

**OFFICE OF THE STATE TREASURER**

State House, Room 227  
Boston MA, 02133  
617-367-6900

**ABANDONED PROPERTY:**

One Ashburton Place, 12th Floor  
Boston MA, 02108  
1-800-647-2300  
(617) 367-0400

**STATE RETIREMENT BOARD:**

One Ashburton Place, 12th Floor  
Boston MA, 02108  
(617) 367-7770  
1-800-392-6014  
(In Massachusetts Only)

**CASH MANAGEMENT:**

One Ashburton Place, 12th Floor  
Boston MA, 02108  
(617) 367-3900 ext. 591

**DEBT MANAGEMENT:**

One Ashburton Place, 12th Floor  
Boston MA, 02108  
(617) 367-3900 ext. 203

**LOTTERY:**

60 Columbian Street  
Braintree, MA 02184  
(781) 849-5555

**ABCC:**

239 Causeway Street  
Boston MA, 02114  
(617) 727-3040

**MEDIA REQUESTS:**

(617) 367-6900

**MASS WATER POLLUTION**

**ABATEMENT TRUST:**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-3900 ext. 409

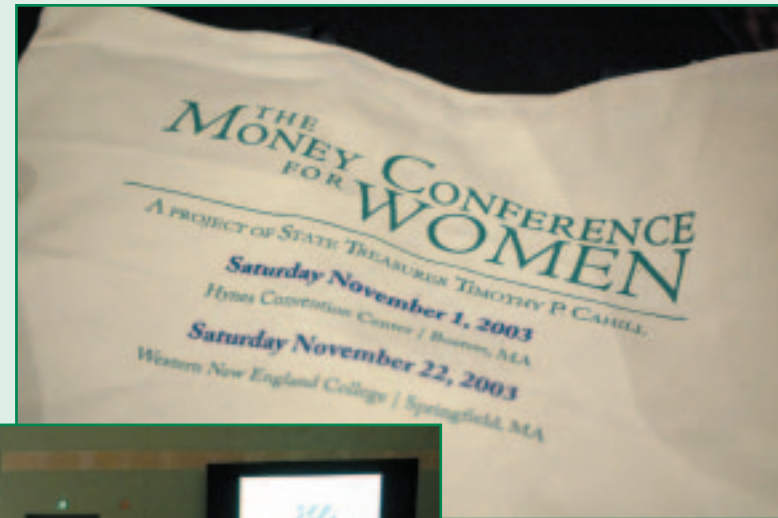
**PRIM BOARD:**

84 State Street, #250  
Boston, MA 02109  
(617) 946-8401



**OFFICE OF THE TREASURER & RECEIVER GENERAL  
TIMOTHY P. CAHILL**

**ANNUAL REPORT 2003**



Money Conference for Women in Boston (November, 2003)



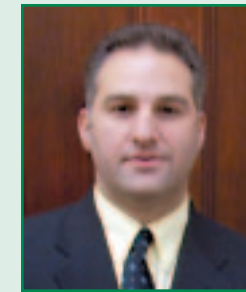
David Ragucci, Mayor of Everett, Treasurer Cahill and Joe Sullivan, Executive Director of the Massachusetts Lottery launch the Harley Davidson scratch ticket (July, 2003)



Treasurer Cahill presenting Mass Water Pollution Abatement Trust funding in the amount of \$600,000 to John Barrett, Mayor of North Adams (October, 2003)



Timothy P. Cahill,  
Treasurer & Receiver  
General



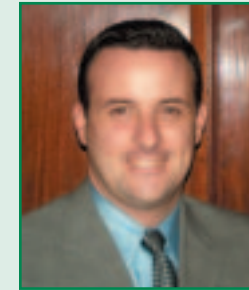
Doug Rubin,  
First Deputy Treasurer



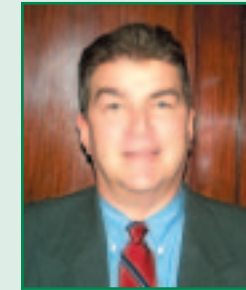
Lori Loureiro,  
Deputy Treasurer/  
Chief of Staff



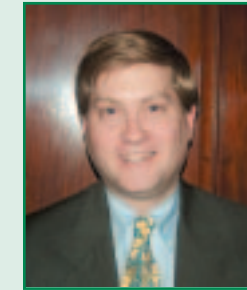
Karen Sharma, Deputy  
Treasurer/Director of  
Communications



Scott Campbell,  
Special Assistant



Mark Cavanaugh,  
Deputy Treasurer  
Abandoned Property



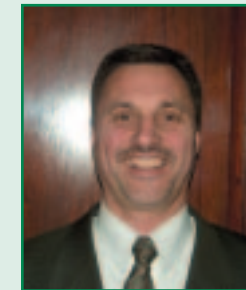
Jeff Stearns,  
Deputy Treasurer  
Debt Management



Grace Lee,  
General Counsel



Neil Morrison,  
Assistant Treasurer  
Human Resources



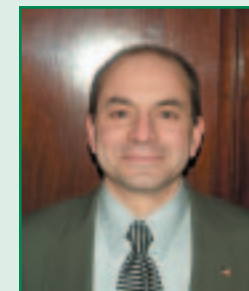
Al Grazioso, Assistant  
Treasurer Administration  
& Finance



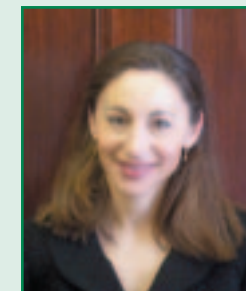
Timothy Brooks,  
Assistant Treasurer Cash  
Management



Peter Navarro,  
Assistant Treasurer  
Information Technology



Nicola Favorito,  
Executive Director State  
Board of Retirement



Laura Guadagno, Executive  
Director MA Water  
Pollution Abatement Trust



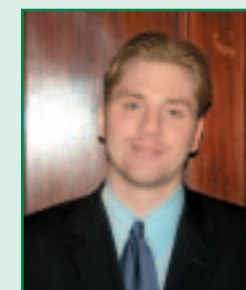
Joseph Sullivan,  
Executive Director MA  
Lottery Commission



Eddie J. Jenkins, Chairman  
Alcoholic Beverage  
Control Commission



Michael Morris,  
Director of Government  
Affairs



Chuck Anderson,  
Policy Director



Tracy Holt,  
Policy Director



Eileen Glovsky,  
Director of Financial  
Education Programs

## LETTER FROM TREASURER TIMOTHY P. CAHILL

Dear Friend:

On January 15, 2003 I stood before my family, friends and colleagues and proudly accepted the duties of Treasurer of the Commonwealth of Massachusetts. My commitment that day was to play a vital role helping to solve our fiscal crisis. Challenging times were clearly ahead and tough decisions were inevitable. I applaud the leadership of our State Legislature, the Governor and our city and town officials throughout last year's severe budget cuts. Massachusetts was able to pass a budget that even with its devastating cuts, resisted the urge to raise taxes, hide behind gimmicks like deficit financing or cave to the pressure of quick fixes, like casino gambling.

I reminded those in the House Chamber that day of the words spoken by Abigail Adams to her son, John Quincy during our country's war for independence:

*"These are the times in which a genius would wish to live... The habits of a vigorous mind are formed in contending with difficulties. Great necessities call our great virtues."*

I am still inspired by the challenges before us, the people I work with in state government and the participation by the business community and private citizens of this Commonwealth. The dedication of the people I interact with each day has motivated me to look beyond traditional solutions and introduce creative alternatives to today's fiscal problems.

My priorities were, and still are, to protect the steady stream of Lottery revenue to our cities and towns, aggressively collect unclaimed property, soundly invest our pension assets to close the gap in our unfunded liability and refinance the state's debt whenever possible to save taxpayers money. The pages of this report will detail how we achieved those goals, set the bar higher and achieved more. I am proud to report that each division of my office contributed to making state government work better for the citizens of the Commonwealth.

In 2004, I remain optimistic and look forward to introducing a solvent plan that I've worked on with Senate and House leadership, to deal with the school building crisis. This plan will not only address the imminent problems with school building projects finished or underway, but also offers a financial solution for future projects. As always, I will continue to support our cities and towns through the State Lottery, Abandoned Property Division, Alcoholic Beverages Control Commission, and Massachusetts Water Pollution Abatement Trust. In addition, I will unveil a comprehensive plan to assign economically targeted investments in the Commonwealth to the cash portfolio and the public pension fund. These commitments will promote responsible investment in Massachusetts while achieving a market rate of return.

As I stated on my first day in office, "the most difficult times often make for the best memories." The challenges we faced as a Commonwealth and as a staff produced teamwork, innovation and results. This year has been a memorable one and I'm honored and energized to continue my work as State Treasurer.

Sincerely,



Tim Cahill

# TREASURER & RECEIVER GENERAL



## TIMOTHY P. CAHILL

### Massachusetts State Treasurer and Receiver General

Timothy P. Cahill was sworn into office as Massachusetts State Treasurer and Receiver General on January 15, 2003.

Prior to election victory in 2002, Cahill served as the Norfolk County Treasurer, a post he assumed in 1997. He also served as a Quincy City Councilor from 1987 until 2003.

In addition to serving the public, Cahill has been a successful small businessman and the author of a book about local businessmen.

During his first year in office, Cahill sought long-term and short-term ways to help the Commonwealth during difficult fiscal times. In 2003, his administration executed three bond refundings that resulted in savings to the Commonwealth of approximately \$97 million (\$80 million on a present value basis). Cahill is committed to exploring all future potential bond refundings in order to save taxpayers money.

The performance of the Pension Reserves Investment Trust Fund ("PRIT Fund", or state pension fund) is a major priority of the Cahill administration. The charge last year was to change the asset allocation of the PRIT Fund to spread out the risk while diversifying the portfolio. Under Cahill's new leadership as Chairman of the PRIM Board, the PRIT Fund posted its highest returns in history earning over \$6 billion, or 26.42%. By the end of 2003, the PRIT Fund totaled over \$32 billion – its highest asset level to date. Additionally, Cahill directed PRIM staff to re-negotiate fees with PRIM's money managers and saved approximately \$9 million.

In 2003, Cahill worked closely with McKinsey & Company and Massachusetts 2020 to study whether the state pension fund could apply a small portion of its assets toward economic development projects in our Commonwealth without hurting investment performance or sacrificing returns. The PRIM Board subsequently voted to invest up to 2% of its assets in economically targeted investments, like affordable housing and business development projects, that would return economic and social benefits back to the state's low- to moderate-income citizens.

The Cash Management Department instituted an open bid for the Commonwealth's banking services contract. As part of the process, services were divided into categories – lockbox, core depository and disbursement services, and agency advance checking accounts - in an effort to encourage more competition among a greater number of banks. As a result, the new banking contracts executed in December of 2003 will save the Commonwealth more than \$1.5 million per year in banking fees.

Treasurer Cahill installed a new management team at the Massachusetts Lottery who immediately looked for creative ways to increase revenue, while applying best business practices to the \$4 billion agency. Within the first six months, the Lottery instituted minor adjustments to the game of Keno, which increased revenue by 12.5%. In addition, Cahill successfully secured a \$5 million budget from the state legislature for a "jackpot awareness" advertising campaign. In advertising MegaMillion jackpots for one week this past December, the Lottery reported a \$900,000 gross increase in sales.

Cahill fulfilled his commitment to financial education programs by hosting two successful *Money Conferences for Women* – one in Boston and the other in Springfield – in 2003. The *Money Conference for Women* is a free conference, focusing on money management, retirement and investment strategies for women of all ages, racial, ethnic and economic backgrounds, and levels of financial knowledge. The program is designed to address the unique financial issues women face in their work and personal lives, that adversely impact their retirement and put them at a higher risk for poverty later in life.

In the summer of 2003, the legislature transferred oversight of the Alcoholic Beverage Control Commission to the State Treasurer's Office. Cahill immediately reviewed the operations of the Commission. Because the agency lacked strong leadership, he made swift changes to the management team, who enforced the new policies and procedures of the ABCC. By making internal upgrades to personnel, information technology and day-to-day operations, the Commission can concentrate on its mission to enforce the liquor laws of the Commonwealth. Already, the efficiency of processing license renewals, checking on complaints, adjudicating violations, writing decisions and collecting fees has changed dramatically.

Lastly, Treasurer Cahill tightened up the Abandoned Property division of the Treasury by re-focusing on customer service and efficient business practices. His team reduced customer call times from last year's average of 20 minutes to less than 2 minutes in a matter of weeks. The Division answered over 123,000 phone calls and over 98,000 e-mail requests within the first year of his administration. With the passage of demutualization legislation and the liquidation of abandoned stocks and mutual funds, the Division collected a record \$238 million, the highest total ever collected in Massachusetts.

Treasurer Cahill lives in Quincy with his wife, Tina (Falco) Cahill, an elementary school gym teacher, and their four daughters, Makena, Nicole, Devin and Kendra.

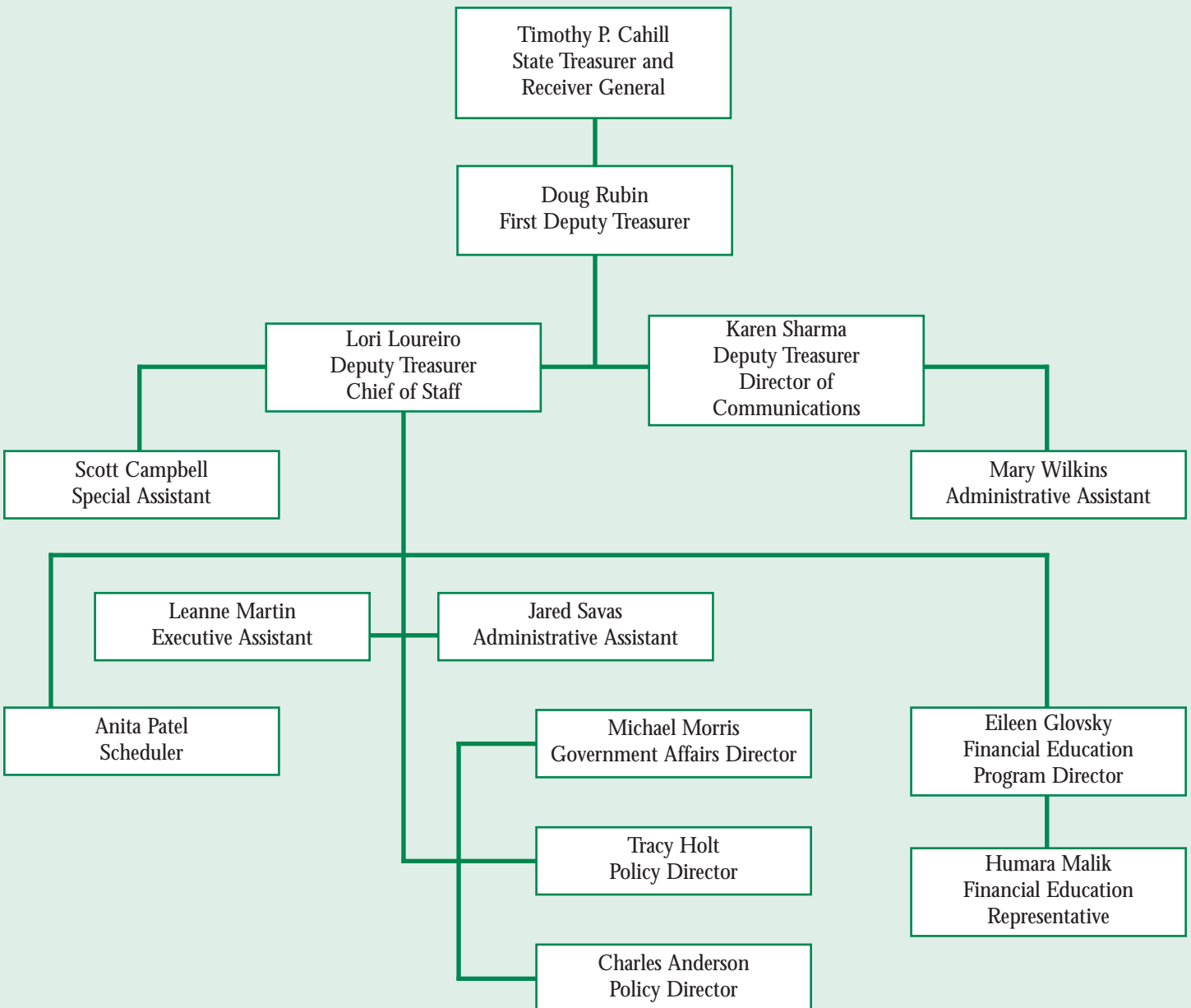
# EXECUTIVE STAFF

The Executive Staff is responsible for a number of functions important to the day-to-day operations of the Office of State Treasurer. Room 227 of the State House is where you will find the Departments of Communication, Policy & Government Affairs, Financial Education Programs, Scheduling & Advance and Constituent Services. It is also where the Treasurer and Receiver General, Tim Cahill, reports to work each day.

Oversight of all Treasury Departments is administered from the Executive Office (page 36) and it is the regular meeting place for Department Heads, the Massachusetts Lottery Commission, the Massachusetts Water Pollution Abatement Board of Trustees, Legislators and Administration officials.

In addition to the various departments that the State Treasurer oversees, he is also a member of the Board of Banks Incorporation, Comptroller's Advisory Board, Municipal Oversight Board, Emergency Finance Board, and the Massachusetts Teachers' Retirement Board. The Treasurer serves as Chairman of Massachusetts Lottery Commission, Pension Reserves Investment Management Board, State Retirement Board and the Massachusetts Water Pollution Abatement Trust.

## EXECUTIVE STAFF CHART



## ACCOMPLISHMENTS

### Saving Makes Cents

A PROJECT OF STATE TREASURER TIMOTHY P. CAHILL

The Saving Makes Cents program is a partnership between financial institutions, elementary schools, celebrity guest speakers and the Office of the State Treasurer. The program reached over 8000 elementary and middle school students over the course of 2003. Students hear presentations on the importance of saving money and open up and maintain saving accounts with their local bank or credit union. An ongoing partnership is created between school administrations committed to producing a financially literate student body and financial institutions dedicated to regular visits for "school banking" days.

In addition, a pilot after-school program centered on financial literacy was successfully implemented in the Town of Westford. Four high school students from Westford Academy created this new initiative that taught twenty-two fourth grade students from the Norman Day School lessons on saving and financial responsibility over six sessions. The success of that program has resulted in additional sessions in the Town, and possibly a model for collaboration between high schools and elementary schools around the state.

### THE MONEY CONFERENCE

A PROJECT OF STATE TREASURER TIMOTHY P. CAHILL

The *Money Conference for Women* has been in existence since 1998 and it was exciting to continue to offer such informative sessions for FREE! The popular financial forum for women learning the ins and outs of investing, saving, planning and budgeting was expanded to reach other constituency groups like families, senior citizens and minorities. In 2003, the Treasurer hosted 2 successful Money Conferences in Boston and Springfield with Dee Lee, author of *Let's Talk Money*. In addition, a steering committee of successful businesswomen, educators, elected officials and community activists was formed to help with the conference curriculum and workshops, as well as outreach through marketing materials.

As a result, over 1000 women attended the Boston Conference at the Hynes Convention Center and over 400 attended the conference in Springfield at Western New England College. Workshops offered at both conferences included: *Investing 101, Budgeting Basics, Tax Issues for Women, Planning for Retirement, Banking Basics and Predatory Practices, Getting out of Debt, Buying Your First House and Creating a Plan for Giving.*

#### Steering Committee Members:

Laurie Allen	Susan Clopton	Phyllis Godwin	Janet Lundquist	Kathy Murphy	Gail Snowden
Maureen S. Bateman	Janet Collazo	Lisa Guscott	Kathia Manzi	Nan O'Neill	M.A. Swedlund
Kelly Bates	Julie Connelly	Carol Hardy-Fanta	Pamela McDermott	Marilyn Pelosi	Roni Thaler
Linda Brantley	Katherine Craven	Marian Heard	Patricia McGovern	Colette Phillips	Nicola Tsongas
Victoria Budson	Cheryl Cronin	Jennifer Lane	Margaret McKenna	Rosalin A. Sayre	Kimberly Welsh
Heather Campion	Sally Fuller	Gloria Cordes Larson	Noreen McMahon	Gail Shapiro	Toni Whitmore
Kathy Casavant	Carol Fulp	Sonja Larson	Lilly Mendez-Morgan	Josephine Shea	Ellen Zane
Stella M. Chan	Jeanette Gerald	Mary Lassen	Joyce Murphy	Chris Sieber	

#### STAFF ROSTER:

Eileen Glovsky, Director of Financial Education Programs

Humara Malik, Financial Education Programs Coordinator

Dee Lee conducting a seminar for the *Money Conference for Women* (Boston, 2003)



The Government Affairs and Policy Division of the Treasury was an area the Treasurer looked to restructure when he took office: putting more of a focus on policy issues, being proactive in making legislative recommendations and building relationships with the entire Legislature.

- In 2003, the Cahill Administration forged productive working relationships with Members of the House and Senate, all Constitutional Officers, Executive Office of Administration & Finance, the Comptroller's Office, local elected officials and administrators and many other government agencies.
- Treasurer Cahill contributed to the FY04 Budget debate and registered support or concern on a number of legislative initiatives, including:
  - All casino/racino bills
  - Gift Certificate law
  - HB# 3108; an Act establishing the Massachusetts security for public deposits commission
  - SB# 59; an Act relating to pensions of corporate whistle-blowers
  - SB# 151; an Act regarding corporate fraud and pension asset protection for the Commonwealth
  - SB#5; an Act requiring banks and credit unions to disclose the fee's terms and conditions associated with accounts
  - HB# 3247; an Act placing sales tax on lottery tickets
  - HB#69; an Act relative to public employee retirement

- In July 2003, the Treasurer filed HB#4267:

Health Care Committee Chairman Peter Koutoujian filed the Living Organ Donor Legislation (HB# 4267) on behalf of Treasurer Cahill. It was released favorably from the Committee on Public Service and is currently in the Committee Local Affairs awaiting a favorable release. This legislation, if passed, will allow any employee of the Commonwealth, any county, and any city or town, to be allowed a leave of absence of not more than 30 days in each calendar year for the purpose of serving as an organ donor, without loss of or reduction in pay, without loss of leave to which otherwise entitled, and without loss of credit for time or service.

- Legislative Agenda 2003:

### Casino Testimony

In March of 2003, the Treasurer appeared before the Joint Committee on Government Regulations to testify against expanded gaming in the Commonwealth. By citing the ill-effects of casino expansion in other states and stressing the need to safeguard the Lottery's revenue for cities and towns, the Treasurer helped to successfully stop the expansion of casinos into the Commonwealth.

### VLTs & Lottery Payouts

During the casino debate, the Treasurer made the argument that if Massachusetts is to consider video lottery terminals (VLT's), the Massachusetts State Lottery Commission should regulate them. Six out of the eight states that have video lottery terminals are regulated through their state lottery. The Massachusetts State Lottery has the highest payout rate in the country – one of the biggest factors contributing to its success. Some have proposed reducing this payout rate. The Administration presented that where such experimentation took place, disappointing results and a long climb back to recovery is what ensued.

### Lottery Advertising

After nearly 10 years without an advertising budget, the Lottery received a \$5 million dollar advertising appropriation from the Legislature in the FY04 budget. It has been proven in other states that the advertising dollar drives revenue.

### Early Retirement Incentive Program (ERIP)

During the budget process State Board of Retirement expressed concerns regarding the original ERIP legislation that appeared in the House Ways & Means FY04 Budget. The Cahill Administration worked with both the House and the Senate to clarify language that resulted in the execution of the second successful ERIP in 18 months.

### Collateralization

This became an issue with the filing of HB# 3108. While the Treasurer supports the concept of the pledging of appropriate securities or surety bonds by depositories as a means of safeguarding deposits, this bill would have negatively impacted any state-sponsored investment program and eroded the authority of the Massachusetts Municipal Depository Trust (MMDT).

### Demutualization

The Treasury was instrumental in passing demutualization legislation that brought in roughly \$96 million total (\$75 million cash, \$21 million in stocks) to the Commonwealth's General Fund. This legislation enabled the Abandoned Property Division to bring in these funds two years ahead of schedule.

### Gift Certificates

Gift certificate law was passed in 2002 before Treasurer Cahill took office. Prior to its passage, any unused monies on gift certificates upon expiration were turned over to the Abandoned Property Division. As of 2002, merchants can keep the unused monies after the gift certificate expires, resulting in a monetary loss to the Commonwealth. Work is ongoing to amend the language and revert this money back to the Commonwealth of Massachusetts.

### SBA Reform

With a wait list of 420 projects, an average wait of over ten years and existing commitments totaling more than \$6 billion over the next 20 years, the School Building Assistance Program is in desperate need of reform. The Treasurer's office has been working closely with House and Senate leadership on a solvent solution to the financing of future schools.

### Pension Reform

A "Working Group" was established to research responsible pension reform – reform that does not penalize the average state employee or jeopardize that retiree's average \$18,000 pension. This group is looking extensively at MGL Chapter 32 and will make formal recommendations to the Legislature in 2004.

### ABCC

Since the transfer of the ABCC to the Department of the Treasury in the FY04 Budget, considerable time was allotted to reviewing and providing comment on Bills that would impact the number and type of licenses granted in various communities across the Commonwealth.

### Fleet / Bank of America Merger

The Treasurer serves as one of three members on the Board of Banks Incorporated, which is a regulatory authority with statutory oversight of all bank mergers in the State of Massachusetts. The Board must ensure that a bank holding company transaction, regardless of its size, is beneficial to the consumers of Massachusetts. Treasurer Cahill worked with Abandoned Property, Legal, Cash Management, as well as legislators and community groups to discuss the many considerations and concerns surrounding the merger proposal. The Treasurer's goal is to ensure that Bank of America's commitments to the Commonwealth are at least, if not better than the current commitments of Fleet Boston.

## STAFF ROSTER:

Michael Morris, Director of Government Affairs

Chuck Anderson, Policy Director

Tracy Holt, Policy Director



Treasurer Cahill and Eileen Glovsky, Director of Financial Education Programs discuss last minute details at the Women's Money Conference at the Hynes Convention Center (11/1/2003)



# ABANDONED PROPERTY

## SUMMARY

It is estimated that 1 out of every 10 people own abandoned property and do not know. According to the Massachusetts Abandoned Property Laws, most financial assets that have been inactive for more than three years are declared "abandoned" and turned over to the Commonwealth. It is the responsibility of the Abandoned Property Division of the State Treasury Department to return this property to its rightful owners.

## ACCOMPLISHMENTS

- On January 15, 2003, the Division inherited a backlog of more than 8,500 e-mails that were assigned to a task force and answered within two weeks of being in office.
- By the end of January 2003, the Division froze and corrected the overpayment of interest on interest-bearing accounts. A rate of 5% was being paid instead of the statutorily required amount of the lower of either 5%, or the market rate when the property was abandoned. This adjustment saved the Commonwealth approximately \$500,000 in erroneous interest payments.
- The Tangible Property Department, which stores all property retrieved from safety deposit boxes, overhauled policies and procedures for receiving, transporting, securing and maintaining inventory. In addition, the entire department relocated to a more appropriate facility in Chelsea, MA, where surveillance cameras and ID-activated security was installed.
- The Division emphasized its priority: immediate response customer service. This was accomplished by reorganizing staff assignments and reducing response times for telephone inquiries, e-mail and written correspondence. As a result, the Division answered over 123,000 phone calls and 98,200 e-mails in its first year of operation.
- With the passage of demutualization legislation, the Division collected over \$90 million in demutualized property, including \$70 million in cash earmarked for the stabilization fund. This additional property resulted in record publications during the fall months.
- The Division liquidated abandoned stocks and mutual funds resulting in a \$75 million deposit to the General Fund.
- Given the demutualization and stock sale, by the end of FY03, or June 30, 2003, the Division collected a record \$238 million, the highest total ever collected in Massachusetts since the law was enacted in 1954.

## PUBLICATIONS OF ABANDONED PROPERTY

- Comprehensive training of all employees for the publications was conducted to improve customer service. This included re-training all existing Abandoned Property staff as well as training new employees from other departments interested in participating in the Division's call center. Thirty three employees from outside Abandoned Property were trained, which allowed the Division to establish expanded hours of operation (8 a.m. to 8 p.m. on weekdays; 9 a.m. to 5 p.m. on Saturdays). Operating hours were expanded by 72% for the publication periods.
- Claims personnel reduced claims processing times. After publications ran in the Boston Globe and Boston Herald, employees worked overtime to address the large volume of calls and to process the thousands of claims generated from those inquiries. As a result, processing times were reduced from 12 to 6 weeks for cash claims, and from 16 to 10 weeks for stock claims.
- Call management software was installed to measure progress made in reducing response times in the call center. The average response time was reduced from over 15 minutes for peak periods in 2002 to less than 3 minutes at all times, for all 2003 publications.



Radio personality Upton Bell with Treasurer Cahill redeeming lost memorabilia from an abandoned safety deposit box.

# ABANDONED PROPERTY

## ADDITIONAL PROGRAMS

- The Abandoned Property Division launched an extensive outreach program that employs fairs, assisted living facilities, malls, city & town halls and other regional locations to find owners of unclaimed property. In 2003, the program returned property to over 1,100 people, with cash claims totaling \$199,967.00 and stock claims totaling \$139,385.00.
- The Reporting Department expanded report-processing methodologies such as online reporting avenues. Also, reports of \$20,000.00 of cash and above are now required to wire funds to the Treasury. This has reduced the delays associated with handling paper checks.
- The Division resumed investigations on abandoned property belonging to cities, towns and state agencies. As a result, \$935,299.09 was returned from claims dating back to 1987.
- The Division worked collaboratively with the Legislature on initiatives affecting gift cards and gift certificates, tangible property laws (safe deposit boxes), business to business transactions and interest rate provisions.

## STAFF ROSTER

### Mark Cavanaugh, Deputy Treasurer

Allison Ananis	John LaCara
Timothy Barney	Taraye Lopez
Joan E. Benway	Amy Lyons
James Clafin	Joseph M. Mara
Marina Cramer	Michael K. McGee
Kristen Culgin	Joseph Montuori
Richard D'Avolio	Patrick Moran
Maribeth DiBlasi	Dominic O'Flaherty
Elizabeth Dziergowski	Jim Powers
Michael J. Flaherty	James Roy
Cindy Frechette	Marco Sandonato
Emily Hebert	Jean Small
Marc Iacobucci	William Sweeney
Jay Jerahian	Andrew Turco
Jaques Joseph	Michael Ward
Eric Kramer	Vicki Williams

## CLAIMS PAID (SEE CHARTS)

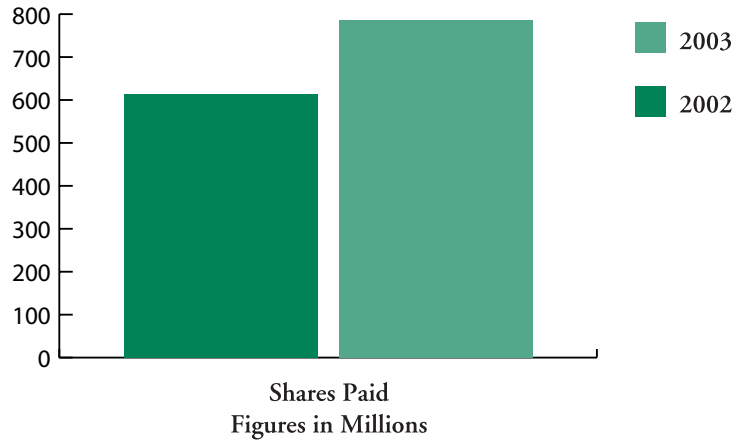
- Cash Claims Paid 1/1/02-12/31/02: 29,938  
Original Claim Amount: \$26,104,369.48  
Interest Amount Paid: \$1,325,269.20
- Cash Claims Paid 1/1/03-12/31/03: 44,636  
Original Claim Amount: \$31,682,995.56  
Interest Amount Paid: \$1,168,273.89
- Stock Claims Paid 1/1/02-12/31/02: 3205  
Shares Paid: 614,023,530
- Stock Claims Paid 1/1/03-12/31/03: 9058  
Shares Paid: 786,826,060
- Mutual Fund Claims Paid 1/1/02-12/31/02: 375  
Shares Paid: 331,693.84
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Shares Paid: 421,409.41



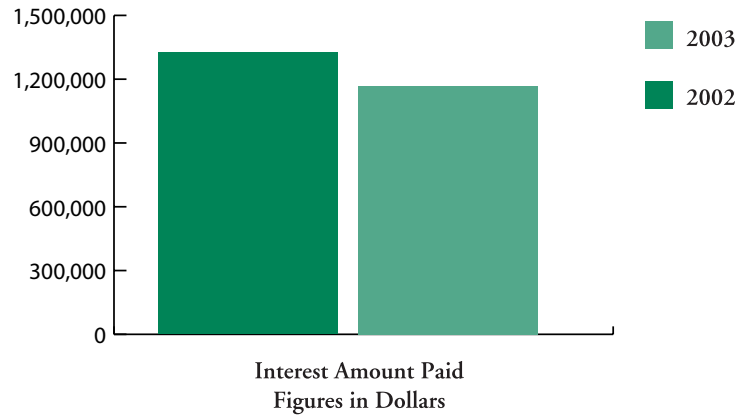
Michael McGee, Vicki Williams and James Roy take the Abandoned Property booth on the road to return missing property to its rightful owners (2003)

# ABANDONED PROPERTY

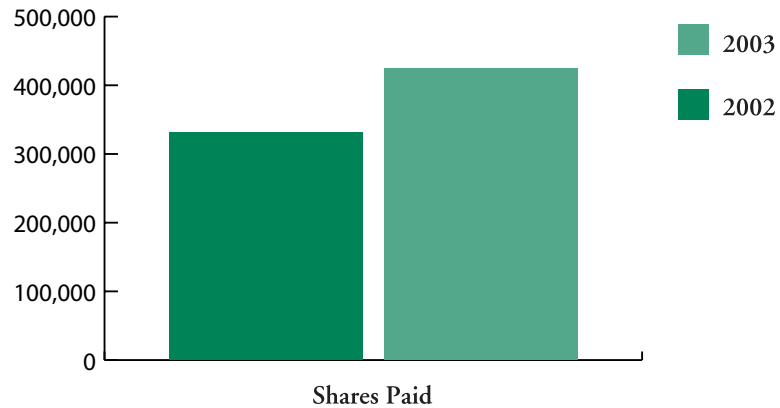
## STOCK CLAIMS PAID



## CASH CLAIMS PAID



## MUTUAL FUND CLAIMS PAID



## SUMMARY

The Alcoholic Beverages Control Commission is responsible for the general supervision and conduct of the business of manufacturing, importing, exporting, storing, transporting and selling alcoholic beverages as defined in M.G.L. c.138 § 1. The ABCC is the sole agency in Massachusetts responsible for directly licensing or permitting specific participants in the alcoholic beverages industry in Massachusetts. All manufacturers of alcoholic beverages, wholesalers and importers, out-of-state suppliers of alcoholic beverages, brokers, salesman, warehouses and most every motor vehicle transporting alcoholic beverages in Massachusetts require direct licensing from the ABCC. Approximately 10,000 such licenses and permits are issued by the ABCC's licensing division each year.

The ABCC must also approve the issuance of every retail pouring or package store license application allowed by a city or town. There are approximately 10,000 annual, retail pouring or package store licenses in Massachusetts. There are approximately 2,000 seasonal retail pouring or package store licenses. The members of the ABCC's licensing division process the annual renewals of these 12,000 retail licenses.

The investigative unit assists with the issuance of all licenses to ensure compliance. No application is approved by the Commission until an investigator has completed due diligence on a license applicant. In addition, the investigative unit is responsible for maintaining compliance after a license has been issued. By conducting investigations into establishments at no notice to the owner, ABCC investigators report violations back to the Commission for appropriate adjudication. The Commissioners administer hearings, write decisions and impose penalties and fines.

## INVESTIGATION

In July 2003, the Legislature moved the ABCC from the Office of Consumer & Business Affairs to the State Treasurer's office. A Transition Team comprised of Nan O'Neill (Murphy, Toomey, Hesse & Lehane), Sheriff Andrea Cabral (Suffolk County), Patrick Moscaritolo (Greater Boston Conventions & Visitors Bureau), Robert LaRochelle (Andover Strategic Alliances), George Mitchell (ACS), Alice Moore (Attorney General's Office) and William Hogan (Hogan, Roache & Malone) assessed the agency and made recommendations to the Treasurer and his staff. Those recommendations included change in leadership, reinstatement of investigative unit, re-organization of the entire agency, information technology upgrades and better business practices in licensing and cash transactions.

In September 2003, Treasurer Cahill appointed Eddie J. Jenkins Chairman of the Alcoholic Beverages Control Commission and re-hired 9 of the 11 Investigators who had been laid off in March of that same year.

The Investigation and Enforcement Division embarked on an extensive six-week re-training period conducted in-house by Chief Investigator Frederick Mahony and externally by the Suffolk County Sheriff's Department.

Upon completion of the training program and beginning on November 6th, the Investigation and Enforcement Division conducted comprehensive enforcement operations pursuant to the Division's official objectives.

From November 6th through December 31st of 2003, the Investigation and Enforcement Division conducted enforcement operations in over 100 communities, which resulted in the following:

- Investigated and closed 198 complaints filed with the Commission since September 15, 2003
- Investigated and closed 355 OUI notices reported to the Commission.
- Completed 2794 license application investigations filed with the Commission
- Initiated several on-going investigations into gaming and organized crime activity
- Re-instituted Operation Safe Holidays with unprecedented success: verified more than 500 IDs, stopped 117 minors in possession of alcoholic beverages, charged 27 adults with procuring alcohol for minors, charged 12 bars with serving an intoxicated patron, placed 30 individuals into protective custody

# ALCOHOLIC BEVERAGES CONTROL COMMISSION

<b>Certificates of Compliance</b>	1755	<b>Ships Chandlers</b>	122
Issued to suppliers outside of Massachusetts giving them authority to sell to wholesalers within Massachusetts.		License to sell alcoholic beverages by ship chandlers (who sell supplies and provisions to ships) to be consumed on ships.	
<b>Salesman Permits</b>	4500*	<b>Storage</b>	9
Permits issued to wholesalers' employees permitting individuals to solicit orders for alcoholic beverages.		License is issued to wholesalers, etc. to store their alcoholic beverages in identified warehouses.	
<b>Express Permits</b>	4000*	<b>Public Warehouse</b>	19
Permits issued to companies transporting alcoholic beverages into or within the state of Massachusetts.		This license authorizes the holder to store alcoholic beverages for wholesalers or individuals lawfully in possession of alcoholic beverages.	
<b>Transportation Permits</b>	3000*	<b>Wholesaler, AB (All Alcoholic Beverages)</b>	55
Permits issued to companies and licensed salesmen transporting alcoholic beverages within the state of Massachusetts		License to import and/or buy all types of alcoholic beverages for re-sale to other licensees, including retailers and other Massachusetts wholesalers.	
<b>Broker</b>	89	<b>Wholesaler, WM (Wine &amp; Malt Beverages)</b>	55
Sales agent between Certificate of Compliance holder and Massachusetts wholesaler		License to import and/or buy wine and malt beverages only for re-sale to other licensees, including retailers and other Massachusetts wholesalers.	
<b>Airline</b>	450	<b>AB Manufacturer</b>	2
License to sell alcoholic beverages on an aircraft		License is issued to authorize the holder to manufacture, rectify, blend, and package all types of alcoholic beverages.	
<b>Farmer-Breweries</b>	19	<b>WM Manufacturer</b>	1
License issued to person who both grows hops and uses them to brew malt beverages		License is issued to authorize the holder to manufacture, rectify, blend, and package wine and malt beverages only.	
<b>Farmer-Distilleries</b>	1	<b>Sell Alcohol</b>	2
License issued to person who both grows fruits, flowers, herbs, vegetables, hops or certain grains and uses them for the purpose of producing distilled spirits.		License to sell alcohol for medical purposes in Massachusetts to any hospital, educational, or scientific institution	
<b>Farmer-Winery</b>	27	<b>Wholesalers, Sacramental Wine</b>	2
License issued to person who grows fruits, flowers, herbs or vegetables and/or produces wines and sells to other wineries or wholesalers.		License to sell sacramental wine only to any registered ordained priest, minister or rabbi or to any church or religious society.	
<b>Railroad</b>	87	<b>Transportation for Airlines</b>	1
License to sell alcoholic beverages to be consumed on railroad cars		License to transport alcohol in aircrafts, not for consumption	
<b>Pub Breweries</b>	13		
License is issued to restaurants licensed to sell alcoholic beverages that also feature brewing malt beverages in the restaurant as an ancillary attraction.			

*\*Approximate figures*

## LICENSING

The Licensing Department processes two types of licenses: 1. State licenses or permits (including Certificates of Compliance) issued directly by the ABCC only, and 2. every retail pouring or package store license granted by local licensing authorities. In total, this important department of the ABCC oversees the issuance of more than 22,000 licenses and permits each year.

Since September 2003, state permits are received on a view-direct program from Massachusetts' Information Technology Division (ITD) in Chelsea. Prior to 2003, license administrators were unable to view ITD's program and therefore lacked the ability to track license approvals and issuance. Since the transfer to the Treasury, the IT Department has upgraded many of the systems used by license administrators to 1. comply with internal control standards and 2. automate the licensing applications.

The ABCC re-instituted the use of a lockbox to ensure the security of cash transactions mailed to the agency from applicants and local licensing boards. Most payments to the ABCC are now mailed directly to the bank for deposit into the lockbox. A statement is then sent to the ABCC for reconciliation. This information is tracked on a weekly basis by the ABCC and sent to the Treasury department. Physical checks sent to the ABCC are deposited daily.

## FEE COLLECTION

In FY03 the ABCC produced a total of \$1,636,821 in revenue. As of December 31, 2003, that number grew to \$2,382,312 through increased fees for new applicants and license renewals. The ABCC also expects to collect over \$1 million in back taxes owed by delinquent licensees, in collaboration with the Department of Revenue.

## STAFF ROSTER:

**Eddie Jenkins, Chairman**

Robert Cronin, Co-Commissioner

Suzanne Iannella, Co-Commissioner

Jamie Binienda	Deron Bobb
Paul Capurso	Jack Carey
Natacha Dunker	Errol Flynn
Caroline Guarino-Wilichowski	Arthur Hitchman
Lauren Hitchman	Timothy Hooten
Keith Keady	William Kelley
Mark Kenny	Patricia Krueger
Jan Kujawski	Marcella Lacy
Dorothy MacAdams	Frederick Mahony
Ellen Moriarty	Raymond Redfern
Theresa Strianese	Michael Teehan

## ALCOHOLIC BEVERAGES CONTROL COMMISSION

ABCC State Licenses Issued 2003

110

All Wholesalers

9

Storage

450

Airlines

89

Brokers

19

Farmer Breweries

27

Farmer Winery

13

Pub Brewers

87

Railroads Plus Cars

122

Ship Chandlers

19

Public Warehouses

9

Other

## SUMMARY

Administration and Finance oversees the fiscal and administrative activities of the Treasury. It ensures the financial stability of this office by managing operating trusts and capital budgets. Administration and Finance enables the other departments to focus their energy on their areas of business. To that end, the office provides the other departments with centralized expertise in the areas of budgets, procurement, facility management and all other administrative functions.

## ACCOMPLISHMENTS

- Successful FY04 budget cycle (annual budget \$7,054,378)
- Successful transition and assimilation of Alcohol Beverage Control Commission and its annual budget of \$1,766,478 into the Treasury Department
- Creation and timely filing of FY04 and FY05 spending plans for Treasury, State Board of Retirement & Alcoholic Beverages Control Commission
- Successful conversion of the New Eminent Domain Trust Fund
  1. Overview: Various agencies and departments of the Commonwealth of Massachusetts acquire land for a variety of reasons, for which the landowner is compensated. Under Massachusetts General Law's c. 79, §§ 7D and E, a taking authority is required to deposit with the Treasurer's Office payments for land taken in cases where the owner is unknown or under a legal disability from receiving payment. These funds are deposited into an Eminent Domain Trust Fund, managed by the Office of the State Treasurer, until funds can be paid to the rightful owner. In some cases, for example, when the owner cannot be located or ownership cannot be determined, these payments are deemed Abandoned Property, if the payment cannot be completed within three years of the deposit into the EDTF. In cases such as these, payments must then be transferred to the Abandoned Property Division as provided in Massachusetts General Laws c. 200A. Information about transferred assets is then publicized to facilitate return of the property to the rightful owner.
  2. New Process: The new system records individual case data, facilitates reconciliation of deposits to the EDTF appropriation, maintains account balances by applying interest each month, and supports improved management oversight of the trust by providing easily accessible data necessary for fund reconciliation. In addition, the system automates the transfer of old, inactive cases to the Abandoned Property Division. Since some cases involve disputes, residual rights of mortgage holders or municipal liens and, therefore do not fit the definition of "abandoned", the new system identifies these cases and stops the automatic transfer from EDTF to Abandoned Property. Thus, the EDTF database system performs as a "sister" to the Abandoned Property and Unpaid Check Fund Systems.
- Responded to issues raised in the State Auditor's report concerning contract administration by creating uniform contract and filing procedures. Built a comprehensive contract register detailing the originating department; contractor types; amounts of the contract terms; deliverables; time frames; contract expiration date; extension options; and whether the contract is a state contract or was obtained through the RFR process. This gives us the ability to track the status of all contracts at any time.
- Set up new guidelines and an updated filing system for all RFR (request for response) and RFP (request for proposal) announcements. A matrix was originated detailing the expectations of each department involved in the RFR/RFP process. Expectations include writing the scope of services; formatting the RFR; finalizing draft documents; evaluations; recommendations; posting and advertising; and implementing contracts. Following this guideline provides departments with a consistent roadmap that is consistent throughout the Treasury.
- Improved accountability with new mail log-in procedures
- Saved 30%, or \$9024, on the purchase of computers by using big buy state pricing
- Negotiated new three-year lease on all Treasury copiers saving \$16,000 in 2003
- Secured additional appropriation from the Legislature for the Veteran's Bonus Program in order to pay 124 bonuses, or \$34,800, to Massachusetts veterans of WWII, the Korean and Vietnam Wars
- Issued 972 Bonds for blasting and fireworks in cities and towns throughout Massachusetts
- Executed 48 contracts for services including bank fees, computer maintenance, photocopiers, building leases, custodial services and website design

## ADMINISTRATION AND FINANCE

- Issued and managed 9 RFR's in the Department's of Abandoned Property, Cash Management, and Deferred Compensation. An additional contract was procured for computer services for the State Board of Retirement.
- Processed 4004 payment vouchers for all goods and services, such as office supplies and general operational services (i.e. subscriptions, telephones, disposal services), professional services (i.e. information technology services, auditors, custodial services, bank fees and bond costs), retirement warrants, veteran's bonus payments, Abandoned Property publication costs, MBTA Greenbush project, Electronic Benefit Transfer payments. All payments totaled \$35,474,106; with an additional \$7,537,876 in unpaid check fund payments; \$826,913,752 in MBTA forward funding payments; and \$933,953,500 in retirement warrants for both the monthly pension and weekly refunds.
- Processed 474 purchase orders totaling \$560,182
- Paid 97% of all Treasury invoices within 30 days

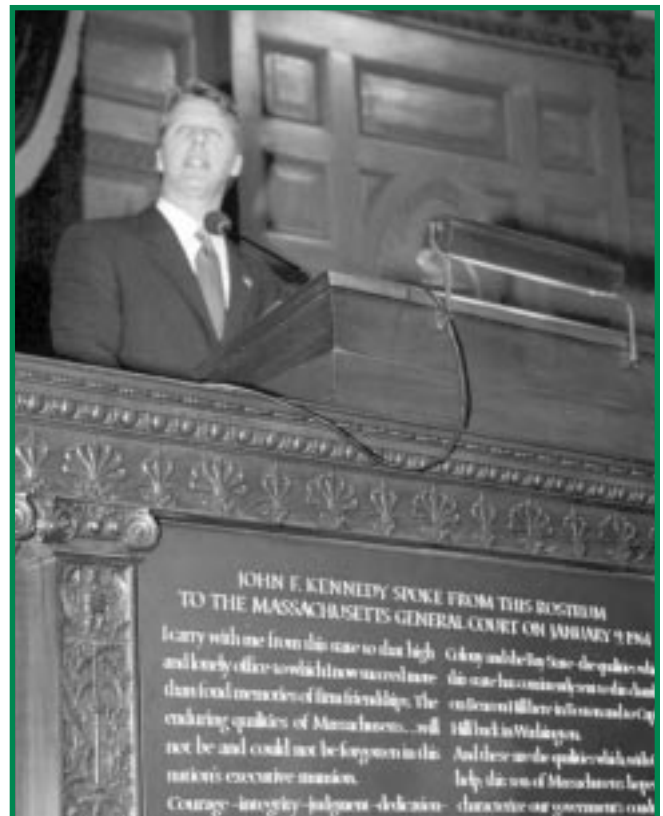
## FACILITY MANAGEMENT

- Reconfigured office space in Accounts Payable area by removing walls and setting up a centralized contract, RFR and RFP registry
- Reorganized and secured document storage
- Removed all outdated equipment and fixtures from Treasury departments to make work areas more employee-friendly
- Rearranged security room and upgraded gray card security software

## STAFF ROSTER

### Al Grazioso, Assistant Treasurer

Clarence Cannon	Karen McCabe
Karen DeTellis	Genevieve O'Brien
Mark E. Finnerty	Jackie A. Sarno
Dezzie L. Hill	Mary Anne Siok
Cheray Johnson	Brian F. Turnbull



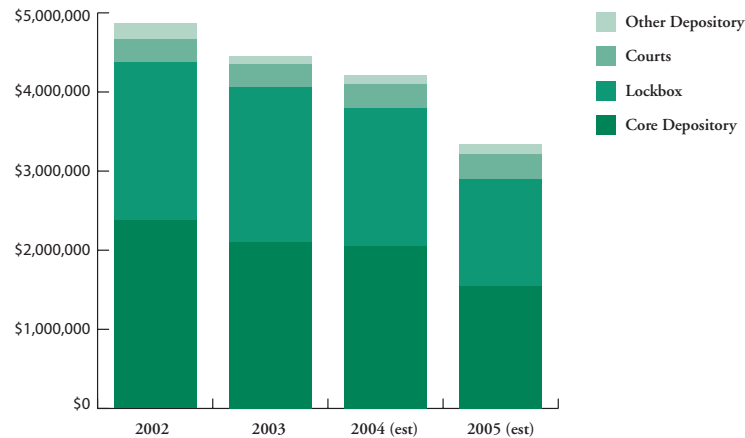
Treasurer Cahill giving his Inaugural Address in the House Chamber on January 15, 2003



# CASH MANAGEMENT

The Treasury's Cash Management Division is responsible for managing the Commonwealth's daily cash flows, which total over \$35 billion annually. To this end the Division's staff of 17 oversees the Treasury's banking and short-term investment operations. This includes making critical payments, including quarterly local aid payments to cities and towns, managing over 1000 bank accounts and a short-term investment pool for the Commonwealth's and municipalities' working capital.

## TREASURY BANKING FEES



## ACCOMPLISHMENTS

The Cash Management Division plays a critical role in the daily operations of all Commonwealth departments, so its highest priority is efficient and responsible operations, made possible in large part by an effective, cross-trained staff. In addition to this strong foundation, the Division has implemented several initiatives in 2003 aimed at improving the efficiency of cash management operations:

- Completed bidding process for the Commonwealth's Core Depository/Central Disbursement, Lockbox and Agency Advance Account banking services in September 2003 and began implementation of new banking relationships in December. The Treasury should realize over \$1 million per year in cost savings under these contracts once they are fully implemented, beginning in FY 2005 (see chart above).
- In November 2003 began issuance of "Dear Citizen" letters to potential owners of funds held in the Commonwealth's Unpaid Check Fund. This outreach will lead to a larger number of owners contacting the Treasury directly to reclaim their funds at no cost, rather than working through "asset locators," who typically charge a significant portion of the amount recovered.
- Completed a minor reorganization of the Division, aimed at decentralizing authority from the Assistant Treasurer to the supervisors and individual employees.
- Eliminated labor-intensive processing of witness fee payments for trial court accounts by decentralizing process to individual courts.
- Assisted Alcoholic Beverage Control Commission with revision of its cash transaction policies, including the return of the agency lockbox for check processing.

## STAFF ROSTER

### Timothy Brooks, Assistant Treasurer

Steve Blatus	Cassandra Melody
Henry Clay	Erin Nally
Jim Clifford	Minot Powers
Alvin DeVera	Gail Roberts
Elizabeth Ilnicki	David Scott
Ed Keaveny	Jeff Surette
Danielle Lussier	Jane T. Waldron
James A. MacDonald	Jonathan Watson

# DEBT MANAGEMENT

## SUMMARY

The Debt Management Department is responsible for structuring, issuing and paying most short and long-term debt issued by the Commonwealth of Massachusetts. The issuance of long-term debt (bonds) is necessary to generate monies to fund the Commonwealth's capital spending program, which currently totals some \$1.25 billion annually. In addition, given the interest rate environment over the past several years, the Commonwealth has issued significant amounts of long-term debt to refinance older higher-interest debt to generate debt service savings. The Debt Management Department issues short-term debt to provide temporary financing of capital projects or for cash flow purposes to support the operating budget.

## ACHIEVEMENTS

During calendar year 2003 the Debt Management Department issued \$8.4 billion in debt. This included roughly \$3 billion in long-term bonds, \$550 million in stand-alone notes, and \$4.9 billion in short-term issuance through the State's commercial paper program.

COMMONWEALTH DEBT ISSUANCE FOR 2003		
Type of Issue	Number of Transactions	Amount (millions)
Commonwealth Bonds	7	\$2,989.3
Stand-Alone Notes	1	550.0
Commercial Paper	303	4,883.8
<b>Total</b>	<b>312</b>	<b>\$8,423.1</b>

Of the nearly \$3 billion in long-term debt issued during the year, about \$1.0 billion represents funding for capital projects, while \$1.95 billion was used to refinance older debt to produce debt service savings. The Commonwealth was the seventh largest issuer of municipal debt in the country in 2003.

The stand-alone note issuance represents short-term notes that were issued to provide temporary financing for the State's new convention centers. These notes will be retired during 2004 when the State permanently finances these facilities through the issuance of long-term bonds.

Commercial paper activity represents the issuance of short-term debt through a flexible issuance program that is back-stopped by commercial banks. This program is used to temporarily finance capital expenditures in between bond sales, and to provide cash flow financing for operating purposes. The vast majority of the commercial paper activity during 2003 was for cash flow purposes, and, as is required by state finance law, is retired before the end of each fiscal year.

## REFUNDING ACTIVITIES

Over \$1.9 billion of the Commonwealth's long-term bond issuance during 2003 was for refunding purposes. Three such refunding transactions were executed to refinance pre-existing higher interest rate debt with new lower cost debt. On a combined basis, these bond refundings generated \$97.3 million in debt service savings over a number of years, which is equivalent to \$80.3 million on a present value basis, as shown below.

STATE TREASURY REFUNDING ACTIVITY				
January 1999 – January 2003				
Date	Type	Refunding Amount (\$millions)	Gross Savings (\$millions)	Present Value Savings (\$millions)
March 2003	GO	\$777.6	\$27.4	\$32.7
July 2003	SO	408.0	23.9	15.4
October 2003	GO	890.3	46.0	32.2
<b>Total</b>		<b>\$1,947.9</b>	<b>\$97.3</b>	<b>\$80.3</b>

While the Commonwealth was undoubtedly aided by historically low interest rates during this period, the Treasury's refunding performance was extraordinary in that it was achieved despite substantial prior refunding activity. During the prior four years (1999-2002) the Commonwealth had already issued some \$4.7 billion in refunding bonds which saved the State \$228 million in debt service costs equivalent to \$194 million on a present value basis.

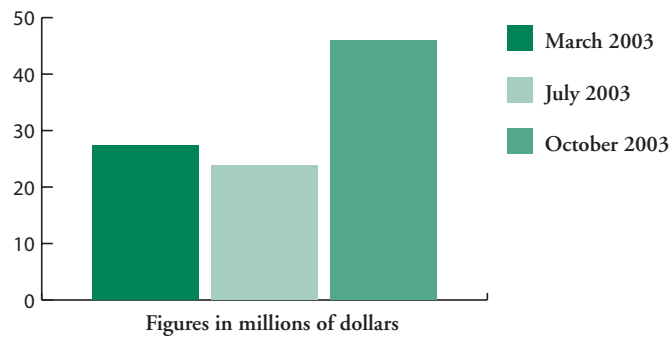
## COMMERCIAL PAPER PROGRAM

One critical component of the Commonwealth's cash management activities is the State's commercial paper (CP) program. The CP program, which is a flexible vehicle for issuing short-term bond and revenue anticipation notes, is managed by the Treasurer's Office. The program requires the coordination of two investment banks that act as CP dealers, a trustee that acts as issuing and paying agent, and five international commercial banks that back-stop the State's issuance. This program was used extensively during 2003 both to provide temporary financing of capital expenditures and to ensure the timely payment of all the Commonwealth's operating budget obligations, including local aid to the State's 351 cities and towns.

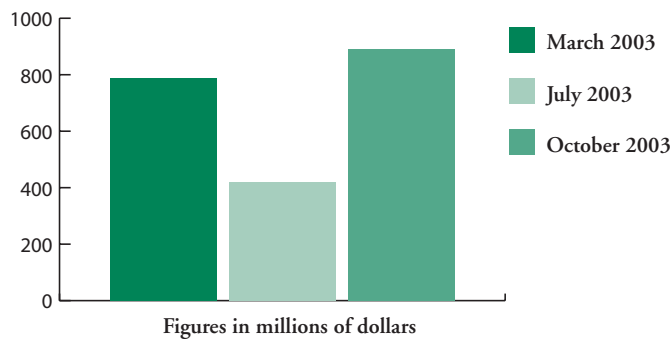
## OTHER MANAGEMENT ACTIVITIES

The Department also ensures that the State pay all its debt service obligations on time. Most bond issuers use trustee and paying agent banks to perform this function. But in Massachusetts, this is done "in house" in the Debt Management Department. The Department paid all debt obligations in a timely manner, including principal and interest payments on fixed rate bonds, variable rate payments, swap payments, transfers for certain specialized debt structures, and receipt of escrow proceeds for bonds previously refunded. The Department is also responsible for making debt service payments on numerous non-Commonwealth issues, including 50 local qualified bond issues previously managed by the Department of Revenue and certain county debt after their dissolution.

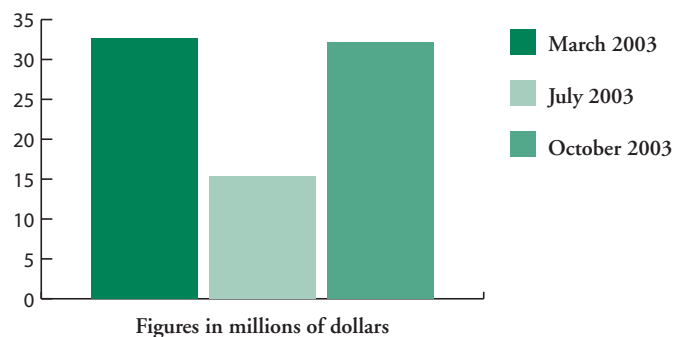
### SAVINGS FROM BOND REFUNDINGS - DEBT SERVICE SAVINGS



### SAVINGS FROM BOND REFUNDINGS - BONDS REFUND



### SAVINGS FROM BOND REFUNDINGS (PRESENT VALUE)



## DEFERRED COMPENSATION PLAN

The Commonwealth of Massachusetts established its deferred compensation plan ("Plan") in 1976 as a non-qualified public employee benefit plan. The Plan is intended to comply with Section 457 of the Internal Revenue Code and Chapter 29, Section 64 of the General Laws of Massachusetts.

The Plan is available for employees and independent contractors who perform service for the Commonwealth of Massachusetts or any political subdivision, body politic, city, town or group thereof, including any governmental body that chooses to adopt the Plan. The Plan has approximately 91,000 full-time participants and approximately 152,000 part-time active participants with total assets over \$3.1 billion, and is administered by ING Financial Services ("ING")

### Investment Option Summary By Asset Class

Fund Name	Assets as of 12/31/2003	% of Total	# of ptcpts
<i>Global / International</i>			
Capital Guardian International (Non-U.S.) Equity Fund	\$91,571,194.88	2.92%	20315
State Street Daily EAFE Securities Lending Fund Series T	\$6,049,737.27	0.19%	1450
<i>Aggressive Growth</i>			
Active Small Cap Stock Portfolio	\$251,339,535.30	8.01%	30100
State Street Russell 2000 Securities Lending Fund Series A	\$20,618,898.81	0.66%	3117
<i>Growth</i>			
Fidelity® Growth Company Fund	\$536,089,499.26	17.09%	37001
<i>Growth &amp; Income (Stocks)</i>			
Active Large Cap Value Stock Portfolio	\$30,802,457.84	0.98%	6086
Domini Social Equity Fund® - Investor Shares	\$17,058,366.08	0.54%	2998
Fidelity® Fund	\$615,522,507.59	19.62%	43613
State Street S&P 500 Flagship Fund Series A	\$132,560,029.23	4.23%	1372
<i>Growth &amp; Income (Stocks &amp; Bonds)</i>			
	\$0.00	0.00%	0
<i>Asset Allocation</i>			
Aggressive Lifecycle Fund	\$10,044,582.33	0.32%	1634
Conservative Lifecycle Fund	\$9,365,142.58	0.30%	1025
Moderate Lifecycle Fund	\$194,456,956.61	6.20%	14907
<i>Income</i>			
Barclays Global Investors U.S. Debt Index Fund	\$29,642,986.83	0.95%	4499
PIMCO Total Return Fund - Institutional Shares	\$79,643,987.32	2.54%	9948
<i>Stability of Principal</i>			
The Income Fund	\$1,045,039,717.65	33.31%	199619
Vanguard® Prime Money Market Fund - Institutional Shares	\$45,133,794.72	1.44%	3633
<i>Other</i>			
Harrisdirect Account	\$22,352,475.77	0.71%	315
<b>Total</b>	<b>\$3,137,291,870.07</b>	<b>100.00%</b>	

# DEFERRED COMPENSATION PLAN

## ACCOMPLISHMENTS

The Deferred Compensation Plan staff began a revival of the Plan in 2003 in an attempt to attract and encourage employees to invest in the Plan. By offering diverse and quality investment products, increased emphasis on employee education and improved promotion of the Plan, the staff aims to increase investment.

- In 2003 the Plan decided to further diversify its investment options by adding three new investment options. In June, a procurement was conducted for firms to provide investment management services for a Real Estate Investment Trust ("REIT") fund, Tax Inflation Protected Securities ("TIPS") fund and a High Yield bond fund.
- After conducting an RFP, the Plan selected ING to continue to provide administration services as well as, no cost Educational and low cost Advisory services.
- The Plan won the New England Employees Benefit Council award for providing the Advisory Service Program to participants. As a result of implementing this program participants have the opportunity to further educate themselves by attending one of many seminars or scheduling a counseling session:
  - Retirement Counseling Sessions: 3,924
  - Group Informational Sessions: 2,245
  - Counseling Sessions: 31,063
- To increase participant awareness, efforts to re-brand the Plan commenced. As a result of a participant contest, the Plan will be renamed the "SMART" Plan - "Save Money and Retire Tomorrow" - which will be accompanied by a new logo. Also, implementation of a customized web site and new toll free phone number began.
- The quarterly newsletter letter and marketing materials were redesigned to place more emphasis on the Plan rather than the administrator.
- 14,023 participants increased their contribution amount
- 3,532 participants enrolled in the Plan

## STAFF ROSTER

Kelleen Dwyer, Director

John LaCara, Director



Treasurer Cahill personally congratulated state employees Linda Andrade (left) and Judy Sohn-White (right), winners of the "Name the Plan" Contest.

# HUMAN RESOURCE OPERATIONS

## SUMMARY

The Human Resource Department is responsible for implementing standards of accountability and legal compliance so that all Treasury employees achieve success in the workplace. The Department's primary functions include operating the payroll system, providing employee benefits, managing the recruitment and hiring process, creating and enforcing attendance procedures, implementing disciplinary action when applicable and finally, fostering employee morale.

## ACCOMPLISHMENTS

- Created thorough and consistent process to recruit, interview and hire employees
- Developed comprehensive resume database used to match skill and interest to Treasury position
- Authored a complete Employee Policy Manual, with explicit policies and procedures
- Enforced the Treasurer's policy of NOT accepting campaign contributions from employees, or any relative residing at employee's primary residence
- Administered State Ethics training for all Treasury employees
- Designed and submitted the Treasury Personnel Report to House and Senate Ways and Means, as required by Massachusetts General Law
- Updated organizational charts for the Treasury and each of its departments
- Created a personnel project that resulted in a job description for each employee
- Formalized an annual employee appraisal system for more accurate personnel files and accountability
- Executed labor relations with three unions of the ABCC to change their working conditions so as to effectively incorporate their employees into the Treasury's systems, policies and procedures
- ABCC:
  - Integration and implementation of Treasury policies and procedures
  - Assumption of time and attendance as well as payroll computations
  - Mediation between and among employees

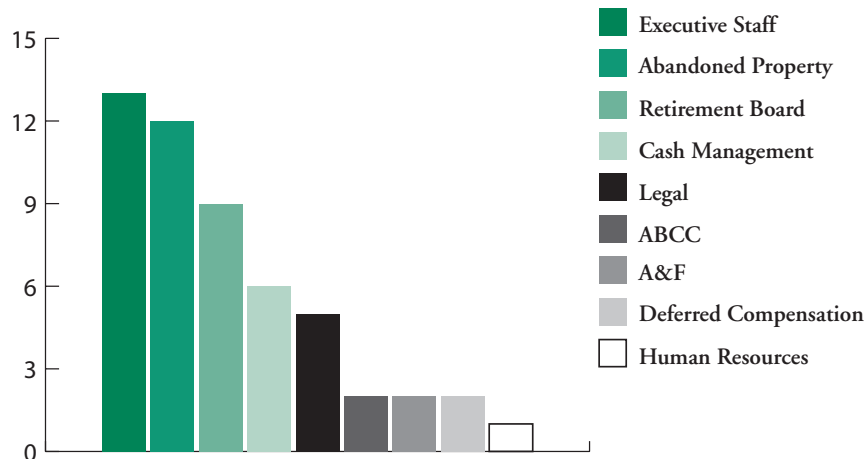
## EMPLOYMENT STATISTICS

- As of January 14, 2003, the day prior to this administration beginning, there were 149 employees of the Treasury
- Presently there are 180 active employees
  - 24 of the additional 31 employees result from ABCC integration
  - Seven employees are part time and/or per diem

## STAFF ROSTER

Neil Morrison, Assistant Treasurer  
Sandra Gonsalves, Human Resource Specialist  
Jennifer Kane, Payroll Director

## HUMAN RESOURCES



Employees Hired in 2003 by Department

## SUMMARY

The mission of Computer Services is to provide Information Technology (IT) support to the Treasury, as well as provide support to other agencies and institutions that interface with the Treasury. Much of what IT does is behind the scenes, yet is critical to the proper functioning of the Treasury and State Government by providing the infrastructure that facilitates day to day business.

## ACCOMPLISHMENTS

### ABP Search Web Site

ABP worked with Venturi Partners in developing a new search web site for their unclaimed property. To support this effort IT installed a DMZ and a new server in room 810. IT worked closely and successfully with ITD since they control the state network and the firewall that protects the Boston network.

### Treasury Web Site

Redesigned the Treasury web site to have the look and feel of www.mass.gov. The new site was posted in August before the Abandoned Property web site went live.

### ABCC Integration

Allocated space on file servers for user files and shared departmental files. Integrated ABCC printers into Treasury network. ABCC personnel have access to network printers. Configured Boston firewall to allow only the required network traffic in to integrate ABCC into the Treasury network. Created network and email accounts for ABCC personnel and installed the required software on PC's to manage this access as well as manage the PC's.

### NewMMARS Project

The NewMMARS project is a rewrite of the current MMARS system. The project is sponsored by the Comptroller's Office and it will use software developed by AMS called Advantage. AMS is the company that developed MMARS. IT worked closely with AMS, OSC, and ITD on this project and will continue until its production date scheduled to be May 2004. NewMMARS will have a major impact on our Cash Management System (CMS) and the Payment Processing System (PPS).

### Bond Trust System Migration

Converted the Unisys mainframe based BondTrust system used by Cash Management to use an IBM DB2 database with a MS Access front end. This is the last of the smaller systems to be taken off the Unisys, leaving 4 mission-critical systems as listed elsewhere.

### CSVC Purchasing System

Developed a purchasing system for Computer Services that will integrate with our Service Requests and Inventory System. This will tie purchasing to inventory for IT equipment.

### Disaster Recovery / Business Continuity

Progress in being made in that the contract has been signed with Unisys for them to provide Treasury with a DR Roadmap. The work will begin early January 2004. The DR Workshop Report and DR Roadmap Statement of Work have already been distributed.

### Commbridge upgrade for NewMMARS

Commbridge is an implementation of IBM MQSeries messaging software that IT uses to exchange files with other state agencies. In collaboration with ITD, IT upgraded this application in preparation for NewMMARS.

### Cash RFR Changes

Completed conversion to Sovereign Bank for the new Cash Management banking services contract. Issues included bank account, file transfers, check stock, contact, direct deposit files, issue files, etc.

### Software Upgrades

Novell NetWare 6.5  
Novell ZEN for Servers SP2.  
Novell Extend Director 4.1 (upgrade/rename of Novell Portal Services)  
Crystal Reports 9.  
Novell Account Management 3.  
Service packs as they are released.  
These upgrades will be done over the winter. Critical updates and anti-virus updates are applied as they are released.

### Hardware Upgrades

GroupWise Server

## STAFF ROSTER

### Peter Navarro, Assistant Treasurer

Gerald Buchanan	Diane McGuire
Bill Carroll	Manuel Medeiros
Denis Hogan	Charles Pratt
Wen Jie Lin	Asha Ramesh
Philip Maloney	Patrick Todd

## SUMMARY

The Legal Department is responsible for representing the Treasurer and the Department of the State Treasurer professionally and competently throughout the Commonwealth on all legal matters. The legal team is comprised of the General Counsel, Deputy General Counsel, 3 Associates and 2 Paralegals.

## NEW POLICIES BY DEPARTMENT

1. Human Resources
  - Prepared Sexual Harassment and Anti-Discrimination Policies
  - Mandated all employees attend State Ethics training
2. Retirement
  - Developed Section 15 Policy
  - Obtained Certification from the CORI Board to obtain criminal investigative materials
3. Administration & Finance
  - Worked with A&F to Develop a Statewide Eminent Domain Policy
  - Implement uniform RFR policy
4. Cash Management
  - Assisted in developing the RFR for Banking services
  - Negotiated and executed contract for Banking services
5. Deferred Compensation
  - Assisted in developing RFR
  - Negotiated and executed contract with ING
  - Assisted in developing market timing policy
6. PRIM
  - Worked with Attorney General's Office to select securities litigation counsel

## PUBLIC ADMINISTRATION

Pursuant to MGL c.193-194, the State Treasurer is made a party in all petitions by public administrators. The State Treasurer receives the balance of any unclaimed estates administered by public administrators. The funds are deposited into the Abandoned Property Fund.

### a. General Facts

- 1) Approximately 150 Cases Pending Throughout the Commonwealth
- 2) Amount Escheated to the Commonwealth: (see chart)

2000	\$144,705.53
2001	\$520,279.03
2002	\$406,815.12
2003	\$166,894.62
2004	\$91,137.48 (up to and including Nov. 2003)

### b. New Proactive Litigation Policy

#### Past Policy

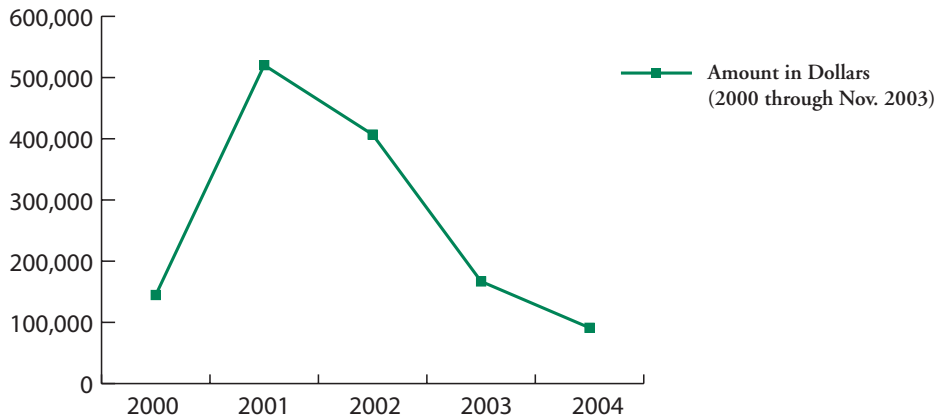
- Paralegal Supervised All Cases
- Minimal Monitoring of Public Administrators
- Statutory Obligations of Public Administrators Not Enforced



## New Policy

- Attorneys Assigned a County
- All Public Administrators Are Given Notice of Their Statutory Obligations
- Notices Are Sent to Register of Probate
- Notices Are Sent to DA's Offices
- Attorneys Are Meeting with Register of Probate for Their County

## AMOUNT ESCHEATED TO THE COMMONWEALTH FROM PUBLIC ADMINISTRATION CASES PER FISCAL YEAR



## RETIREMENT BOARD CASES

- Approximately 231 Cases
- Implemented the Following Changes:
  - Review Cases Scheduled for Hearing at DALA for Reconsideration by the State Board of Retirement
  - New Attorney to Assist the Retirement Board
  - Regular Meetings with Chief Administrative Magistrate Christopher Connolly and First Administrative Magistrate Kimberly Fletcher
  - Establish Liaison to DALA
  - Expand Section 15 Investigation
  - The turn around time for an appeal to DALA has been reduced from 18 months to approximately 12 months.

## LEGAL DEPARTMENT

### OTHER LITIGATION

- a. Bulger v. Favorito
  - Voluntary Dismissal
- b. Locator Services Group v. TRE
  - EDTF Interest Rate
  - Summary Judgment
  - Interesting Developments
- d. Paul Landry v. State Board of Retirement
  - MCAD
  - Lack of Probable Cause Finding
  - Affirmed on Appeal
- e. Hanover Insurance v. TRE
  - Summary Judgment
  - Restitution Issue
- f. PRIM
  - Public Records
  - Lead Plaintiff Status

### STAFF ROSTER

Grace Lee, General Counsel

Ann Bodor	Karen Kougias
Liam Deeney	Tom McAnespie
Kim Gainsboro	Derek Moitoso
Dennis Kirwan	Michael Sweeney

## INTERNAL AUDIT

The Treasury hired a new internal auditor who joined the Agency in September 2003. Since that time, a risk assessment of the Treasury operations was completed to identify and prioritize processes that need to be audited. Each process was evaluated as high, medium or low risk.

An audit plan was developed that scheduled each audit project according to risk. This plan specifies that the high-risk processes will be audited within a two-year period with medium risk processes being audited within three years. Low risk processes will be audited as time allows and have not been scheduled at this time.

Audits of Cash Management Automated Cash Receipts, Cash Management Disbursements Funding, Abandoned Property and a General Internal Control Evaluation of Information Technology were completed during the year. The Internal Control Plan was rewritten to reflect process changes and operating improvements that have been implemented since the transition. All Internal Control Plans will be reviewed and revised in a standard format as part of every audit. Audits of the Alcoholic Beverage Control Commission and Debt Management are in process and will be completed early in 2004.

## SUMMARY

The Massachusetts State Lottery was established by the Legislature in 1971, in response to the need for increased revenue for the 351 cities and towns of the Commonwealth. To provide an operating structure for the Lottery, the Legislature established a five-member Commission (MSLC) that includes the State Treasurer as Chairperson, the Secretary of Public Safety, the State Comptroller, and two gubernatorial appointees.

The Commissioners oversee and provide final approval for the types of games, the consumer prices of games, the prize structure of games, the methods of prize payment, and the licensing of agents.

The Lottery Commission meets on a regular basis to discuss all Lottery operations.

### MA Lottery Commission Members

Chairman: State Treasurer  
Tim Cahill

Secretary of Public Safety  
Ed Flynn

State Comptroller  
Martin Benison

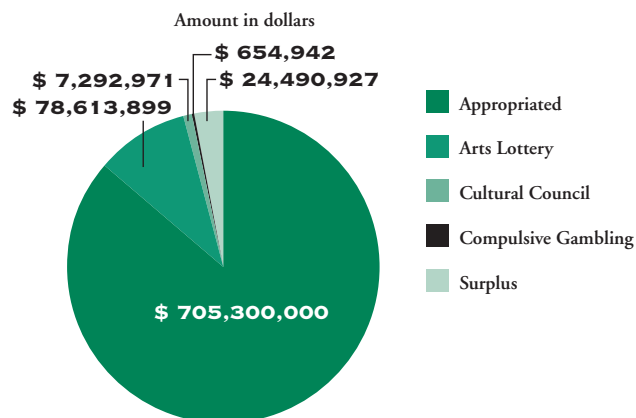
Beth Lindstrom  
(Governor's Appointment)

Jan Saragoni  
(Governor's Appointment)

## ACCOMPLISHMENTS

- Internal Re-Organization
  - Assembled Senior Management Team
  - Mandatory training for all managers & supervisors
  - Conducted 2-day Sales Representative conference to improve sales techniques
  - Moved Springfield and Woburn regional offices to locations with greater public accessibility
- FY03 Local Aid (see chart)
  - Total: \$889,489,749
    - Appropriated: \$778,091,951 (Actual \$705.3 million)
    - Arts Lottery: \$78,613,899
    - Cultural Council: \$7,292,971
    - Compulsive Gambling: \$1,000,000 (Actual \$654,942)
    - Surplus: \$24,490,927
- Cost Cutting Measures
  - \$5.7 million decrease in administration expenses
    - Reduced use of bet slips, ribbons paper stock
    - New UPS contract with lower cost
    - Decrease in lawyer and arbitration fees
    - Decrease in Mega Millions operating expenses
    - No vehicle purchases
    - Decrease in salaries due to early retirement
- Keno Increase
  - 12.5% increase
  - \$67.5 million gross revenue
    - Due to reduction of intervals in March 2003 (from 5 minutes to 4 minutes) and
    - Expansion of hours in August 2003 (from 88 hours a week to 103 hours)
    - Fastest growing game in the MSLC portfolio
- Preliminary Advertising Results

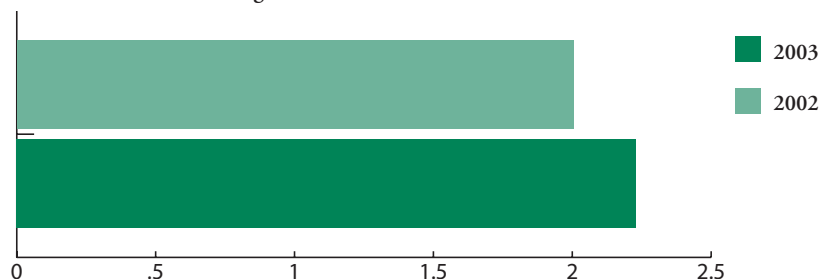
### LOTTERY LOCAL AID - FY 2003



- Season ticket campaign December 16-24, 2003
  - 11.3% increase in season ticket sales
  - \$225,460 gross increase
  - Season ticket sales for December 2003 is \$2,229,216 (see chart)
- Mega Millions jackpot campaign December 22-23
  - \$900,000 gross increase

## DECEMBER SEASON TICKET SALES

Figures in Millions of Dollars



- Harley Davidson Ticket
  - Fastest selling \$5 ticket in Massachusetts history
  - Has generated approximately \$19 million in local aid since its introduction in July 2003
- Mass Millions
  - FY03 sales are up 0.7%
  - First increase since 1996
- Mega Millions
  - Expanded Mega Millions membership to include Texas, adding approximately 20 million players to the game
- Prizes
  - 122 individuals won \$1 million or more in 2003
  - The Lottery paid out over \$3 billion in prizes in 2003



Treasurer Cahill & Joe Sullivan present lottery winner, Pauline Page with a check for \$100,000

**ADVERTISING**

The Lottery recently launched its "Jackpot Awareness" advertising campaign in order to increase revenue generated to our cities and towns. \$5 million was allotted by the State Legislature for the campaign, which began in January 2004 and will cover television, radio and print advertising.

In December 2003, the Lottery spent \$200,000 on a trial eight-day holiday advertising blitz (see below). This campaign resulted in \$75.4 million in total net revenue to cities and towns, a \$5.4 million increase over December 2002. Additionally, net lottery returns are up \$11 million for the first six months of this fiscal year. The net profit for the six-month period ending in December 2003 was \$447.1 million.



This year give people a chance to fulfill their own holiday wishes with New Holiday Instant Tickets or Season Tickets for Mega Millions, Mass Millions, MegaBucks and Mass Cash. Season tickets are available for 13, 26 or 52 weeks, and until January 3rd they're 10% off. Conveniently sold at all lottery agents or at 1-800-222-TKTS. The Massachusetts State Lottery - proudly supporting our 351 cities and towns. Visit us online at [www.masslottery.com](http://www.masslottery.com).



## SUMMARY

The Massachusetts Water Pollution Abatement Trust is the state agency designated by the Commonwealth to administer the clean water and drinking water state revolving funds. The purpose of the state revolving fund (SRF) is to provide low-interest loans to communities, local governmental units and private water suppliers for the construction and rehabilitation of wastewater and drinking water treatment plants and related infrastructure. The Trust also provides financial assistance to communities through the Community Septic Management Program (TITLE 5) to aid homeowners who must repair or replace failing septic systems in order to comply with state regulations.

The Trust was created by the Commonwealth in 1989 in response to the passage of the Clean Water Amendments of 1987 by Congress. The role of Trust was expanded with the passage of the Federal Safe Drinking Water Amendments of 1996. The Trust made its first loan in 1993.

The Trust receives its capitalization funding through grants from the U.S. Environmental Protection Agency, which are augmented with a 20 percent state matching appropriation.

The Board of Trustees, which provides oversight of Trust programs and activities, is composed of the State Treasurer, the Secretary for Administration and Finance, and the Commissioner of the Department of Environmental Protection.

## ACCOMPLISHMENTS

- The Trust issued its ninth series of Pool Program Bonds - \$312,580,000 in bonds providing some 83 loans to governmental and local entities across the Commonwealth for clean water and drinking water projects. The success of this effort included working with Executive staff and with members of the state legislature to replace contract assistance that had been cut in the House 1 budget proposal submitted in January 2003.
- In conjunction with this bond issue, the Trust issued a Request for Proposals for a senior managing banking institution to underwrite the transaction, as well as an RFP for a new bond trustee. Citigroup was selected as senior managing underwriter and Wells Fargo was chosen as the Pool 9 Bond Trustee.
- The Trust issued a RFP for Financial Advisor in December 2003 and anticipates the selection of a firm by January 2004.
- MWPAT staff members have worked to increase community awareness of Trust programs by attending and speaking at several conferences and other professional engagements over the past year. This includes the Massachusetts Treasurers and Collectors Association, Mass Clean Water Council and various regional offices of the Massachusetts Department of Environmental Protection.
- The Trust hosted the annual conference of the Council for Infrastructure Financing Authorities in November 2003 – some 300 participants attended from across the country, including local, state and federal officials.
- MWPAT staff has worked hard over the past six months to market the Trust and its programs, including developing a new logo, publishing a brochure, and collaborating with the Treasury's IT Department to update the content of the Trust's Web page. In addition, Trust staff conducted site visits to various projects financed with Trust loans to incorporate information and visual presentations into MWPAT's financial reports, brochures, and Web site.

## FINANCIAL REPORT

- In FY 2003, the Trust reported outstanding loans of \$2.1 billion, which includes the issuance of the Pooled Loan Program, Series 8 (\$266.9 million) and the Massachusetts Water Resources Authority Loan Program, Series 2002A (\$124.8 million), while retiring \$72.5 million of outstanding debt. The Trust's outstanding loan portfolio continues to grow as it plans to finance another \$325 million in the fall of 2003. The Trust's outstanding loan portfolio continues to grow as it plans to finance another \$325 million in the fall of 2003.
- The issuance of the MWRA Loan Program, Series 2002A in October 2002 has resulted in \$91.7 million in construction funds for clean water projects and \$33.1 million in construction funds for drinking water projects. In November 2002, the Trust issued the Pooled Loan Program, Series 8, which was comprised of 85 loans – 57 in the clean water category and 28 in the drinking water category. Of the \$246.3 million issued for new construction, \$193.9 million was for clean water projects and \$52.4 million was for six loans opted for extended financing (30-year) terms.
- As a result of the Trust's activities in 2003, almost 95 percent of the Commonwealth's population will be served by new projects financed or subsidized this year. There are currently 225 communities and governmental units participating in the Trust's loan program.

## CLEAN WATER SRF PROGRAM

- In 2003, the Department of Environmental Protection issued its 11th Clean Water State Revolving Fund Intended Use Plan. The IUP lists the top-rated projects eligible for SRF loans to use the annual program funding capacity. Over the last several years, the Trust has led the nation by funding an increasingly expansive variety and significantly growing volume of projects. The Trust's creative fund management and the DEP's innovative program management have combined to create the fastest funding pace with the broadest range of project types in the nation. MWPAT's sophisticated funding mechanism uses high leveraging ratios and accelerated loan recycling to increase capital funds for innovative projects and stressed municipal budgets. The DEP's expanded project eligibility has allowed communities to seek capital funds to solve water pollution problems beyond the traditional wastewater management facilities.
- A three-year ranking of program indicator data compiled by EPA in the SRF National Information Management System revealed that Massachusetts is the only state listed among the leading EPA program indicators for the last three fiscal years. The long-term goal of the SRF program is to facilitate municipal compliance with the Clean Water Act, whose goal is to stop water pollution.
- The volume of Clean Water SRF dollars has risen rapidly due to the Trust's aggressive leveraging and recycling mechanisms. The ability of the Trust to generate and manage projects has generated \$2.5 billion in program capacity through 2003. The Commonwealth's SRF program ranks third in dollar volume among the nation's fifty state programs and is only the 14th largest recipient of EPA funds.



City of Fall River  
Combined Sewer Overflow,  
Tunnel Project  
Fall River, Massachusetts  
Total amount of loans financed  
by MWPAT: \$89,545,653



Springfield Water & Sewer Commission  
Cobble Mountain Reservoir  
Springfield, Massachusetts  
Total amount of loans financed by  
MWPAT: \$10,240,414



# MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

## STAFF ROSTER

Laura Guadagno, Executive Director

Susan Britt

Pat Deal

Francis Hart

Keith McCarthy

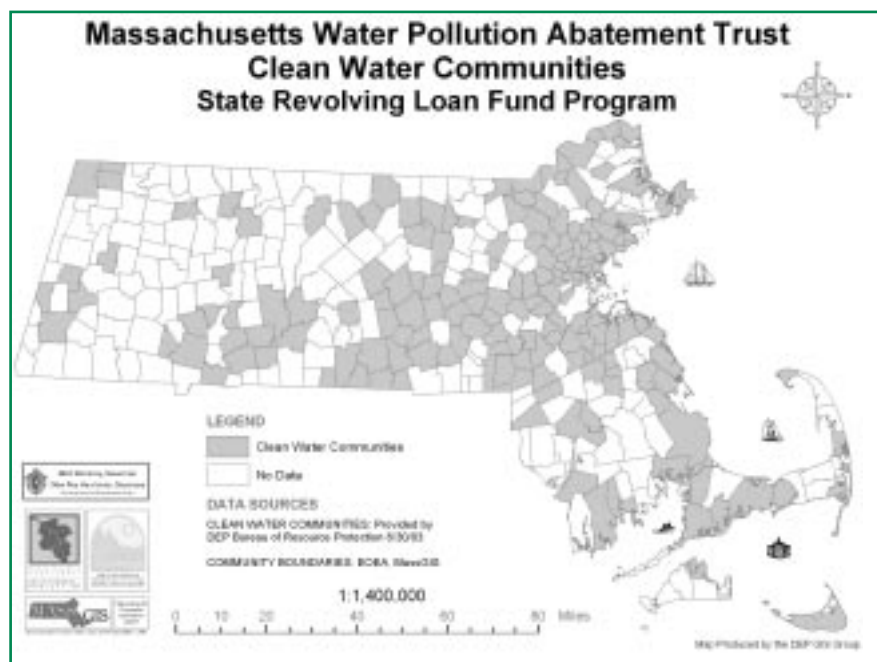
Nancy Parrillo

## BOARD OF TRUSTEES

Chairman: State Treasurer Tim Cahill

Vice Chair: Secretary of the Executive Office of Administration & Finance Eric Kriss

Commissioner of the Massachusetts Department of Environmental Protection Robert W. Gollidge, Jr.





**SUMMARY**

The Pension Reserves Investment Management Board acts as Trustee for each retirement system that invests in the Pension Reserves Investment Trust Fund and is responsible for the control and management of the Fund.

The PRIM Board's members are:

- The State Treasurer, ex officio, or designee, who serves as Chair of the Board
- The Governor, ex officio, or designee
- A private citizen appointed by the State Treasurer who is experienced in the field of investment or financial management
- An employee or retiree who is a member of the State Teachers' Retirement System elected by members of such system
- An employee or retiree who is a member of the State Retirement System elected by members of such system
- The elected member of the State Retirement Board
- An elected member of the Teachers' Retirement Board who is chosen by the other members of that Board
- A person appointed by the Governor who is not an employee or official of the Commonwealth; and a representative of a public safety union appointed by the Governor

**THE PRIT FUND**

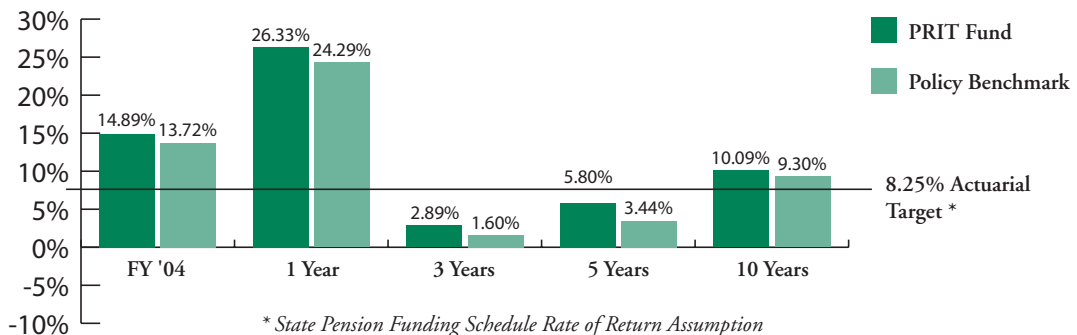
The PRIT Fund is a pooled investment fund established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, and the assets of county, authority, district, and municipal retirement systems that choose to invest in the Fund. The PRIT Fund was created by the Legislature in December 1983 (Chapter 661 of the Acts 1983) with a mandate to accumulate assets through investment earnings and other revenue sources. PRIT's goal was to reduce the Commonwealth's unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement Systems Trust on January 1, 1997, in accordance with Chapter 315 of the Acts of 1996. The net assets of the PRIT Fund currently total \$32 billion. Last year alone, the Fund earned over \$6 billion – an increase of 26 percent.

The PRIM Board is charged with the general supervision of the PRIT Fund. PRIM's mission is to maximize the return on investment with acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms. Cash is deposited and invested on a temporary basis, and can be transferred from the Cash Fund to the Capital Fund at the discretion of the retirement systems. The Capital Fund serves as the long-term asset portfolio and consists of 13 accounts:

- General Allocation Account (holds units across all asset classes under PRIM's asset allocation plan)
- Domestic Equity
- Fixed Income
- High Yield Debt
- International Equity
- Emerging Markets
- Real Estate
- Timber
- Alternative Investments
- Alternative Investments "Vintage Years" 2000, 2001, 2002, 2003 ("Vintage Year" refers to the specific year in which the PRIT Fund made a commitment to invest).

**TOTAL PRIT FUND ANNUALIZED PERFORMANCE**

As of December 31, 2003    Assets: \$32.0 Billion



## ASSET ALLOCATION REVIEW

The Investment Policy statement adopted by the PRIM Board in September 1998 requires that the Trustees conduct an annual evaluation of the PRIT Fund's asset allocation. The purpose is to determine whether adjustments to the Fund's structure are necessary due to any changes in the capital market assumptions, the plan's liability assumptions, the Board's risk tolerances, or in the Fund's investment objectives.

The most recent review of the PRIT Fund asset allocation began in December 2002 to increase the expected return of the PRIT Fund and to decrease risk by reducing volatility and enhancing diversification. During the study, all possible asset classes were reviewed for inclusion in the asset allocation optimization process. The expected return, standard deviation, and correlation numbers used for these asset classes in the optimization process were formally agreed upon during this process. After months of thorough analysis, the investment committee agreed to recommend a new asset allocation that included the addition of absolute return funds (which are expected to produce returns close to domestic stocks with nearly half the risk) and emerging market debt. In June of 2003 the PRIM Board voted to implement the recommended changes.

An important finding from this year's evaluation is that the long-term expected rate of return of the PRIT Fund was revised upward to 8.33 percent from the former long-term expected rate of 8.16 percent. The revision was made in conjunction with a decrease in the overall expected risk (as measured by standard deviation) of the portfolio from 12.75 percent to 11.60 percent, thus also achieving the goal of significantly reducing the volatility of the overall portfolio. This shift in strategy will likely take at least 12-15 months to fully achieve the Interim Target Allocations, while it could be closer to 2-3 years to reach the Long-Term Target Allocations. As a result, there are no major shifts in the mix of "equity-like" investments versus "bond-like" investments in the PRIT Fund; the split between equity- and fixed-income type instruments will remain 70 percent and 30 percent, respectively. While the domestic equity allocation does gradually decrease, those funds will be re-allocated to REITs, high yield debt and absolute return funds, providing greater diversification within the broad class of "equity-like" securities.

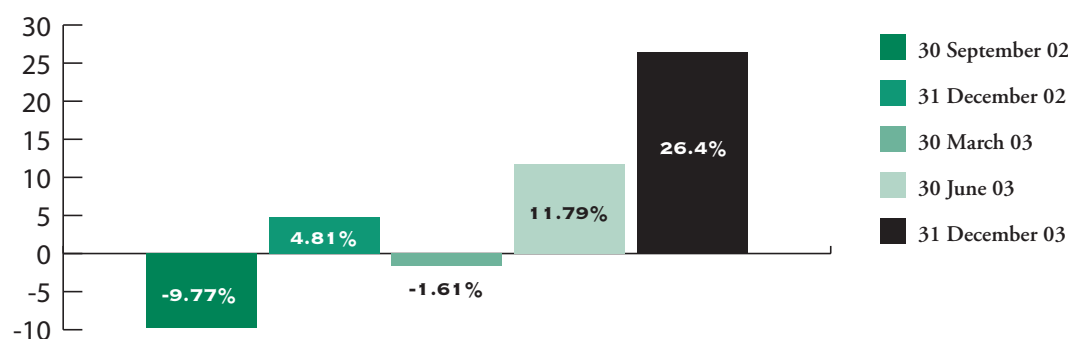
## PRIT CORE PERFORMANCE – FISCAL YEAR 2003

The PRIT Fund posted a positive fiscal return in 2003 after two consecutive down years. In the face of tumultuous markets the Fund was able to maintain an overall gain. For the fiscal year, the PRIT Core returned 4.03 percent, surpassing the interim policy benchmark that returned 3.19 percent. The interim policy benchmark assumes that the Fund's actual allocation is identical to its interim targets. The PRIT Fund's fiscal year return is evidence of the enormous benefits of diversification, given the volatility in the markets during that 12-month period. These results also highlight the importance of the PRIM Board's ability to manage the asset allocation plan and adhere to the long-term investment policy.

The PRIT Fund began fiscal year 2003 with a net asset value of \$27.3 billion and ended with \$27.9 billion. The Fund was able to post the \$610 million gain despite \$891 million in withdrawals (a portion of the \$1.3 billion in total redemptions) from the State Employees and State-Teachers' accounts to make up for a shortfall in the pension appropriation. The quarterly returns of the PRIT Core in fiscal year 2003 were as follows:

- -9.77% for September 30, 2002
- 4.81% for December 31, 2002
- -1.61% for March 31, 2003
- 11.79% for June 30, 2003
- 26.4% for December 31, 2003

### PRIT CORE QUARTERLY RETURNS



Approximately 60 percent of the PRIT Core is actively managed, which means that the investment committee and the PRIM staff are responsible for selecting and recommending managers to the Board that are expected to surpass their respective contractual benchmarks. During fiscal year 2003, 64 percent of PRIM's managers outperformed their individual indices. Over the past three years, 73 percent of these managers outperformed their benchmarks. Over the long term, the PRIT Fund's relative performance continues to compare favorably to the policy benchmark. It is also important to note that the Fund has outperformed with remarkable consistency. For the three-year period, PRIT Core returned 2.89 percent, exceeding the interim policy benchmark by 119 basis points. On a five-year basis, the PRIT Core return of 5.80 percent outperformed the policy benchmark by 151 basis points. Over ten years, the PRIT Core returned 10.09 percent, 105 basis points above the benchmark.

## STAFF ROSTER:

### Executive Director – Vacant

Rupert Boyd	Zoe Niarchos
Eileen Coyne	Kristine O'Connor
Karen Gershman	Amy Prehn
Ian Haet	Alyssa Profenna
Thomas Hanna	Michael Reardon
Catherine Hodges	Maureen Roche
Jennifer LeBlanc	Wayne Smith
Yisroel Markov	George Wilson
Stanley Mavromates	Grace Yang
Jerrold Mitchell	May Yu

## PRIM BOARD MEMBERS:

**Timothy P. Cahill**, Chair, Ex Officio Member

State Treasurer & Receiver-General, Commonwealth of Massachusetts

**Gregory A. White**, Appointee of the Governor, Non-State Employee or Official Member

Managing Director, Tailwind Capital Partners, a fund of Thomas Weisel Partners

**Peter Schwarzenbach**, Designee of the Governor, Ex Officio Member

Chief Administrative Officer, Executive Office for A&F, Commonwealth of Massachusetts

**Bob Cawley**, State Board of Retirement Member

Retired member of the State Senate

**Robert Brousseau**, Elected Representative, State Teachers

Retirement System

Retired Teacher, Town of Wareham Public School System

**David J. Grain**, Appointee of the State Treasurer, Private Citizen

Experienced in the Field of Investment or Financial

Management President, Pinnacle Holdings Inc.

**George F. McSherry**, Teachers' Retirement Board Member

Retired Teacher, City of Brockton Public School System

**Paul Cesan**, Appointee of the Governor, Public Safety

Representative

State Police

**Ralph White**, Elected Representative, State Employees'

Retirement System

President, Retired State, County and Municipal Employees Association of Massachusetts

## SUMMARY

The State Board of Retirement has been in existence since 1911. The Board is responsible to approximately 86,000 active members: 44,000 retirees or beneficiaries, and other 45,000 members who have funds on account with the state's retirement system.

There are currently 29 full-time employees and two retired former employees working on a part-time capacity administering benefits and service to all members.

## ACCOMPLISHMENTS

- Successfully administered the Early Retirement Incentive Program for 2003. More than 8,000 employees inquired about applications for early retirement, with 3,000 state employees retiring. Almost all of the 2,100 members who had retirement dates of October 1, 2003 received the first retirement checks on December 31, 2003. Another 1,200 members primarily from Higher Education were scheduled to retire December 31. For the first time during an ERIP, Board staff conducted counseling of members at regional locations (Braintree, Worcester, & West Springfield) in addition to One Ashburton Place in Boston.

This has been the second statewide ERIP the Board has administered within the last two years. During that time, the Board has retired approximately 8,000 eligible employees and interacted with at least twice that number during the ERIPs.

In total, 3,036 employees opted for early retirement. Aside from the 2,100 members who retired on October 1, over 900 employees retired December 31, and 26 more retired September 30.

- On-going review of MGL Chapter 32 for purposes of developing recommended legislative changes, corrections, and amendments. A pension reform "working group" comprised of Board staff, legal counsel and Executive staff has met with numerous constituency groups to obtain input on this subject.
- The internal structure of the Board staff has been re-organized with various departments reporting to the Deputy Director or Assistant Deputy Director.
- The Board has improved the accountability of state agencies to SRB in worker's compensation cases by establishing minimum offset requirements.
- With the assistance of legal counsel, the Board has developed a comprehensive §15 policy governing pension forfeiture
- Closed the loopholes on issues pertaining to the definition of regular compensation, section 15, group classification and accidental disability by addressing several high profile cases during the year.
- The Board submitted an Information Technology bond fund application for funding of the next phase required to ultimately replace its mainframe computer system. While the Board had expected to receive an answer this fall, ITD has informed SRB that responses will not be forthcoming until the Spring 2004.
- The Board has implemented a new Group Classification procedure for prospective retirees.
- Elements of the Retirement Board have been updated, including the SRB's Web site by adding various regularly used forms. The Retirement Guide has also been updated.
- Begun improvements in the area of member security by no longer using social security numbers on monthly checks and direct deposit statements;
- SRB has increased visibility of Board within the Retirement Community in Commonwealth by attending conference and seminars within the state, meeting with local retirement administrators, participating in PERAC meetings, Public Service hearings, MA Association of Public Pension Attorney meetings, etc.

**STAFF ROSTER**

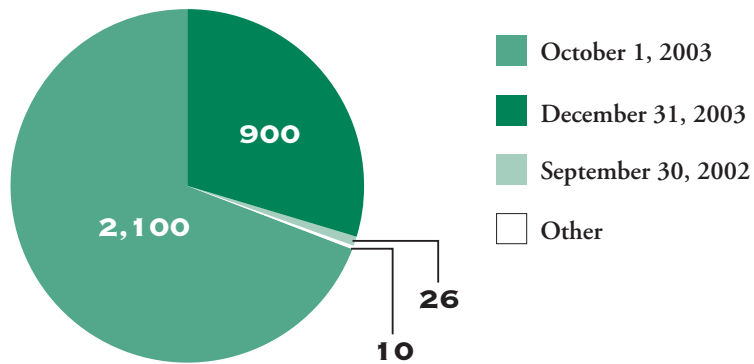
Nick Favorito, Executive Director

Magda Atanasov	Ben Keating
Kevin Caira	Joan Kraus
Virginia Chin	William Krauss
Ken Colebourn	Lindsay LeBlanc
Jim Condon	Nancy Lospennato
Patricia M Conley	Anthony M Lucente
Janet Cooper	Robert C Minue
Pat Craven	Lisa Patten
Linda Danovitch	Carol Powers
Kristen DiBona	Diane Scott
Sandra M Fallon	Judy Serafini
Marianne M Gerbert	Jean Simone
Philip M Goldman	Michael Southerland
Tim Guilfooy	John Waldron



State Board of Retirement members (from left to right)  
 Chris Condon, Treasurer's Appointment  
 Robert Cawley, Elected Member  
 Treasurer Tim Cahill, Chairman  
 Peter Koutoujian, Sr., Treasurer's Appointment  
 Ralph White, Elected Member

**NUMBER OF EARLY RETIREES FOR 2003**



**OFFICE OF THE STATE TREASURER AND RECEIVER  
GENERAL DEPARTMENTAL OVERSIGHT**

