	79%	76%	76%	81%	30	4
New Mexico Volunteer Firefighters' Retirement System	\$41	-\$22	2009	8.00%	4.00%	*	215%	286%	272%	166%	142%	186%	183%	185%	30	4
New Mexico Magistrate Retirement System	\$32	\$16	2009	8.00%	4.00%	4.75%	66%	93%	110%	104%	100%	100%	102%	111%	30	4
New York State & Local Employees' Retirement System	\$128,916	-\$8,733	2008	8.00%	3.00%	5.40%	107%	106%	106%	103%	103%	*	*	*	10	5
New York Teachers' Retirement System	\$88,255	-\$5,477	2008	8.00%	3.00%	4.32% - 11.30%	*	107%	104%	103%	99%	99%	99%	100%	*	5
New York Police & Fire Retirement System	\$22,767	-\$1,695	2008	8.00%	3.00%	6.70%	108%	107%	107%	105%	105%	*	*	*	10	5
North Carolina Teachers & State Employees' Retirement System	\$55,128	\$391	2008	7.25%	3.75%	4.50% - 16.10%	*	99%	103%	106%	107%	108%	108%	108%	9	5
North Carolina Local Governmental Employees' Retirement System	\$17,101	\$73	2008	7.25%	3.75%	4.50% - 14.73%	*	100%	100%	100%	100%	99%	99%	99%	*	5
North Carolina Consolidated Judicial Retirement System	\$434	\$8	2008	7.25%	3.75%	5.75% - 11.75%	*	98%	103%	107%	108%	109%	107%	107%	9	5
North Carolina Firemen's & Rescue Squad Retirement System	\$317	\$22	2008	7.25%	3.75%	*	69%	94%	95%	95%	96%	96%	96%	96%	9	5
North Carolina National Guard Retirement System	\$78	\$35	2008	7.25%	3.75%	*	68%	64%	64%	72%	58%	58%	79%	87%	9	5
North Carolina Registers of Deeds' Retirement System	\$37	-\$19	2008	7.25%	3.75%	4.50% - 14.65%	*	203%	199%	186%	166%	198%	172%	140%	*	5
North Carolina Legislative Retirement System	\$30	-\$7	2008	7.25%	*	7.50%	130%	134%	134%	136%	132%	133%	131%	132%	8	5
North Dakota Teachers' Fund for Retirement	\$1,990	\$546	2009	8.00%	3.00%	4.50% - 14.00%	78%	82%	79%	75%	75%	80%	85%	92%	30	5
North Dakota Public Employees' Retirement System	\$1,617	\$284	2009	8.00%	3.50%	4.50%	85%	93%	93%	87%	91%	94%	98%	104%	20	5
Job Service North Dakota	\$75	-\$3	2009	7.50%	5.00%	5.00%	105%	109%	107%	*	*	*	*	*	15	5
North Dakota Highway Patrolmen's Retirement System	\$50	\$7	2009	8.00%	3.50%	4.50%	87%	93%	94%	87%	88%	90%	93%	97%	20	5
Ohio Public Employees' Retirement System	\$55,230	\$18,116	2008	8.00%	4.00%	4.50% - 10.30%	60%	79%	96%	93%	89%	88%	85%	86%	30	4
Ohio State Teachers' Retirement System	\$54,903	\$36,538	2009	8.00%	3.00%	3.25% - 12.00%	60%	79%	82%	75%	73%	75%	74%	77%	30	4
Ohio School Employees' Retirement System	\$9,723	\$4,498	2009	8.00%	3.50%	4.50% - 24.75%	68%	82%	81%	76%	75%	78%	84%	90%	30	4
Ohio Police & Fire Pension Fund	\$9,309	\$4,998	2009	8.25%	3.25%	5.00% - 11.00%	65%	65%	82%	78%	78%	81%	86%	93%	30	4
Ohio State Highway Patrol Retirement System	\$603	\$301	2008	8.00%	4.00%	4.30% - 14.00%	*	67%	81%	81%	77%	78%	78%	78%	30	4
Oklahoma Teachers' Retirement System	\$9,439	\$9,512	2009	8.00%	3.00%	4.25% - 6.00%	50%	51%	53%	49%	50%	47%	54%	51%	30	5
Oklahoma Public Employees' Retirement System	\$6,208	\$5,083	2009	7.50%	3.00%	5.10% - 9.00%	67%	73%	73%	71%	72%	76%	77%	80%	18	5
Oklahoma Firefighters' Pension & Retirement System	\$1,668	\$1,407	2009	7.50%	3.00%	4.00% - 10.00%	54%	62%	62%	58%	64%	66%	77%	78%	24	5
Oklahoma Police Pension & Retirement System	\$1,718	\$535	2009	7.50%	3.00%	5.00% - 19.00%	76%	82%	80%	78%	79%	81%	85%	88%	9	5
Oklahoma Law Enforcement Retirement System	\$660	\$232	2009	7.50%	3.25%	4.25% - 8.25%	74%	83%	83%	84%	84%	88%	88%	90%	12	5
Oklahoma Uniform Retirement System for Justices & Judges	\$222	\$40	2009	7.50%	3.00%	5.50%	85%	96%	99%	103%	109%	121%	140%	148%	18	5
Oklahoma Wildlife Conservation Retirement Plan	\$68	\$23	2009	8.00%	3.00%	2.00%	75%	81%	81%	80%	*	*	*	*	11	5
Oregon Public Employees' Retirement System	\$43,521	\$10,739	2008	8.00%	2.75%	3.75%	*	80%	112%	111%	104%	96%	97%	91%	16-20	3
Pennsylvania Public School Employees' Retirement System	\$60,922	\$9,924	2008	8.25%	3.25%	6.00%	*	86%	86%	81%	84%	91%	105%	105%	30	5
Pennsylvania State Employees' Retirement System	\$30,205	\$5,592	2009	6.00%	3.00%	4.90% - 20.20%	84%	89%	97%	93%	93%	96%	107%	107%	2-30	5
Pennsylvania Municipal Retirement System	\$1,540	-\$89	2009	6.00%	3.00%	4.10% - 5.90%	106%	106%	104%	*	*	*	114%	*	10-30	5
Rhode Island Employees' Retirement System: Teachers	\$4,045	\$2,661	2008	8.25%	3.00%	4.50% - 13.25%	*	60%	55%	53%	55%	59%	64%	73%	21	5
Rhode Island Employees' Retirement System: State Employees	\$2,700	\$1,671	2008	8.25%	3.00%	4.50% - 9.00%	*	62%	58%	55%	56%	60%	65%	72%	21	5
Rhode Island Municipal Employees' Retirement System	\$1,175	\$92	2008	8.25%	3.00%	4.50% - 14.75%	*	93%	90%	87%	87%	93%	101%	111%	21	5
Rhode Island State Police Retirement Benefits Trust	\$55	\$14	2008	8.25%	3.00%	4.50% - 12.50%	*	80%	76%	86%	79%	76%	74%	76%	21	5
Judicial Retirement Benefits Trust	\$35	\$8	2008	8.25%	3.00%	4.50%	*	82%	84%	87%	87%	73%	72%	69%	21	5
South Carolina Retirement System	\$24,700	\$10,964	2008	8.00%	3.00%	4.00% - 8.00%	*	69%	70%	70%	72%	80%	83%	86%	29	10
South Carolina Police Officers' Retirement System	\$3,363	\$956	2008	8.00%	3.00%	4.50% - 11.50%	*	78%	85%	87%	88%	88%	92%	93%	30	10
South Carolina Judges & Solicitors Retirement System	\$138	\$75	2008	8.00%	3.00%	3.25%	*	65%	58%	59%	58%	61%	64%	60%	16	10
South Carolina General Assembly Retirement System	\$47	\$22	2008	8.00%	3.00%	*	*	68%	66%	66%	66%	66%	67%	60%	17	10
South Carolina National Guard Retirement System	\$17	\$36	2008	8.00%	3.00%	*	33%	29%	29%	29%	26%	29%	28%	26%	24	10
South Dakota Retirement System	\$6,779	\$609	2009	7.75%	4.00%	4.15% - 8.13%	92%	97%	97%	97%	97%	98%	97%	97%	20	*
Tennessee State Employees, Teachers, and Higher Education Employees' Pension Plan	\$26,215	\$1,025	2007	7.50%	3.00%	4.75%	*	*	96%	*	*	*	100%	*	20	5
Tennessee Political Subdivision Defined Benefits Plan	\$4,898	\$578	2007	7.50%	3.00%	4.75%	*	*	89%	*	*	*	92%	*	20	5

All plan valuations derived from state Comprehensive Annual Financial Reports.  
Blue font represents a new plan.  
Green font represents a change in actuarial assumptions.  
Orange font represents no change in actuarial assumptions because 2009 data is not available  
\* Unavailable or N/A information is indicated by an asterisk.  
AVA and UAAL are stated in millions.

Table 1.5 State Pension System Review (Texas - Wyoming)

State Pension System	AVA	UAAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios							Remaining Amortization Period	Investment Smoothing Years	
							2009	2008	2007	2006	2005	2004	2003			2002
Texas Teachers' Retirement System	\$106,384	\$21,646	2009	8.00%	3.00%	4.25% - 26.40%	83%	91%	89%	87%	87%	92%	95%	96%	30	5
Texas County & District Retirement System	\$23,510	\$3,398	2009	8.00%	3.50%	0.00% - 13.50%	87%	93%	96%	95%	95%	97%	98%	103%	30	5
Texas Municipal Retirement System	\$16,564	\$1,884	2009	8.00%	3.50%	5.40%	90%	93%	94%	91%	91%	93%	91%	89%	20	10
Texas Law Enforcement & Custodial Officer Supplemental Retirement	\$17,306	\$5,219	2009	7.00%	3.00%	varies	76%	74%	74%	82%	83%	83%	84%	85%	*	10
Texas Law Enforcement & Custodial Officer Supplemental Retirement	\$781	\$126	2009	8.00%	3.50%	5.50% - 13.50%	86%	92%	98%	102%	103%	109%	112%	125%	30	5
Texas Judicial Retirement System Plan Two	\$248	\$7	2009	8.00%	3.50%	3.50%	97%	95%	96%	94%	90%	118%	117%	111%	4.8	5
Texas Emergency Services Retirement System	\$61	\$3	2008	8.00%	3.50%	3.50%	0%	0%	0%	0%	0%	0%	0%	71%	6	5
Texas Judicial Retirement System Plan One	\$0	\$268	2009	8.00%	3.50%	3.50%	0%	0%	0%	0%	0%	0%	0%	0%	30	5
Utah Noncontributory Retirement System	\$15,839	\$2,467	2009	7.75%	3.00%	4.00% - 12.00%	87%	95%	96%	93%	92%	94%	92%	103%	25	5
Utah Public Safety Retirement System	\$2,018	\$456	2009	8.20%	3.00%	4.00% - 9.75%	89%	91%	92%	88%	88%	93%	93%	101%	25	5
Utah Contributory Retirement System	\$1,098	\$121	2009	7.75%	3.00%	4.00% - 12.00%	90%	94%	95%	93%	92%	93%	98%	92%	25	5
Utah Firefighters' Retirement System	\$766	\$11	2009	7.75%	3.00%	4.00% - 10.25%	99%	108%	110%	105%	106%	107%	106%	116%	25	5
Utah Judges' Retirement System	\$126	\$20	2009	7.75%	3.00%	4.00%	86%	96%	100%	100%	97%	100%	100%	108%	25	5
Utah Governors' & Legislators' Retirement System	\$11	\$0	2009	7.75%	3.00%	4.00%	99%	119%	119%	118%	122%	124%	123%	143%	25	5
Vermont State Teachers' Retirement System	\$1,374	\$728	2009	8.25%	3.50%	4.41% - 10.68%	65%	81%	85%	85%	91%	90%	90%	90%	29	5
Vermont State Retirement System	\$1,218	\$327	2009	8.25%	3.50%	4.50% - 7.79%	79%	94%	101%	99%	98%	98%	97%	97%	29	5
Vermont Municipal Employees' Retirement System	\$331	\$36	2009	8.00%	3.50%	5.00%	90%	102%	105%	104%	104%	104%	102%	110%	29	5
Virginia Retirement System	\$52,548	\$10,006	2008	7.50%	2.50%	3.75% - 5.60%	*	84%	82%	81%	81%	81%	96%	102%	20	5
Virginia Law Officers' Retirement System	\$873	\$408	2008	7.50%	2.50%	3.50% - 4.75%	*	68%	66%	60%	60%	59%	55%	54%	20	5
Virginia State Police Officers' Retirement System	\$646	\$198	2008	7.50%	2.50%	3.50% - 4.75%	*	77%	74%	74%	76%	78%	83%	85%	20	5
Virginia Judicial Retirement System	\$374	\$121	2008	7.50%	2.50%	3.50%	*	76%	77%	71%	72%	78%	81%	80%	20	5
Washington Public Employees' Retirement System Plan 2/3	\$16,693	-\$185	2008	8.00%	3.50%	6.10%	*	101%	102%	121%	127%	134%	142%	158%	*	8
Washington Teachers' Retirement System Plan 1	\$9,853	\$4,048	2008	8.00%	3.50%	6.10%	*	71%	71%	73%	71%	77%	81%	86%	16	8
Washington Teachers' Retirement System Plan 2	\$8,262	\$2,492	2008	8.00%	3.50%	5.80%	*	77%	77%	80%	78%	84%	88%	92%	16	8
Washington Teachers' Retirement System Plan 2/3	\$5,681	-\$417	2008	8.00%	3.50%	5.80%	*	108%	113%	133%	134%	153%	182%	182%	*	8
Washington Law Enforcement & Firefighters' Retirement System Plan 1	\$5,592	-\$1,224	2008	8.00%	3.50%	11.00%	*	128%	122%	116%	113%	109%	112%	120%	16	8
Washington Law Enforcement & Firefighters' Retirement System Plan 2	\$5,053	-\$1,055	2008	8.00%	3.50%	11.00%	*	126%	120%	116%	114%	117%	125%	137%	*	8
Washington School Employees Retirement System Plan 2/3	\$2,303	-\$96	2008	8.00%	3.50%	6.90%	*	104%	107%	*	*	*	*	*	*	8
Washington State Patrol Employees Retirement System Plan 1/2	\$870	-\$125	2008	8.00%	3.50%	4.00%	*	117%	114%	114%	113%	118%	123%	135%	*	8
Washington Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund	\$161	-\$8	2008	7.00%	3.50%	4.00%	*	105%	117%	111%	99%	104%	107%	113%	15	8
Washington Public Safety Employees Retirement System Plan 2	\$4	\$0	2008	8.00%	3.50%	4.00%	*	118%	117%	103%	103%	93%	87%	85%	*	8
Washington Judges' Retirement System	\$4	\$0	2008	8.00%	3.50%	4.00%	*	103%	103%	103%	103%	93%	94%	87%	*	8
Washington Judicial Retirement System	\$1	\$91	2008	8.00%	3.50%	4.00%	*	1%	1%	0%	2%	2%	7%	9%	*	8
West Virginia Teachers' Retirement System	\$4,134	\$4,135	2008	7.50%	3.00%	3.50% - 5.50%	*	50%	51%	32%	25%	22%	19%	19%	26	5
West Virginia Public Employees' Retirement System	\$3,939	\$738	2008	7.50%	3.00%	3.75% - 6.00%	*	84%	97%	87%	84%	80%	73%	75%	28	5
West Virginia Public Safety Death, Disability, & Retirement Fund	\$459	\$88	2008	7.50%	3.00%	4.75% - 6.00%	*	84%	97%	89%	74%	26%	22%	22%	17	5
West Virginia Judges' Retirement System	\$100	-\$2	2008	7.50%	3.00%	4.50%	*	102%	108%	94%	83%	74%	65%	52%	10	5
West Virginia Deputy Sheriff Retirement System	\$90	\$30	2008	7.50%	3.00%	4.50% - 5.50%	*	75%	86%	75%	70%	68%	61%	61%	22	5
West Virginia State Police Retirement System	\$42	\$10	2008	7.50%	3.00%	4.75% - 6.00%	*	81%	99%	92%	97%	90%	85%	87%	22	5
West Virginia Emergency Medical Services Retirement System	\$14	\$5	2008	7.50%	3.00%	3.50% - 5.00%	*	74%	99%	92%	97%	90%	85%	87%	22	5
Wisconsin Retirement System	\$77,159	\$253	2008	7.80%	4.10%	4.10% - 9.90%	*	100%	100%	100%	100%	99%	99%	97%	21	5
Wyoming Public Employees Pension Plan	\$4,836	\$1,316	2009	8.00%	3.50%	4.50%	79%	94%	94%	85%	85%	92%	92%	103%	30	5
Wyoming Law Enforcement Retirement Plan	\$326	\$65	2009	8.00%	3.50%	4.50%	83%	96%	97%	89%	89%	87%	90%	90%	30	5
Wyoming Field Fireman's Pension Plan A	\$163	\$30	2009	8.00%	3.50%	4.50%	85%	107%	102%	101%	104%	110%	95%	101%	10	5
Wyoming State Patrol, Game and Fish Warden and Criminal Investigator Pension Plan	\$91	\$23	2009	8.00%	3.50%	4.50%	80%	89%	90%	89%	90%	94%	101%	101%	30	5
Wyoming Field Fireman's Pension Plan B	\$62	\$2	2009	8.00%	3.50%	4.50%	97%	106%	110%	113%	123%	123%	132%	132%	30	5
Wyoming Volunteer Fireman's Pension Plan	\$55	\$6	2009	8.00%	3.50%	4.50%	90%	97%	106%	105%	113%	120%	120%	120%	30	5
Wyoming Judicial Pension Plan	\$12	\$2	2009	8.00%	3.50%	4.50%	88%	102%	104%	62%	59%	43%	29%	29%	30	5
Wyoming Volunteer EMT Pension Plan	\$0	\$0	2009	8.00%	3.50%	4.50%	0%	*	*	*	*	*	*	*	30	5

All plan valuations derived from state Comprehensive Annual Financial Reports.

Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

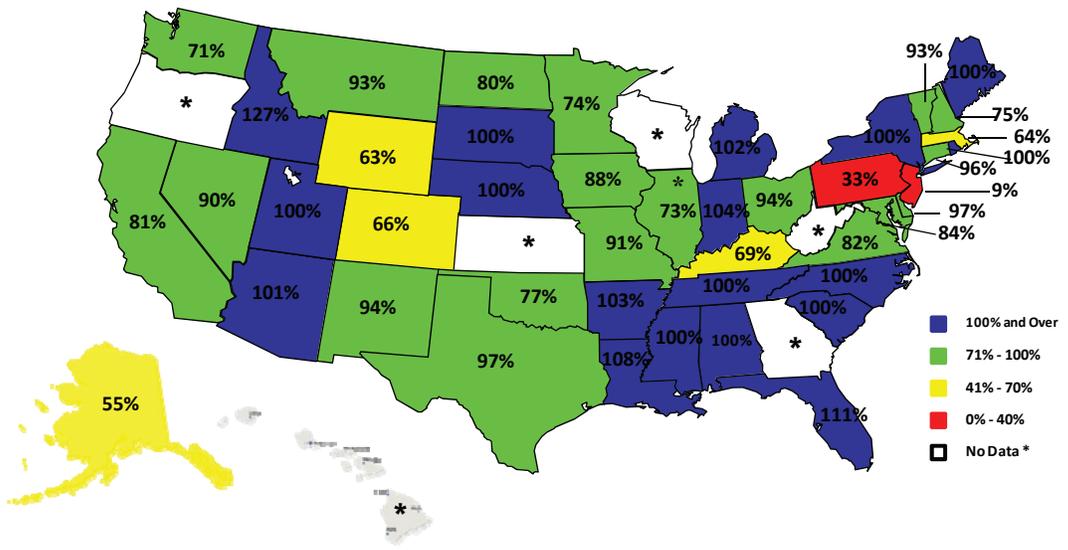
\* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAAL are stated in millions.

### Annual Required Contributions

Municipal pension plans are constructed in such a way that allows the liability to be amortized over a period of approximately 30 years. The annual required contribution (ARC) is the funding level necessary to pay off the liability over the prescribed amortization period. States are not legally required to contribute the stated annual required contribution for their pension plans. In cases of severe, or even mild, but prolonged budgetary distress, a state may choose to forgo their entire annual required contribution. When a state forgoes or even shorts the ARC, the liability becomes even larger, and higher contribution rates will be necessary to cover the shortfall in the future. If states are unable to meet the current contribution rate, higher contribution rates in the future lead to prolonged budgetary pressure. As shown at the bottom of Exhibit 2, we found that **23 states did not meet annual required contribution levels for fiscal year 2008, and 26 states did not meet their ARC for fiscal year 2009.** Alaska, California, Colorado, Delaware, Illinois, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nevada, New Jersey, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Vermont, Virginia, and Washington did not meet their contribution levels for all plans in 2007, 2008, or 2009. As to be expected, the states that face the most severe budgetary issues are those that did not fully contribute to the state’s pension plans. In Exhibit 2, we note extremely low levels of contributions in red states such as New Jersey, where only 9% of the prescribed annual required contribution was actually contributed, and Pennsylvania, where only 33% of the ARC was contributed. As discussed earlier, whenever the state does not meet their ARC, future contribution levels may increase drastically.

Exhibit 2  
 2009 Weighted Average Annual Required Contributions



Red Shaded States Did Not Meet Annual Required Contributions



Table 2.1 Annual Required Contributions (Alabama - Illinois)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Alabama Teachers' Retirement System	\$753	\$754	\$730	\$730	\$541	\$541
Alabama State Employees' Retirement Fund	\$451	\$451	\$329	\$329	\$277	\$277
Alabama Judicial Retirement System	\$10	\$10	\$10	\$10	\$9	\$9
Alaska Public Employees' Retirement System	\$166	\$113	\$141	\$100	\$269	\$197
Alaska Teachers' Retirement System	\$94	\$27	\$135	\$31	\$170	\$106
Alaska Judicial Retirement System	\$5	\$5	\$4	\$41	\$3	\$3
Alaska National Guard & Naval Military Retirement System	\$2	\$2	\$2	\$2	\$2	\$2
Alaska Elected Public Officers' Retirement System	*	*	\$2	\$2	\$2	\$2
Arizona State Retirement System	\$754	\$754	\$759	\$759	\$664	\$664
Arizona Public Safety Personnel Retirement System	\$316	\$326	\$222	\$231	\$167	\$178
Arizona Correctional Officers Retirement System	\$54	\$58	\$44	\$47	\$23	\$27
Arizona Elected Officials' Retirement Plan	\$18	\$18	\$11	\$12	\$10	\$11
Arkansas Teachers' Retirement Fund	\$344	\$359	\$344	\$350	\$322	\$332
Arkansas Public Employees' Retirement System	\$159	\$159	\$173	\$173	\$163	\$163
Arkansas Highway Retirement System	*	\$17	*	*	*	*
Arkansas State Police Retirement System	\$11	\$12	\$10	\$12	\$10	\$11
Arkansas Judicial Retirement System	\$4	\$4	\$5	\$5	\$5	\$5
Arkansas District Judge Retirement System	\$2	\$2	\$2	\$2	\$2	\$2
California Public Employees' Retirement Fund	\$6,912	\$6,912	\$7,243	\$7,243	\$6,442	\$6,442
California State Teachers' Retirement Fund	\$4,547	\$2,867	\$4,362	\$2,864	\$3,980	\$2,649
California Judges Retirement Fund II	\$43	\$40	\$32	\$37	\$29	\$27
California Legislators' Retirement Fund	*	*	*	*	*	*
California Judges Retirement Fund	\$791	\$191	\$624	\$163	\$561	\$131
Colorado School Retirement System	\$735	\$478	\$630	\$428	\$622	\$373
Colorado State Public Employees' Retirement System	\$481	\$293	\$425	\$268	\$413	\$231
Colorado Local Government Retirement System	\$87	\$83	\$80	\$78	\$81	\$68
Colorado Fire & Police Retirement System	\$27	\$27	\$25	\$25	\$22	\$22
Colorado Judicial Division Retirement System	\$7	\$6	\$6	\$5	\$6	\$4
Connecticut Teachers' Retirement Fund	\$539	\$539	\$519	\$2,519	\$416	\$412
Connecticut State Employees' Retirement Fund	\$754	\$701	\$717	\$711	\$664	\$664
Connecticut Judicial Retirement Fund	\$14	\$14	\$13	\$13	\$12	\$12
Delaware State Employees' Pension Plan	\$97	\$97	\$102	\$102	\$97	\$97
Delaware New State Police Pension Plan	\$7	\$7	\$7	\$7	\$6	\$6
Delaware County & Municipal Police and Firefighters' Pension Plan	\$12	\$12	\$6	\$6	\$6	\$6
Delaware Judiciary Pension Plan	\$3	\$3	\$3	\$3	\$2	\$2
Delaware County & Municipal Other Employees' Pension Plan	\$2	\$2	\$1	\$1	\$1	\$1
Delaware Diamond State Port Corporation Pension Plan	\$1	\$1	\$1	\$1	\$1	\$1
Delaware Volunteer Firemen's Pension Plan	\$2	\$1	\$2	\$1	\$2	\$1
Delaware Closed State Police Pension Plan	\$26	\$22	\$25	\$21	\$25	\$19
Delaware Special Pension Plan	*	*	*	*	*	*
District Of Columbia Police & Firefighters' Retirement Fund	\$106	\$106	\$137	\$137	\$140	\$140
District Of Columbia Teachers' Retirement Fund	*	*	\$6	\$6	\$15	\$15
Florida Retirement System	\$2,536	\$2,815	\$2,613	\$2,796	\$2,455	\$2,725
Georgia Teachers' Retirement System	*	*	\$987	\$987	\$927	\$927
Georgia Employees' Retirement System	\$281	\$281	\$286	\$286	\$270	\$270
Georgia Public School Employees' Retirement System	*	*	\$3	\$3	\$6	\$6
Georgia Judicial System's Retirement System	*	*	\$2	\$2	\$2	\$2
Georgia Legislative Retirement System	*	*	*	*	*	*
Georgia Military Pension Fund	*	*	\$1	\$1	\$1	\$1
Hawaii Employees' Retirement System	*	*	*	*	*	*
Idaho Public Employees' Retirement Fund	\$232	\$285	\$251	\$273	\$235	\$260
Idaho Firefighters' Retirement Fund	\$2	\$13	*	*	\$5	\$12
Idaho Judicial Retirement Fund	\$2	\$2	\$3	\$2	\$3	\$2
Illinois Teachers' Retirement System	\$2,109	\$1,601	\$1,949	\$1,170	\$2,052	\$817
Illinois State University Retirement System	\$1,147	\$725	\$972	\$609	\$968	\$524
Illinois State Employees' Retirement System	\$1,003	\$775	\$986	\$588	\$824	\$359
Illinois Judges' Retirement System	\$78	\$60	\$75	\$47	\$73	\$35
Illinois General Assembly Retirement System	\$11	\$9	\$11	\$7	\$10	\$5

In Millions

Table 2.2 Annual Required Contributions (Indiana - Missouri)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Indiana Public Employees' Retirement Fund	\$316	\$323	\$291	\$304	\$275	\$254
Indiana Teachers' Retirement Fund	\$820	\$854	\$800	\$808	\$743	\$753
Indiana 1977 Police Officers' & Firefighters' Pension & Disability Fund	*	*	\$118	\$133	\$109	\$123
Indiana State Police Retirement Fund	\$10	\$9	\$9	\$9	\$9	\$9
Indiana Judges' Retirement System	\$16	\$21	\$10	\$16	\$12	\$15
Indiana Excise Police, Gaming & Conservation Officers' Retirement Plan	\$4	\$5	\$4	\$5	\$3	\$3
Indiana Prosecuting Attorneys' Retirement Fund	\$1	\$0	\$1	\$0	\$1	\$0
Indiana Legislators' Retirement System	\$0	\$0	\$0	\$0	\$0	\$0
Iowa Public Employees' Retirement System	\$473	\$415	\$433	\$377	\$412	\$343
Iowa Municipal Fire & Police Retirement System	\$45	\$45	\$57	\$57	\$60	\$60
Iowa Peace Officers' Retirement, Accident and Disability System	\$13	\$8	\$14	\$7	\$12	\$6
Iowa Judicial Retirement System	\$9	\$8	\$8	\$5	\$8	\$2
Kansas Public Employees' Retirement System - State/School	*	*	*	*	*	*
Kansas Public Employees' Retirement System - Local	*	*	*	*	*	*
Kansas Police & Firemen's Retirement System	*	*	*	*	*	*
Kansas Retirement System For Judges	*	*	*	*	*	*
Kentucky Teachers' Retirement System - Retirement Funds	\$600	\$401	\$564	\$440	\$495	\$435
Kentucky County Employees' Non-Hazardous - Pension	\$161	\$179	\$138	\$151	\$113	\$124
Kentucky State Employees' Non-Hazardous - Pension	\$294	\$112	\$265	\$105	\$177	\$88
Kentucky County Employees' Hazardous - Pension	\$69	\$78	\$64	\$72	\$54	\$62
Kentucky State Employees' Hazardous Retirement Plan - Pension	\$16	\$16	\$14	\$15	\$12	\$13
Kentucky State Police Retirement Plan - Retirement Funds	\$16	\$8	\$14	\$7	\$9	\$6
Kentucky Judicial Retirement Plan - Retirement Funds	\$5	\$4	\$2	\$2	\$3	\$3
Kentucky Legislators' Retirement System - Retirement Funds	\$0	\$0	\$0	\$0	\$1	\$1
Louisiana Teachers' Retirement System	\$697	\$787	\$637	\$740	\$579	\$617
Louisiana State Employees' Retirement System	\$492	\$506	\$457	\$527	\$435	\$422
Louisiana School Employees' Retirement System	\$58	\$56	\$50	\$52	\$47	\$50
Louisiana State Police Retirement System	\$21	\$20	*	*	*	*
Maine State Employees' and Teachers' Pension Plan	\$320	\$320	\$305	\$305	\$303	\$303
Maryland Teachers' Retirement System	\$753	\$673	\$665	\$622	\$569	\$485
Maryland State Employees' Retirement System	\$373	\$263	\$348	\$264	\$316	\$201
Maryland State Police Retirement System	\$31	\$17	\$23	\$13	\$12	\$12
Maryland State Law Enforcement Officers' Pension System	\$32	\$32	\$34	\$34	\$29	\$29
Maryland Judges' Retirement System	\$18	\$18	\$17	\$17	\$16	\$16
Maryland Transit Administration Pension Plan	\$25	\$27	*	*	*	*
Massachusetts Teachers' Retirement System	\$1,150	\$781	\$750	\$809	\$764	\$747
Massachusetts State Employees' Retirement System	\$697	\$397	\$370	\$461	\$432	\$436
Michigan Public School Employees' Retirement System - Pension	\$989	\$1,000	\$904	\$999	\$920	\$835
Michigan State Employees' Retirement System	\$352	\$344	\$308	\$356	\$316	\$192
Michigan Municipal Employees' Retirement System	\$228	\$253	\$224	\$244	\$258	\$237
Michigan State Police Retirement System	\$37	\$35	\$34	\$34	\$32	\$24
Michigan Judges' Retirement System - Pension	\$0	\$0	\$0	\$0	\$0	\$0
Michigan Legislative Retirement System	\$0	\$0	\$0	\$0	\$0	\$0
Michigan Military Retirement Plan	\$4	\$3	\$4	\$3	\$4	\$3
Minnesota Teachers' Retirement Association Plan	\$355	\$241	\$280	\$232	\$230	\$209
Minnesota Public Employees' Retirement Fund	\$381	\$329	\$375	\$303	\$336	\$283
Minnesota State Employees' Retirement Fund	\$180	\$107	\$166	\$97	\$122	\$86
Minnesota Public Employees' Police & Fire Fund	\$141	\$102	\$145	\$87	\$116	\$75
Minnesota Correctional Employees' Retirement Fund	\$32	\$20	\$35	\$19	\$29	\$14
Minnesota State Patrol Retirement Fund	\$15	\$9	\$12	\$8	\$11	\$7
Minnesota Public Employees' Correctional Fund	\$11	\$14	\$10	\$13	\$9	\$12
Minnesota Judges' Retirement Fund	\$9	\$8	\$10	\$8	\$8	\$8
Minnesota Legislators' Retirement Fund	\$5	\$1	\$3	\$2	\$2	\$2
Minnesota Elective State Officers' Retirement Fund	\$1	\$0	\$1	\$0	\$0	\$0
Mississippi Public Employees' Retirement System	\$657	\$657	\$637	\$617	\$621	\$559
Mississippi Highway Safety Patrol Retirement System	\$12	\$12	\$10	\$10	\$10	\$10
Mississippi Municipal Retirement System	*	*	\$15	\$16	\$15	\$15
Mississippi Supplemental Legislative Retirement Plan	\$0	\$0	\$0	\$0	\$0	\$0
Missouri Public School Retirement System	\$670	\$563	\$656	\$521	\$645	\$472
Missouri State Employees' Pension Plan	\$252	\$252	\$250	\$250	\$239	\$239
Missouri Local Government Employees' Retirement System	\$133	\$133	\$130	\$130	\$129	\$129
Missouri Public Education Employee Retirement System	\$97	\$86	\$91	\$78	\$90	\$69
Missouri Dep. of Transportation and Highway Patrol Employees' Retirement System	\$123	\$123	\$125	\$125	\$122	\$122
Missouri Judges' Pension Plan	\$28	\$28	\$26	\$26	\$24	\$24

In Millions

Minnesota Elective State Officers' Retirement Fund: is a closed plan. There are no active contributing members. For the Legislators and Elective State

Table 2.3 Annual Required Contributions (Montana - Oregon)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Montana Public Employees' Retirement System - Defined Benefit Retirement Plan	\$96	\$76	\$65	\$72	\$60	\$67
Montana Teachers' Retirement System	\$81	\$81	\$81	\$81	\$113	\$146
Montana Municipal Police Officers' Retirement System	\$3	\$5	\$5	\$5	\$4	\$4
Montana Firefighters' Unified Retirement System	\$0	\$5	\$4	\$4	\$3	\$4
Montana Sheriffs' Retirement System	\$7	\$5	\$4	\$5	\$4	\$4
Montana Highway Patrol Officers' Retirement System	\$3	\$4	\$4	\$4	\$4	\$4
Montana Game Wardens' & Peace Officers' Retirement System	\$3	\$3	\$3	\$3	\$2	\$3
Montana Judges' Retirement System	\$0	-\$1	\$0	-\$1	\$0	-\$1
Montana Volunteer Firefighters' Compensation Act	\$2	\$2	\$2	\$2	\$2	\$2
Nebraska School Employees' Retirement System	\$131	\$131	\$122	\$122	\$123	\$123
Nebraska State Employees' Retirement Benefit Fund	*	*	\$29	\$29	\$23	\$23
Nebraska State Patrol Retirement System	\$5	\$5	\$5	\$5	\$5	\$5
Nebraska Judges' Retirement System	\$3	\$3	\$3	\$3	\$3	\$3
Nevada Public Employees' Retirement System	\$1,341	\$1,206	\$1,259	\$1,171	\$1,141	\$1,095
Nevada Judicial Retirement System	\$4	\$4	\$3	\$4	\$3	\$4
Nevada Legislators' Retirement System	*	\$0	*	\$0	*	\$0
New Hampshire Retirement System - Pension Plan	\$261	\$196	\$251	\$188	\$178	\$178
New Hampshire Judicial Retirement Plan	*	*	\$1	\$1	\$1	\$1
New Jersey Teachers' Pension & Annuity Fund	\$1,601	\$96	\$1,551	\$695	\$1,407	\$691
New Jersey Public Employees' Retirement System - State	\$622	\$79	\$557	\$235	\$380	\$216
New Jersey Police & Firemen's Retirement System - State	\$275	\$40	\$253	\$134	\$217	\$127
New Jersey State Police Retirement System	\$86	\$10	\$79	\$36	\$57	\$30
New Jersey Judicial Retirement System	\$30	\$4	\$27	\$13	\$25	\$13
New Jersey Consolidated Police & Firemen's Pension Fund	\$2	\$1	\$2	\$1	\$8	\$2
New Jersey Prison Officers' Pension Fund	*	*	*	*	*	*
New Mexico Public Employees' Retirement System	\$303	\$311	\$293	\$293	\$257	\$257
New Mexico Educational Employees' Retirement System	\$375	\$324	\$368	\$291	\$364	\$256
New Mexico Judicial Retirement System	\$5	\$5	\$5	\$5	\$4	\$4
New Mexico Volunteer Firefighters' Retirement System	\$0	\$0	\$0	\$0	0 - .446	*
New Mexico Magistrate Retirement System	\$1	\$1	\$1	\$1	\$1	\$1
New York State & Local Employees' Retirement System	\$1,963	\$1,963	\$2,135	\$2,135	\$2,216	\$2,216
New York Teachers' Retirement System	\$1,096	\$1,096	\$1,188	\$1,188	\$1,104	\$1,104
New York Police & Fire Retirement System	\$493	\$493	\$513	\$513	\$502	\$502
North Carolina Teachers' & State Employees' Retirement System	\$472	\$472	\$407	\$403	\$332	\$332
North Carolina Local Governmental Employees' Retirement System	\$266	\$266	\$246	\$246	\$233	\$233
North Carolina Consolidated Judicial Retirement System	\$8	\$9	\$8	\$8	\$7	\$7
North Carolina Firemen's & Rescue Squad Retirement System	\$10	\$10	\$9	\$9	\$8	\$8
North Carolina National Guard Retirement System	\$6	\$6	\$6	\$7	\$7	\$7
North Carolina Registers of Deeds' Retirement System	*	*	*	*	*	*
North Carolina Legislative Retirement System	*	*	*	*	*	*
North Dakota Teachers' Fund for Retirement	\$42	\$37	\$44	\$34	\$51	\$32
North Dakota Public Employees' Retirement System	\$40	\$28	\$36	\$25	\$38	\$23
Job Service North Dakota	*	*	*	*	*	*
North Dakota Highway Patrolmen's Retirement System	\$1	\$1	\$1	\$1	\$1	\$1
Ohio Public Employees' Retirement System	\$1,020	\$1,020	\$893	\$893	\$1,052	\$1,052
Ohio State Teachers' Retirement System	\$1,520	\$1,353	\$1,329	\$1,329	\$1,540	\$1,278
Ohio School Employees' Retirement System	\$236	\$236	\$243	\$243	\$261	\$235
Ohio Police & Fire Pension Fund	*	*	\$371	\$278	\$364	\$280
Ohio State Highway Patrol Retirement System	\$20	\$21	\$20	\$19	\$20	\$18
Oklahoma Teachers' Retirement System	\$714	\$619	\$590	\$597	\$576	\$536
Oklahoma Public Employees' Retirement System	\$323	\$243	\$364	\$220	\$339	\$198
Oklahoma Firefighters' Pension & Retirement System	\$158	\$83	\$147	\$83	\$147	\$117
Oklahoma Police Pension & Retirement System	\$103	\$59	\$101	\$56	\$95	\$56
Oklahoma Law Enforcement Retirement System	\$37	\$25	\$33	\$25	\$33	\$24
Oklahoma Uniform Retirement System for Justices & Judges	\$8	\$2	\$8	\$2	\$6	\$1
Oklahoma Wildlife Conservation Retirement Plan	\$3	\$3	*	*	*	*
Oregon Public Employees' Retirement System	*	*	\$707	\$707	\$806	\$596

In Millions

Jobs Service North Dakota: Scheduled contribution will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The scheduled contribution and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the employer.

North Carolina Registers of Deeds' Retirement System: No contributions were required or made. Significant fees and collections are contributed not directly related to ARC.

North Carolina Legislative Retirement System: No contributions were required or made. For the year ending 2009 there was no actuarial based required contribution. Employers contributed an additional .04% of the employees 7% to make up for the difference between the actual and statutorily required 7% of covered payroll.

Table 2.4

Annual Required Contributions (Pennsylvania - Wyoming)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Pennsylvania Public School Employees' Retirement System	\$1,761	\$503	\$1,852	\$754	\$1,709	\$660
Pennsylvania State Employees' Retirement System	\$644	\$252	\$584	\$233	\$617	\$243
Pennsylvania Municipal Retirement System	\$31	\$35	\$29	\$32	\$27	\$29
Rhode Island Employees' Retirement System: Teachers	\$189	\$189	\$205	\$205	\$180	\$180
Rhode Island Employees' Retirement System: State Employees	\$126	\$126	\$132	\$132	\$118	\$118
Rhode Island Municipal Employees' Retirement System	\$34	\$34	\$33	\$33	\$27	\$27
Rhode Island State Police Retirement Benefits Trust	\$3	\$3	\$4	\$4	\$4	\$4
Judicial Retirement Benefits Trust	\$2	\$2	\$2	\$2	\$2	\$2
South Carolina Retirement System	\$828	\$828	\$774	\$774	\$644	\$644
South Carolina Police Officers' Retirement System	\$124	\$124	\$114	\$114	\$107	\$107
South Carolina Judges & Solicitors Retirement System	\$8	\$8	\$8	\$8	\$7	\$7
South Carolina General Assembly Retirement System	\$2	\$2	\$2	\$2	\$2	\$2
South Carolina National Guard Retirement System	\$4	\$4	\$4	\$4	\$4	\$5
South Dakota Retirement System	\$94	\$94	\$90	\$90	\$85	\$85
Tennessee State Employees, Teachers, and Higher Education Employees' Pension Plan	\$584	\$584	\$593	\$593	\$563	\$563
Tennessee Political Subdivision Defined Benefits Plan	\$253	\$253	\$245	\$245	\$232	\$232
Texas Teachers' Retirement System	\$2,011	\$2,172	\$2,020	\$2,060	\$2,046	\$1,739
Texas Employees' Retirement System	\$530	\$362	\$378	\$342	\$370	\$329
Texas County & District Retirement System Pension Trust Fund	\$489	\$510	\$452	\$461	\$423	\$430
Texas Municipal Retirement System	\$757	\$642	\$565	\$567	\$513	\$513
Texas Law Enforcement & Custodial Officer Supplemental Retirement	\$33	\$21	\$20	\$20	\$7	\$0
Texas Judicial Retirement System Plan Two	\$11	\$11	\$11	\$11	\$11	\$11
Texas Emergency Services Retirement System	*	*	\$3	\$11	\$3	\$3
Texas Judicial Retirement System Plan One	\$25	\$28	\$27	\$29	\$29	\$29
Utah Noncontributory Retirement System	\$535	\$535	\$523	\$523	\$488	\$488
Utah Public Safety Retirement System	\$99	\$99	\$94	\$94	\$81	\$81
Utah Contributory Retirement System	\$11	\$11	\$11	\$11	\$11	\$11
Utah Firefighters' Retirement System	\$16	\$16	\$10	\$10	\$14	\$14
Utah Judges' Retirement System	\$4	\$4	\$4	\$4	\$3	\$3
Utah Governors' & Legislators' Retirement System	\$0	\$0	\$0	\$0	\$0	\$0
Vermont State Teachers' Retirement System	\$40	\$39	\$41	\$41	\$39	\$38
Vermont State Retirement System	\$29	\$25	\$42	\$39	\$40	\$39
Vermont Municipal Employees' Retirement System	*	*	*	*	\$9	\$9
Virginia Retirement System	\$1,501	\$1,220	\$1,379	\$1,277	\$1,300	\$1,116
Virginia Law Officers' Retirement System	\$60	\$51	\$61	\$56	\$56	\$48
Virginia State Police Officers' Retirement System	\$24	\$20	\$23	\$21	\$19	\$16
Virginia Judicial Retirement System	\$23	\$21	\$24	\$22	\$23	\$21
Washington Public Employees' Retirement System Plan 2/3	\$370	\$440	\$363	\$319	\$331	\$243
Washington Public Employees' Retirement System Plan 1	\$620	\$325	\$453	\$222	\$397	\$119
Washington Teachers' Retirement System Plan 1	\$391	\$179	\$295	\$113	\$250	\$61
Washington Teachers' Retirement System Plan 2/3	\$187	\$161	\$209	\$110	\$168	\$102
Washington Law Enforcement & Firefighters' Retirement System Plan 1	*	*	*	*	\$0	\$0
Washington Law Enforcement & Firefighters' Retirement System Plan 2	\$105	\$78	\$61	\$73	\$57	\$58
Washington School Employees Retirement System Plan 2/3	\$72	\$64	\$76	\$52	\$72	\$46
Washington State Patrol Retirement System Plan 1/2	\$5	\$6	\$7	\$6	\$5	\$3
Washington Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund	\$1	\$1	\$1	\$1	\$1	\$1
Washington Public Safety Employees Retirement System Plan 2	\$14	\$15	\$12	\$12	\$7	\$7
Washington Judges' Retirement System	*	*	*	*	*	\$0
Washington Judicial Retirement System	\$21	\$10	\$27	\$10	\$37	\$10
West Virginia Teachers' Retirement System	*	*	\$345	\$371	\$327	\$1,485
West Virginia Public Employees' Retirement System	*	*	\$125	\$128	\$122	\$123
West Virginia Public Safety Death, Disability, & Retirement Fund	*	*	\$6	\$5	\$6	\$6
West Virginia Judges' Retirement System	*	*	\$3	\$4	\$3	\$6
West Virginia Deputy Sheriff Retirement System	*	*	\$4	\$4	\$4	\$4
West Virginia State Police Retirement System	*	*	\$2	\$2	\$2	\$2
West Virginia Emergency Medical Services Retirement System	*	*	*	*	*	*
Wisconsin Retirement System	*	*	\$623	\$623	\$593	\$593
Wyoming Public Employees Pension Plan	\$145	\$88	\$83	\$83	\$73	\$72
Wyoming Law Enforcement Retirement Plan	\$11	\$12	\$9	\$12	\$8	\$11
Wyoming Paid Firemen's Pension Plan A	\$5	\$0	\$0	\$0	\$0	\$0
Wyoming State Patrol, Game and Fish Warden and Criminal Investigator Pension Plan	\$3	\$3	\$2	\$3	\$2	\$2
Wyoming Paid Firemen's Pension Plan B	\$4	\$2	\$3	\$2	\$2	\$2
Wyoming Volunteer Fireman's Pension Plan	\$1	\$1	\$1	\$2	\$1	\$2
Wyoming Judicial Pension Plan	\$1	\$1	\$0	\$1	\$0	\$0
Wyoming Volunteer EMT Pension Plan	\$0	\$0	*	*	*	*

In Millions

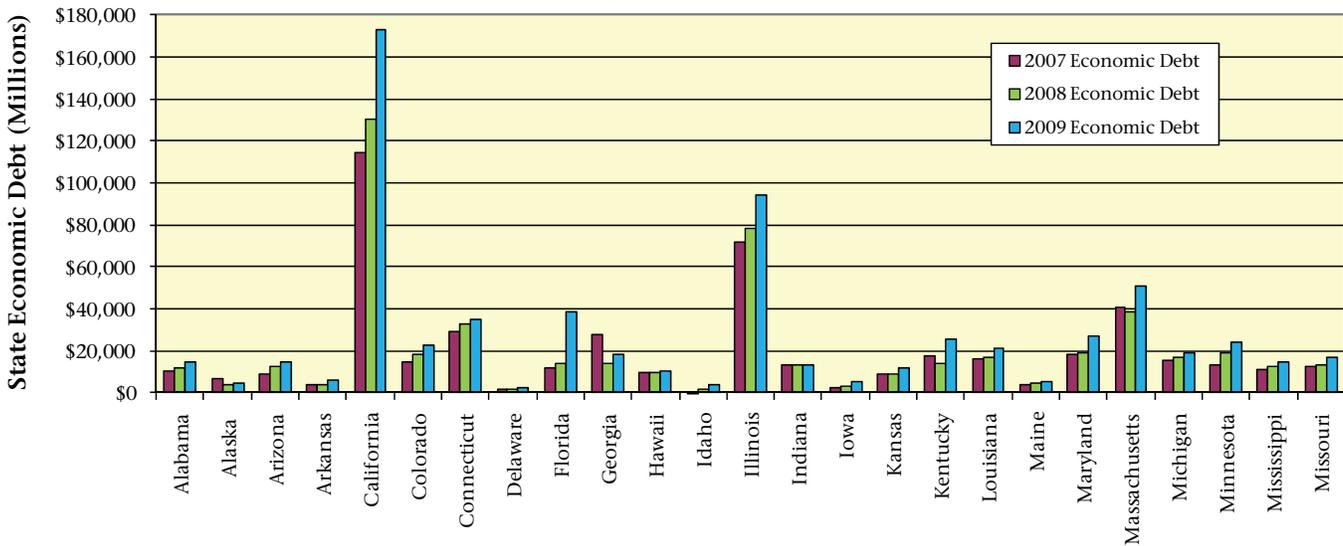
Texas: The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and

### Economic Debt

Economic Debt, which comprises the state general fund deficits, net bonded debt, and pension obligations, has significantly risen over the last three years (See Exhibit 3). Since last year, out of the top ten states with the highest economic debt, nine have remained there while Florida has moved to 9<sup>th</sup> from 20<sup>th</sup> last year (See Table 3). On average, the top ten states increased their economic debt by 30.08%. Most notably 3 states - California, Ohio, and Florida - have increased their economic debt by over \$20 billion. These increases in Ohio and Florida are attributable to large increases in their pension unfunded actuarial accrued liabilities. California's sizable increase of over \$42 billion in economic debt is due to an approximate 33% increase in their pension liabilities over the last year, and an increase in their net bonded debt of approximately 32%. These increases are staggering, and will pose a significant burden on future budgetary planning.

Exhibit 3

Three Year History Of State Economic Debt  
 Alabama - Missouri



Three Year History Of State Economic Debt  
 Montana - Wyoming

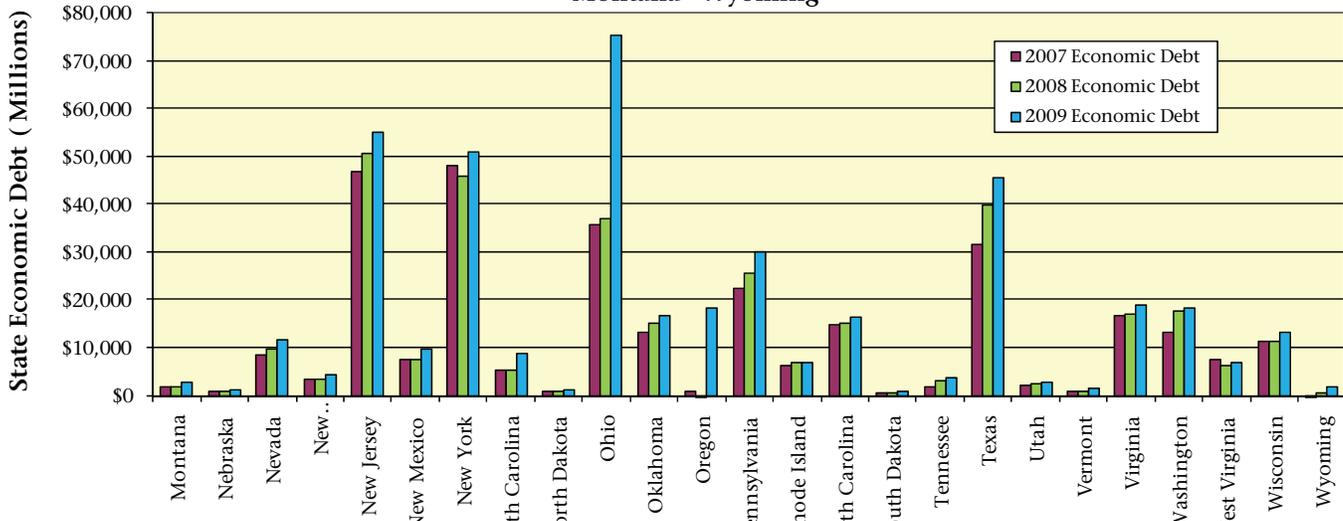


Table 3		Calculation of Economic Debt		
State	General Fund Unreserved Balance (\$ Mil)	Net Bonded Debt (\$ Mil)	Sum UPBO (\$ Mil)	Economic Debt (\$ Mil)
Alabama	\$217	\$3,749	\$10,871	\$14,620
Alaska	\$13,223	\$940	\$3,536	\$4,476
Arizona	(\$1,401)	\$4,857	\$8,485	\$14,743
Arkansas	\$2,272	\$900	\$5,117	\$6,017
California	(\$18,344)	\$87,320	\$67,070	\$172,734
Colorado	\$11	\$2,012	\$20,915	\$22,927
Connecticut	(\$2,303)	\$17,094	\$15,859	\$35,256
Delaware	\$744	\$2,203	\$429	\$2,632
District of Columbia	\$217	N/A	(\$103)	(\$103)
Florida	\$2,192	\$20,820	\$17,611	\$38,431
Georgia	(\$493)	\$11,011	\$6,986	\$18,490
Hawaii *	\$567	\$5,176	\$5,107	\$10,283
Idaho	\$631	\$831	\$3,154	\$3,985
Illinois	(\$7,722)	\$23,957	\$62,439	\$94,118
Indiana	\$1,460	\$3,157	\$9,872	\$13,029
Iowa	\$803	\$219	\$5,404	\$5,623
Kansas	(\$201)	\$3,214	\$8,279	\$11,694
Kentucky	(\$50)	\$7,270	\$18,008	\$25,327
Louisiana	\$803	\$5,708	\$15,851	\$21,559
Maine	(\$390)	\$1,002	\$3,994	\$5,387
Maryland	\$147	\$9,166	\$17,683	\$26,849
Massachusetts	\$1,735	\$30,371	\$20,347	\$50,718
Michigan	\$177	\$7,462	\$11,492	\$18,954
Minnesota	(\$752)	\$5,463	\$17,625	\$23,841
Mississippi	\$1,360	\$4,364	\$10,262	\$14,626
Missouri	\$669	\$4,672	\$12,279	\$16,951
Montana	\$393	\$349	\$2,488	\$2,837
Nebraska	\$856	\$27	\$1,134	\$1,161
Nevada	\$179	\$2,446	\$9,132	\$11,578
New Hampshire	\$0	\$881	\$3,542	\$4,423
New Jersey	\$2,186	\$31,951	\$23,045	\$54,996
New Mexico	\$377	\$2,809	\$6,986	\$9,795
New York	(\$5,568)	\$61,260	(\$15,905)	\$50,923
North Carolina	(\$965)	\$7,175	\$504	\$8,644
North Dakota	\$863	\$212	\$834	\$1,046
Ohio	\$213	\$10,766	\$64,451	\$75,217
Oklahoma	\$3,166	\$2,101	\$14,543	\$16,644
Oregon	(\$334)	\$7,111	\$10,739	\$18,183
Pennsylvania	(\$2,541)	\$11,827	\$15,589	\$29,957
Rhode Island	(\$62)	\$2,241	\$4,446	\$6,749
South Carolina	(\$126)	\$4,184	\$12,053	\$16,363
South Dakota	\$131	\$110	\$609	\$719
Tennessee	\$634	\$2,004	\$1,603	\$3,607
Texas	\$5,586	\$12,893	\$32,553	\$45,446
Utah	\$327	\$2,666	\$3	\$2,669
Vermont	\$47	\$441	\$1,090	\$1,531
Virginia	(\$928)	\$7,056	\$10,733	\$18,717
Washington	\$189	\$14,833	\$3,514	\$18,347
West Virginia	\$767	\$1,963	\$5,004	\$6,967
Wisconsin	(\$3,121)	\$9,726	\$321	\$13,169
Wyoming	(\$195)	\$42	\$1,493	\$1,730

General Fund Unreserved Balance: Individual State 2009 Comprehensive Annual Financial Reports

Net Bonded Debt: Moody's 2010 State Debt Medians

Sum UPBO: Individual State 2009 Comprehensive Annual Financial Reports

Sum OPEB: Individual State 2009 Comprehensive Annual Financial Reports

Population: census.gov (July 1, 2009)

\* 2010 Census Bureau estimate for Hawaii based on the 2000 Census data

**Economic Debt Per Capita**

There is a valid argument to be made that cross-sectional analysis of economic debt on a state by state basis is flawed. Population, as it relates to tax revenue, must be factored into the equation to determine the true severity of the outstanding liabilities. To address this concern, we look at economic debt on a per capita basis (See Table 4). When investigating economic debt per capita, three of the top five states from last year (Connecticut, Hawaii, and Illinois) remain at the top, while Massachusetts moved up from the 6<sup>th</sup> to 3<sup>rd</sup> spot, and Ohio moved up from the 21<sup>st</sup> to the 5<sup>th</sup> spot. The higher the economic debt per capita, the larger the burden on the state’s fiscal health.

Table 4 State Rankings - Economic Debt Per Capita

Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt per Capita	Rank	State	Economic Debt Per Capita
1	Connecticut	\$10,021	18	Oklahoma	\$4,514	35	Virginia	\$2,374
2	Hawaii *	\$7,939	19	Nevada	\$4,381	36	Wisconsin	\$2,329
3	Massachusetts	\$7,692	20	Kansas	\$4,149	37	Arizona	\$2,235
4	Illinois	\$7,290	21	Maine	\$4,086	38	Arkansas	\$2,083
5	Ohio	\$6,516	22	West Virginia	\$3,828	39	Florida	\$2,073
6	Rhode Island	\$6,408	23	South Carolina	\$3,587	40	Indiana	\$2,028
7	Alaska	\$6,408	24	New Hampshire	\$3,339	41	Michigan	\$1,901
8	New Jersey	\$6,316	25	Wyoming	\$3,179	42	Georgia	\$1,881
9	Kentucky	\$5,871	26	Alabama	\$3,105	43	Iowa	\$1,870
10	Mississippi	\$4,955	27	Delaware	\$2,974	44	Texas	\$1,834
11	New Mexico	\$4,874	28	Montana	\$2,910	45	North Dakota	\$1,617
12	Louisiana	\$4,799	29	Missouri	\$2,831	46	Utah	\$958
13	Oregon	\$4,753	30	Washington	\$2,753	47	North Carolina	\$921
14	Maryland	\$4,711	31	New York	\$2,606	48	South Dakota	\$884
15	California	\$4,673	32	Idaho	\$2,578	49	Nebraska	\$646
16	Colorado	\$4,563	33	Vermont	\$2,462	50	Tennessee	\$573
17	Minnesota	\$4,527	34	Pennsylvania	\$2,377	51	District of Columbia	(\$172)

\* The 2008 general unreserved balance was used in the absence of 2009 data.

**Economic Debt as a Percentage of Personal Income**

Reviewing economic debt as a percentage of personal income we observe a similar pattern. Three of the last year’s top five states remain (Hawaii, Connecticut, and Illinois), while Ohio, which last year ranked 17<sup>th</sup>, moved into the number 3 spot, and Kentucky moved up from 14<sup>th</sup> to the number 4 spot (See Table 5). Those states with high economic debt as a percentage of personal income may face more adversity if they count on taxpayers to pick up the tab to fund state pension plans.

Table 5 State Rankings - Economic Debt as a Percentage of Personal Income

Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income
1	Hawaii *	18.90%	18	Maine	11.12%	35	Wisconsin	6.32%
2	Connecticut	18.42%	19	California	11.04%	36	Indiana	6.01%
3	Ohio	18.42%	20	Colorado	11.04%	37	Pennsylvania	6.01%
4	Kentucky	18.41%	21	Kansas	10.94%	38	Michigan	5.59%
5	Illinois	17.60%	22	Minnesota	10.90%	39	Georgia	5.57%
6	Mississippi	16.46%	23	Maryland	9.76%	40	New York	5.55%
7	Rhode Island	15.63%	24	Alabama	9.38%	41	Florida	5.49%
8	Massachusetts	15.42%	25	Montana	8.56%	42	Virginia	5.41%
9	Alaska	15.04%	26	Idaho	8.15%	43	Iowa	5.09%
10	New Mexico	14.77%	27	Missouri	7.94%	44	Texas	5.03%
11	Louisiana	13.52%	28	New Hampshire	7.80%	45	North Dakota	4.09%
12	Oregon	13.33%	29	Delaware	7.47%	46	Utah	3.10%
13	Oklahoma	12.80%	30	Wyoming	6.95%	47	North Carolina	2.67%
14	New Jersey	12.55%	31	Arizona	6.79%	48	South Dakota	2.39%
15	West Virginia	11.88%	32	Washington	6.59%	49	Nebraska	1.70%
16	Nevada	11.35%	33	Arkansas	6.52%	50	Tennessee	1.68%
17	South Carolina	11.28%	34	Vermont	6.40%	51	District of Columbia	-0.26%

\* The 2008 general unreserved balance was used in the absence of 2009 data.

## What States are Doing to Curb These Costs

### Temporary Relief

States have a variety of potential long-term and short-term solutions at their disposal to reign in astronomical increases in their pension liabilities. However, as discussed in last year's report, states should be wary of favoring quick fixes as opposed to long-term solutions, as the underlying issues that contributed to the underfunded nature will remain. Some of these quick fixes involve lengthening plans' amortization and smoothing periods, lowering salary increase projections, inflating investment projections, and selling off assets. As we have seen in our analysis, many states have employed some of these methods. To reiterate a point made throughout our review, **changing actuarial assumptions to decrease the financial liability in one year will almost always have a significant negative effect on the duration of the outstanding liability.** In our analysis, we explored states that had made some of these quick fixes relating to changes in actuarial assumptions. Selling off assets, especially with the current state of the economy, is only done as a means of last resort. Many plans' asset values are significantly lower than they were two years ago, as the market is just beginning to recover. Selling these assets at such a steep discount will impede future gains that would have been made had the plans held on to the assets throughout the recovery.

### Long Term Solutions

There are a variety of long-term solutions states are focusing on to counter rising pension liabilities. These actions include: 1) issuing pension obligation bonds, 2) switching from a defined benefit to a defined contribution plan, 3) postponing or eliminating retirees' cost of living increases, 4) trimming benefits for new and existing employees and retirees, 5) increasing employee payroll contributions, 6) changing investment strategies through asset allocation, and 7) implementing more conservative changes to actuarial assumptions.

In the last few years there has been an influx of pension obligation bonds issued by municipalities and states. There is typically limited political pressure and little resistance from pensioners when a state decides to issue POBs. The issuance of pension obligation bonds may signal to investors that a state is taking steps to ensure there will be ample funds available to pay future pension liabilities. However, a potential problem arises once POBs have been issued, as the state has essentially turned their pension funding process from a flexible one to a fixed debt structure. If debt service payments or principal are not paid in full there would be a more adverse effect to the state's credit rating than if the state had not issued POBs and simply met their annual required contributions. Issuing POBs does not affect state credit ratings unless they are structured in a way to achieve short-term savings.<sup>(9)</sup>

Instead of defined benefit plans, some states have introduced defined contribution pension plans to new employees or have created a type of hybrid plan. These changes are typically met with little opposition, as future plan changes generally only affect new employees — older employees are usually given a choice. According to a study by the National Conference of State Legislatures, multiple states have made such changes.<sup>(4)</sup> In the past 43 years, five states have changed their primary plans to defined contribution plans for state employees: Alaska in 2005, DC in 1987, Michigan in 1997, Nebraska in 1967, and West Virginia in 1991. Within the last 12 years, other states, including Colorado, Florida, Montana, North Dakota, Ohio, and South Carolina, have created optional defined contribution plans. Florida, Georgia, Indiana, Ohio, Oregon, and Washington have all created some type of hybrid plan over the past 10 years. This is a trend we believe will continue, as many states realize these new plans will significantly reduce future costs.

Many states have eliminated cost of living adjustments for new employees, but some states have even tried to eliminate cost-of-living increases for current employees. Again, as seen in other long-term solutions, changing benefits for new employees does not reduce current pension liabilities, but it significantly reduces future costs. However, states that have looked for immediate savings by reducing current retiree benefits have been met with severe opposition. Tension has risen to such levels that lawsuits has been filed

In our analysis we have observed a trend in decreasing future employee benefits by raising the retirement age as well as vesting requirement. As an example, Illinois has raised the age for full benefits to 67 with 10 years of service, and for partial benefits they have raised the early retirement age to 62, again with 10 years of service.<sup>(5)</sup> Vermont, like Illinois, has also changed the retirement age to receive benefits to 65 from 62, or the retiree's age and years of service must add up to 90, in contrast to their previous system where retirees could receive benefits as long as they had 30 years of service at any age.<sup>(6)</sup> Rhode Island has a similar eligibility requirement that takes into account both age and service, whereas requirements were previously based solely on service.

Increases in employee contributions have become much more prevalent. In some extremes, like in Wyoming and Missouri, employees previously did not have to contribute anything to their defined benefit plans. Starting this year employees in Wyoming will put 1.4% of their salaries into the pension fund, while Missouri public employees will contribute 4% into their plans.<sup>(6,7)</sup> Unlike Wyoming and Missouri's previous systems, most municipal employees contribute some percentage of their salary into the retirement system. In light of the current economic crisis, many states have realized that increasing the employee contribution rate notably decreases the state's funding burden. In Mississippi, government employees now contribute 9%, up from 7.25%.<sup>(6)</sup> Other states that have increased employee contributions include Minnesota, Colorado, Iowa, New Mexico, and Vermont. New Hampshire and Texas have increased rates for new employees only.<sup>(8)</sup> In some states, like California, only a portion of the employees have agreed to increased rates.

With the severe market volatility over the last few years, pension fund managers have realized it is essential to diversify asset allocation. Pension portfolios heavily weighted in equities and real-estate investments have suffered double-digit losses throughout the current recession. Managers need to invest prudently in safer assets, while limiting equity exposure to higher-rated securities. A pension plan's projected long-term asset investment rates of return need to be reflective of the securities held in the pensions plan's assets. Many argue an average 8% return assumption is too high, as most portfolios' assets would not normally yield such a high percentage if more conservative investment strategies were implemented. Lowering the investment return assumptions as well as other assumptions will generally lead to higher annual contribution rates, but in the long run will allow for better budgetary planning, as the liability to assets ratio will be more transparent.

### **In Conclusion**

As the economy begins to recover, state budgetary concerns will subside. States will see increased revenue in the form of taxes, making annual debt service requirements easier to fulfill, employment will rise and there will be economic growth. The problem, however, is that the burden of pension liabilities will be at historically one of its highest points. Prolonged periods of a precipitous downturn in the stock market under the current recession will be felt for years to come in the form of pension liabilities. The combination of negative investment returns, forgone annual required contributions and inflated actuarial assumptions are sure to have a tremendous effect on state solvency and taxpayers. States need to do something to reign in these large liabilities.

### Other Post Employment Benefits

Other Post Employment Benefits have drawn immense attention over the past couple of years, in part due to the focus on growing pension liabilities, but more so due to the rapid increase in healthcare costs and insurance premiums. GASB's new accounting standards for government's disclosure of their pension and OPEB liabilities could, and likely will, cause pressure to local and state government budgets. GASB no. 45 provides more transparency to government's actual liabilities, but it does not require these liabilities to be prefunded. The pay-as-you-go mentality most states have taken to address OPEB liabilities is unsustainable and will only lead to greater liabilities and lower funded ratios.

Previously, states did not have to disclose information about their OPEB in conjunction with their pension liabilities, but the passage of GASB no. 45 has changed reporting requirements. GASB no. 45 includes a variety of statutes which mirror those of the currently acceptable pension accounting methodologies. This was our first year examining state OPEB liabilities due to the slow phase-in of the new accounting requirements. The reporting requirement dates dependent on plan size are as follows: "For periods beginning after December 15, 2006, for phase 1 governments (those with total annual revenues of \$100 million or more); after December 15, 2007, for phase 2 governments (those with total annual revenues of \$10 million or more but less than \$100 million); and after December 15, 2008, for phase 3 governments (those with total annual revenues of less than \$10 million)." (GASB no.45) Besides the gradual phase-in, the reporting requirements are not annual. Those plans with more than 200 in membership are required to report bi-annually at a minimum, while plans with less than 200 in membership are only required to report tri-annually. This makes data collection difficult, as plans with less than 200 members and revenues of less than \$10 million are not yet required to report their financial OPEB statements in conjunction with their pension liabilities.

### Funded Ratios

As discussed previously, OPEB tends to still be funded on a pay-as-you go basis. For this reason the majority of funded ratios were extremely low, especially in contrast to the funded ratios of state pension plans. Of the 57 plans with funded ratios for 2009, 38 had funded ratios of less than 5%. Out of the 48 plans with funded ratios for both 2009 and 2008, 12 were less funded, and 14 were more funded than they were the previous year.

Table 6.1 State OPEB System Review (Alabama - Kentucky)

State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios			Remaining Amortization Period	Investment Smoothing Years
						2009	2008	2007		
Alabama Public Education Employees' Health Insurance Plan (PEEHIP)	\$580	\$12,645	5.00%	4.50%	*	4%	3%	30	market value	
Alabama State Employees' Health Insurance Plan (SEHIP)	\$52	\$2,951	5.00%	4.50%	*	2%	0%	30	market value	
Alaska Teachers' Retirement System	\$1,267	\$3,381	4.50%	3.50%	4.00%-6.00%	27%	24%	19	5	
Alaska Judicial Retirement System	\$18	\$2	8.25%	3.50%	4.00%	92%	*	13	5	
Alaska Public Employees' Retirement System	\$4	\$9	4.50%	3.50%	2.50%-5.50%	29%	29%	20	5	
Alaska Elected Public Officers' Retirement System	\$0	\$5	5.00%	3.50%	*	0%	0%	25	market value	
Arizona State Health Insurance Premium Benefit	\$1,239	\$207	8.00%	4.25%	4.50%-9.50%	86%	73%	30	10	
Arizona State Long Term Disability Program	\$275	\$278	8.00%	4.25%	4.50%-9.50%	50%	38%	30	10	
Arizona Public Safety Personnel OPEB System	\$0	\$26	8.50%	5.00%	5.50%-8.50%	0%	0%	27	20	
Arizona Correctional Officers OPEB System	\$0	\$44	8.50%	5.00%	5.50%-8.50%	0%	0%	27	20	
Arizona Elected Officials' OPEB Plan	\$0	\$12	*	*	*	0%	0%	*	*	
Arkansas State Police Medical	\$0	\$77	4.00%	5.00%-8.00%	2.00%	0%	0%	30	*	
Arkansas State Employee Health	\$0	\$1,711	4.00%	4.50%-9.00%	*	0%	0%	30	*	
California's OPEB Fund	\$0	\$51,800	4.50%	3.00%	*	0%	0%	30	*	
University of Colorado OPEB Plan	\$0	\$197	5.00%	2.00%	*	0%	0%	30	*	
Colorado State University - Retiree Medical Subsidy (RMPS)	\$0	\$54	4.00%	3.00%	*	0%	0%	29	*	
Colorado State University - Retiree Medical Premium Refund Plan (RMPPR)	\$0	\$25	4.00%	3.00%	4.00%	0%	0%	30	*	
Colorado State University - Long-Term Disability Insurance Plan (LTD)	\$0	\$12	4.00%	3.00%	4.00%	0%	0%	30	*	
Colorado State University - Umbrella RX Plan (URX)	\$0	\$3	4.00%	3.00%	*	0%	0%	30	*	
Colorado PERA Health Care Trust Fund	\$0	\$1,110	*	*	*	19%	20%	39	*	
Connecticut's Retired Teacher Healthcare Plan (RTHP)	\$0	\$2,319	4.50%	4.00%-9.00%	4.00%-7.50%	0%	0%	30	*	
Connecticut's State Employee OPEB Plan (SEOPEBP)	*	*	*	*	*	*	*	*	*	
Delaware OPEB Fund Trust	\$83	\$5,533	5.00%	5.00%-9.00%	3.75%	2%	*	30	market value	
District of Columbia Postretirement Health and Life Insurance Benefit Plan	\$309	\$591	7.25%	5.25%-10.00%	5.00%	34%	27%	30	market value	
Florida Retirement System	\$275	\$4,835	7.75%	3.00%	6.25%	*	*	30	market value	
Georgia State Employees' Assurance Department-OPEB (SEAD-OPEB)	\$737	\$0	7.50%	3.75%	*	105%	*	6	market value	
Georgia Retiree Health Benefit Fund (GRHBF)	\$176	\$16,449	4.50%	3.75%	*	1%	*	30	market value	
Georgia Board of Regents Retiree Health Benefit Fund	\$0	\$3	4.50%	2.50%	*	0%	0%	29	market value	
Hawaii Employer-Union Health Benefit Trust Fund (EUTF)	\$0	\$7,192	5.00%-8.00%	3.00%	3.50%	*	0%	30	*	
Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA)	\$0	\$1,597	5.00%	9.50%	3.50%	*	0%	30	*	
Idaho Retiree Healthcare Plan	\$0	\$22	4.50%	3.00%	3.75%	0%	0%	11	*	
Idaho Long-Term Disability Plan - Income	\$0	\$6	5.25%	3.00%	3.75%	0%	0%	8	*	
Idaho Long-Term Disability Plan - Healthcare	\$0	\$10	4.50%	3.00%	3.75%	0%	0%	30	*	
Idaho Long-Term Disability Plan - Life Insurance	\$0	\$8	5.25%	3.00%	3.75%	0%	0%	30	*	
Idaho Life Insurance Plan	\$0	\$33	4.50%	3.00%	3.75%	0%	0%	30	*	
University of Idaho Plan	\$0	\$69	6.25%	3.00%	3.00%	11%	3%	30	*	
Illinois State Employees' Group Insurance OPEB	\$0	\$27,124	4.50%	3.50%	4.50%	0%	*	30	fair value	
Indiana State Personnel Healthcare Plan	\$0	\$67	4.50%	*	4.00%	0%	0%	30	*	
Indiana's Legislators' Healthcare Plan	\$0	\$8	4.50%	*	4.00%	0%	0%	30	*	
Indiana State Police Healthcare Plan	\$0	\$342	4.50%	*	4.00%	0%	0%	30	*	
Indiana's Conservation and Excise Police Health Care Plan	\$0	\$45	4.50%	*	4.00%	0%	0%	30	*	
Iowa OPEB State Plan	\$0	\$293	4.00%-6.95%	*	*	0%	0%	30	*	
Iowa OPEB University Funds	\$0	\$202	4.00%-6.95%	*	*	0%	0%	30	*	
Kansas State OPEB Plan	*	\$237	3.85%	*	*	*	*	30	*	
Kentucky County Employees' Non-Hazardous OPEB	\$1,217	\$1,854				40%	29%	*	*	
Kentucky County Employees' Hazardous - OPEB	\$651	\$942				41%	31%	*	*	
Kentucky State Employees' Non-Hazardous - OPEB	\$534	\$3,973	7.75%	4.50%	4.75%-17.00%	12%	12%	28	5	
Kentucky Teachers' Retirement System OPEB Funds	\$314	\$6,231	4.50%	4.00%	4.00%-8.20%	5%	2%	30	market value	
Kentucky State Employees' Hazardous Retirement Plan - OPEB	\$302	\$189	7.75%	4.50%	4.50%-21.00%	61%	50%	28	5	
Kentucky State Police Retirement Plan - OPEB Funds	\$124	\$241	7.75%	4.50%	4.50%-21.00%	34%	28%	28	5	
Kentucky Judicial Retirement Plan - OPEB Funds	\$44	\$4	7.00%	4.50%	1.00%-4.00%	110%	93%	25	market value	
Kentucky Legislators' Retirement System - OPEB Funds	\$24	\$-6	7.00%	*	1.00%-4.00%	132%	106%	25	market value	

In Millions

Table 6.2 State OPEB System Review (Louisiana - Oregon)

State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios			Remaining Amortization Period	Investment Smoothing Years
						2009	2008	2007		
Louisiana Office Of Group Benefits (OGB) Plan	\$0	\$13,727	4.00%	*	*	0%	0%	30	*	
Louisiana State University System (LSU) - OPEB	\$0	\$488	5.00%	6.00%-11.00%	4.00%	0%	0%	30	*	
Maine State Employees' OPEB Plan	\$82	\$1,229	4.50-7.50%	3.75%	4.75%	6%	8%	29	market value	
Maine Teachers' OPEB Plan	\$0	\$994	4.50%	3.75%	4.75%	0%	0%	29	*	
Maine First Responders OPEB Plan	\$0	\$20,063	4.50%	3.75%	3.75%	0%	0%	28	*	
Maryland's State Employee and Retiree Health and Welfare Benefits Program (Plan) - OPEB	\$174	\$15,279	4.30%	*	*	1%	1%	30	5	
Massachusetts State Retiree Benefits Trust Fund (SRRTF)	\$277	\$15,028	4.50%	*	*	2%	3%	30	*	
Michigan Public School Employees' Retirement System - OPEB	\$832	\$26,000	4.00%	3.50%	3.50%-15.90%	*	3%	28	market value	
Michigan Legislative Retirement System	\$15	\$122	4.50%	4.00%	*	11%	11%	30	market value	
Michigan State Employees' Retirement System	\$0	\$13,500	4.00%	3.50%	3.50%-14.40%	*	0%	28	market value	
Michigan State Police Retirement System	\$0	\$963	4.00%	3.50%	3.50%-93.50%	0%	0%	28	market value	
Michigan Life Insurance	\$0	\$913	4.00%	3.50%	*	*	*	29	market value	
Michigan Judges' Retirement System - Pension	\$0	\$7	4.00%	3.50%	4.00%	0%	0%	27	market value	
Minnesota OPEB Plan	\$0	\$755	4.75%	*	4.00%	0%	0%	30	*	
Minnesota Metropolitan Council OPEB	\$0	\$301	*	*	*	0%	0%	*	*	
University of Minnesota OPEB	\$0	\$79	*	*	*	0%	*	*	*	
Mississippi State and School Employees' Life and Health Insurance Plan	\$0	\$755	4.50%	4.25%	4.50%-15.00%	0.00%	0.00%	30	market value	
Missouri Consolidated Health Care Plan (MCHCP)	\$49	\$1,581	7.00%	*	*	3%	1%	30	*	
Missouri MoDOT and MSP Medical and Life Insurance Plan (MHPML)	\$0	\$936	5.00%	*	*	0%	0%	30	*	
Missouri Conservation Employees' Insurance Plan (CEIP)	\$0	\$109	4.50%	*	*	0%	0%	30	*	
Montana State Plan-OPEB	\$0	\$449	*	*	*	*	0%	30	*	
Montana University System-OPEB	\$0	\$183	*	*	*	*	0%	30	*	
Nebraska State OPEB	*	*	*	*	*	*	*	*	*	
Nevada Public Employee Benefits Program	\$26	\$1,790	4.00%	*	4.50%-14.75%	*	1%	*	*	
New Hampshire's Group II Police Officers and Firefighters OPEB	\$120	\$152	8.50%	3.50%	4.50%-16.25%	44%	45%	28	5	
New Hampshire's Group I Political Subdivision Employees OPEB	\$36	\$25	8.50%	3.50%	4.50%-16.25%	59%	81%	28	5	
New Hampshire's Group I Teachers OPEB	\$21	\$228	8.50%	3.50%	4.50%-16.25%	8%	8%	28	5	
New Hampshire's Group I State Employees OPEB	*	\$91	8.50%	3.50%	4.50%-16.25%	0%	0%	28	5	
New Jersey State Health Benefit Fund - State (SHBP)	\$0	\$19,851	4.50%	*	*	*	0%	30	*	
New Jersey State Health Benefit Fund - Education (SHBP)	\$0	\$36,063	4.50%	*	*	*	0%	30	*	
New Mexico Retiree Health Care Authority (RHCA)	\$171	\$2,946	5.00%	*	*	*	6%	30	market value	
New York State Health Insurance Program (NYSHIP)	\$0	\$46,316	4.16%	3.00%	*	*	0%	30	*	
State University of New York (SUNY)	\$0	\$8,481	4.16%	3.00%	*	*	*	*	*	
City University of New York (CUNY)	\$0	\$936	4.00%	*	*	*	*	*	*	
North Carolina Health Benefit Fund	\$435	\$27,854	4.25%	3.75%	*	*	2%	30	market value	
North Carolina Disability Income Plan	\$350	\$127	7.25%	3.75%	4.50%-16.10%	*	73%	69%	5	
North Dakota Retiree Health Insurance Credit Fund	\$45	\$57	8.00%	3.50%	*	44%	49%	46%	5	
North Dakota Retiree Health Benefits Fund	\$0	\$6	4.50%	5.00%	*	*	0%	30	*	
North Dakota Insurance Benefit	\$0	\$6	4.50%	5.00%	*	*	0%	30	*	
Ohio Public Employees' Retirement System	\$10,748	\$18,875	6.50%	4.00%	4.50%-10.30%	36%	43%	30	4	
Ohio State Teachers' Retirement System	\$2,694	\$10,720	4.90%	3.00%	3.25%-12.00%	20%	28%	30	market value	
Ohio Police & Fire Pension Fund	\$439	\$2,725	6.00%	3.25%	5.00%-11.00%	*	14%	15%	market value	
Ohio School Employees' Retirement System	\$376	\$3,904	5.25%	3.50%	*	9%	8%	30	market value	
Ohio State Highway Patrol Retirement System	\$96	\$228	6.50%	4.00%	4.30%-14.00%	*	30%	33%	4	
Oklahoma State and Education Employee Group Insurance Board (OSEEGIB)	*	*	*	*	*	*	*	*	*	
Oregon's Retirement Health Insurance Account -OPEB (RHIA)	\$184	\$310	8.00%	2.75%	3.75%	*	37%	10	market value	
Oregon's Retirement Health Insurance Premium Account -OPEB (RHIPA)	\$6	\$16	8.00%	2.75%	3.75%	*	27%	10	market value	
Oregon's Public Employee Benefit Board -OPEB (PEBB)	\$0	\$323	5.50%	4.80%-10.70%	*	*	0%	30	*	
Oregon's SAIF Corporation -OPEB	\$0	\$3	5.50%	*	*	*	0%	15	*	
Oregon Health and Science University -OPEB	\$0	\$19	*	*	*	*	0%	*	*	

In Millions

Table 6.3 State OPEB System Review (Pennsylvania - Wyoming)

State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios			Remaining Amortization Period	Investment Smoothing Years
						2009	2008	2007		
Pennsylvania Retired Employees Health Program (REHP)	\$48	\$13,210	5.00%	*	*	0%	1%	*	30	fair value
Retired Pennsylvania State Police Program (RPPSP)	\$41	\$2,064	5.00%	*	*	2%	3%	*	30	fair value
Pennsylvania Judiciary OPEB Plan	\$0	\$427	*	*	*	*	*	0%	*	*
Pennsylvania House OPEB Plan	\$0	\$308	*	*	*	*	*	*	*	*
Pennsylvania Senate OPEB Plan	\$0	\$252	*	*	*	*	*	*	*	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP); Teachers	\$0	\$10	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP); State Employees	\$0	\$680	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP); State Police	\$0	\$55	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP); Judges	\$0	\$14	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP); Legislators	\$0	\$30	3.57%	*	*	*	*	0%	30	*
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)	\$270	\$9,009	5.50%	*	*	*	3%	0%	30	market value
South Carolina Long Term Disability Insurance Trust Fund (LTDITF)	\$27	-\$1	6.00%	*	*	*	104%	0%	30	market value
South Dakota OPEB Plan	\$0	\$67	3.00%	*	*	0%	0%	*	30	*
Tennessee State Employee Group Plan	\$0	\$1,153	4.50%	3.00%	*	*	*	0%	30	*
Tennessee Teachers' Group Plan	\$0	\$253	4.50%	3.00%	*	*	0%	0%	30	*
Tennessee State Medicare Supplement Plan	\$0	\$200	4.50%	3.00%	*	*	0%	0%	30	*
Tennessee Teachers' Medicare Supplement Plan	\$0	\$140	4.50%	3.00%	*	*	0%	0%	30	*
Tennessee State OPEB Plan	\$0	\$653	4.50%	3.00%	*	*	0%	0%	30	*
Texas Teachers' Retirement System - OPEB (State Retiree Health Plans-SRHP)	\$800	\$23,557	5.25%	3.00%	4.25%-26.40%	3%	3%	*	30	market value
Texas Municipal Supplemental Death Benefits Fund	\$27	\$112	4.25%	3.00%	*	20%	22%	*	25	fund value
Texas County & District Retirement System - Optional Group Term Life Fund (OGTLF)	\$15	\$17	7.00%	3.50%	*	48%	39%	*	30	fund value
Texas Employee Group Insurance Program (UT)	\$0	\$5,103	7.00%	4.00%	*	*	0%	0%	30	market value
Care Health and Life Plan (A&M Plan)	\$0	\$1,259	9.40%	4.00%	*	*	0%	0%	30	*
Texas Employees' Retirement System - OPEB (State Retiree Health Plans-SRHP)	\$0	\$22	5.50%	3.50%	3.50%-13.50%	0%	*	*	30	market value
Utah State Employees' OPEB Plan	\$54	\$393	6.00%	*	*	*	12%	*	25	fair value
Utah Elected Officials' OPEB Plan	\$0	\$25	4.00%	*	*	*	0%	*	30	fair value
Vermont State Retirement System - OPEB	\$6	\$872	8.25%	*	*	1%	1%	0%	30	*
Vermont State Teachers' Retirement System - OPEB	\$0	\$775	8.25%	*	*	0%	0%	0%	*	*
Virginia's Group Life Insurance Fund	\$975	\$797	7.50%	2.50%	3.50%-6.20%	*	55%	57%	28	5
Virginia's Disability Insurance Trust Fund	\$286	\$77	7.50%	2.50%	3.75%-5.60%	*	79%	59%	28	market value
Virginia's Retiree Health Insurance Credit Fund	\$261	\$1,647	7.50%	2.50%	*	*	14%	11%	28	5
Virginia's Line of Duty Death and Disability	\$3	\$182	7.50%	2.50%	3.50%-4.75%	*	2%	*	30	market value
Virginia's Pre-Medicare Retiree Healthcare	\$0	\$982	4.97%	2.50%	3.50%-5.60%	*	*	0%	30	market value
Washington Public Employees' Benefit Board (PEBB)	\$0	\$4,014	4.50%	3.50%	4.50%	*	0%	0%	30	*
West Virginia Public Employee Insurance Agency (PEIA)	*	*	*	*	*	*	*	*	30	fair value
Wisconsin State Retiree Life Insurance Fund	\$330	\$53	6.00%	*	*	*	86%	*	30	market value
Wisconsin Duty Disability Fund	\$312	\$160	7.80%	*	*	*	66%	*	8	5
Wisconsin Local Retiree Life Insurance Fund	\$212	\$21	6.00%	*	*	*	91%	*	30	market value
Wisconsin State Health Insurance Program	\$0	\$1,473	4.00%	3.00%	*	*	*	0%	15-30	*
Wyoming Retirees Health Insurance Plan	\$0	\$174	5.00%	*	4.00%	*	*	0%	30	fair value
University of Wyoming OPEB Plan	\$0	\$15	*	*	*	*	0%	*	30	*

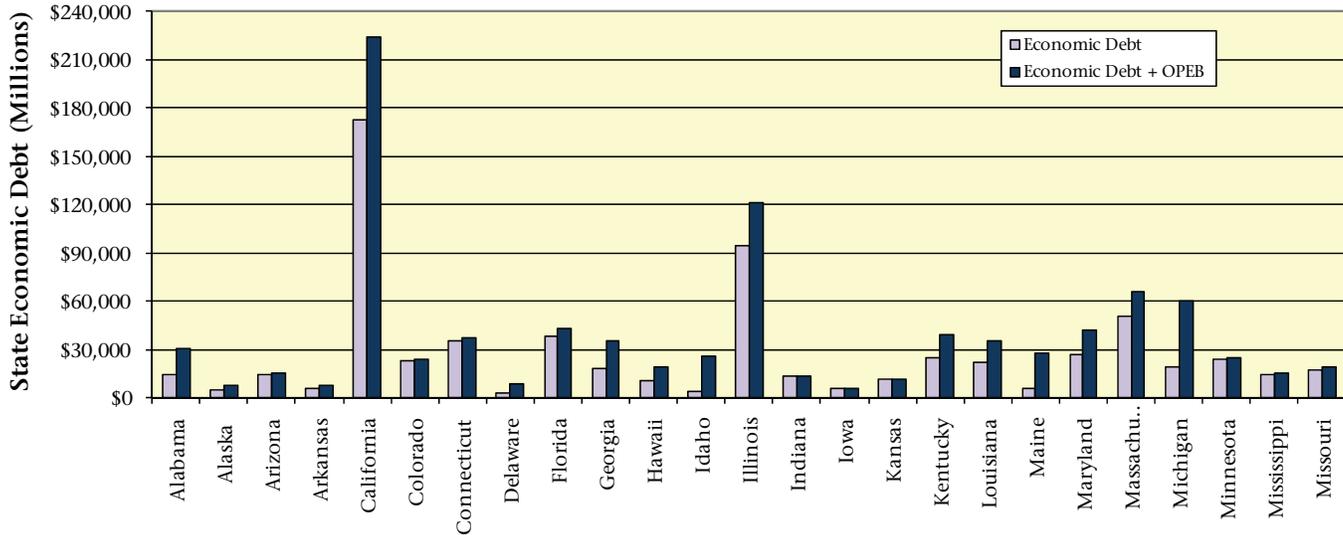
In Millions

### Economic Debt

Previously, to calculate economic debt we factored in state general fund deficits, net bonded debt, and pension obligations. However, when we add state OPEB liabilities to our calculations, the results are staggering (See Exhibit 4 and Table 7). On average, state economic debt increased 75%. Ten states' economic debt increased by over 100% with the addition of OPEB liabilities. In dollar terms, the total economic debt for all states before factoring in OPEB liabilities totaled \$1.095 trillion dollars. With OPEB, states' overall liabilities increased by nearly 45% to total outstanding liabilities of \$1.638 trillion dollars. On a dollar for dollar basis, out of total state pension and OPEB liabilities of \$1.132 trillion dollars, OPEB liabilities make up approximately 48% of the total liabilities. In short, other post employment benefits have a profound effect on states' economic debt, and are an essential factor to consider when evaluating total pension liabilities.

Exhibit 4

Economic Debt versus Economic Debt + OPEB  
 (Alabama - Minnesota)



Economic Debt versus Economic Debt + OPEB  
 (Montana - Wyoming)

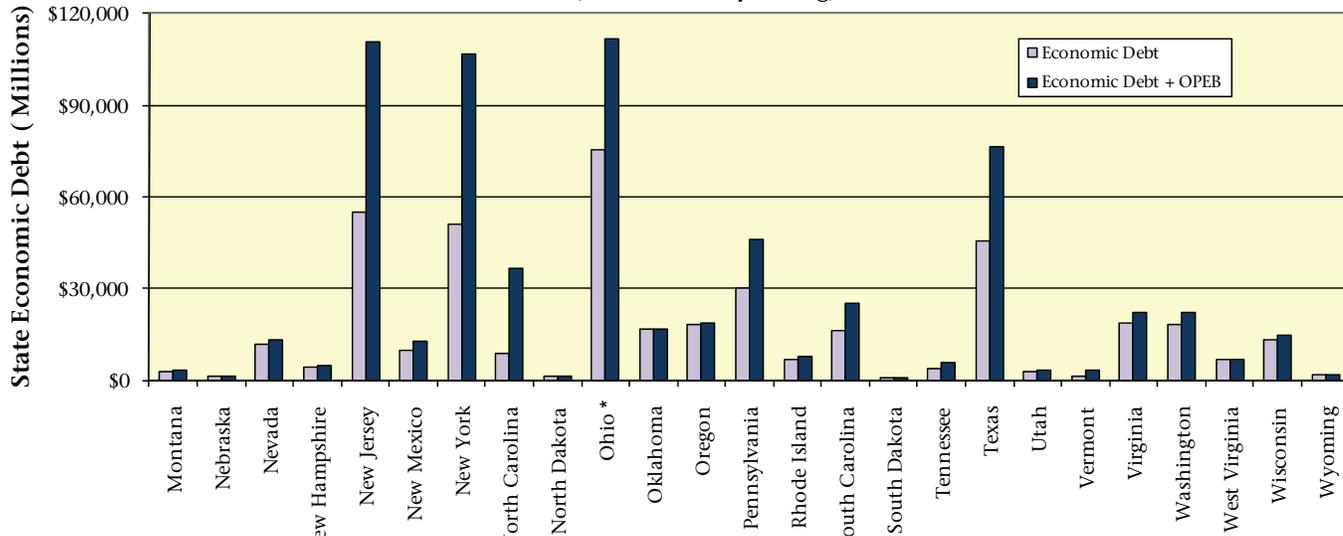


Table 7 **Calculation of Economic Debt Including OPEB**

State	General Fund Unreserved Balance (\$ Mil)	Net Bonded Debt (\$ Mil)	Sum UPBO (\$ Mil)	Sum OPEB (\$ Mil)	Economic Debt (\$ Mil)
Alabama	\$217	\$3,749	\$10,871	\$15,596	\$30,216
Alaska	\$13,223	\$940	\$3,536	\$3,397	\$7,873
Arizona	(\$1,401)	\$4,857	\$8,485	\$567	\$15,310
Arkansas	\$2,272	\$900	\$5,117	\$1,788	\$7,805
California	(\$18,344)	\$87,320	\$67,070	\$51,800	\$224,534
Colorado	\$11	\$2,012	\$20,915	\$1,401	\$24,328
Connecticut	(\$2,303)	\$17,094	\$15,859	\$2,319	\$37,575
Delaware	\$744	\$2,203	\$429	\$5,553	\$8,185
District of Columbia	\$217	N/A	(\$103)	\$591	\$488
Florida	\$2,192	\$20,820	\$17,611	\$4,835	\$43,266
Georgia	(\$493)	\$11,011	\$6,986	\$16,452	\$34,942
Hawaii *	\$567	\$5,176	\$5,107	\$8,789	\$19,072
Idaho	\$631	\$831	\$3,154	\$21,729	\$25,714
Illinois	(\$7,722)	\$23,957	\$62,439	\$27,124	\$121,242
Indiana	\$1,460	\$3,157	\$9,872	\$463	\$13,492
Iowa	\$803	\$219	\$5,404	\$495	\$6,118
Kansas	(\$201)	\$3,214	\$8,279	\$237	\$11,931
Kentucky	(\$50)	\$7,270	\$18,008	\$13,441	\$38,768
Louisiana	\$803	\$5,708	\$15,851	\$14,215	\$35,774
Maine	(\$390)	\$1,002	\$3,994	\$22,286	\$27,673
Maryland	\$147	\$9,166	\$17,683	\$15,279	\$42,128
Massachusetts	\$1,735	\$30,371	\$20,347	\$15,028	\$65,746
Michigan	\$177	\$7,462	\$11,492	\$41,504	\$60,458
Minnesota	(\$752)	\$5,463	\$17,625	\$755	\$24,596
Mississippi	\$1,360	\$4,364	\$10,262	\$755	\$15,381
Missouri	\$669	\$4,672	\$12,279	\$2,626	\$19,577
Montana	\$393	\$349	\$2,488	\$632	\$3,469
Nebraska	\$856	\$27	\$1,134	\$0	\$1,161
Nevada	\$179	\$2,446	\$9,132	\$1,790	\$13,368
New Hampshire	\$0	\$881	\$3,542	\$497	\$4,920
New Jersey	\$2,186	\$31,951	\$23,045	\$55,914	\$110,910
New Mexico	\$377	\$2,809	\$6,986	\$2,946	\$12,741
New York	(\$5,568)	\$61,260	(\$15,905)	\$55,733	\$106,656
North Carolina	(\$965)	\$7,175	\$504	\$27,981	\$36,625
North Dakota	\$863	\$212	\$834	\$69	\$1,115
Ohio	\$213	\$10,766	\$64,451	\$36,452	\$111,669
Oklahoma	\$3,166	\$2,101	\$14,543	\$0	\$16,644
Oregon	(\$334)	\$7,111	\$10,739	\$671	\$18,854
Pennsylvania	(\$2,541)	\$11,827	\$15,589	\$16,261	\$46,218
Rhode Island	(\$62)	\$2,241	\$4,446	\$786	\$7,535
South Carolina	(\$126)	\$4,184	\$12,053	\$9,008	\$25,371
South Dakota	\$131	\$110	\$609	\$67	\$786
Tennessee	\$634	\$2,004	\$1,603	\$2,400	\$6,007
Texas	\$5,586	\$12,893	\$32,553	\$31,069	\$76,515
Utah	\$327	\$2,666	\$3	\$417	\$3,086
Vermont	\$47	\$441	\$1,090	\$1,647	\$3,178
Virginia	(\$928)	\$7,056	\$10,733	\$3,685	\$22,402
Washington	\$189	\$14,833	\$3,514	\$4,014	\$22,361
West Virginia	\$767	\$1,963	\$5,004	\$0	\$6,967
Wisconsin	(\$3,121)	\$9,726	\$321	\$1,707	\$14,876
Wyoming	(\$195)	\$42	\$1,493	\$189	\$1,919

General Fund Unreserved Balance: Individual State 2009 Comprehensive Annual Financial Reports

Net Bonded Debt: Moody's 2010 State Debt Medians

Sum UPBO: Individual State 2009 Comprehensive Annual Financial Reports

Sum OPEB: Individual State 2009 Comprehensive Annual Financial Reports

Population: census.gov (July 1, 2009)

\* Hawaii's population is based on the 2000 census.

### Economic Debt Per Capita

Similar to our prior analysis of economic debt without OPEB liabilities, the issue of validity arises in terms of the ability to conduct cross-sectional analysis on a state by state basis. To alleviate this issue, we looked at economic debt on a per capita basis, including OPEB benefits (See Table 8). After adding OPEB, only Hawaii remained in the top 5 states with the highest economic debt per capita. Maine jumped from 21<sup>st</sup> to 1<sup>st</sup>, with the largest economic debt per capita of \$20,991. Idaho moved to 2<sup>nd</sup> from 32<sup>nd</sup>, New Jersey to 4<sup>th</sup> from 8<sup>th</sup>, and Alaska moved from 7<sup>th</sup> to 5<sup>th</sup> for the highest economic debt per capita. When looking at the actual population figures, it is evident that Maine, Idaho, Alaska, and Hawaii have relatively low populations, as they make up less than 1.5% of the total US population. Therefore, the high economic debt on a per capita basis appears to be more attributable to the low population than the above average outstanding pension and OPEB liabilities. New Jersey, on the other hand, has a larger population than all four of those states combined, at approximately 3% of the total US population. This is a signal that New Jersey's OPEB and pension liabilities are severely underfunded.

Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt Per Capita
1	Maine	\$20,991	18	Michigan	\$6,064	35	Wyoming	\$3,526
2	Idaho	\$16,635	19	South Carolina	\$5,562	36	Washington	\$3,355
3	Hawaii *	\$14,725	20	New York	\$5,458	37	Missouri	\$3,270
4	New Jersey	\$12,737	21	Mississippi	\$5,210	38	Texas	\$3,087
5	Alaska	\$11,271	22	Vermont	\$5,111	39	Virginia	\$2,842
6	Connecticut	\$10,680	23	Nevada	\$5,058	40	Arkansas	\$2,701
7	Massachusetts	\$9,971	24	Oregon	\$4,928	41	Wisconsin	\$2,631
8	Ohio	\$9,674	25	Colorado	\$4,842	42	Florida	\$2,334
9	Illinois	\$9,391	26	Minnesota	\$4,671	43	Arizona	\$2,321
10	Delaware	\$9,247	27	Oklahoma	\$4,514	44	Indiana	\$2,101
11	Kentucky	\$8,986	28	Kansas	\$4,233	45	Iowa	\$2,034
12	Louisiana	\$7,964	29	North Carolina	\$3,904	46	North Dakota	\$1,723
13	Maryland	\$7,392	30	West Virginia	\$3,828	47	Utah	\$1,108
14	Rhode Island	\$7,154	31	New Hampshire	\$3,714	48	South Dakota	\$967
15	Alabama	\$6,417	32	Pennsylvania	\$3,667	49	Tennessee	\$954
16	New Mexico	\$6,340	33	Montana	\$3,558	50	District of Columbia	\$814
17	California	\$6,075	34	Georgia	\$3,555	51	Nebraska	\$646

\* The 2008 general unreserved balance was used in the absence of 2009 data.

### Economic Debt as a Percentage of Personal Income

When reviewing economic debt as a percentage of personal income (See Table 9), we observe a similar result to economic debt as a percentage of personal income without adding OPEB. Hawaii, Kentucky, and Ohio remain in the top 5. Idaho moved into the number 2 spot from 26<sup>th</sup>, and Maine moved to the number 1 spot from 18<sup>th</sup>. OPEB liabilities for Maine and Idaho are exorbitantly high in contrast to their unfunded pension liabilities. Idaho's OPEB liabilities are over six times greater than its pension liabilities, while Maine's OPEB liabilities are over five times greater. As noted earlier, those states with high economic debt as a percentage of personal income may face more adversity if they count on taxpayers to pick up the tab to fund state pension plans.

Table 9 State Rankings - Economic Debt as a Percentage of Personal Income Including OPEB

Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income
1	Maine	57.13%	18	Mississippi	17.31%	35	New Hampshire	8.67%
2	Idaho	52.59%	19	Maryland	15.31%	36	Texas	8.46%
3	Hawaii *	35.05%	20	California	14.35%	37	Arkansas	8.46%
4	Kentucky	28.19%	21	Oregon	13.82%	38	Washington	8.04%
5	Ohio	27.34%	22	Vermont	13.28%	39	Wyoming	7.71%
6	Alaska	26.46%	23	Nevada	13.11%	40	Wisconsin	7.14%
7	New Jersey	25.32%	24	Oklahoma	12.80%	41	Arizona	7.05%
8	Delaware	23.22%	25	West Virginia	11.88%	42	Virginia	6.48%
9	Illinois	22.68%	26	Colorado	11.71%	43	Indiana	6.23%
10	Louisiana	22.43%	27	New York	11.62%	44	Florida	6.18%
11	Massachusetts	19.99%	28	North Carolina	11.33%	45	Iowa	5.53%
12	Connecticut	19.63%	29	Minnesota	11.24%	46	North Dakota	4.36%
13	Alabama	19.39%	30	Kansas	11.16%	47	Utah	3.59%
14	New Mexico	19.22%	31	Georgia	10.52%	48	Tennessee	2.80%
15	Michigan	17.82%	32	Montana	10.46%	49	South Dakota	2.62%
16	South Carolina	17.49%	33	Pennsylvania	9.26%	50	Nebraska	1.70%
17	Rhode Island	17.45%	34	Missouri	9.16%	51	District of Columbia	1.23%

\* The 2008 general unreserved balance was used in the absence of 2009 data.

## In Conclusion

Other post employment benefits have gained significant attention over the past few years, and it is clear why this change has occurred. Previously, politicians, taxpayers, analysts, and investors evaluated the long-term solvency of pension plans by examining the funded ratios of the various plans. The fundamental problem behind this approach is that the funded ratios do not factor in other post employment benefits which have been awarded to retirees in conjunction with the standard benefits included in defined benefit plans. As shown through the analysis above, in some cases OPEB liabilities are even greater for any given state than their pension liabilities. Rising healthcare costs, combined with increased life expectancy, pose a serious problem for states if something is not done to reign in these costs.

## References

1. Munnell, Alicia H., Jean-Pierre Aubry, and Kelly Haverstick. "The Funding Status of Locally Administered Pension Plans." *Center for Retirement Research at Boston College*. Dec. 2008. Web. 30 Sept. 2010. <<http://crr.bc.edu/>>.
  2. Sutton, Chavon. "BP Sued by Nation's No. 3 Public Pension Fund." *Business, Financial, Personal Finance News - CNNMoney.com*. 23 June 2010. Web. 30 Sept. 2010. <<http://money.cnn.com/>>.
  3. "Governmental Pension Contributions May Increase Due to New Guidance." *Moody's - Credit Ratings, Research, Tools and Analysis for the Global Capital Markets*. 6 July 2010. Web. 30 Sept. 2010. <[http://www.moody.com/cust/default\\_alt.asp](http://www.moody.com/cust/default_alt.asp)>.
  4. Snell, Ronald. "State Retirement System Defined Contribution Plans." Sept. 2009.
  5. Hopf, Matt. "Gov. Quinn to Sign Pension Reform Bill Today." *Home - Springfield, IL - The State Journal-Register*. 13 Apr. 2010. Web. 01 Oct. 2010. <<http://www.sj-r.com/>>.
  6. "States Cutting Benefits For Public- Sector Retirees." *Breaking News Headlines: Business, Entertainment & World News - CBS News*. 16 Sept. 2010. Web. 01 Oct. 2010. <<http://www.cbsnews.com/>>.
  7. "Missouri Senate Endorses Bill Shrinking Pensions." *The New York Times - Breaking News, World News & Multimedia*. 13 Apr. 2010. Web. 01 Oct. 2010. <<http://www.nytimes.com/>>.
  8. Rauh, Josh. "The Day of Reckoning For State Pension Plans, Continued « Everything Finance." *Everything Finance*. 9 Aug. 2010. Web. 01 Oct. 2010. <<http://kelloggfinance.wordpress.com/2010/03/22/the-day-of-reckoning-for-state-pension-plans/>>.
  9. "Findings of the State of Connecticut Task Force To Study The Funding Practices Used to Finance Municipal Retirement System." *Connecticut Public Pension Forum*. Web. 30 Sept. 2009. <<http://www.ctpublicpension.com/>>.
- Photo on cover: McWilliam, Howard. *Defuse Your Pensions 'Time Bomb.'* 2009. Photograph. United Kingdom. *The Daily Telegraph*. United Kingdom, 24 July 2009.

## State Specific Endnotes

(Related to Pension System Review Tables)

**Alabama:** Retirement Systems of Alabama amortization dates changed because there was a law passed with legislation changing the previous maximum of 20 years to 30 years. It was then recomputed and recalculated at 30 years.

**Arkansas:** APERS investment assumption was revised for June 30, 2009 valuation. There were legislated changes in benefit provisions that decreased the funded ratio for APERS from 79 percent to 78 percent and ASPRS from 68.4 percent to 63.3 percent. APERS remaining amortization includes General Assembly, State and Local.

**California:** The actuarial assumption for the investment rate of return was reduced from 7.0 percent to 4.5 percent to reflect the funding of the JRF on a pay-as-you-go basis.

**Georgia:** The Employees Retirement System of Georgia 2009 valuations will be on the 2010 CAFR.

**Hawaii:** 2009 CAFR is unavailable until the end of the year.

**Illinois:** The investment smoothing years have changed to 5 years starting with 2009 valuations. TRS experienced actuarial gains under salary increase for both 2009 and 2008.

**Indiana:** PERS and TRF valuations are different from the State CAFR because the state of Indiana recognizes GASB 27 and only include the state portion of liability, while PERF and TRF reports according to GASB 25 and includes all of the government agencies liabilities.

**Louisiana:** SERS salary increase includes judges, correction officers, and wildlife agents.

**Maryland:** Remaining amortization period changed to 11 years as of June 30, 2009 for prior UAAL existing on June 30, 2000.

**Minnesota:** Minnesota Elective State Officers' Retirement Fund is a closed plan. There are no active contributing members. Legislators and Elective State Officers Retirement Funds, actual employer contributions include contributions from other sources (e.g. contributions from the state's General Fund).

**Mississippi:** The assumption for wage inflation changed from 4.00 percent to 4.25 percent. PERS salary increase for on or after 13 years were lowered and SLRP salary scale was lowered for all ages. For all plans, the PERS Board of Trustees adopted the contribution rate which provided a sufficient funding level to keep the unfunded accrued liability period less than 30 years.

**South Carolina:** To keep the funded ratios stabilized the investment return was changed.

**Tennessee:** 2009 CAFR is unavailable.

**Texas:** JRS2 amortization period was calculated based on estimated fiscal 2010 covered payroll. At the end of fiscal 2010, the ARC and the amortization period will be recalculated based on actual 2010 covered payroll.

**Vermont:** The 30 year period for amortization was restarted effective July 1, 2008.

**West Virginia:** 2009 valuation information will be presented in the 2010 CAFR.

*\*Notes taken directly from the State's Comprehensive Annual Financial Report.*

LOOP CAPITAL MARKETS  
ANALYTICAL SERVICES GROUP

Chris Mier, CFA	Economics & Municipal Strategy	chrism@loopcap.com	312.356.5840
Ivan Gulich, CFA	Fixed Income Analytics	ivang@loopcap.com	312.913.2204
Greg Bridwell	Market Analytics	gregoryb@loopcap.com	312.913.2268
Ann Kibler	Market Analytics	annk@loopcap.com	312.913.2209
Glyn Sweets	Research Coordinator	glyns@loopcap.com	312.913.2205

Loop Capital Markets LLC, an investment bank, prepared this document for informational purposes only. Loop Capital Markets LLC does not provide research services, therefore this product is not a research report and it should not be construed as such. Loop Capital has or may have provided investment banking services to issuers referenced in this document.

All materials are indicative and for discussion purposes only. Opinions expressed are our present opinions only and are subject to change without further notice. Opinions expressed herein are current opinions only as of the date indicated. Any historical price(s) or value(s) are also only as of the date indicated and as applicable from any source that may be noted. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy.

Loop Capital Markets LLC shall have no liability, contingent or otherwise, to the user or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the data or formulae pro-

# P-Card News Articles:

NEWS - LOCAL/STATE - CRIME

SHARE

E-MAIL

PRINT

LARGER

SMALLER

COMMENTS (17)

RECOMMEND (0)

BUZZ

Published: Thursday, Sep. 09, 2010 / Updated: Thursday, Sep. 09, 2010 12:05 PM

## Ex-worker charged in misuse of Winthrop credit card

By Jamie Self - [jself@heraldonline.com](mailto:jself@heraldonline.com)

ROCK HILL -- A former Winthrop employee was arrested Thursday on charges related to misuse of a university procurement card totaling \$209,370, Winthrop officials say.

George Robert Walker was arrested by Winthrop Police after turning himself in. He was charged with two counts of breach of trust over \$5,000 for misusing a university credit card, said Winthrop University Police Chief Frank Zebedis.

Zebedis said that Walker was "utilizing the Winthrop credit card and receiving money through two different sources."

More details about the case will come out in court, said.

Each charge carries a maximum jail sentence of 10 years, Zebedis said.

Walker was released on a personal recognizance bond of \$150,000.

Winthrop discovered the problem when its budget office noticed increased costs in the printing services office when university offices were supposed to be aggressively reducing costs, a Winthrop release said.

An audit of the print shop, which Walker supervised, revealed someone was "defrauding the university and receiving payment from a Winthrop credit card through PayPal," according to a Winthrop

police report.

When questioned, Walker's answers were "unsatisfactory," the release said. After working for Winthrop for almost 10 years, Walker resigned in April.

Walker deferred comments on the case to his attorney, Harry P. Collins of Rock Hill.

"I think this is going to be something that we can work out with the university," Collins said.

Asked whether Walker feels the charges brought against him are valid, Collins said, "We haven't seen the evidence against him yet. We'll be looking at that in the next couple of weeks and we'll be able to decide where to go from there."

Chief Zebedis said he understands Walker intends to cooperate with the police.

[heraldonline.com/.../ex-worker-charged...](http://heraldonline.com/.../ex-worker-charged...)

## Smyrna city official fired for purchasing card misuse

Human resources director had worked for city 14 years

By KAY POWELL  
The Atlanta Journal-Constitution  
Friday, February 13, 2009

The city of Smyrna has fired its longtime human resources director for abuse of his city purchasing card.

City Administrator Wayne Wright said Friday that Chris Corey made personal charges on his city-issued purchasing card. City officials would not reveal an amount. The purchasing card is similar to a credit card.

Corey, 14-year veteran of the city, was fired Feb. 4. City officials discovered the abuse on Jan. 27 during a routine review of paperwork regarding use of purchasing cards.

Corey, Wright said, made \$82,000 a year, was a trusted department head and had been human resources director about 10 years.

"It's been very upsetting," Wright said. "He's a longtime city employee in a responsible position."

The city has issued purchasing cards to 60 employees, Wright said. Corey managed to circumvent procedures the city has in place to prevent abuse of the cards, he added.

The investigation continues. No charges have been filed.

On Jan. 14, the city of Austell fired veteran employee Patricia Regina Wilcurt for stealing more than \$121,000 from municipal court where she was a clerk. She remains in jail and is being held without bond.

A routine audit showed money missing from court funds, and a police investigation led to Wilcurt's arrest. A 10-year court employee, she is charged with theft by taking and making a false statement in writing to a government entity.

Invest in Gold - Learn How with Free Kit  
Gold Delivered to Your Door  
[Goldline.com/Gold](http://Goldline.com/Gold)

Moms Asked to Return to School  
Grant Funding May Be Available to Those Who  
Qualify.  
[www.SeeCollegeDegrees.com/Grants](http://www.SeeCollegeDegrees.com/Grants)

Mo  
if yr  
for  
ww



## Fulton County employees accused of \$183,000 theft

By Marcus K. Garner  
The Atlanta Journal-Constitution

4:49 a.m. Wednesday, September 22, 2010

Four Fulton County employees are accused in an internal report of using a county credit card and other means to steal more than \$183,000 in taxpayer money, documents show.

Fulton County Police Capt. Darryl Halbert said Tuesday his department is in the preliminary stages of investigating the report. "We haven't received all the information and we don't have any names," he said.

The four employees in question, all women, were still working and only recently reassigned to other positions once the report was leaked to media outlets, including The Atlanta Journal-Constitution.

The county's office of professional standards, after it supplied the report, was discontinued.

And two other employees -- a deputy county manager and professional standards investigator -- said they were wrongfully fired and demoted, respectively, because of their involvement with the report, and their attorney said they are considering legal action against the county.

Fulton County Manager Zachary Williams did not respond to repeated AJC requests for an interview, but in a Monday news release confirmed the existence of the investigation, which he said was at risk of being compromised because of the media leaks.

In his news release, Williams also addressed the potential lawsuit, saying, "Any personnel actions involving the plaintiffs in this case occurred prior to the date that the July 27th investigative report was received and the ongoing investigation had no bearing on the personnel actions taken."

The investigative report, prepared by since-demoted Maria Colon, devoted 1,039 pages to the four employees' questionable activities, which were said to have cost the county \$183,194.37 over six years.

E-mails were highlighted that detailed spending \$14,351.64 for unauthorized Wal-Mart gift card purchases from 2005 to 2007. Purchases were made for clothing, jewelry, video games, furniture, bedding, patio furniture and music compact discs that were delivered to the addresses of the women.

The report showed that one of the employees in 2005 asked another to buy a "Letter to Mom" pendant and poem from Wal-Mart's website. "Order this for me," the woman's e-mail said. "Personalize to say -- Love, [the woman's name]."

"The figure does not include any gift cards that [the woman's name] might have been used directly at the [ajc.com/.../fulton-county-employees-ac...](http://ajc.com/.../fulton-county-employees-ac...)

9/22/2010

Fulton County employees accused of \$1...

store or given to friends and family members for their use," Colon wrote in her report. "This amount might be significant, since [the woman's name] had the ability and authority to purchase, activate and distribute the gift cards for various programs within the Department of Human Services."

One exhaustive online receipt dated in September 2009 showed that a woman bought 965 gift cards at a cost of \$24,125 and had them shipped to her Fulton County office.

That gift-card purchase was just a portion of the \$168,842.73 reportedly spent on the county credit card between September 2007 and January 2010.

Colon's investigation recorded evidence of only online purchases, but suggested there might have been more unauthorized purchases from Wal-Mart. The report also showed that employees created invoices for a bogus Georgia company to account for expenses, which included the purchase of equipment for a side business.

Through their attorney, Gwendolyn Warren, the deputy manager, said she was fired for reporting the ongoing fraud, while Colon, the investigator, said she was demoted and her office was closed because of her involvement. They have alleged they were punished, in violation of Georgia's Whistleblowers Act, for failing to delay the release of the investigative findings until after the November elections.

"Warren was never given any reason," said James Bradford, the women's attorney. "The only reason given to her was that certain commissioners wanted her gone that day."

David Ware, an attorney representing Fulton County, questioned the validity of Warren's and Colon's claims. "I tend to be cautious about jumping to conclusions based upon allegations in a demand," Ware said, referring to the lawsuit threat.

Colon said she forwarded her findings to the office Fulton County District Attorney Paul Howard Jr. On Tuesday, a district attorney's office spokeswoman said the information had been sent to Fulton Police.

Warren was not available for comment following back surgery and Colon declined to an interview citing fear of reprisal, Bradford said.

District 5 County Commissioner Emma Darnell, contacted Monday, declined to comment on the personnel moves or the closure of the office of professional standards.

The county's office of professional standards, operating for two years, was closed in July after Bill Edwards, commission vice chairman, had asked in a meeting whether the department was necessary. Edwards did not respond to an AJC interview request.

"We never should have abolished that office," said District 4 County Commissioner Tom Lowe, who said the action made him angry. "They were doing an excellent job."

Find this article at:

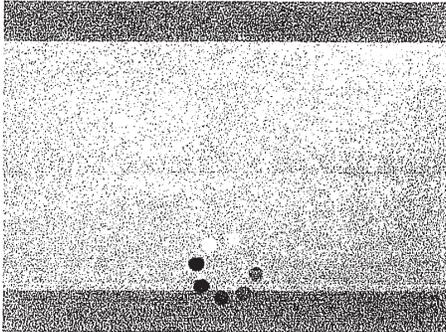
 Print this page  Close

[ajc.com/.../fulton-county-employees-ac...](http://www.ajc.com/.../fulton-county-employees-ac...)

2/3

**WSBTV.com**

## Georgia State Employee Arrested, Charged With Theft



Posted: 5:15 pm EDT August 4, 2010 Updated: 6:28 pm EDT August 4, 2010

**ATLANTA** -- Angela Garner had a 23-year career with Georgia State University.

As business manager for the Department of Kinesiology and Health, she earned nearly \$63,000 a year.

Now, Garner is out of a job after being arrested Tuesday and charged with theft.

"Her employment with the university has been terminated. Yesterday she was arrested for theft by taking," said Maj. Anthony Coleman.

Georgia State University police said Garner bought a TV with her university purchase card, or P card, as they are commonly called.

Auditors informed police of irregularities with purchases on Garner's Visa P card.

The \$257, 19-inch TV was shipped to her office at Georgia State. Investigators questioned her Tuesday afternoon at her office. They told Channel 2 Action News reporter Diana Davis that Garner admitted buying the TV and taking it home.

"She told us where it was. The investigators went to her home with her and they recovered the television," said Coleman.

Davis went to Garner's Lilburn home to get her side of the story. No one answered and Garner did not return Davis' phone call.

"She didn't really explain why she had it at home, but she did say she was going to return it," the university said.

A letter that Davis obtained from a GSU whistleblower claimed that the TV is the tip of the iceberg, and outlines claims investigators are now checking.

The whistleblower alleges that Garner took either two or three university laptops to her home. When her department made legitimate purchases for items like Nintendos, the whistle blower said Garner would order 23 and take one home.

The whistle blower also said that Garner often sent large packages to Chicago via Fed Ex always at the department's expense.

9/13/2010

Georgia State Employee Arrested, Charg...

"We've heard the same information," said Coleman. "Our auditing department along with our investigation division are looking into those charges. She did admit to the one television yesterday ... that's how she was arrested on those charges yesterday. However we are still investigating the other accusations."

In 2007, an investigation revealed widespread abuse within the Georgia University System. The chancellor then said all transactions would be subject to audits. There were at least 20,000 employees with purchasing cards at the time.

*Copyright 2010 by [WSBT.com](http://WSBT.com). All rights reserved. This material may not be published, broadcast, rewritten or redistributed.*

## Excerpt from Budget Proviso 89.148:

89.148. (GP: Recovery Audits) The Budget and Control Board shall contract with one or more consultants to conduct recovery audits of payments made by state agencies included in this act to vendors. The audits must be designed to detect and recover overpayments and erroneous payments to the vendors and to recommend improved state agency accounting operations. A state agency shall pay, from recovered monies received, the recovery audit consultant responsible for obtaining for the agency a reimbursement from a vendor based on the following scale: 10% of up to the first \$1,000,000 recovered; 5% of \$1,000,001 to \$5,000,000 recovered; 2.5% of the amount recovered above \$5,000,001 with a maximum consultant payment of \$2,500,000.

Funds recovered, less the cost of recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation of this provision.

Recovery audits apply only to a payment made after a one hundred eighty day period from the date the payment was made.

All information provided under a contract must be treated as confidential by the vendor. A violation of this provision shall result in the forfeiture by the vendor of all recovery payments under the contract and to the same sanctions and penalties that would apply to that disclosure.

The Budget and Control Board shall require that recovery audits be performed in regard to state agencies which have total expenditures during a fiscal year in an amount that exceeds one hundred million dollars. Each state agency subject to this provision shall provide the recovery audit consultant with all information necessary for the audit. The Budget and Control Board may exempt from the mandatory recovery audit process a state agency that has a low proportion of its expenditures made to vendors, or sufficient internal procedures in place to prevent overpayments. The Budget and Control Board or a state agency in its discretion may require similar recovery audits of a state agency with expenditures of less than one hundred million dollars during a fiscal year.

Funds recovered, less the cost of audit and agency recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation.

A state agency shall expend or return to the federal government any federal money that is recovered through a recovery audit conducted under this chapter. Payments to the recovery audit consultant from the federal share of recovered funds shall be solely from the federal portion as allowed by the federal agency.

The Budget and Control Board shall provide copies, including electronic form copies, of final reports received from a consultant under contract to: the Governor; the Chairman of the Senate Finance Committee; the Chairman of the House Ways and Means Committee; and the state auditor's office. Not later than January first of each year, the board shall issue a report to the General Assembly summarizing the contents of all reports received under this provision during the prior fiscal year.

# State Treasurer's Office Subcommittee Summary:

## **Subcommittee Members:**

Clarissa Adams

adamsjc@bellsouth.net

Jim Eckstrom

jim.eckstrom@gmail.com

Robert Freer

freerr1@citadel.edu

Sam Howell

samhowell@bond-law.com

Bill Leidinger

bill.leidinger@sto.transition.sc.gov

Burnet Maybank III, JD, Chairman

bmaybank@nexsenpruet.com

Mike Montgomery

mhm@montgomerywillard.com

Zeke Montgomery

zmontgomery@elliottdavis.com

Michael Smith

michael@michaelssmithii.com

Leslie Whiddon

leslie.whiddon@yahoo.com

# Review of Bank of America Analysis Statement:

## Review of Bank of America Analysis Statement August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Category - Pricing			
FDIC	Pricing too high	Avg Charge of \$24k/month or 25% of total monthly service charge.	Negotiate lower fee. Bank representatives indicated this fee is negotiable.
Earnings Credit Rate	Rate changed during review period from .60% to .50%. With fee schedule, do not know how often this rate is subject to change and what the rate is based upon.	n/a	Verify rate is proper and in accordance with agreement.
Wire Transfers - Domestic - Incoming and Outgoing	Pricing too high	Outgoing - \$1900, Incoming \$1,000	Negotiate lower fee. Incoming wire - pricing around \$5 versus current charge of \$10 per unit. Outgoing wire - pricing around \$5 versus current charge of \$8 per unit. For wire transfers to bank customers - pricing around \$0.75 versus current charge of \$4 per unit.
Depository Services - General Checks Paid Truncated versus General Cks Paid- Not Truncated	Same pricing for truncated checks versus not truncated. Truncated checks are not returned to the State. Price of \$0.1050/ per unit is the same for different services. Also, uncertain why physical checks must be returned to State when electronic images are available for viewing and paid for as part of image capture services.	\$3,200 for truncated and \$140 for non-truncated.	Perform analysis to determine why staff need checks returned and duplicate costs incurred. Determine if procedures should be revised and additional training provided. Also, negotiate lower fee for truncated services as handling and mailing costs are reduced.
Depository Services - Chks Dep Pre-Encoded Items	Pricing differential should be larger between pre-encoded and un-encoded items. As the State, instead of the bank, is doing the work by pre-coding the items, pricing should be lower.	\$9,300 for pre-encoded and \$4,710 for un-encoded.	This is an line item where a savings will have a substantial impact. Negotiate lower fee for pre-encoded items.

Review of Bank of America Analysis Statement  
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
General ACH Services - ACH On Us/Off Us for various categories	On-Us items are ACH deposits posted to BOA accounts versus Off Us items are items posted to non-BOA accounts. Should be a lower charge for On-Us items.	\$1,254 for On-Us, and \$5,346 for Off-Us items.	Negotiate lower fee for ACH On-Us items.
Remote Deposit Services	The cost per item was comparable to processing a regular check deposit (or even slightly higher). As State is capturing the item and processing it instead of a bank teller, pricing should be lower.		Negotiate lower fee for Remote Deposit Services.
Depository Services - Stop Pay Automated	Pricing too high	\$3,300 for automated stop payments.	Negotiate lower fee. These stop payments are entered into the system by the State and are automated. Pricing around \$5 versus current charges of \$12 or \$20 per unit.
<b>Category - Inconsistent Charges</b>			
Depository Services - Cks Dep Rejects	Statements lists four different charges for this service; highest volume line item also has highest per unit charge.		Determine if fee structure for rejected can be condensed and determine if volume pricing is appropriate. For example, fee assessed for each reject repaired if account has up to 1% of their checks rejected at X cost, if account has up to 2% of their checks rejected at X+1 cost, and so on.
Depository Services - Cks Dep Pre-Encoded Items	On August statement, two pre-encoded pricing charges for same service and the line item with the lower volume had a lower price (\$.087/per unit versus \$.075/ per unit)		One charge for pre-encoded items for consistency purposes.

Review of Bank of America Analysis Statement  
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
General ACH Services	Numerous ACH services listed on statement with inconsistent pricing. For example, ACH Return Item listed twice with pricing ranging from \$3.5 to \$1.0 per unit. Also, ACH Input - Echannel listed three times with pricing varying from \$10.0 to \$7.0 per unit.		Determine if fee structure for ACH services can be condensed and negotiate appropriate charges for services.
Information Services - Direct Previous Day account and Direct Current Day account	Direct Previous Day account services and Direct Current Day account services each listed seven times with seven different pricing schedules ranging from \$15 to \$0 per unit.		Determine if fee structure for Information services can be condensed and negotiate appropriate charges for services. Also, determine if unlimited access to both services needed and if personnel should limit access to current day info to reduce costs.
<b>Category - Operating Processes to Review to Lower Costs</b>			
Depository Services - Check Deposit Rejects	Monthly volume varied from 500 to 1500 items per month at an average cost of \$0.50 per item. These rejected items represent errors and result in wasted personnel time as well as additional bank charges to correct the reject.		Perform analysis of rejects to identify flaws in operating procedures. Modify procedures or perform additional training to minimize rejects and lower operating costs.
Depository Services - Banking Center (Branch) Deposits	Banking Center, night drop and vault deposits are at the same charge (\$0.20/per unit). Typically, expect to see a lower price for night deposit or vault.		Perform analysis of deposit methods utilized by agencies to determine lowest cost for deposits. Consider availability of funds and bank cut-off times.

Review of Bank of America Analysis Statement  
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Commercial Deposits - Cash Vault - Currency/Coin Deposits and Orders	Increase usage of Night Deposits (ND) and Vaults (VLT) deposits versus utilizing the teller line (BKG CTR) which has a higher cost per item (\$0.20 at BKG CTR, and \$0.11 and \$.095 at ND and Vault). However, the BKG Ctr method used more often than the other two; thereby incurring charges averaging \$5k versus \$300 a month.		Perform analysis of currency/coin deposit methods to determine lowest cost for such deposits. Consider availability of funds and bank cut-off times.
General ACH Services - ACH Standard Reports	Minimize usage of ACH Standard reports faxed or mailed to State and instead receive ACH Standard reports electronically or retrieve from Bank's website. Faxed reports cost \$3.0 per unit and Mailed reports cost \$10.0 per unit. Monthly service charges for faxed and mailed statements average \$700 month.		Analyze reasons why statements are being mailed or faxed to State and determine procedural changes or additional training necessary to implement.
Wire Transfer - Wire Advice - Mail and Fax	Minimize usage of receipt of wire advices by mail and fax and instead receive such advices from bank's website. Mailed advices cost \$2.0 per unit and faxed advices cost \$5.0 per unit. Monthly wire advices mailed and faxed average \$900 month.		Analyze reasons why advices are being mailed or faxed to State and determine procedural changes or additional training necessary to implement.
<b>Category - General Comments about Improving Bank Processing</b>			
Description of Service Charges/Agreed Upon Pricing	Unable to easily match services listed on analysis statements to banking schedule of fees. Unable to discern difference between service charges with same descriptions but with different or same pricing per unit.		Need to develop an agreed upon fee schedule with Bank of America and such schedule should include items services with its description.

Review of Bank of America Analysis Statement  
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Minimize On-going Check Deposit Costs	While some check deposits and payments are being captured via remote data methods, new technology and hardware continue to downwardly price such services, thereby allowing for more checks/payments to be captured either through an ARC or ILC conversion process. Excluding the upfront hardware charges, remote capture data is a less expensive processing method over the traditional bank teller deposit of actual check.		Continue to analysis daily processing and move check deposit/payment processing to either ARC (Accounts Receivable Conversion for bill payments received) and ICL (Image Cash Letters) for all other deposits. Add deposit scanners to agencies based upon an analysis of needs versus costs.
Number of accounts	105 accounts open with Bank of America. Unknown number of accounts open with other banks.		Ascertain if all accounts are necessary and if any accounts can be closed.

# Account Analysis Benefits Summary (The Weiland Financial Group, Inc.):



## Account Analysis Benefits Summary: Unleashing the Power of Your Account Analysis Statements

by

**Stephen J. Weiland, Chairman**  
**The Weiland Financial Group, Inc.**

**19 October 2009**

Every month corporations receive an analysis statement from each of their banks detailing their deposit account service use. These billing statements contain a wealth of information about your bank accounts and cash management operation - they are a resource that should not go underutilized.

Specifically, account analysis statements detail the services rendered by each bank for the period including each service description, volume, price, calculated charge, status (waived, fee based, balance compensable), tax (if applicable), balance required, and, ideally, the AFP common service code. The balance section of your analysis statements provide additional information such as the average balance maintained in the account, the uncollected funds amount, the rate used to calculate the earnings credit, the credit amount, and the balance excess or deficit resulting from any earnings credit offset. In short, your analysis statements contain everything there is to know about your service usage, balance usage, and account performance - they are a looking glass into your deposit account operations.

To capture the wealth of information locked inside your analysis statements, you can (and should!) request and review the electronic versions of your statements: the domestic "822" and the global "BSB". Combined with advanced software, these electronic statements allow treasurers to select, sort, compare, and report on all statement data across any and all captured time periods. Through thorough statement review, corporations can enjoy controlled costs, optimized investment returns, enhanced compliance, and valuable metrics that enable accurate budgeting, improved bank negotiations, and powerful operational insights.

This paper outlines the many benefits of examining your analysis billing statements and helps build the case for unleashing their power.

### **Cost Control**

With banks billing millions of individually negotiated service fees to their customers each and every month, billing errors are inevitable. These mistakes are buried deep within your account analysis statements and can cost you thousands of dollars each year. By examining your analysis statements each month, you can catch and correct these errors as well as identify other opportunities to control costs for real bottom-line savings.

Possible errors and cost saving opportunities include:

*Account Related Errors and Opportunities*

- Not My Account - I'm being charged for an account that is not mine.
- Inactive Account - I keep getting billed a maintenance charge for an account I no longer use and should probably close.
- Closed Account - I keep getting billed a maintenance charge for an account I already closed.
- Redundant Accounts - I have more than one account performing essentially the same function(s) that should be consolidated.
- Family Relationship Pricing - The member account does not share the preferred relationship pricing I established with my bank.
- Missing Statement - I'm not receiving a statement for this account when I should be (HINT: you should be receiving an electronic statement for ALL your accounts!)
- Error in Bank Calculation - A math error resulted in a bad charge or credit that needs to be adjusted.

*Balance Related Errors and Opportunities*

- Unreasonable Earnings Credit Rate ("ECR") - The earnings credit rate is not competitive with my other banks.
- Tiered Credit Rates - My balances deserve a higher ECR.
- Reserve Reduction - The bank is applying my ECR to only a portion of my balances while receiving interest from the Fed on *all* its reserves.
- Expected Balance Discrepancy - My statement ledger, collected, or OD balance does not agree with the balance from my internal systems.
- Non-Monthly Compensation Cycle - Will a non-monthly compensation cycle allow me to use my monthly excess balance credits?
- Right of Offset - Do I enjoy the right of balance offset among my accounts which would reduce my overdraft fees?

*Service Related Errors and Opportunities*

- Not My Service - I am being charged for a service that I did not agree to.
- Redundant Services - I'm using two different services that accomplish essentially the same thing (i.e. Stop Orders and Positive Pay).
- Contracted Price Violations - The actual price I'm being charged is different from the contracted price I agreed to.
- Unauthorized Price Increases - The service price has been increased without warning.
- Volume Reasonability Errors - This month's service volume is unreasonably high.
- Expected Volume Errors - I know exactly what this service's volume should be and this isn't it.
- Volume discounts - I was quoted a volume discount but did not receive it.
- Charges Against Waived Services - This service charge should be waived but it wasn't.

- Charges Against Inactive Services - I marked this service as "Inactive" yet I'm still being charged for it.
- Suspicious Descriptions - There are services on my statements with descriptions containing words such as "Error", "Adjustment" and "Correction" that deserve additional scrutiny.
- Service Options - This service was hard charged (fee based) when it was supposed to be balance compensable.
- Flagged Service Suspects - I want to follow-up on any instance of this service for any number of reasons (i.e. I suspect the volume figures are wrong, I want to know when someone in my company uses the service, etc.).

### **Optimized Investment Return**

Demand deposit accounts can contain an inordinate amount of idle balances. You can use the information contained in your analysis statements to optimize these balances, make informed investment choices, and properly manage all the balances in your deposit accounts.

- Track - Track what portion of average balances are being used to offset charges and then invest the rest to fund other activities.
- Assess - Determine what the true cost of maintaining large balances really is in terms of FDIC fee debits and earnings credits.
- Compare - How does my ECR compare to other commercially available rates?
- Decide - Based on current rates, balances, and service load, should I compensate the bank with fees in order to free up balances or should I maintain higher balances to offset bank charges?

### **Enhanced Compliance**

Service charges merit oversight. SOX argues for the reporting of service charges as an element of cost and for proper price management. The data in your analysis statements provide all the information necessary to monitor and control service prices, charges, and balances according to SOX mandates. This information should be recorded, accessible, and easily reported.

### **Valuable Metrics**

Analysis statement data provides a marvelous record of service usage, prices, balances, taxes, and rates. You can leverage this data for added business intelligence.

- Price Negotiation Strength - Negotiate with total knowledge of your deposit account performance, price, and profitability. By knowing each and every service price and volume across all your banks, you will be able to negotiate the most favorable terms.
- Compare Prices Against Benchmarks - Compare your historical price data as well as new pricing to reference values provided by the Phoenix-Hecht Blue Book and AFP Informa Price Guide.
- Modeling - Test volume, balance, and rate assumptions on an individual account or bank wide basis using actual values as a starting point.
- Bank Grading - Grade your banks based on their prices, services, and case resolution
- Allocation of Costs - Allocate the bank charges for whole accounts and/or individual services to particular departments to determine departmental costs.
- System Wide Totaling of Charges, Credits, and Balances - Use various account codes, product codes, division codes, etc. to total charges across all banks and

accounts. For example, what am I being charged across all banks for "Account Maintenance" or "Reporting" or "FDIC fees"?

- Variance Reporting - Are certain charges, volumes, or balances falling outside of tolerance limits? Compare usage in first quarter last year to first quarter this year or between any two time frames.
- Trend Reporting - Are service prices escalating? Are service volumes increasing or decreasing? Is service usage decreasing? Should I cancel or combine services? Are balance levels increasing in certain accounts? In certain banks?
- Budgeting - Make volume, balance, and pricing assumptions based on the prior year's activity to budget bank fees for the coming year. Compare budgets against actuals.
- Export Data to Existing Systems — Export summary totals to your GL. Export this year's totals to your budgeting system. Export your analysis data into spreadsheets for analysts and interested parties.
- Straight-Thru-Processing - Provide fee payments to the banks on an STP basis and avoid paper statement examination.
- Electronically Process and Archive Statements - Eliminate paper, go green, and quickly access historical statements and data.
- Case Management - Develop "Cases" for each suspected error situation and follow the cases through to resolution.

Imagine capturing every line item service, volume, price, charge, tax, status, and required balance - every ledger, float, collected, and excess/deficit balance - every credit rate, credit amount, and total excess/deficit fee for every account at every bank every month. Now imagine selecting, sorting, filtering, comparing, totaling and reporting on all this data for any time period you choose. You'd be armed with all the information you'd need to dramatically cut costs and make the most informed treasury and business decisions possible.

So why don't you?

The answer becomes apparent by stacking all your paper statements one on top of the other and watching as the pile grows from inches to feet to yards. Keying all that data into a spreadsheet is not only terribly time consuming and mundane, but also prone to human error. That's why, like most people, you don't do it!

But it doesn't have to be this way!

Electronic statements - the US "822" and the global "BSB" - contain all the information on your paper statements in a format that can be quickly imported into your computer. Now all your account analysis data can be captured, error free, in a matter of minutes. And with commercially available software, you can easily manipulate, analyze, and act on this data to unleash the information locked inside your analysis statements.

So what are you waiting for? Gain maximum transparency into your deposit account operations by requesting electronic statements from your banks today and start realizing the benefits of automated, electronic account analysis.

# Securities Data Corporation Reports:

Securities Data Corporation is the source of data contained attached reports. These reports list new bond issuances since 2005.

**Report A** is a listing by state of the cumulative number of new issuances by either trustee or paying agent. The data is provided for only certain southern states, South Carolina, Georgia, Maryland, North Carolina and Virginia for comparative purposes.

**Report B** is a listing by Southeast Region of new bond issuances from January 1, 2010 thru June 30, 2010 reported by trustee appointment. See South Carolina report for instance where SC Treasurer was appointed as trustee.

**Report C** is a listing by all other US regions of new bond issuances from January 1, 2010 thru June 30, 2010 reported by trustee appointment. See West Region report for instance where California Treasurer was appointed as trustee.

# Report A

## Trustee Role

State	SC
-------	----

Count of Issuer		Year						Grand Total
Type	St Trustee	2005	2006	2007	2008	2009	2010	
Muni	Bank of New York	19	21	18	17	14	9	98
	BB&T Corp.					2		2
	BRANCH-BKT	6	1					7
	CA-FIRST-BK	1						1
	CAROLINA-FST-BK	2	4					6
	Deutsche Bank AG		1	1	6	3		11
	FIRST-COM-BK	2	6					8
	REGIONS-BK	2	2	5	5	5	1	20
	US Bank	19	16	29	21	11	13	109
	Wells Fargo & Co.	2	26	5	7	9	4	53
<b>Muni Total</b>		<b>54</b>	<b>77</b>	<b>60</b>	<b>56</b>	<b>46</b>	<b>28</b>	<b>321</b>
<b>Grand Total</b>		<b>54</b>	<b>77</b>	<b>60</b>	<b>56</b>	<b>46</b>	<b>28</b>	<b>321</b>

## Paying Agent Role

State	SC
-------	----

Count of Issuer		Year						Grand Total
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	
GO	BK-NEW-YORK	15	6	2	1	9	7	40
	BK-SC	1						1
	BRANCH-BKT		1	1	1			3
	CA-FIRST-BK	1						1
	CAROLINA-FNB			1				1
	CAROLINA-FST-BK	12	10	3	3			28
	FIRST-CITIZENS	1		1				2
	REGIONS-BK	1	7	15	6	15	22	66
	SCBT					1	1	2
	TD-BANK-T	1	1		1			3
US-BANK	15	17	13	4	11	17	77	
WELLS-FARGO-BK	15	11	17	21	54	13	131	
<b>GO Total</b>		<b>77</b>	<b>62</b>	<b>60</b>	<b>45</b>	<b>101</b>	<b>69</b>	<b>414</b>
Muni	BK-NEW-YORK	23	25	25	20	16	10	119
	BRANCH-BKT	6	1	1	1	3		12
	CA-FIRST-BK	1						1
	CAROLINA-FST-BK	2	4					6
	DEUTSCHE-BANK		1	1	6	3		11
	FIRST-COM-BK	2	6					8
	REGIONS-BK	2	3	5	6	5	1	22
	SCBT					1		1
	US-BANK	21	16	29	21	12	14	113
	WELLS-FARGO-BK	2	27	6	7	9	8	59
<b>Muni Total</b>		<b>60</b>	<b>83</b>	<b>67</b>	<b>61</b>	<b>49</b>	<b>33</b>	<b>353</b>
<b>Grand Total</b>		<b>137</b>	<b>145</b>	<b>127</b>	<b>106</b>	<b>150</b>	<b>102</b>	<b>767</b>

Rpt A  
page 1 of 5

Source: Securities Data Corporation

Trustee Role

State	GA
-------	----

Count of Issuer		Year							Grand Total
Type	St Trustee	2005	2006	2007	2008	2009	2010		
Muni	Bank of New York	25	17	29	28	31	14	144	
	BB&T Corp.					1		1	
	BK-OKLAHOMA	1	1	1			2	5	
	BRANCH-BKT	4	3	5	2			14	
	FIRST-CITIZENS			1				1	
	FIRST-COM-BK	6	6	11	2		3	28	
	Huntington National Bank					2		2	
	MFR-TRADERS			1	1			2	
	None	37	47	39	24	37	37	221	
	PLANTERS-BKT	1						1	
	REGIONS-BK	9	6	6	10	10	4	45	
	US Bank	62	32	47	32	65	9	247	
	Wells Fargo & Co.	4	9	9	12	2	13	49	
<b>Muni Total</b>		<b>151</b>	<b>121</b>	<b>149</b>	<b>111</b>	<b>148</b>	<b>82</b>	<b>762</b>	
<b>Grand Total</b>		<b>151</b>	<b>121</b>	<b>149</b>	<b>111</b>	<b>148</b>	<b>82</b>	<b>762</b>	

Paying Agent

State	GA
-------	----

Count of Issuer		Year							Grand Total
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010		
GO	BA-CORP		1					1	
	BK-NEW-YORK	11	22	23	10	22	3	91	
	BRANCH-BKT		1	1		1	1	4	
	FIRST-COM-BK				1			1	
	MORGAN-KEEGAN			1				1	
	REGIONS-BK	7	15	18	15	9	13	77	
	US-BANK	15	10	20	21	11	10	87	
	WELLS-FARGO-BK			2	3	5	3	13	
<b>GO Total</b>		<b>44</b>	<b>60</b>	<b>67</b>	<b>56</b>	<b>51</b>	<b>33</b>	<b>311</b>	
Muni	BK-NEW-YORK	25	25	38	37	44	18	187	
	BK-OKLAHOMA	1	1	1			2	5	
	BRANCH-BKT	4	3	5	2	1		15	
	FIRST-CITIZENS			1				1	
	FIRST-COM-BK	6	6	12	2		3	29	
	HUNTINGTON-NB					2		2	
	MFR-TRADERS			1	1			2	
	PLANTERS-BKT	1						1	
	REGIONS-BK	9	13	15	12	17	16	82	
	SYNOVUS-BK						3	3	
	US-BANK	60	48	53	32	77	22	292	
WELLS-FARGO-BK	5	10	10	14	2	14	55		
<b>Muni Total</b>		<b>114</b>	<b>106</b>	<b>136</b>	<b>100</b>	<b>143</b>	<b>82</b>	<b>681</b>	
<b>Grand Total</b>		<b>158</b>	<b>166</b>	<b>203</b>	<b>156</b>	<b>194</b>	<b>115</b>	<b>992</b>	

Rpt A  
page 2 of 5

**Trustee Role**

State	MD
-------	----

Count of Issuer		Year							Grand Total
Type	St Trustee	2005	2006	2007	2008	2009	2010		
Muni	Bank of New York	10	16	17	17	6	7	73	
	BB&T Corp.					2		2	
	BRANCH-BKT		3		2			5	
	Deutsche Bank AG			1	1	2	4	8	
	MFR-TRADERS	24	39	34	34	14	14	159	
	US Bank	11	4	12	8	3	5	43	
	Wells Fargo & Co.	5	11	4	10	4	4	38	
<b>Muni Total</b>		<b>51</b>	<b>73</b>	<b>68</b>	<b>72</b>	<b>31</b>	<b>34</b>	<b>329</b>	
<b>Grand Total</b>		<b>51</b>	<b>73</b>	<b>68</b>	<b>72</b>	<b>31</b>	<b>34</b>	<b>329</b>	

**Paying Agent Role**

State	MD
-------	----

Count of Issuer		Year							Grand Total
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010		
GO	BK-NEW-YORK	1	2	1	1	4	4	13	
	MFR-TRADERS	14	11	15	13	26	15	94	
	US-BANK	3	3	1	1	4	4	16	
	WELLS-FARGO-BK	1	1			2		4	
<b>GO Total</b>		<b>33</b>	<b>28</b>	<b>30</b>	<b>25</b>	<b>65</b>	<b>44</b>	<b>225</b>	
Muni	ALLFIRST-BK	1						1	
	BK-NEW-YORK	11	15	17	17	6	7	73	
	BRANCH-BKT		3		2	2		7	
	DEUTSCHE-BANK			2	1	2	4	9	
	MFR-TRADERS	23	43	34	35	15	14	164	
	US-BANK	9	4	12	8	4	5	42	
	WELLS-FARGO-BK	5	11	4	11	4	4	39	
<b>Muni Total</b>		<b>50</b>	<b>77</b>	<b>71</b>	<b>76</b>	<b>34</b>	<b>36</b>	<b>344</b>	
<b>Grand Total</b>		<b>83</b>	<b>105</b>	<b>101</b>	<b>101</b>	<b>99</b>	<b>80</b>	<b>569</b>	

*Rpt A  
page 3 of 5*

**Trustee Role**

State	NC
-------	----

Count of Issuer		Year						Grand Total
Type	St Trustee	2005	2006	2007	2008	2009	2010	
Muni	Bank of New York BB&T Corp.	29	24	37	35	26	17	168
	BRANCH-BKT	8	11	12	12	6	4	10
	Deutsche Bank AG	5	5	4	5			43
	FIRST-CITIZENS	12	21	16	17			19
	REGIONS-BK		2	7	3	5	3	20
	US Bank	42	20	28	19	39	30	178
	Wells Fargo & Co.	1	1	1	1	3	2	9
<b>Muni Total</b>		<b>98</b>	<b>84</b>	<b>105</b>	<b>92</b>	<b>79</b>	<b>56</b>	<b>514</b>
<b>Grand Total</b>		<b>98</b>	<b>84</b>	<b>105</b>	<b>92</b>	<b>79</b>	<b>56</b>	<b>514</b>

**Paying Agent Role**

State	NC
-------	----

Count of Issuer		Year						Grand Total
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	
GO	BK-NEW-YORK						2	2
	DEUTSCHE-BANK		1					1
	FIRST-CITIZENS	1	2	2	2			7
	REGIONS-BK			6		2		8
	US-BANK	3	1	1	1	10	2	18
	WELLS-FARGO-BK		1					1
<b>GO Total</b>		<b>61</b>	<b>45</b>	<b>37</b>	<b>35</b>	<b>78</b>	<b>56</b>	<b>312</b>
Muni	BK-NEW-YORK	29	23	37	35	26	17	167
	BRANCH-BKT	8	12	12	12	6	4	54
	DEUTSCHE-BANK	5	5	4	5			19
	FIRST-CITIZENS	12	20	17	17			66
	REGIONS-BK		2	7	3	5	3	20
	US-BANK	36	20	28	21	39	30	174
	WELLS-FARGO-BK	1	1	1	1	3	3	10
<b>Muni Total</b>		<b>93</b>	<b>83</b>	<b>106</b>	<b>94</b>	<b>79</b>	<b>57</b>	<b>512</b>
<b>Grand Total</b>		<b>154</b>	<b>128</b>	<b>143</b>	<b>129</b>	<b>157</b>	<b>113</b>	<b>824</b>

*Rpt A  
page 4 of 5*

**Trustee Role**

State	VA
-------	----

Count of Issuer		Year							Grand Total
Type	St Trustee	2005	2006	2007	2008	2009	2010		
Muni	Bank of New York	12	13	19	12	23	7	86	
	BB&T Corp.					1		1	
	BRANCH-BKT	3	2	1				6	
	Deutsche Bank AG		1	2	1	1	4	9	
	FIRST-CITIZENS	1						1	
	MFR-TRADERS		3	3				6	
	REGIONS-BK		5	7			3	15	
	US Bank	83	36	50	38	24	34	265	
	Wells Fargo & Co.	11	5	11	17	2	10	56	
	<b>Muni Total</b>		<b>116</b>	<b>65</b>	<b>93</b>	<b>68</b>	<b>51</b>	<b>58</b>	<b>451</b>
<b>Grand Total</b>		<b>116</b>	<b>65</b>	<b>93</b>	<b>68</b>	<b>51</b>	<b>58</b>	<b>451</b>	

**Paying Agent Role**

State	VA
-------	----

Count of Issuer		Year							Grand Total
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010		
GO	BK-NEW-YORK	3		1				4	
	BKRS-TRUST-IA				1			1	
	DEUTSCHE-BANK				1	1		2	
	REGIONS-BK			2	3		8	13	
	US-BANK	12	12	11	11	11	11	68	
<b>GO Total</b>		<b>31</b>	<b>32</b>	<b>25</b>	<b>36</b>	<b>42</b>	<b>47</b>	<b>213</b>	
Muni	BK-NEW-YORK	13	15	19	12	26	12	97	
	BRANCH-BKT	3	2	1		1		7	
	CRESTAR-BK	1						1	
	DEUTSCHE-BANK		1	2	1	1	4	9	
	FIRST-CITIZENS	1						1	
	MFR-TRADERS		3	3				6	
	REGIONS-BK		5	7		1	3	16	
	US-BANK	94	42	50	40	28	37	291	
	WELLS-FARGO-BK	11	5	11	17	2	11	57	
	<b>Muni Total</b>		<b>129</b>	<b>77</b>	<b>96</b>	<b>75</b>	<b>64</b>	<b>69</b>	<b>510</b>
<b>Grand Total</b>		<b>160</b>	<b>109</b>	<b>121</b>	<b>111</b>	<b>106</b>	<b>116</b>	<b>723</b>	

*Rpt A  
page 5 of 5*

Report C

West Region Rankings

West Region				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Tranche	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)
US Bank	147	2	31.4%	6,600.1	113	2	30.5%	29.4%	7,011.8	117	2	29.4%
The Bank of New York Mellon	146	1	28.3%	13,224.9	107	1	28.8%	45.0%	11,794.1	107	1	45.0%
Wells Fargo Bank	84	3	18.0%	3,432.2	84	3	22.6%	14.3%	3,759.8	84	3	14.3%
Zions First National Bank	34	4	7.3%	730.2	28	4	7.8%	3.5%	1,015.0	28	4	3.5%
Union Bank NA	21	5	4.5%	442.6	17	5	4.8%	2.5%	659.6	17	5	2.5%
UMB Bank NA	18	6	3.9%	150	11	6	3.0%	0.5%	118.8	11	6	0.5%
Deutsche Bank	8	7	1.7%	779.6	4	7	1.1%	0.1%	1,089.3	4	7	0.1%
Regions Bank	5	8	0.9%	240.2	2	8	0.5%	0.4%	192.4	2	8	0.4%
Bank of Albuquerque	2	9	0.4%	20.4	3	9	0.8%	0.4%	104.5	3	9	0.4%
State Treasurer of California	1	10*	0.2%	1,486.3	1	10	0.3%	1.5%	465.4	1	10	1.5%
BancFirst	1	10*	0.2%	15.9	-	-	-	-	-	-	-	-
Subtotal with Truisee	488	-	30.8%	44.4%	371	-	29.5%	38.5%	28,198.7	371	-	29.5%
Subtotal without Truisee	1,052	-	69.2%	55.6%	888	-	70.5%	63.4%	45,486.7	888	-	70.5%
Industry Total	1,520	-	100.0%	100.0%	1,259	-	100.0%	100.0%	71,685.5	1,259	-	100.0%

West Region Statistics			
US Bank	34	20.1%	0.9%
Wells Fargo	97	28.1%	1.3%
Industry	281	20.7%	-

North West Region				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Tranche	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)
US Bank	28	2	22.4%	13.8%	40	2	33.0%	28.6%	1,347.1	43	1	35.3%
Wells Fargo Bank	1,214.9	1	25.6%	25.5%	18	3	12.8%	12.5%	8,933.7	15	4	12.0%
Zions First National Bank	26	3	20.8%	13.4%	16	3	12.8%	12.5%	8,933.7	15	4	12.0%
The Bank of New York Mellon	20	4	16.0%	43.7%	20	4	12.0%	22.2%	11,255.5	11	5	2.3%
UMB Bank NA	18	5	14.5%	3.2%	11	5	8.8%	-	118.8	-	-	-
BancFirst	1	6	0.5%	15.9	-	-	-	-	-	-	-	-
Deutsche Bank	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal with Truisee	125	-	35.3%	33.7%	126	-	37.3%	35.8%	5,081.8	126	-	37.3%
Subtotal without Truisee	229	-	64.7%	66.3%	210	-	62.7%	64.2%	9,078.1	210	-	62.7%
Industry Total	354	-	100.0%	100.0%	336	-	100.0%	100.0%	14,160.0	336	-	100.0%

North West Region Statistics			
US Bank	19	5.7%	-
Wells Fargo	12	3.0%	-0.6%
Industry	19	5.7%	-0.6%

South West Region				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Tranche	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)	# of Issues	Rank	Mkt. Share on \$	Proceeds (\$B Mill)
US Bank	119	2	34.7%	32.7%	73	2	27.7%	30.8%	5,111.8	72	2	27.7%
The Bank of New York Mellon	129	1	37.2%	45.6%	92	1	37.4%	50.1%	10,665.5	92	1	37.4%
Wells Fargo Bank	62	3	15.7%	9.1%	41	3	16.7%	19.0%	1,950.0	41	3	16.7%
Union Bank NA	21	4	6.1%	1.8%	17	4	6.9%	3.1%	582.5	17	4	6.9%
Zions First National Bank	8	5*	2.3%	0.4%	9	5	3.1%	0.5%	108.2	9	5	3.1%
Deutsche Bank	5	6*	1.5%	0.9%	2	6	1.6%	0.9%	108.2	2	6	1.6%
Regions Bank	2	7	0.6%	0.1%	3	7	1.2%	0.5%	104.5	3	7	1.2%
Bank of Albuquerque	1	8	0.3%	6.1%	1	8	0.4%	2.2%	465.4	1	8	0.4%
State Treasurer of California	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal with Truisee	343	-	28.4%	47.3%	246	-	26.6%	38.7%	21,138.3	246	-	26.6%
Subtotal without Truisee	823	-	70.5%	62.7%	672	-	73.4%	63.3%	58,578.5	672	-	73.4%
Industry Total	1,166	-	100.0%	100.0%	924	-	100.0%	100.0%	67,516.4	924	-	100.0%

South West Region Statistics			
US Bank	45	63.0%	2.8%
Wells Fargo	242	26.2%	-
Industry	287	26.2%	-

Central Region Rankings

Central Region		2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Truist	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)
US Bank	97	2	23.5%	38.6%	6,888.3	88	2	22.8%	23.5%	6,534.3
The Bank of New York Mellon	141	1	34.2%	31.7%	7,707.4	128	1	34.0%	31.4%	6,971.5
Wells Fargo Bank	281	3*	14.1%	15.9%	3,976.5	59	3	15.7%	15.1%	3,621.5
UMB Bank NA	68	3*	14.1%	3.7%	904.8	42	4	11.1%	3.2%	770.7
TD Bank NA	17	5	4.1%	6.2%	1,518.3	18	5	4.8%	4.1%	983.7
Southwest Trust Co	5	6*	1.2%	0.2%	47.4	4	10	1.1%	0.0%	10.5
Manufacturers & Traders Tr Co	5	6*	1.2%	0.3%	66.8	12	9	3.2%	3.1%	734.1
Frs Bank of Missouri	5	6*	1.0%	0.2%	4.3	6	7	1.6%	0.2%	38.2
Commerce Bank NA (MCO)	4	8*	1.0%	0.2%	39.6	3	11	0.8%	0.3%	64.0
Cit National Trust Company	4	8*	1.0%	0.8%	184.4	2	12	0.5%	0.2%	53.7
Subtotal with Truist	412	-	20.9%	50.9%	24,312.0	377	-	20.5%	61.1%	23,661.6
Subtotal without Truist	1,589	-	78.4%	48.4%	23,756.1	1,458	-	79.5%	38.9%	19,588.4
Industry Total	2,001	-	100.0%	100.0%	48,068.2	1,835	-	100.0%	100.0%	38,228.0

Delaware		2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Truist	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)
US Bank	-	-	-	-	-	-	-	-	-	-
Subtotal with Truist	-	-	-	-	-	-	-	-	-	-
Subtotal without Truist	-	-	-	-	-	-	-	-	-	-
Industry Total	-	-	-	-	-	-	-	-	-	-

Illinois		2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Truist	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on %	Proceeds (US\$ Mil)
US Bank	12	3	24.1%	42.2%	2,414.3	2	4	8.1%	6.7%	42.3
Wells Fargo Bank	17	1	37.0%	20.4%	1,061.5	18	1	48.7%	53.0%	2,194.3
The Bank of New York Mellon	13	2	28.3%	32.2%	1,672.0	10	2	28.8%	23.9%	994.6
Amherst Bank of Chicago	4	4	6.5%	6.1%	265.8	3	3	12.8%	20.3%	845.4
UMB Bank NA	1	5	2.2%	0.1%	7.6	1	5*	2.6%	0.1%	3.6
Deutsche Bank	-	-	-	-	-	1	5*	1.8%	1.8%	78.4
Firsthand Bank & Trust Co	-	-	-	-	-	1	5*	2.8%	0.0%	1.9
Subtotal with Truist	46	-	11.6%	33.3%	5,188.2	38	-	10.8%	67.0%	4,124.7
Subtotal without Truist	351	-	88.4%	66.7%	19,407.3	332	-	89.2%	43.0%	5,108.7
Industry Total	397	-	100.0%	100.0%	16,606.5	371	-	100.0%	100.0%	7,233.4

Central Country Statistics

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in #	12	14.1%
Mkt Share B/W %	0.8%	4.0%
W/T Growth %	351	8.3%
Industry	188	8.0%

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in \$	3,282.0	57.7%
Mkt Share B/W %	13.0%	55.4%
W/T Growth %	550.4	1.5%
Industry	8,559.2	22.5%

Delaware Country Statistics

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in #	-	-
Mkt Share B/W %	-	-
W/T Growth %	-	-
Industry	-	-

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in #	-	-
Mkt Share B/W %	-	-
W/T Growth %	-	-
Industry	-	-

Illinois Country Statistics

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in #	10	500.0%
Mkt Share B/W %	21.0%	411.6%
W/T Growth %	7	17.9%
Industry	28	7.0%

2Q10/2010 YTD	2Q09/2009 YTD	% of Issues
Growth in \$	2,182.0	7378.8%
Mkt Share B/W %	41.4%	554.4%
W/T Growth %	1,073.9	28.0%
Industry	8,572.1	119.7%

Southeast Region Rankings

SE Region				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	
UB Bank	133	1	37.2%	28.9%	6,588.9	103	2	34.2%	31.9%	7,413.7	
The Bank of New York Mellon	105	2	29.3%	27.3%	6,755.5	108	1	39.2%	39.5%	9,173.3	
Wells Fargo Bank	37	3	10.3%	28.2%	7,254.7	16	4	6.3%	8.0%	1,893.3	
Regions Bank	35	4	8.8%	10.1%	2,514.5	37	3	12.3%	10.4%	2,406.6	
Huntington National Bank	18	5	4.5%	2.6%	697.2	9	6	3.0%	3.2%	699.4	
Manufacturers & Traders Tr Co	8	6	2.2%	6.7%	617.9	8	7	2.7%	3.5%	915.6	
Deutsche Bank	6	7	1.7%	0.8%	189.2	-	-	-	-	-	
ID Bank NA	5	8	1.4%	0.7%	178.9	3	8	1.0%	0.5%	177.7	
Fins Commercial Bank	4	9	1.1%	0.1%	29.5	2	9*	0.7%	0.5%	176.6	
Wilmington Trust Company	3	10*	0.8%	0.6%	157.0	10	5	3.3%	1.7%	398.3	
Branch Banking & Trust Co	3	10*	0.8%	0.3%	65.1	-	-	-	-	-	
Subtotal with Trustee	393	-	37.6%	88.0%	24,823.5	301	-	38.8%	58.5%	23,242.3	
Subtotal without Trustee	896	-	62.5%	41.5%	17,984.9	474	-	61.2%	40.2%	15,609.3	
Industry Total	854	-	100.0%	100.0%	42,408.4	775	-	100.0%	100.0%	38,851.7	

SE Region Quarterly Statistics			
Trustee	2Q10 Growth in \$	2Q10 Growth %	2Q09 Growth %
UB Bank	1,680.2	6.8%	6.8%
W/Trustee	-1,087.8	-14.7%	-14.7%
Industry	3,056.7	9.2%	9.2%

Alabama				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	
UB Bank	4	3	11.1%	10.4%	61.6	3	3	13.0%	28.2%	181.2	
Regions Bank	17	1	47.2%	28.4%	288.4	8	2	34.8%	24.4%	172.0	
The Bank of New York Mellon	11	2	30.6%	28.1%	199.9	10	1	49.5%	27.0%	192.8	
First Commercial Bank	2	4*	5.6%	4.7%	23.5	-	-	-	-	-	
Wells Fargo Bank	2	4*	5.6%	0.8%	3.8	2	4	8.7%	22.2%	160.0	
Subtotal with Trustee	38	-	40.0%	38.1%	497.1	23	-	34.4%	56.4%	714.0	
Subtotal without Trustee	64	-	60.0%	61.9%	806.5	42	-	64.8%	43.8%	652.5	
Industry Total	80	-	100.0%	100.0%	1,303.6	65	-	100.0%	100.0%	1,286.5	

Alabama Quarterly Statistics			
Trustee	2Q10 Growth in \$	2Q10 Growth %	2Q09 Growth %
UB Bank	-135.6	-72.4%	-15.8%
W/Trustee	-216.9	-30.4%	-16.2%
Industry	37.1	2.9%	-

District of Columbia				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	# of Issues	Rank	Mkt. Share on \$	Mkt. Share on \$	Proceeds (US\$ Mill)	
UB Bank	2	2*	18.7%	3.9%	62.0	1	4*	7.2%	0.7%	44.2	
Wells Fargo Bank	7	1	58.3%	56.1%	1,056.8	4	1*	30.8%	50.2%	1,102.2	
Manufacturers & Traders Tr Co	2	2*	16.7%	21.4%	342.8	3	3	23.1%	30.3%	74.5	
The Bank of New York Mellon	1	4	8.3%	8.6%	138.0	4	1*	30.8%	17.0%	40.7	
Branch Banking & Trust Co	-	-	-	-	-	1	4*	7.7%	1.5%	33.3	
Subtotal with Trustee	12	-	100.0%	100.0%	1,599.4	13	-	100.0%	100.0%	2,388.4	
Subtotal without Trustee	-	-	0.0%	0.0%	.0	-	-	0.0%	0.0%	.0	
Industry Total	12	-	100.0%	100.0%	1,599.4	13	-	100.0%	100.0%	2,388.4	

District of Columbia Quarterly Statistics			
Trustee	2Q10 Growth in \$	2Q10 Growth %	2Q09 Growth %
UB Bank	45.3	21.5%	3.2%
W/Trustee	-758.7	-38.2%	0.0%
Industry	-713.4	-32.2%	0.0%

Northeast Region Rankings

NE Region				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD							
Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank
US Bank	68	36.9%	2	68	68	36.3%	2	68	68	36.5%	2	68	68	36.5%	2
The Bank of New York Mellon	65	47.5%	1	65	65	59.1%	1	65	65	45.6%	1	65	65	67.6%	1
Manufacturers & Traders TFCO	12	67.8%	3	12	12	3.2%	3	12	12	1.9%	3	12	12	50.8	3
Deutsche Bank	7	3.9%	4	7	7	3.7%	4	7	7	3.8%	4	7	7	1255.4	4
Wells Fargo Bank	6	3.4%	5	6	6	1.7%	5	6	6	1.7%	5	6	6	446.9	5
Peoples United Bank	2	1.1%	6	2	2	0.7%	6	2	2	0.3%	6	2	2	67.6	6
FISBC Bank USA	1	0.6%	7	1	1	0.3%	7	1	1	0.4%	7	1	1	109.7	7
Zions First National Bank	-	-	-	-	-	-	-	-	-	0.8%	-	-	-	210.0	-
Banco Popular de Puerto Rico	-	-	-	-	-	-	-	-	-	0.6%	-	-	-	250.0	-
Banco Savings Bank	-	-	-	-	-	-	-	-	-	0.2%	-	-	-	50.0	-
Subtotal with Truist	178	28.4%	-	178	178	74.2%	-	178	178	30.1%	-	178	178	26,572.5	-
Subtotal without Truist	499	73.6%	-	499	499	25.8%	-	499	499	69.9%	-	499	499	9,395.8	-
Industry Total	673	100.0%	-	673	673	100.0%	-	673	673	100.0%	-	673	673	35,918.3	-

Connecticut				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD							
Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank
US Bank	16	72.7%	1	16	16	73.6%	1	16	16	100.0%	1	16	16	100.0%	1
The Bank of New York Mellon	3	13.6%	2	3	3	12.6%	2	3	3	100.0%	2	3	3	94.6	2
Deutsche Bank	2	9.1%	3	2	2	8.3%	3	2	2	-	3	2	2	-	3
Wells Fargo Bank	1	4.6%	4	1	1	5.3%	4	1	1	-	4	1	1	-	4
Subtotal with Truist	22	23.2%	-	22	22	51.1%	-	22	22	12.8%	-	22	22	36.2%	-
Subtotal without Truist	73	76.8%	-	73	73	48.9%	-	73	73	87.5%	-	73	73	63.5%	-
Industry Total	95	100.0%	-	95	95	100.0%	-	95	95	100.0%	-	95	95	2,894.6	-

Maine				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD							
Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank	Truist	# of Issues	Mkt. Share on \$	Rank
US Bank	2	60.0%	1	2	2	67.7%	1	2	2	67.1%	1	2	2	39.7%	1
The Bank of New York Mellon	2	50.0%	2	2	2	32.3%	2	2	2	28.6%	2	2	2	48.7%	2
Zions First National Bank	-	-	-	-	-	-	-	-	-	14.3%	-	-	-	11.6%	-
Banco Savings Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	50.0	-
Subtotal with Truist	4	18.1%	-	4	4	62.6%	-	4	4	60.0%	-	4	4	72.8%	-
Subtotal without Truist	17	81.9%	-	17	17	37.1%	-	17	17	40.0%	-	17	17	27.2%	-
Industry Total	21	100.0%	-	21	21	100.0%	-	21	21	100.0%	-	21	21	692.3	-

NE Quarterly Statistics

2Q10/2Q09 YTD B/W %	# of Issues	Mkt Share Growth %
8	13.5%	0.6%
18	11.9%	-3.7%
148	27.4%	-

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
2,728.1	47.8%	8.8%
1,321.4	5.0%	0.3%
1,016.9	4.5%	-

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
33.9	48.8%	28.0%
-128.2	-28.7%	-10.0%
-110.1	-18.6%	-18.7%

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
945.3	89.7%	-26.5%
895.7	96.1%	14.9%
850.2	92.0%	41.0%

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
7	77.8%	-27.3%
13	144.4%	10.7%
23	31.5%	85.6%

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
2	60.0%	67.7%
2	50.0%	32.3%
-	-	-
-	-	-

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
2	60.0%	67.7%
2	50.0%	32.3%
-	-	-
-	-	-

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
2	60.0%	67.7%
2	50.0%	32.3%
-	-	-
-	-	-

2Q10/2Q09 YTD B/W % - # of Issues

2Q10/2Q09 YTD B/W %	Mkt Share B/W %	Mkt Share Growth %
4	18.1%	62.6%
17	81.9%	37.1%
21	100.0%	100.0%

Out of U.S. Bank Territory Rankings

Out of U.S. Bank Territory				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)			
US Bank	12	6*	7.3%	430.0	17	2*	11.9%	20.0%			
Wells Fargo Bank	18	1	10.9%	557.6	17	2*	9.0%	355.8			
The Bank of New York Mellon	17	2	10.3%	925.5	11	5	15.4%	605.8			
Bankers Trust Company	15	3	9.1%	176.1	2	17*	1.4%	2.4%			
First National Bank	13	4*	7.9%	3.2%	15	4	10.5%	4.1%			
Bankers Trust Company	13	4*	7.9%	92.8	6	7	4.2%	0.9%			
Bank of Oklahoma NA	12	6*	7.3%	403.5	4	10*	2.8%	1.9%			
UMB Bank NA	10	8	6.1%	146.3	1	20*	0.7%	0.1%			
Harco Bank	9	9	5.5%	352.4	21	1	14.7%	17.6%			
Regions Bank	8	10	4.9%	129.4	4	10*	2.8%	110.7			
Subtotal with Trustee	185	-	16.1%	4,245.9	143	-	13.1%	41.9%			
Subtotal without Trustee	828	-	84.9%	5,320.0	848	-	86.9%	58.2%			
Industry Total	1,084	-	100.0%	9,565.9	1,081	-	100.0%	9,485.7			

Out of U.S. Bank Territory Quarterly Statistics			
2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %
Growth in #	-5	-29.4%	-4.6%
Growth in \$	22	16.4%	2.0%
Industry	3	0.3%	-

2Q10/2Q09 YTD B/Y % - Proceeds (US\$ Mil)			
Growth in \$	-309.1	-39.2%	-8.7%
Industry	293.0	7.4%	2.6%
Industry	107.2	1.1%	-

Arkansas				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)			
US Bank	3	4	12.0%	280.8	1	8*	2.9%	1.7%			
Bank of the Ozarks	5	1*	20.0%	180.2	8	1	22.9%	57.2%			
Regions Bank	5	1*	20.0%	61.5	1	8*	2.9%	1.2%			
The Bank of New York Mellon	5	1*	20.0%	8.3%	1	8*	2.9%	2.5%			
First National Bank	2	5	8.0%	58.6	1	8*	2.9%	8.3			
Wells Fargo Bank	1	6*	4.0%	5.2%	4	3	11.4%	7.6%			
BarclaysBank	1	6*	4.0%	30.3	-	-	-	-			
The Farmers and Merchant Bank	1	6*	4.0%	14.2	2	6*	5.7%	6.5%			
First Security Corporation	1	6*	4.0%	5.6	-	-	-	-			
Citizens Bank	1	6*	4.0%	3.1	-	-	-	-			
Subtotal with Trustee	25	-	33.8%	81.2%	35	-	48.0%	63.9%			
Subtotal without Trustee	49	-	66.2%	38.8%	38	-	52.1%	36.1%			
Industry Total	74	-	100.0%	1,078.9	73	-	100.0%	817.4			

Arkansas Quarterly Statistics			
2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %
Growth in #	2	200.0%	9.1%
Growth in \$	-10	-28.6%	-14.2%
Industry	1	1.4%	-

2Q10/2Q09 YTD B/Y % - Proceeds (US\$ Mil)			
Growth in \$	232.1	286.7%	37.8%
Industry	138.3	28.5%	-2.7%
Industry	281.5	32.0%	-4.2%

Guam				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
Trustee	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)	# of Issues	Bank	Mkt. Share on \$	Proceeds (US\$ Mil)			
US Bank	2	1*	100.0%	103.3	1	2	60.0%	31.4%			
Bank of Guam	2	1*	100.0%	60.0%	1	1	100.0%	78.9%			
Subtotal with Trustee	2	-	100.0%	206.6	2	-	100.0%	109.2			
Subtotal without Trustee	2	-	100.0%	0.0%	2	-	100.0%	372.3			
Industry Total	2	-	100.0%	206.6	2	-	100.0%	473.5			

Guam Quarterly Statistics			
2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %	2Q10/2Q09 YTD B/Y %
Growth in #	1	100.0%	50.0%
Growth in \$	-	0.0%	0.0%
Industry	-	0.0%	0.0%

2Q10/2Q09 YTD B/Y % - Proceeds (US\$ Mil)			
Growth in \$	2.1	2.1%	28.6%
Industry	-266.9	-58.4%	0.0%
Industry	-266.9	-58.4%	0.0%

# Report B

## Southeast Region Rankings

Bank	2nd Quarter 2009 YTD				2nd Quarter 2008 YTD			
	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)
US Bank	133	37.2%	26.5%	8,322.9	103	34.2%	31.9%	7,413.7
The Bank of New York Mellon	105	29.3%	27.3%	8,785.5	109	36.2%	39.5%	8,172.3
Wells Fargo Bank	37	10.3%	28.2%	7,254.7	18	5.3%	8.0%	1,999.3
Regions Bank	35	9.8%	10.1%	2,514.5	37	12.3%	10.4%	2,008.6
Huntington National Bank	16	4.5%	2.5%	657.2	8	3.0%	2.9%	688.4
Manufacturers & Traders Tr Co	8	2.2%	0.5%	617.8	7	2.7%	3.9%	913.6
Dominique Bank	6	1.7%	0.5%	189.2	3	-	-	177.7
TD Bank NA	5	1.4%	0.7%	179.9	8	1.0%	0.8%	177.7
First Commercial Bank	4	1.1%	0.1%	29.5	2	-	-	179.8
Wilmington Trust Company	3	10*	0.8%	157.0	2	0.7%	0.8%	179.8
Branch Banking & Trust Co	3	10*	0.8%	65.1	10	3.3%	1.7%	398.3
Subtotal with Trustee	368	37.9%	58.5%	24,823.5	301	38.9%	59.8%	23,243.3
Subtotal without Trustee	596	62.5%	41.5%	17,894.8	474	61.2%	40.2%	15,608.3
Industry Total	964	100.0%	100.0%	42,408.4	775	100.0%	100.0%	38,851.7

SE Quarterly Statistics	2Q10	2Q09	% Change
Growth in #	30	28	7.1%
Growth in \$	57	18.8%	3.0%
Mkt Share Growth %	179	23.1%	-1.3%
Industry			-3.8%

2Q10 Quarterly Statistics	2Q09 Quarterly Statistics	% Change
Growth in \$	-1,087.8	-14.7%
Mkt Share EVOV %	6.8%	-4.4%
Industry	3,556.7	9.2%

2Q10 Quarterly Statistics	2Q09 Quarterly Statistics	% Change
Growth in \$	132.6	27.4%
Mkt Share EVOV %	-316.9	-18.2%
Industry	57.1	2.8%

2Q10 Quarterly Statistics	2Q09 Quarterly Statistics	% Change
Growth in \$	48.3	271.3%
Mkt Share EVOV %	-758.7	-32.2%
Industry		

2Q10 Quarterly Statistics	2Q09 Quarterly Statistics	% Change
Growth in #	1	100.0%
Mkt Share EVOV %	-1	-7.7%
Industry		

2Q10 Quarterly Statistics	2Q09 Quarterly Statistics	% Change
Growth in \$	45.3	271.3%
Mkt Share EVOV %	-758.7	-32.2%
Industry		

Bank	2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)
US Bank	4	11.1%	10.4%	\$1.8	3	13.0%	22.2%	117.2
Regions Bank	17	47.2%	58.0%	288.4	8	34.8%	24.4%	172.0
The Bank of New York Mellon	11	30.6%	26.1%	129.9	10	43.9%	27.0%	192.8
First Commercial Bank	2	5.8%	4.7%	23.5	-	-	-	-
Wells Fargo Bank	2	5.8%	0.5%	3.8	2	8.7%	22.4%	160.0
Subtotal with Trustee	38	40.0%	38.1%	497.1	23	35.4%	56.4%	774.0
Subtotal without Trustee	54	60.0%	61.9%	806.6	42	64.6%	43.6%	652.6
Industry Total	90	100.0%	100.0%	1,303.8	65	100.0%	100.0%	1,426.6

Bank	2nd Quarter 2010 YTD				2nd Quarter 2009 YTD			
	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)	# of Banks	Mkt. Share on \$	Mkt. Share on #	Processed (US\$ Mil)
US Bank	2	18.7%	3.9%	\$2.0	1	7.7%	0.7%	1.7
Wells Fargo Bank	2	58.3%	98.1%	1,096.8	4*	30.8%	50.6%	1,191.8
Manufacturers & Traders Tr Co	2	16.7%	21.4%	342.5	3	23.1%	30.5%	714.4
The Bank of New York Mellon	1	8.3%	8.9%	138.0	4	30.8%	17.0%	407.7
Branch Banking & Trust Co	-	-	-	-	1	7.7%	1.4%	33.5
Subtotal with Trustee	12	100.0%	100.0%	1,599.4	13	100.0%	100.0%	2,389.1
Subtotal without Trustee	-	0.0%	0.0%	.0	-	0.0%	0.0%	.0
Industry Total	12	100.0%	100.0%	1,599.4	13	100.0%	100.0%	2,389.1

Southeast Region Rankings

2nd Quarter 2010 YTD						2nd Quarter 2009 YTD					
Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)	Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
10	US Bank	2	27.0%	10.0%	845.9	11	US Bank	1	32.4%	17.6%	740.9
11	The Bank of New York Mellon	1	29.7%	24.7%	1,348.2	11	The Bank of New York Mellon	1	32.4%	38.3%	1,988.5
5	Wells Fargo Bank	3*	13.5%	22.9%	1,247.3	3	Wells Fargo Bank	4*	8.6%	5.4%	2,251.9
6	TD Bank NA	5	13.5%	3.3%	179.9	3	TD Bank NA	4*	8.6%	4.2%	1,777.7
4	Regions Bank	4	10.5%	38.4%	2,097.0	6	Regions Bank	3	17.7%	34.5%	1,482.3
2	Bank of America	2	5.4%	0.7%	38.7	-	Bank of America	-	-	-	-
Subtotal with Trustee						Subtotal with Trustee					
Subtotal without Trustee						Subtotal without Trustee					
Industry Total						Industry Total					

2nd Quarter 2010 YTD						2nd Quarter 2009 YTD					
Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)	Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
8	US Bank	1*	29.6%	12.2%	488.2	12	US Bank	2	38.4%	22.4%	410.4
6	Wells Fargo Bank	1*	22.2%	80.7%	3,297.7	1	Wells Fargo Bank	1	3.0%	1.1%	18.4
3	The Bank of New York Mellon	3	11.1%	6.5%	280.4	13	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
4	Regions Bank	4	7.4%	0.1%	18.6	6	Regions Bank	3	18.2%	5.2%	95.7
2	First Commercial Bank	2	-	-	6.0	-	First Commercial Bank	-	-	-	-
-	Branch Banking & Trust Co	-	-	-	-	1	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Subtotal with Trustee						Subtotal with Trustee					
Subtotal without Trustee						Subtotal without Trustee					
Industry Total						Industry Total					

2nd Quarter 2010 YTD						2nd Quarter 2009 YTD					
Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)	Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
18	US Bank	2	48.7%	38.6%	611.1	11	US Bank	2	38.7%	41.3%	821.4
1	The Bank of New York Mellon	1	34.3%	25.3%	560.8	17	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
2	Wells Fargo Bank	3*	5.7%	3.5%	79.1	-	Wells Fargo Bank	-	-	-	-
2	Huntington National Bank	3*	5.7%	3.6%	79.6	-	Huntington National Bank	-	-	-	-
2	Regions Bank	2	1.0%	0.3%	22.9	3*	Regions Bank	1	3.3%	0.2%	3.2
1	Central Bank & Trust	6	2.9%	-	7.6	-	Central Bank & Trust	-	-	-	-
-	Monticello Banking Company	-	-	-	-	1	Monticello Banking Company	3*	3.3%	0.7%	13.6
Subtotal with Trustee						Subtotal with Trustee					
Subtotal without Trustee						Subtotal without Trustee					
Industry Total						Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	48.7%	38.6%	611.1
2	The Bank of New York Mellon	1	34.3%	25.3%	560.8
3	Wells Fargo Bank	3*	5.7%	3.5%	79.1
4	Huntington National Bank	3*	5.7%	3.6%	79.6
5	Regions Bank	2	1.0%	0.3%	22.9
6	Central Bank & Trust	6	2.9%	-	7.6
7	Monticello Banking Company	1	3.3%	0.7%	13.6
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Rank	Company	# of Issues	Mkt. Share on \$	Mkt. Share on %	Proceeds (US \$ Mil)
1	US Bank	2	38.7%	41.3%	821.4
2	The Bank of New York Mellon	1	56.7%	57.9%	1,150.9
3	Wells Fargo Bank	1	3.0%	1.1%	18.4
4	The Bank of New York Mellon	1	39.4%	69.9%	1,279.4
5	Regions Bank	3	18.2%	5.2%	95.7
6	Branch Banking & Trust Co	4*	3.0%	1.4%	24.9
Industry Total					

Southwest Region Rankings

North Carolina		2nd Quarter 2010 YTD		2nd Quarter 2009 YTD		2nd Quarter 2008 YTD			
Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)	Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)
1	4	20.0%	8.2%	86.4	2	5	18.4%	8.0%	64.8
2	1	30.0%	28.4%	275.3	1	1	38.5%	34.1%	109.2
3	6	28.0%	30.2%	315.5	4	2	30.8%	52.9%	309.5
4	3	15.0%	8.1%	84.7	-	-	-	-	-
5	2	10.0%	26.0%	271.4	-	-	-	-	-
-	-	-	-	-	3	5	15.4%	3.4%	20.0
<b>Subtotal with Trustee</b>									
<b>Subtotal without Trustee</b>									
<b>Industry Total</b>									

North Carolina		2nd Quarter 2010 YTD		2nd Quarter 2009 YTD		2nd Quarter 2008 YTD			
Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)	Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)
1	22	66.4%	88.8%	859.1	20	1	97.1%	64.8%	1,344.8
2	11	28.2%	5.8%	927.4	9	2	25.7%	29.3%	740.1
3	3	7.7%	3.8%	65.1	4	4	11.4%	11.2%	284.2
4	2	5.1%	1.3%	22.0	4	4	2.9%	1.3%	32.7
5	1	2.6%	1.2%	20.0	1	4	2.9%	3.4%	85.2
<b>Subtotal with Trustee</b>									
<b>Subtotal without Trustee</b>									
<b>Industry Total</b>									

North Carolina		2nd Quarter 2010 YTD		2nd Quarter 2009 YTD		2nd Quarter 2008 YTD			
Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)	Rank	# of Banks	Mkt. Share on \$	Mkt. Share on %	Process (US\$ Mil)
1	28	43.9%	39.9%	1,023.2	4	2	38.2%	30.7%	1,144.0
2	29	39.7%	52.7%	1,655.2	1	2	16.2%	49.2%	1,823.8
3	14	18.1%	16.1%	583.5	3	3	21.4%	21.4%	1,923.8
4	-	-	-	-	4	4	0.3%	0.3%	118.3
5	-	-	-	-	5	5	4.2%	0.2%	11.4
<b>Subtotal with Trustee</b>									
<b>Subtotal without Trustee</b>									
<b>Industry Total</b>									

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

North Carolina - Quarterly Statistics

2010 Q2	2009 Q2	2008 Q2
40.5	72.6%	-0.3%
458.6	78.4%	11.6%
531.7	24.0%	-

Southeast Region Rankings

South Carolina Banking Statistics				2nd Quarter 2010 YTD				2nd Quarter 2009 YTD				
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	8	81.5%	2,227	1	43.0%	32.4%	2	28.0%	62.0%	1	100.0%	1,397.1
The Bank of New York Mellon	4	30.6%	167.5	2	-	-	3	24.0%	395.2	2	82.1%	888.6
Regions Bank	1	7.7%	3.3	3*	6.3%	4.4%	1	62.5%	36.2%	3	4.9%	81.5
Wells Fargo Bank	-	0.8%	-	4*	3.3%	1.9%	-	-	-	-	-	-
State Treasurer of SC	-	-	-	5*	6.3%	1.9%	-	-	-	-	-	-
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	13	28.3%	393.4	16	28.9%	62.0%	18	28.9%	62.0%	18	28.9%	888.6
Subtotal without Trustees	33	71.7%	1,300.4	40	71.4%	38.0%	40	71.4%	38.0%	40	71.4%	500.5
Industry Total	48	100.0%	1,693.9	58	100.0%	100.0%	58	100.0%	100.0%	58	100.0%	1,397.1

2nd Quarter 2010 YTD - Proceeds (US\$ Mil)				2nd Quarter 2009 YTD - Proceeds (US\$ Mil)					
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	8	47.4%	982.8	2	28.0%	34.9%	2	24.0%	395.2
The Bank of New York Mellon	5	26.3%	365.0	3	8.3%	24.0%	3	62.5%	36.2%
Regions Bank	5	26.3%	46.1	15	1	1	1	4.2%	4.9%
Wells Fargo Bank	-	-	-	1	4	4	-	-	-
State Treasurer of SC	-	-	-	-	-	-	-	-	-
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	13	22.4%	1,374.0	24	30.4%	61.9%	18	61.9%	1,648.4
Subtotal without Trustees	33	77.7%	2,161.6	55	89.6%	38.4%	55	89.6%	1,026.6
Industry Total	48	100.0%	3,535.6	79	100.0%	100.0%	79	100.0%	2,674.0

2nd Quarter 2010 YTD				2nd Quarter 2009 YTD					
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	21	82.8%	1,827.4	1	67.1%	60.8%	1	100.0%	2,094.4
Wells Fargo Bank	2	22.8%	16.6%	2	39.3%	38.9%	2	38.9%	1,648.4
The Bank of New York Mellon	3	19.5%	104.4	11	-	-	11	-	-
Deutsche Bank	3	7.5%	4.0%	2	-	-	2	-	-
Regions Bank	2	5.0%	17.3	1	3.6%	0.2%	3	0.2%	7.2
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	40	48.6%	2,081.4	28	47.9%	82.1%	31	37.9%	3,438.1
Subtotal without Trustees	48	51.4%	1,551.0	31	52.1%	37.9%	31	52.1%	2,094.4
Industry Total	88	100.0%	4,142.4	59	100.0%	100.0%	59	100.0%	5,530.5

2nd Quarter 2010 YTD - Proceeds (US\$ Mil)				2nd Quarter 2009 YTD - Proceeds (US\$ Mil)					
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	21	82.8%	1,827.4	1	67.1%	60.8%	1	100.0%	2,094.4
Wells Fargo Bank	2	22.8%	16.6%	2	39.3%	38.9%	2	38.9%	1,648.4
The Bank of New York Mellon	3	19.5%	104.4	11	-	-	11	-	-
Deutsche Bank	3	7.5%	4.0%	2	-	-	2	-	-
Regions Bank	2	5.0%	17.3	1	3.6%	0.2%	3	0.2%	7.2
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	40	48.6%	2,081.4	28	47.9%	82.1%	31	37.9%	3,438.1
Subtotal without Trustees	48	51.4%	1,551.0	31	52.1%	37.9%	31	52.1%	2,094.4
Industry Total	88	100.0%	4,142.4	59	100.0%	100.0%	59	100.0%	5,530.5

2nd Quarter 2010 YTD				2nd Quarter 2009 YTD					
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	21	82.8%	1,827.4	1	67.1%	60.8%	1	100.0%	2,094.4
Wells Fargo Bank	2	22.8%	16.6%	2	39.3%	38.9%	2	38.9%	1,648.4
The Bank of New York Mellon	3	19.5%	104.4	11	-	-	11	-	-
Deutsche Bank	3	7.5%	4.0%	2	-	-	2	-	-
Regions Bank	2	5.0%	17.3	1	3.6%	0.2%	3	0.2%	7.2
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	40	48.6%	2,081.4	28	47.9%	82.1%	31	37.9%	3,438.1
Subtotal without Trustees	48	51.4%	1,551.0	31	52.1%	37.9%	31	52.1%	2,094.4
Industry Total	88	100.0%	4,142.4	59	100.0%	100.0%	59	100.0%	5,530.5

2nd Quarter 2010 YTD - Proceeds (US\$ Mil)				2nd Quarter 2009 YTD - Proceeds (US\$ Mil)					
Bank	# of Offices	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)	Bank Rank	Mkt. Share on \$	Assets (US\$ Mil)
US Bank	21	82.8%	1,827.4	1	67.1%	60.8%	1	100.0%	2,094.4
Wells Fargo Bank	2	22.8%	16.6%	2	39.3%	38.9%	2	38.9%	1,648.4
The Bank of New York Mellon	3	19.5%	104.4	11	-	-	11	-	-
Deutsche Bank	3	7.5%	4.0%	2	-	-	2	-	-
Regions Bank	2	5.0%	17.3	1	3.6%	0.2%	3	0.2%	7.2
Branch Banking & Trust Co	-	-	-	-	-	-	-	-	-
Subtotal with Trustees	40	48.6%	2,081.4	28	47.9%	82.1%	31	37.9%	3,438.1
Subtotal without Trustees	48	51.4%	1,551.0	31	52.1%	37.9%	31	52.1%	2,094.4
Industry Total	88	100.0%	4,142.4	59	100.0%	100.0%	59	100.0%	5,530.5

Southeast Region Rankings

Firm Name	2nd Quarter 2010 T/D		2nd Quarter 2009 T/D		Firm's # of Assets	Firm's Rank	Firm's % of Assets	Firm's Assets (\$MM)
	Rank	% of Assets	Rank	% of Assets				
U.S. Bank	1	100.0%	1	100.0%	1	1	210.6	68.0
The Bank of New York Mellon	-	-	-	-	1	1*	53.0%	76.8
Huntington National Bank	-	-	-	-	-	-	-	-
Subtotal with Trusts	5	41.7%	5	56.4%	2	2	210.6	144.8
Subtotal without Trusts	7	58.3%	7	43.6%	2	2	182.5	45.3
Industry Total	12	100.0%	12	100.0%	4	4	372.1	190.1

West Virginia Chartered Companies		2nd Quarter 2010 Growth % of Assets		2nd Quarter 2009 Growth % of Assets	
Growth in #	Growth %	W/T Growth %	W/T Growth %	W/T Growth %	W/T Growth %
3	180.0%	-	-	-	-
8	200.0%	-8.3%	-	-	-16.8%

2nd Quarter 2010 Growth % of Assets		2nd Quarter 2009 Growth % of Assets	
Growth in \$	Growth %	Growth in \$	Growth %
65.8	45.4%	-	-
183.0	98.3%	-	-

# Fee Comparison Report:

## FEE COMPARISON REPORT

	<b>Average Annual Fee</b>	<b>Source</b>
Corporate Trustees		
BONY/Mellon	\$601	Office of State Treasurer Inventory of State Debt Report
Bank # 1	\$60	2006 Requests for Proposals
Bank #2	\$100	2006 Requests for Proposals



# Sample Trustee Requests for Proposal:

## SECTION ONE INTRODUCTION

The undersigned State Treasurer, on behalf of the State of South Carolina (the "State"), is evaluating the potential efficiencies, service enhancements and other benefits that may be achieved by consolidating trustee, registrar, paying agent and escrow agent services (the "Services") with a single Service provider for existing and future indebtedness issued by the State and certain of its authorities, agencies and institutions. Continuing industry consolidation among institutions providing the Services has impacted the State and its entities authorized to incur indebtedness, and is a significant factor prompting this evaluation. In this connection, the State seeks proposals from institutions qualified to provide the Services, particularly from those whose qualifications include significant and measurable investments in and commitments to providing such Services.

Availability of Documents. The State's most recent Official Statement accompanies this Request for Proposals and provides, among other things, details of the State's Constitutional and statutory provisions authorizing the issuance of debt by various State entities, along with a summary of the debt outstanding pursuant to those authorizations and provisions. Audited financial statements of the State may be accessed on the website of the State's Comptroller General at <http://www.cg.state.sc.us/>. Audited financial statements of the State's authorities and institutions may be accessed on the website of the South Carolina Office of State Auditor at <http://www.osa.state.sc.us/> and following the links under the "State Engagements" section of the page.

Other information may be made available by contacting F. Richard Harmon, Jr., Senior Assistant State Treasurer, 122 Wade Hampton Office Building, Capitol Complex, Columbia, South Carolina 29201, telephone (803) 734-2114, email [rick.harmon@sto.sc.gov](mailto:rick.harmon@sto.sc.gov).

## SECTION TWO SCOPE OF SERVICES

Service Requirements. The institution selected to provide the Services will be expected to, among other things, serve as the State's trustee, registrar, paying agent, and in certain cases, escrow agent, for revenue indebtedness issued by the State and the entities described above. Services to be provided are those typical of trustees under trust indentures securing revenue bonds and shall include all such functions with respect to bond issues or series of bond issues issued for the State or its entities. Those services shall include, but are not limited to, the following:

- 1) Provide input to be used by bond counsel to develop standard procedures in structuring bond financing and preparing bond documents.
- 2) Review bond issue documents prepared by bond and other counsel.
- 3) Establish and maintain funds and accounts pursuant to indenture.
- 4) Establish and maintain requisite funds and accounts to hold cash and securities necessary for the defeasance and payment of prior bond issues.

- 5) Invest and transfer funds in accordance with the State's investment guidelines and each respective indenture.
- 6) Follow the indenture in all respects as required therein.
- 7) Reconcile all accounts in a timely manner and pay expenses and fees on time.
- 8) Provide debt service notices in a timely manner.
- 9) Monitor sinking fund requirements and call provisions.
- 10) Provide accurate descriptions on trust statements.
- 11) Provide monthly or quarterly statements as specified by the State. Statements shall report all transactions in chronological order and not separate investments from other transactions.
- 12) Provide internet access to all State accounts as soon as they are set up.
- 13) Provide reports on bond issues and fund balances to the State on a regular basis and upon request.
- 14) Track and report on investments of the State for such things as arbitrage rebate compliance. Arbitrage calculators will have online access to the State's accounts to assist in gathering data for calculations.
- 15) Work with the State and bond counsel in fulfilling responsibilities as trustee to the State.
- 16) Examine documents and procedures related to bond issues.
- 17) Assist in disclosure requirements under SEC Final Rule 15c2-12.
- 18) Participate in activities associated with rating agency, bond insurer or credit enhancer review of documentation.
- 19) Act as custodian for the purpose of maintaining good faith accounts on behalf of the State and holding therein such securities and funds as shall be received.

**SECTION THREE  
INFORMATION TO BE PROVIDED IN RESPONSE**

**A. GENERAL INFORMATION**

- 1) Provide a brief history of your institution, including year organized, ownership, affiliated companies and relationships and total size shown in U.S. assets.
- 2) A statement that the institution meets the qualifications and criteria established for providing the Services, has the professional credentials, legal authority and in all other respects the professional capabilities to provide the Services as described in this Request for Proposals, along with a certification that the institution is not presently under investigation for any alleged impropriety with respect to and has not been censured or otherwise enjoined from providing these or any other financial services whatsoever.
- 3) Information describing the institution's organizational establishment to include its parent company, if applicable, current year audited financial statements, evidence of the institution's credit rating from three rating agencies, evidence of general and professional liability insurance, and any other data necessary to clearly establish the institution's financial strength and ability to assume performance liability for the scope, complexity and size of this engagement.
- 4) A letter on the respondent's letterhead and signed by the respondent's Chief Executive Office describing the institution's ongoing commitment to providing the Services, along with an assessment of the importance and posture of the business line with regard to the institution's strategic objectives and corporate mission.

## **B. COMMITMENT TO SOUTH CAROLINA**

A discussion of the institution's corporate presence in and economic commitment to the State of South Carolina, including whether or not the institution is based, has branch offices, or otherwise maintains a presence in the State, along with a brief description of its corporate investment in the State to include at a minimum three years' history of the number of branches located within the State, the number of and associated payroll for employees who are South Carolina residents, and any future plans affecting corporate commitment to or employment within the State of South Carolina.

## **C. EXPERIENCE**

- 1) A disclosure of any past de-emphasis of the Services, elimination or sale of the business line that supports the Services (including such de-emphasis, elimination or sale of the business line within any institution acquired by the respondent), along with supporting information that demonstrates the institution's continuing investment in the business line that supports the Services, including portfolio acquisitions and investments in system and human resources;
- 2) Provide information regarding any accounts from which your institution was terminated or removed as trustee in the last three years, including the reason for termination or removal.
- 3) A discussion of the general expertise within or available to the institution with regard to the Services included in this Request for Proposals, along with a description of mechanisms utilized for research and maintaining an awareness of industry developments related to the Services.
- 4) An overview of memberships and relationships maintained by the institution with national organizations germane to the Services.
- 5) A representative list of similar or related assignments to issuers of equivalent size and complexity.
- 6) A list of three references, including names, titles, addresses, and telephone numbers of individuals who can attest to the institution's professional reputation and services.
- 7) A description of direct system access that will be made available to the State.
- 8) Describe technology your institution uses to ensure bond transactions are administered in accordance with bond documents.
- 9) A general discussion of the institution's conversion process, including legal documentation and other requirements to perfect the transfer of this business from the prior service provider to the respondent institution.
- 10) A description of any work associated with the State's bond issues to be performed or anticipated to be performed outside of the continental United States.
- 11) A description of any other relevant experience that would be benefit in performing this engagement.
- 12) A detailed description of the information and assistance the institution will require from the State in performing at the level contemplated by this Request for Proposals.
- 13) A description of any existing material relationships with the State of South Carolina, any South Carolina state agency, authority, instrumentality or political subdivision, any board member, director or employee of any of these entities, or any related entity where a conflict of interest or ethics violation might be asserted.

- 14) A disclosure of the terms and conditions of any agreements with subcontractors or other service providers that the respondent will engage to provide any portion of the Services.

#### **D. QUALIFICATIONS OF PERSONNEL**

An indication of the number of professional consultants on staff who have worked with assignments of this scope, including the name and a short biographical sketch of the primary account officer the institution would assign to this relationship if awarded this engagement. Include the account officer's telephone number, fax number, and e-mail address. Include a brief summary of account officer's professional credentials and specific experience managing similar large relationships: with relative specificity but without disclosure of proprietary client information, provide a summary of the account officer's portfolio in the context of the facts provided in this Request for Proposals including number of clients served and the relative position of this relationship within the account officer's present portfolio of relationships.

#### **E. FEE PROPOSAL**

Specific terms and conditions of the institution's engagement and standard service contract, including any renewal provisions, a copy of any fee language or agreements the institution would require as a condition of this engagement, and any service or performance contract the institution would offer in connection with the Services.

Pricing Proposal. Each institution submitting a proposal for the Services must complete the attached Fee Estimate Worksheet, which will be accepted as a non-binding fee proposal for each applicable State debt presently outstanding. The State will utilize this fee estimate for comparative purposes during the evaluation of responses to the Request for Proposals and following selection of the institution whose proposal is determined to be most responsive will serve as the basis for establishment of individual fee arrangements for each issue. The pricing proposal must include any itemized or fixed fees, any applicable hourly rates, and applicable minimum and maximum fees, particularly with respect to any fees determined under hourly rates. The fee proposal must include a commitment for a period of time during which fees will not be subject to adjustment. Each institution must separately itemize the types of actual costs and expenses for which the institution will expect reimbursement. The respondent's fee proposal must be segregated, sealed, and submitted in a separate envelope from the remainder of the respondent's proposal.

In addition to the foregoing, the institution selected to provide the Services will be required to provide a signed copy of its proposal by an officer authorized to legally bind the institution, along with following information no later than seven (7) calendar days following notice of the award:

- A statement of the firm's affirmative action and anti-discrimination policies.

Contractual Provisions. The State will reserve the right to negotiate any and all elements of this Request for Proposals. All contractual agreements will be subject to, governed by, and construed in accordance with, the laws of the State of South Carolina.

Content of Response. The State deems this Request for Proposals to be comprehensive and sufficient to make an informed decision for award of the Services. Accordingly, the State requests that respondents provide information that is germane and specifically requested within this Request for Proposals, following the order of the requested information as closely as possible. The State will not evaluate superfluous information, and specifically requests that it be excluded.

Questions and Additional Information. Any requests for additional information, clarification or other questions concerning this Request for Proposals should be made in writing and directed via e-mail or facsimile transmission to:

F. Richard Harmon, Jr.  
facsimile (803) 734-2039  
e-mail [rick.harmon@sto.state.gov](mailto:rick.harmon@sto.state.gov)

The State will not respond to oral questions, but will use its best efforts to promptly provide additional information, clarification and answers to questions to all prospective respondents via email. The State will not entertain any ex parte communications concerning this Request for Proposals prior to the Response Deadline described below. Any such contact concerning this Request for Proposals by a respondent or its representative with the State, its agencies, authorities or institutions, their employees, or any other professionals or advisors currently engaged in an advisory capacity to the State, may result in disqualification of that respondent's proposal.

Response Deadline. Responses to this Request for Proposals must be received by 5:00 PM eastern time on . Proposals may be delivered by hand, e-mail, facsimile, U.S. mail, or other delivery service; however, the responsibility of timely delivery is that of the institution making the proposal. Five (5) copies of the proposal should be submitted as follows, marked in substance "Request for Proposals – State of South Carolina Trustee Services":

By U.S. Mail

F. Richard Harmon, Jr.  
Senior Assistant State Treasurer  
P O Box 11778  
Columbia, SC 29211-1778

By Hand or Overnight Delivery

F. Richard Harmon, Jr.  
Senior Assistant State Treasurer  
122 Wade Hampton Office Building  
Capitol Complex  
Columbia, SC 29201

By E-Mail

[rick.harmon@sto.state.gov](mailto:rick.harmon@sto.state.gov)  
Re: Request for Proposals – Trustee

By Facsimile

F. Richard Harmon, Jr.  
(803) 734-2039

The requisite number of original, printed copies must promptly follow submission by facsimile or email.

Confidentiality. In accordance with South Carolina's Freedom of Information Act, all proposals will be considered a matter of public record and may be made available for public inspection or duplication upon reasonable request. Any portion of a proposal deemed to be proprietary should be separated and specifically identified as such in the proposal; in that event the State will use reasonable efforts to redact such portions prior to the public inspection or duplication. The State is unable to treat an entire proposal as confidential or proprietary.

Evaluation Process. The State Treasurer and his designees will review and evaluate all qualified proposals. This review process may include conducting interviews with selected respondents whose proposals are determined to be most responsive to this request. If such interviews are deemed necessary, they are likely to be scheduled for early \_\_\_\_\_.

Any award will be based on but not limited to:

- An indication that the institution has a clear understanding of the Services and requirements of the State;
- The institution's demonstrated commitment to and investment in the business line providing the Services;
- The institution's experience engagements of this magnitude and complexity;
- The experience and qualifications of personnel assigned to this engagement;
- Overall costs of Services, and
- Any other factors deemed appropriate by the State.

The State anticipates evaluating responses to this Request for Proposals and making the award on or before \_\_\_\_\_. Please do not contact the State with respect to the evaluation or award until after that date. On or following the Response Deadline above, respondents may contact the Office of the State Treasurer at (803) 734-2114 to confirm receipt of their response.

The State reserves the right to reject any and all proposals and issue subsequent Requests for Proposals. Following the selection of the firm whose proposal best meets the needs of the State, all firms submitting a proposal will be notified of the firm selected for the engagement.

Acknowledgement. All proposals submitted in response to this Request for Proposals are at the sole expense of the respondent and, by providing its response; the respondent acknowledges its responsibility for all costs associated with the preparation of its proposal, presentation and any travel expense incurred in connection with any interviews conducted during the Evaluation Process described above. In addition, submission of a response will be deemed to be the respondent's conclusive agreement with all other terms and conditions of this Request for Proposals.

Thank you for evaluating this request.

Date:

Curtis Loftis  
State Treasurer

**SECTION FOUR  
EVALUATION AND AWARD PROCESS**

Committee members shall evaluate and rank the responses independently. As indicated in this section, points shall be assigned to certain items presented in Section Three of the Request for Proposals. The committee members shall evaluate the responses by reviewing the answers to each of the items and assigning points up to the maximum points allowed for each item. The committee member shall not use those items without points assigned in computing numerical score, but shall use them as part of their evaluation and recommendation process, for informational purposes, or as a basis for possible disqualification. Based on the criteria for selection, committee members shall rank each response with the highest ranking denoted below.

<u>Item Reference</u> .....	<u>Maximum Points</u>
A. General Information.....	15
B. Commitment to South Carolina.....	15
C. Experience.....	30
D. Qualifications of Personnel.....	20
E. Fees.....	<u>20</u>
Total	100

FEE PROPOSAL WORKSHEET

	Description	# of Existing Bond Issues	Total Fees All Issues
<b>Revenue Bonds</b>			
<b>Fixed Rate Bonds</b>			
	Acceptance Fee for Future Issuances:	XXXX	
	Annual Fee:		
	Legal Counsel for Future Issuances:	XXXX	
	Out-of-Pocket Expenses:		
<b>Variable Rate Bonds</b>			
	Acceptance Fee for Future Issuances:	XXXX	
	Annual Fee:		
	Legal Counsel for Future Issuances:	XXXX	
	Out-of-Pocket Expenses:		

- *Annual paying agent and registrar fee shall be included in the administration fee.*
- *Selected respondents may be requested to participate in a interview to discuss further their response to this Request for Proposals and to provide any additional clarification to responses.*
- **FINAL FEE SCHEDULE SHALL BE SUBJECT TO NEGOTIATION**

# Debt Management Audit Scopes:

## Debt Management Audit Scope

1. Evaluate management's experience in public finance matters, including any certifications.
2. Determine level of staff participation in industry trade organizations, such as public finance, trustees or technology organizations. Professional organizations provide exposure to comparative data and best practices.
3. Assess amount and sufficiency of staff training performed.
4. Review of the adequacy of tickler system to remind staff of key events and dates to perform action required by bond documents.
5. Review of disaster recovery procedures and ease of retrieval of bond documents, ticklers and system information if destroyed.
6. Review of policies and procedures for adequacy and applicability to current operating procedures.
7. Account Reviews of a sample of existing bond issuances under administration for adherence to terms of governing documents and department policy and procedures. Review to include defeasance escrow accounts. See attached review forms.
8. Review of Debt Management System for functionality (including interfaces with other accounting and investment systems), processing capabilities, reporting and staff access controls.
9. Review of prior audits for noted deficiencies and corrective action implemented.

### Account Review

<b>Issue Name:</b>
--------------------

	Yes	No	N/A
<b>A. Account Set Up</b>			
1. Are executed governing documents in file?			
3. Is this issue properly set up on the following systems and closing entries made:			
- Debt Management System			
- Capital Projects System			
- Sub Fund Accounts established and properly funded			
- Initial Closing Entries made (deposits, JVs, Transfers, Vouchers)			
- Costs of Issuance accurately paid			
- Bond Issue Working Checklist completed			
- Fees			

<b>B. Investments</b>			
1. Are all investments permitted under the governing document?			
2. Is proper written investment direction/authorization in file?			
3. Is investment income transferred to appropriate sub fund account and transferred in a timely manner as directed by governing document?			
4. Are reserve sub fund accounts fully funded?			

<b>C. Insurance</b>			
1. Is all insurance required by the governing document in force?			
2. Is the State (or appropriate secured party) properly listed on the Policy?			
3. Are appropriate ticklers established for expiration?			

<b>D. UCC's</b>			
	1. Are all required UCC's current?		
	2. Is the State (or the appropriate secured party) properly noted on the form?		

<b>E. Compliance</b>			
	1. Are all required Officer Certificates current?		
	2. Are arbitrage rebate calculations performed and have requirements been met?		
	3. If any, other compliance requirements met? Describe:		
	4. Are appropriate ticklers established for future events?		

<b>F. Credit Enhancement</b>			
	1. Is original credit enhancement stored in a vault or other secured location?		
	2. Are appropriate ticklers established for expiration/renewal?		

<b>G. Bond Payments</b>			
	1. Are revenues deposited with STO as required?		
	2. Is the amortization schedule in file?		
	3. Is the amortization schedule correct?		
	4. Have bond payments been made in a timely and accurate manner?		
	5. Were bond payments disbursed from the correct subaccount?		
	6. Are appropriate ticklers established for payment dates?		

<b>H. Redemptions</b>			
	1. Have redemptions been performed as required by the governing document?		
	2. Are appropriate ticklers established for redemption dates?		

**I. Construction Requisitions**

- 1. Have disbursements of capital project funds been properly approved?
- 2. Have disbursements been properly reflected on the Capital Projects System?
- 3. Have funds been disbursed from the proper sub fund account?
- 4. Were remaining balances transferred to appropriate sub fund account for early bond redemption?


**J. Sub Fund Accounts**

- 1. Can any sub fund accounts be closed?
- 2. Are any funds commingled in sub fund accounts?


**Exceptions:**

Performed By: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed By: \_\_\_\_\_

Date: \_\_\_\_\_

## Defeasance Escrow Account Review

**Escrow Account Name:** \_\_\_\_\_

	Yes	No	N/A
<b>A. Account Set Up</b>			
1. Are executed governing documents in file?			
2. Escrow Cash Flow Verification in file?			
3. Is this issue properly set up on the following systems:			
- Debt Management System			
- Accounts opened and funded by Escrow Agent			
- Initial Closing Entries made			
- Fees			

<b>B. Investments</b>			
1. Are all investments permitted under the governing document?			
2. Is cash balance as reflected by Escrow Agent's statement in agreement with Cash Flow Verification?			
3. Are all security maturities re-invested in accordance with escrow agreement?			

<b>C. Escrow Fund Balance</b>			
1. Are all transactions, including bond payments, are in accordance with escrow agreement?			

**Exceptions:**

Performed By: \_\_\_\_\_ Date: \_\_\_\_\_

Reviewed By: \_\_\_\_\_ Date: \_\_\_\_\_

# Performances for Direct Sold 529 Plans:

2010 one-year top performing direct plans Q2

Page 2 of 4

[Quick Menu](#)

[Home](#)

## COLLEGE SAVINGS 101

[Home / College savings 101](#)

[College savings 101](#)

- [o What is a 529 plan?](#)
- [o 529 tutorial](#)
- [o Articles](#)
- [o For grandparents](#)
- [o 529 news](#)

[529 plans](#)

[Tools & calculators](#)

[Community](#)

[Financial aid](#)

[Coverdell ESA](#)

[Premium content](#)

[Products](#)

2009 EDITION



Over 30% off!

SHORTCUTS

**View our latest poll:**  
Should a state step in and pledge taxpayer moneys to satisfy the promises of the state's prepaid tuition plan?

**529 Plan Details:**

Enter your state:

AK

**World's Simplest College Calculator:**

How old is your child?

**Find a 529 Pro:**

Enter your zip code:

**Enroll In a 529 Plan:**

[View a list of participating plans](#)

OPTIONS

- [Recommend Page](#)
- [Report Problems](#)
- [Advertise Here](#)
- [License Content](#)

### \* 2010 one-year top performing direct plans Q2

Savingforcollege.com ranks the performance of direct-sold 529 plans. Direct-sold plans are those that consumers can enroll in without using a broker. We have prepared one-year, three-year and five-year performance tables.

To prepare this ranking, we compared a subset of portfolios from each 529 savings plan. We selected portfolios based on their mix of stocks, bonds and money market funds, which allows for an apples-to-apples comparison in seven asset-allocation categories. The lower the "percentile," the better the ranking.

This ranking could be a useful tool for you when selecting which direct 529 plan might be right for you.

529 performance rankings as of June 30, 2010.

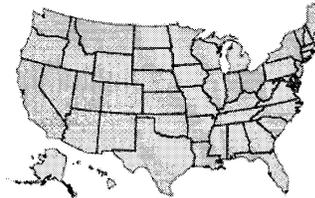
Direct-sold 529 plans.

Updated September 1, 2010

One-year performance ranking ([click here for three-year performance table](#) and [five-year performance table](#)):

Rank	State	Plan	Percentile
1	Nevada	The USAA 529 College Savings Plan	0.49
2	Montana	Pacific Life Funds 529 College Savings Plan (Direct-sold) MT	27.83
3	Virginia	Virginia Education Savings Trust (VEST)	28.94
4	Alaska	T. Rowe Price College Savings Plan	30.11
5	Alaska	University of Alaska College Savings Plan	30.59
6	Michigan	Michigan Education Savings Program	30.77
7	Vermont	Vermont Higher Education Investment Plan	32.44
8	Louisiana	START Saving Program	32.71
9	Maryland	College Savings Plans of Maryland -- College Investment Plan	38.47
10	Minnesota	Minnesota College Savings Plan	39.64
11	Oklahoma	Oklahoma College Savings Plan	40.14
12	New York	New York's 529 College Savings Program - Direct Plan	40.88
13	District of Columbia	DC 529 College Savings Program (Direct-sold)	43.94
14	Kansas	Schwab 529 College Savings Plan	44.39
15	Mississippi	Mississippi Affordable College Savings (MACS) Program	44.52
16	Rhode Island	CollegeBoundfund (Direct-sold, Alternative R)	44.95
17	Utah	Utah Educational Savings Plan (UESP) Trust	45.50
18	South Dakota	CollegeAccess 529 (Direct-sold)	46.57
19	Maine	NextGen College Investing Plan -- Client Direct Series	46.74
20	North Carolina	National College Savings Program	47.16
21	Wisconsin	EdVest (Direct-sold)	48.68
22	Connecticut	Connecticut Higher Education Trust (CHET)	48.96
23	New Jersey	NJBEST 529 College Savings Plan	50.03
24	Nevada	The Vanguard 529 Savings Plan	50.13
25	Kentucky	Kentucky Education Savings Plan Trust	50.67
26	Nebraska	College Savings Plan of Nebraska (Direct-sold)	50.71
27	Georgia	Path2College 529 Plan	50.99
28	Pennsylvania	Pennsylvania 529 Investment Plan	53.75
29	West Virginia	SMART529 WV Direct	54.85
30	Nebraska	TD Ameritrade 529 College Savings Plan	55.15

### FIND 529 PLANS IN YOUR STATE



Select state: AK

You can also search by [type](#), [name](#), [program manager](#), or [investment manager](#).

31	Nevada	The Upromise College Fund	55.91
32	West Virginia	SMART529 Select	56.23
33	Colorado	Direct Portfolio College Savings Plan	56.25
* 34	South Carolina	Future Scholar 529 College Savings Plan (Direct-sold)	57.56
35	Ohio	Ohio CollegeAdvantage 529 Savings Plan	58.00
36	Arizona	Fidelity Arizona College Savings Plan	58.81
37	New Hampshire	UNIQUE College Investing Plan	59.78
38	Delaware	Delaware College Investment Plan	60.02
39	California	The ScholarShare College Savings Plan	60.12
40	Massachusetts	U.Fund College Investing Plan	61.38
41	Hawaii	Hawaii's College Savings Program	62.04
42	Iowa	College Savings Iowa	62.40
43	Arkansas	GIFT College Investing Plan	62.78
44	Idaho	Idaho College Savings Program (IDeal)	62.97
45	Missouri	MQST - Missouri's 529 College Savings Plan (Direct-sold)	65.19
46	North Dakota	College SAVE	65.43
47	Kansas	Learning Quest 529 Education Savings Program (Direct-sold)	65.70
48	Indiana	CollegeChoice 529 Investment Plan (Direct-sold)	68.99
49	Illinois	Bright Start College Savings Program -- Direct-sold Plan	69.93
50	New Mexico	The Education Plan's College Savings Program (Direct-sold)	82.89
51	Texas	Texas College Savings Plan	89.96
-	Alabama	College Counts 529 Fund	NA
-	Florida	Florida College Investment Plan	NA
-	Oregon	Oregon College Savings Plan	NA

NA = Not applicable = Program does not have at least three portfolios with sufficiently long performance under our ranking model.

The Savingforcollege.com plan composite rankings are derived using the plans' relevant portfolio performance in seven unique asset allocation categories. The asset-allocation categories used are: 100 percent equity, 80 percent equity, 60 percent equity, 40 percent equity, 20 percent equity, 100 percent fixed and 100 percent short term. The plan composite ranking is determined by the average of its percentile ranking in the seven categories.

The performance data underlying these rankings represent past performance and are not a guarantee of future performance. Current performance may be lower or higher than the performance data used. A plan portfolio's investment return and principal value will fluctuate so that an investor's shares or units when redeemed may be worth more or less than their original cost. Investors should carefully consider plan investment goals, risks, charges and expenses by obtaining and reading the plan's official program description before investing. Investors should also consider whether their beneficiary's home state offers any tax or other benefits that are available for investments only in such state's 529 plan.

Brokers, please note: For internal use only and not for use with or to be shown to the investing public.

Disclaimer: Bankrate, Inc. shall not be liable for any errors or omissions in this report. Users should rely on official program disclosures.

For broker-sold plan rankings, [click here](#).

[Savingforcollege.com editorial corrections policy](#)

LEARN ABOUT 529 PLANS

- [The Basics](#)
- [Eligible Institutions](#)
- [529 Plans](#)
- [Compare 529 Plans](#)

COLLEGE CALCULATOR

The simplest way to estimate college costs.

How old is your child?



COMPARE SAVINGS OPTIONS

- [529s vs Coverdell ESAs](#)
- [529s vs Savings Bonds](#)
- [529s vs UGMA/UTMAs](#)
- [Custom Comparison](#)

- advertisement -

- Quick Menu
- Home
- College savings 101
  - o What is a 529 plan?
  - o 529 tutorial
  - o **Articles**
  - o For grandparents
  - o 529 news
- 529 plans
- Tools & calculators
- Community
- Financial aid
- Coverdell ESA
- Premium content
- Products

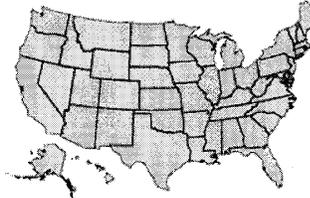
**COLLEGE SAVINGS 101**

Home / College savings 101

**\* 2010 three-year top performing direct plans Q2**

Savingforcollege.com ranks the performance of direct-sold 529 plans. Direct-sold plans are those that consumers can enroll in without using a broker. We have prepared both one-year, three-year and five-year performance tables.

**FIND 529 PLANS IN YOUR STATE**



Select state: AK  Go

To prepare this ranking, we compared a subset of portfolios from each 529 savings plan. We selected portfolios based on their mix of stocks, bonds and money market funds, which allows for an apples-to-apples comparison in seven asset-allocation categories. The lower the "percentile," the better the ranking.

You can also search by [type](#), [name](#), [program manager](#), or [investment manager](#).

This ranking could be a useful tool for you when selecting which direct 529 plan might be right for you.

529 performance rankings as of June 30, 2010.  
Direct-sold 529 plans.

Updated September 1, 2010.

Three-year performance ranking (click here for one-year performance table and five-year performance table):

Rank	State	Plan	Percentile
1	Nevada	<a href="#">The USAA 529 College Savings Plan</a>	16.56
2	Kansas	<a href="#">Schwab 529 College Savings Plan</a>	21.78
3	Utah	<a href="#">Utah Educational Savings Plan (UESP) Trust</a>	29.53
4	Michigan	<a href="#">Michigan Education Savings Program</a>	33.92
5	Nevada	<a href="#">The Vanguard 529 Savings Plan</a>	34.41
6	Pennsylvania	<a href="#">Pennsylvania 529 Investment Plan</a>	35.09
7	Montana	<a href="#">Pacific Life Funds 529 College Savings Plan (Direct-sold) MT</a>	35.46
8	Missouri	<a href="#">MOST - Missouri's 529 College Savings Plan (Direct-sold)</a>	36.74
9	Nevada	<a href="#">The Upromise College Fund</a>	36.83
10	New York	<a href="#">New York's 529 College Savings Program -- Direct Plan</a>	37.43
11	Ohio	<a href="#">Ohio CollegeAdvantage 529 Savings Plan</a>	38.26
12	South Carolina	<a href="#">Future Scholar 529 College Savings Plan (Direct-sold)</a>	38.47
13	Georgia	<a href="#">Path2College 529 Plan</a>	38.96
14	Iowa	<a href="#">College Savings Iowa</a>	39.72
15	Arkansas	<a href="#">GIFT College Investing Plan</a>	41.10
16	Virginia	<a href="#">Virginia Education Savings Trust (VEST)</a>	41.34
17	Kansas	<a href="#">Learning Quest 529 Education Savings Program (Direct-sold)</a>	41.64
18	Wisconsin	<a href="#">EdVest (Direct-sold)</a>	41.78
19	Colorado	<a href="#">Direct Portfolio College Savings Plan</a>	42.09
20	Vermont	<a href="#">Vermont Higher Education Investment Plan</a>	43.59
21	New Jersey	<a href="#">NJBEST 529 College Savings Plan</a>	44.03
22	Nebraska	<a href="#">College Savings Plan of Nebraska (Direct-sold)</a>	44.21
23	Louisiana	<a href="#">START Saving Program</a>	45.56
24	Kentucky	<a href="#">Kentucky Education Savings Plan Trust</a>	46.37
25	District of Columbia	<a href="#">DC 529 College Savings Program (Direct-sold)</a>	46.67
26	Minnesota	<a href="#">Minnesota College Savings Plan</a>	47.38
27	North Dakota	<a href="#">College SAVE</a>	48.47
28	Oklahoma	<a href="#">Oklahoma College Savings Plan</a>	48.56
29	Mississippi	<a href="#">Mississippi Affordable College Savings (MACS) Program</a>	48.66
30	Connecticut	<a href="#">Connecticut Higher Education Trust (CHET)</a>	49.52



Over 30% off!

**SHORTCUTS**

**View our latest poll:**  
Should a state step in and pledge taxpayer moneys to satisfy the promises of the state's prepaid tuition plan?

**529 Plan Details:**

Enter your state:

AK  Go

**World's Simplest College Calculator:**

How old is your child?

Go

**Find a 529 Pro:**

Enter your zip code:

Go

**Enroll in a 529 Plan:**

[View a list of participating plans](#)

**OPTIONS**

- Recommend Page
- Report Problems
- Advertise Here
- License Content

31	Nebraska	TD Ameritrade 529 College Savings Plan	50.44
32	Maine	NextGen College Investing Plan -- Client Direct Series	51.33
33	Alaska	University of Alaska College Savings Plan	52.97
34	Maryland	College Savings Plans of Maryland -- College Investment Plan	53.43
35	Arizona	Fidelity Arizona College Savings Plan	57.32
36	Delaware	Delaware College Investment Plan	57.56
37	Rhode Island	CollegeBoundfund (Direct-sold, Alternative R)	57.57
38	Massachusetts	U.Fund College Investing Plan	57.74
39	New Hampshire	UNIQUE College Investing Plan	57.87
40	California	The ScholarShare College Savings Plan	58.17
41	South Dakota	CollegeAccess 529 (Direct-sold)	58.19
42	Alaska	T. Rowe Price College Savings Plan	58.53
43	West Virginia	SMART529 WV Direct	61.78
44	West Virginia	SMART529 Select	66.79
45	New Mexico	The Education Plan's College Savings Program (Direct-sold)	89.18
-	Alabama	College Counts 529 Fund	NA
-	Florida	Florida College Investment Plan	NA
-	Hawaii	Hawaii's College Savings Program	NA
-	Idaho	Idaho College Savings Program (IDeal)	NA
-	Illinois	Bright Start College Savings Program -- Direct-sold Plan	NA
-	Indiana	CollegeChoice 529 Investment Plan (Direct-sold)	NA
-	North Carolina	National College Savings Program	NA
-	Oregon	Oregon College Savings Plan	NA
-	Texas	Texas College Savings Plan	NA

NA = Not applicable = Program does not have at least three portfolios with sufficiently long performance under our ranking model.

The Savingforcollege.com plan composite rankings are derived using the plans' relevant portfolio performance in seven unique asset allocation categories. The asset-allocation categories used are: 100 percent equity, 80 percent equity, 60 percent equity, 40 percent equity, 20 percent equity, 100 percent fixed and 100 percent short term. The plan composite ranking is determined by the average of its percentile ranking in the seven categories.

The performance data underlying these rankings represent past performance and are not a guarantee of future performance. Current performance may be lower or higher than the performance data used. A plan portfolio's investment return and principal value will fluctuate so that an investor's shares or units when redeemed may be worth more or less than their original cost. Investors should carefully consider plan investment goals, risks, charges and expenses by obtaining and reading the plan's official program description before investing. Investors should also consider whether their beneficiary's home state offers any tax or other benefits that are available for investments only in such state's 529 plan.

Brokers, please note: For internal use only and not for use with or to be shown to the investing public.

Disclaimer: Bankrate, Inc. shall not be liable for any errors or omissions in this report. Users should rely on official program disclosures.

For broker-sold plan rankings, [click here](#).

[Savingforcollege.com editorial corrections policy](#)

LEARN ABOUT 529 PLANS

- [The Basics](#)
- [Eligible Institutions](#)
- [529 Plans](#)
- [Compare 529 Plans](#)

COLLEGE CALCULATOR

The simplest way to estimate college costs.

How old is your child?

COMPARE SAVINGS OPTIONS

- [529s vs Coverdell ESAs](#)
- [529s vs Savings Bonds](#)
- [529s vs UGMA/UTMAs](#)
- [Custom Comparison](#)

- advertisement -



26	Kentucky	Kentucky Education Savings Plan Trust	50.88
27	Nebraska	TD Ameritrade 529 College Savings Plan	50.89
28	Colorado	Direct Portfolio College Savings Plan	51.23
29	West Virginia	SMART529 Select	56.76
30	Mississippi	Mississippi Affordable College Savings (MACS) Program	58.52
31	Oklahoma	Oklahoma College Savings Plan	58.87
32	District of Columbia	DC 529 College Savings Program (Direct-sold)	62.51
33	Delaware	Delaware College Investment Plan	64.12
34	Arizona	Fidelity Arizona College Savings Plan	64.34
35	Connecticut	Connecticut Higher Education Trust (CHET)	65.03
36	New Hampshire	UNIQUE College Investing Plan	65.94
37	Massachusetts	U.Fund College Investing Plan	67.86
38	New Mexico	The Education Plan's College Savings Program (Direct-sold)	87.76
-	Alabama	College Counts 529 Fund	NA
-	California	The ScholarShare College Savings Plan	NA
-	Florida	Florida College Investment Plan	NA
-	Georgia	Path2College 529 Plan	NA
-	Hawaii	Hawaii's College Savings Program	NA
-	Idaho	Idaho College Savings Program (iDeal)	NA
-	Illinois	Bright Start College Savings Program -- Direct-sold Plan	NA
-	Indiana	CollegeChoice 529 Investment Plan (Direct-sold)	NA
-	Maine	NextGen College Investing Plan -- Client Direct Series	NA
-	Missouri	MOST - Missouri's 529 College Savings Plan (Direct-sold)	NA
-	North Carolina	National College Savings Program	NA
-	North Dakota	College SAVE	NA
-	Oregon	Oregon College Savings Plan	NA
-	Pennsylvania	Pennsylvania 529 Investment Plan	NA
-	Texas	Texas College Savings Plan	NA
-	Vermont	Vermont Higher Education Investment Plan	NA

NA = Not applicable = Program does not have at least three portfolios with sufficiently long performance under our ranking model.

The Savingforcollege.com plan composite rankings are derived using the plans' relevant portfolio performance in seven unique asset allocation categories. The asset-allocation categories used are: 100 percent equity, 80 percent equity, 60 percent equity, 40 percent equity, 20 percent equity, 100 percent fixed and 100 percent short term. The plan composite ranking is determined by the average of its percentile ranking in the seven categories.

The performance data underlying these rankings represent past performance and are not a guarantee of future performance. Current performance may be lower or higher than the performance data used. A plan portfolio's investment return and principal value will fluctuate so that an investor's shares or units when redeemed may be worth more or less than their original cost. Investors should carefully consider plan investment goals, risks, charges and expenses by obtaining and reading the plan's official program description before investing. Investors should also consider whether their beneficiary's home state offers any tax or other benefits that are available for investments only in such state's 529 plan.

Brokers, please note: For internal use only and not for use with or to be shown to the investing public.

Disclaimer: Bankrate, Inc. shall not be liable for any errors or omissions in this report. Users should rely on official program disclosures.

For broker-sold plan rankings, [click here](#).

[Savingforcollege.com editorial corrections policy](#)

LEARN ABOUT 529 PLANS

- [The Basics](#)
- [Eligible Institutions](#)
- [529 Plans](#)
- [Compare 529 Plans](#)

COLLEGE CALCULATOR

The simplest way to estimate college costs.  
How old is your child?

COMPARE SAVINGS OPTIONS

- [529s vs Coverdell ESAs](#)
- [529s vs Savings Bonds](#)
- [529s vs UGMA/UTMAs](#)
- [Custom Comparison](#)

- [Quick Menu](#)
- [Home](#)
- [College savings 101](#)
- [529 plans](#)
  - [Your state's plan](#)
  - [Compare plans](#)
  - [5-Cap Ratings](#)
    - [Ratings criteria](#)
  - [Enroll in a 529 plan](#)
  - [Find a 529 pro](#)
- [Tools & calculators](#)
- [Community](#)
- [Financial aid](#)
- [Coverdell ESA](#)
- [Premium content](#)
- [Products](#)



Over 30% off!

**SHORTCUTS**

View our latest poll:  
Should a state step in and pledge taxpayer moneys to satisfy the promises of the state's prepaid tuition plan?

529 Plan Details:  
Enter your state:  
AK

World's Simplest College Calculator:  
How old is your child?

Find a 529 Pro:  
Enter your zip code:

Enroll in a 529 Plan:  
View a list of participating plans

**OPTIONS**

- [Recommend Page](#)
- [Report Problems](#)
- [Advertise Here](#)
- [License Content](#)

**529 PLANS**

[Home / 529 plans](#)

**5-Cap Ratings**

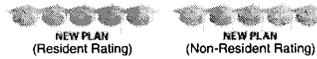
We assign a rating to each state-sponsored program ranging from one cap (least attractive) to five caps (most attractive). The 5-Cap Rating represents our opinion of the overall usefulness of a state's 529 plan based on many considerations.

The 5-Cap Rating is not strictly a measure of historical returns and it is not a predictor of future investment performance, level of investment risk, or financial solvency of the program funds. For more information on the criteria used in assigning a 5-Cap Rating, click [HERE](#).

[Terms of Use](#)

**Alabama**

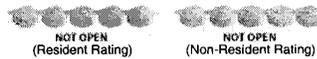
[CollegeCounts 529 Fund](#)



[CollegeCounts 529 Fund Advisor Plan](#)



[Prepaid Affordable College Tuition \(PACT\) Program](#)



**Alaska**

[John Hancock Freedom 529](#)



[T. Rowe Price College Savings Plan](#)



[University of Alaska College Savings Plan](#)



**Arizona**

[Arizona Family College Savings Program -- CollegeSure@ 529 Plan](#)



[Fidelity Arizona College Savings Plan](#)



[InvestEd Plan](#)



**Arkansas**

[GiFT College Investing Plan](#)



[iShares 529 Plan](#)



**California**

[ScholarShare Advisor College Savings Plan](#)



[The ScholarShare College Savings Plan](#)

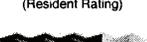


**Colorado**

[Direct Portfolio College Savings Plan](#)

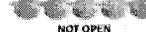


<u>Prepaid Tuition Fund</u>		
<u>Scholars Choice College Savings Program</u>		
<u>Smart Choice College Savings Plan</u>		
<u>Stable Value Plus College Savings Program</u>		
<b>Connecticut</b>		
<u>Connecticut Higher Education Trust (CHET)</u>		
<u>Connecticut Higher Education Trust (CHET) – Advisor Plan</u>		
<b>Delaware</b>		
<u>Delaware College Investment Plan</u>		
<b>District of Columbia</b>		
<u>DC 529 College Savings Program (Adviser-sold)</u>		
<u>DC 529 College Savings Program (Direct-sold)</u>		
<b>Florida</b>		
<u>Florida College Investment Plan</u>		
<u>Florida Prepaid College Plan</u>		
<b>Georgia</b>		
<u>Path2College 529 Plan</u>		
<b>Hawaii</b>		
<u>Hawaii's College Savings Program</u>		
<b>Idaho</b>		
<u>Idaho College Savings Program (iDeal)</u>		
<b>Illinois</b>		
<u>Bright Directions College Savings Program</u>		
<u>Bright Start College Savings Program – Advisor-sold Plan</u>		
<u>Bright Start College Savings Program – Direct-sold Plan</u>		
<u>College Illinois! 529 Prepaid Tuition Program</u>		

		
	(Resident Rating)	(Non-Resident Rating)
<b>Indiana</b>		
<u>CollegeChoice 529 Direct Savings Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>CollegeChoice Advisor 529 Savings Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Iowa</b>		
<u>College Savings Iowa</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Iowa Advisor 529 Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Kansas</b>		
<u>Learning Quest 529 Education Savings Program (Direct-sold)</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Learning Quest Advisor</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Schwab 529 College Savings Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Kentucky</b>		
<u>Kentucky Education Savings Plan Trust</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Kentucky's Affordable Prepaid Tuition (KAPT)</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Louisiana</b>		
<u>START Saving Program</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Maine</b>		
<u>NextGen College Investing Plan -- Client Direct Series</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>NextGen College Investing Plan -- Client Select Series</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Maryland</b>		
<u>College Savings Plans of Maryland -- College Investment Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>College Savings Plans of Maryland -- Prepaid College Trust</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Massachusetts</b>		
<u>U.Fund College Investing Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>U. Plan</b>		
	(Resident Rating)	(Non-Resident Rating)
<b>Michigan</b>		

<u>MI 529 Advisor Plan</u>	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
<u>Michigan Education Savings Program</u>	(Resident Rating)	(Non-Resident Rating)
<u>Michigan Education Trust</u>	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Minnesota</u>		
<u>Minnesota College Savings Plan</u>	(Resident Rating)	(Non-Resident Rating)
<u>Mississippi</u>		
<u>MACS 529 Advisor Program</u>	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Mississippi Affordable College Savings (MACS) Program</u>	(Resident Rating)	(Non-Resident Rating)
<u>Mississippi Prepaid Affordable College Tuition (MPACT) Program</u>	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Missouri</u>		
<u>MOST - Missouri's 529 Advisor Plan</u>	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>MOST - Missouri's 529 College Savings Plan (Direct-sold)</u>	(Resident Rating)	(Non-Resident Rating)
<u>Montana</u>		
<u>Montana Family Education Savings Program -- CollegeSure® 529 Plan</u>	(Resident Rating)	(Non-Resident Rating)
<u>Pacific Life Funds 529 College Savings Plan (Adviser-sold) MT</u>	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Pacific Life Funds 529 College Savings Plan (Direct-sold) MT</u>	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Nebraska</u>		
<u>College Savings Plan of Nebraska (Adviser-sold)</u>	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>College Savings Plan of Nebraska (Direct-sold)</u>	(Resident Rating)	(Non-Resident Rating)
<u>State Farm College Savings Plan</u>	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
<u>TD Ameritrade 529 College Savings Plan</u>	(Resident Rating)	(Non-Resident Rating)
<u>Nevada</u>		
<u>Columbia 529 Plan</u>	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Nevada Prepaid Tuition Program</u>	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Putnam 529 for America</u>		

<u>The Upromise College Fund</u>		
<u>The Vanguard 529 Savings Plan</u>		
<u>USAA 529 College Savings Plan</u>		
<b>New Hampshire</b>		
<u>Fidelity Advisor 529 Plan</u>		
<u>UNIQUE College Investing Plan</u>		
<b>New Jersey</b>		
<u>Franklin Templeton 529 College Savings Plan</u>		
<u>NJBEST 529 College Savings Plan</u>		
<b>New Mexico</b>		
<u>Scholar'sEdge</u>		
<u>The Education Plan's College Savings Program</u>		
<b>New York</b>		
<u>New York's 529 College Savings Program -- Advisor Plan</u>		
<u>New York's 529 College Savings Program -- Direct Plan</u>		
<b>North Carolina</b>		
<u>National College Savings Program</u>		
<b>North Dakota</b>		
<u>College SAVE</u>		
<b>Ohio</b>		
<u>BlackRock CollegeAdvantage 529 Plan</u>		
<u>Ohio CollegeAdvantage -- Guaranteed Savings Fund</u>		
<u>Ohio CollegeAdvantage 529 Savings Plan</u>		
<b>Oklahoma</b>		
<u>Oklahoma College Savings Plan</u>		

		
	(Resident Rating)	(Non-Resident Rating)
<u>Oklahoma Dream 529 Plan</u>		
	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
<b>Oregon</b>		
<u>MFS 529 Savings Plan</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Oregon College Savings Plan</u>		
	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
<b>Other</b>		
<u>Private College 529 Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Pennsylvania</b>		
<u>Pennsylvania 529 Guaranteed Savings Plan</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Pennsylvania 529 Investment Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<b>Rhode Island</b>		
<u>CollegeBoundfund (Adviser-sold)</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>CollegeBoundfund (Direct-sold, Alternative RI)</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
 <b>South Carolina</b>		
<u>Future Scholar 529 College Savings Plan (Adviser-sold)</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Future Scholar 529 College Savings Plan (Direct-sold)</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>South Carolina Tuition Prepayment Program</u>		
	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
<b>South Dakota</b>		
<u>CollegeAccess 529 (Adviser-sold)</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>CollegeAccess 529 (Direct-sold)</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<b>Tennessee</b>		
<u>Tennessee's BEST Prepaid College Tuition Plan</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<b>Texas</b>		
<u>Lonestar 529 Plan</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>Texas College Savings Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Texas Guaranteed Tuition Plan</u>		

	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Texas Tuition Promise Fund</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Utah		
<u>Utah Educational Savings Plan (UESP)</u>		
	(Resident Rating)	(Non-Resident Rating)
Vermont		
<u>Vermont Higher Education Investment Plan</u>		
	(Resident Rating)	(Non-Resident Rating)
Virginia		
<u>CollegeAmerica</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>CollegeWealth</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Virginia Education Savings Trust (VEST)</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>Virginia Prepaid Education Program (VPEP)</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Washington		
<u>Guaranteed Education Tuition (GET)</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
West Virginia		
<u>SMART529 Prepaid Tuition Plan</u>		
	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>SMART529 Select</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>SMART529 WV Direct College Savings Plan</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>The Hartford SMART529</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Wisconsin		
<u>EdVest (Adviser-sold)</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
<u>EdVest (Direct-sold)</u>		
	(Resident Rating)	(Non-Resident Rating)
<u>tomorrow's scholar</u>		
	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Wyoming		
<u>Direct Portfolio College Savings Plan WY</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
<u>Stable Value Plus College Savings Plan</u>		
	(Resident Rating)	NOT OPEN (Non-Resident Rating)

