



**TREASURER'S REPORT TO
LEGISLATIVE POLICY COMMITTEE**

June 6, 2017

Nancy K. Kopp

State Treasurer

Section 5-104 of the State Government Article of the Annotated Code of Maryland provides that, “The Treasurer shall address the Legislative Policy Committee of the General Assembly on a semi-annual basis and as necessary on issues of legislative importance, including the activities of the Board of Public Works, bond sales, and investment and procurement initiatives.” This Report is in fulfillment of that law and covers the period since the last Report of December 13, 2016. I invite and welcome further discussion with the Committee at your convenience.

The State Treasurer’s activities and responsibilities are of particular concern to the Legislature. One of seven statewide Constitutional officers, and the only one elected by the General Assembly, the State Treasurer’s duties are multifaceted and extend throughout State government and higher education. The Treasurer’s duties include membership on the Board of Public Works and Board of Revenue Estimates and Chairmanship of the Capital Debt Affordability Committee. The Treasurer presently also serves as Chair of the Board of Trustees of the State Retirement and Pension System and is the Chair of the Board of Trustees of the Maryland 529 Plans. The Treasurer is a member of the governing boards of the Maryland Teachers’ and Employees’ Supplemental Retirement Plans, the Maryland Health and Higher Education Facilities Authority, and the Maryland Agricultural Land Preservation Foundation.

The Treasurer’s Office continues to plan and conduct our bond sales effectively, while striving to maintain Maryland’s coveted AAA bond rating. We monitor the market routinely to take advantage of savings as they become available, such as by refunding our General Obligation Bonds or issuing new types of debt such as Qualified Zone Academy Bonds. And as you know, we continue to invest State funds prudently and conservatively to minimize risk to Maryland taxpayers.

The items set forth below detail a number of our recent achievements. We are always available to provide greater information or answer questions regarding these and other issues.

BOARD OF PUBLIC WORKS

Between December 1, 2016 and May 24, 2017, the Board of Public Works (“BPW”) met 12 times to consider State procurements, expenditures of capital appropriations, the acquisition, use and transfer of State assets, issuances of licenses to dredge and fill wetlands, and the acquisition of land and easements in support of Program Open Space, the Conservation Reserve Enhancement Program, the Rural Legacy Program and the Agricultural Land Preservation Program.

During this timeframe, in addition to the State General Obligation Bond Authorizations, including Qualified Zone Academy Bond authorizations, the Energy-Lease financings, and the Capital-Lease financings discussed in more detail in the Debt Management Section of this Report, the following items, worthy of note, were considered by the Board of Public Works:

Public School Construction

- Approved the appointment of Robert Gorrell as Executive Director of the Interagency Committee on School Construction. Mr. Gorrell had previously served as the Executive Director of the New Mexico Public Schools Facilities Authority. (02/08/17)
- Qualified Zone Academy Bond Program for FY 2018: Approved allocations in the amount of \$4.97 million to 16 school systems in support of 29 projects. (05/24/17)
- Aging Schools Program for FY 2018: Approved allocations in the amount of \$7 million. (05/24/17)
- Non-Public Aging Schools Program:
 - Ratified prior allocations of \$3.5 million for FY 2016, \$3.5 million for FY 2015, and \$3 million for FY 2014. (01/04/17)
 - Approved allocations in the amount of \$3,591,490 for FY 2017. (03/22/17)

Baltimore City 21st Century Public School Construction Initiative

- Approved the transfer of the Samuel F. B. Morse Elementary School from the Baltimore City Board of School Commissioners to the Baltimore City Government as a part of the school closure commitment contained in the Memorandum of Understanding entered into pursuant to the Baltimore City Public Schools Construction and Revitalization Act. (04/26/17)
- Cherry Hill Elementary/Middle School: Renovation and Addition:
 - Approved a request of Maryland Stadium Authority (MSA) to award Bid Package No. 1 (construction) to the construction manager. (02/08/17)
 - Approved a request of MSA to award Bid Package No. 2 (further construction) to the construction manager. (05/24/17)

- Forest Park High School: Renovation and Addition: Approved a request of MSA to award the Bid Package No. 1 (construction) to the construction manager. (01/25/17)
- Pimlico Elementary/Middle School: Renovation and Addition: Approved a request of the MSA to award Bid Package No. 2 (construction) to the construction manager. (01/04/17)

Personnel, Procurement & Regulations

- Approved for final adoption new regulations and amendments to existing COMAR provisions that include the following:
 - Implementation of prompt payment provisions;
 - Permitting the participation of dual-certified MBE/VSBE vendors to count towards achievement of both the MBE and VSBE goals;
 - Clarification of Department of General Services (DGS) authority for commodities and supply contracts;
 - Clarification of sole source requirements with respect to small procurements;
 - Updating political contribution disclosure clauses;
 - Removing IT from Department of Budget & Management (DBM) responsibilities;
 - Adding categories to the nondiscrimination clauses in affidavits;
 - Clarification that a performance bond is optional in non-construction contracts;
 - Inclusion of the Department of Disabilities (DOD) as an agency that procures “human services”; and
 - Permitting a photocopy of a bid bond power of attorney. (12/07/16)
- Approved for final adoption amendments to existing COMAR provisions to allow for the expedited processing of construction change orders consistent with legislation enacted during the 2016 Session (Chapters 580/581 of the Laws of 2016). (03/08/17)
- Approved publishing for comment in the *Maryland Register* amendments to existing COMAR provisions relating to the Public School Construction Program to allow certain broadband infrastructure costs under the Federal Communication Commission’s E-Rate Program to qualify as public school construction costs eligible for State grant funding through the Capital Improvement Program. (04/26/17)

State Services, Facilities & Assets

- Approved a request of the DGS to reconsider, rescind prior approval, and disapprove previously approved Agenda Items relating to the proposed State Center Complex redevelopment project. (12/21/16)
- Approved a request of the MSA to receive a grant from the Department of Housing and Community Development (DHCD) to help pay for some of the costs of a feasibility study of the potential expansion of the Baltimore Convention Center. (12/07/16)
- Approved a request of the MSA to enter into an agreement with the Baltimore Ravens for capital improvements to M&T Bank Stadium. The Ravens will spend up to \$120 million for capital improvements to the Stadium. MSA is responsible for certain infrastructure upgrades

with a cap on expenditures of \$24 million or 20 percent of the amount spent by the Ravens, whichever is less. (01/25/17)

- Approved a request of the University of Maryland Eastern Shore (UMES) to acquire Hawk Plaza, a residential building that houses more than 150 UMES graduate students, and to assume \$12.7 million in mortgage loans for this building from Maryland Hawk Corporation, a nonprofit that UMES established in 2003. (02/08/17)
- Approved a request of UMES to lease classroom space in Hagerstown in order to offer its Bachelor of Science degree in Hospitality and Tourism Management at the University System of Maryland, Hagerstown. The space will also include STEM laboratories to support future University STEM programs that will be offered at the regional center. (03/22/17)
- Approved a request of the Department of Information Technology (DoIT) to award a contract to provide cloud-based Amazon Web Services for the MD THINK initiative. (04/26/17)
- Approved a request of the Maryland State Lottery and Gaming Control Agency (MLGCA) to award a contract to Scientific Games International, Inc. for a State lottery central monitoring and control system and additional sales and marketing services. (05/10/17)
- Approved a request of the Department of Public Safety and Correctional Services (DPSCS) to award a contract to provide services under the federal 340B Drug Pricing Program for HIV and Hepatitis Diseases for the State's inmate population. (05/24/17)
- Accepted a report of an emergency procurement from the DPSCS to purchase TimeClock Plus, a product compatible with the State's Workday system, to enable employees at correctional facilities to receive accurate pay, including overtime, in the pay period in which it is earned. (05/10/17)

Transportation

- Adopted resolutions authorizing the issuance and sale by the Maryland Department of Transportation (MDOT) of its Consolidated Transportation Bonds, Series 2017, in amount not to exceed \$285 million. (04/05/17)
- Authorized the Maryland Port Administration (MPA) to bid on and acquire 103.41 acres at the Point Breeze Business Center at a price not to exceed \$92.5 million in order to increase container storage capacity at the Port. (02/02/17)

Natural Resources

- Approved awarding a \$3 million grant to the Oyster Recovery Partnership in support of the Department of Natural Resources' (DNR) oyster recovery and habitat restoration program. This grant is part of an effort to construct and restore oyster reefs in the Tred Avon and the Little Choptank Rivers, and other tributaries, in support of the 2014 Chesapeake Watershed Agreement. (01/25/17)

- Approved awarding a \$300,000 grant to the Maryland Agricultural and Resources Based Industry Development Corporation (MARBIDCO) for the Maryland Shellfish Aquaculture Capital Equipment Finance Program. This program provides low interest financing to new and existing shellfish aquaculture programs. Loan recipients use these funds to acquire the oyster seed, shell, and capital equipment that they need to begin aquaculture operations. (01/25/17)

State Property Tax Rate

- Set the State Real Property Tax Rate for FY 2018 based upon the recommendation of the Commission on State Debt. The rate remained unchanged at 11.2 cents per \$100 of the full-assessed value of real property other than that of public utilities and 28.0 cents per \$100 of the full assessed value of real property of public utilities. (04/26/17)

TREASURY MANAGEMENT DIVISION

Banking Services Department

The primary mission of the Banking Services Department (BSD) is to manage and control relationships with vendors providing financial services for the State of Maryland, to anticipate agency banking requirements, and to respond timely to agency requests.

The State Treasurer's Office procures financial products and services on behalf of the State. In April of 2017, an award was made for Statewide Lockbox Services with a contract effective date of May 24, 2017.

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Department must account for the receipt of all warranted deposits and the disbursement of all warranted payments. To meet these responsibilities, a comprehensive daily cash reconciliation is performed which allows BSD to proactively resolve agency banking issues. Even as the volume of transactions has increased, the processes and controls developed by BSD continue to result in a timely, accurate, and well documented reconciliation of the State's cash accounts. For FY 2016, total cash receipts and disbursements exceeded \$565 billion. As of May 31, 2017, total cash receipts and disbursements exceeded \$416 billion for the current fiscal year. The State's bank accounts continue to be reconciled to the State's general ledger to the penny, daily.

In addition to the reconciliation duties, the Department performs daily operational functions that are critical to the movement of funds into and out of the State's bank accounts and to the recordation of these transactions in R*STARS. These include:

- Processing the drawdown of funds from federal programs and grants;
- Initiating Federal Reserve wire payments;
- Managing foreign currency transactions;
- Processing check stop payments, cancellations and reissues;
- Initiating replacement checks for failed ACH payments;
- Recovering funds for fraudulent check presentments;
- Providing transaction research assistance to State agencies;
- Managing the Unpresented and Undeliverable Check Funds;
- Recordation in R*STARS of all bank adjustments; and
- Maintenance of tables to allow for accurate posting of electronic receipts.

Another responsibility of the Department is to ensure protection of all State funds on deposit with financial institutions through monitoring of bank account and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors over 1,400 agency bank accounts at 28 financial institutions. Total posted collateral as of April 30, 2017 was \$614+ million (unaudited). The updated reports for all State bank accounts will be sent out at the beginning of July, with anticipated responses due before July 31, 2017. That information will be used to update the TBAIS system which is used to ensure all accounts are collateralized properly and monitored monthly. The results of the survey will be updated in TBAIS to ensure collection of all interest owed to the General Fund.

The BSD continues to serve as the State's authority for the development, control and maintenance of statewide policies and procedures for banking products and services. We continually strive to stay at the forefront of changes in banking products and services offered in the financial industry. The Department will continue to explore new financial products and improved data delivery methods that will increase its capabilities to provide efficient and cost-saving banking and financial services to all State agencies.

Investment Department

The Treasurer's prudent investment policy and practices have protected the investment portfolio through these continued unprecedented economic times and has resulted in a continuous return on the portfolio. The par value of the General Fund investment portfolio for May 31, 2017 was \$6,374,875,159 as compared to May 31, 2016 at \$5,983,828,914. The General Fund Investment Portfolio increased by \$391,046,245.

On May 31, 2017, the portfolio was earning an average of 1.523%, compared to 0.871% on May 31, 2016. The Federal Open Market Committee (FOMC) maintained the Federal Funds Target Rate at .50% or less since December 16, 2008. On December 15, 2016, there was an increase to .75%. On March 16, 2017, there was another increase to 1.00%. The Maryland State Treasurer's Office investment policy requires a rate of return to be at least equal to the three month US Treasury Bill yield. As of May 31, 2017, the three month Treasury Bill yield was .98%. In the prior year as of May 31, 2016, the three month Treasury Bill yield was 0.34%. The General Fund Investment Portfolio yield is greater than the three month Treasury Bill yield as of May 31, 2017. The Federal Funds Target Rate is expected to rise 2 more times in 2017, which should increase the Treasury Bill yield as well.

The gross interest earnings received year-to-date for FY 2017 are \$69,806,655 compared to \$63,467,881 received for the same time period in Fiscal Year 2016. From Fiscal Year 2016 to Fiscal Year 2017, the gross interest earnings increased by \$6,338,775.

The following chart tracks the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio. It is important to note that as the total General Fund portfolio decreases, the proportion of Agency Funds to General Funds increases and therefore the State Agencies allocated share of interest earnings increases.

Total Interest Earned
% of Total Interest Earned Allocated to State Agencies

Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
2000	121,951,720	103,173,287	225,125,007	46%
2001	136,981,074	144,249,899	281,230,973	51%
2002	82,641,807	66,399,769	149,041,576	45%
2003	37,205,637	42,240,523	79,446,160	53%
2004	25,037,345	29,053,449	54,090,794	54%
2005	52,886,074	54,538,463	107,424,537	51%
2006	149,613,238	109,222,108	258,835,346	42%
2007	150,798,001	205,589,917	356,387,918	58%
2008	155,170,184	207,179,098	362,349,282	57%
2009	102,768,740	142,619,087	245,387,827	58%
2010	44,190,425	87,921,654	132,112,079	67%
2011	53,178,733	87,900,159	141,078,892	62%
2012	23,207,535	48,647,954	71,855,489	68%
2013	8,646,595	40,710,863	49,357,458	83%
2014	19,133,149	52,602,770	71,735,919	73%
2015	7,064,094	55,460,767	62,524,861	88%
2016	15,241,045	60,075,483	75,316,528	80%
YTD FY 2017	806,003	69,000,651	69,806,654	99%

The Office continues to encourage minority business participation in the investment of State funds. The evolving bond market has made this task more difficult. A number of MBE firms have merged, been acquired, or ceased to exist during the last few years. The STO has been diligent in the pursuit of qualified MBE broker/dealer firms. Twenty-seven MBE broker/dealers are on the Office's approved list for FY 2017, and have handled investments of \$1,739,517,000 out of \$6.4 billion (27%) so far this fiscal year. This compares to FY 2016, when the Office had twenty-six approved MBE broker/dealers who handled \$865,572,000 out of \$5.9 (14%) by this same time last year.

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on March 27, 2017. The MLGIP has maintained the AAAM rating since April 2000. The MLGIP's balance, which is the amount invested by all participants, on May 31, 2017 was \$4,134,930,576, compared with \$3,808,756,065 on May 31, 2016. This is an increase of \$326,174,511, due to participants' higher available cash balances and lack of safe

alternative investments. The MLGIP yield is 0.83% as of May 31, 2017, compared to 0.36% last year. The MLGIP grew from 303 participants to 305 participants due to the lack of safe short-term investment alternatives for Investment Pool members at a comparable yield.

The objectives of the Maryland State Treasurer's Investment Policy are to maintain safety of principal, maintain sufficient funds to meet cash flow needs, and achieve a return on investment at least equal to the three month U.S. Treasury Bill yield. The State Treasurer's Office compares our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are implemented and followed. The Maryland State Treasurer's Office Investment Division actively works to seek improved ways to protect Maryland State Funds.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2017, First Series, Moody's Investors Service, S&P's Global Ratings and Fitch Ratings all affirmed their AAA ratings for Maryland's General Obligation debt in February of 2017. Maryland is one of only eleven states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P's Global Ratings has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other ten states that hold AAA ratings from all three rating agencies are Delaware, Georgia, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

Meetings with Rating Agencies

The Treasurer's Office has provided the rating agencies with regular updates on the financial condition of the State. The next conference call with the rating agencies is expected prior to the sale of the 2017 Second Series General Obligation Bonds in August 2017.

Ratings Reports

Generally there is consensus among the rating agencies in evaluating the State's credit strengths and weaknesses. All three major rating agencies cite Maryland's debt policies, fiscal management and strong, stable economy as credit positives and the State's debt burden and pension funding as concerns.

Financial Management

All three rating agencies point to the State's history of strong, sound financial management as a credit strength. Moody's cites a "history of proactive financial management" and "adequate reserve levels and strong liquidity" as two of the three highlighted "strengths" of Maryland's credit profile. In assessing Maryland's management practices, S&P Global Ratings assigned a rating of "strong" to this factor, noting that "the state monitors both revenue and expenditure performance on a regular basis" and, when necessary, "budget adjustments have historically been implemented regularly on a timely basis." Fitch Ratings notes that its rating reflects Maryland's "extensive budget controls and sound financial operations, and strong management of debt."

Debt Policies and Debt Burden

In the case of all three rating agencies, the State's debt affordability guidelines and rapid amortization of debt are considered credit strengths and help offset concerns the rating agencies have regarding the State's debt burden. Fitch notes that "most debt is constitutionally required to

amortize in 15 years, and centralized debt planning and issuance are additional credit strengths,” while also specifically highlighting the State’s debt affordability policies. Moody’s states that the fifteen-year amortization requirement “quickly replenishes the State’s debt capacity and helps restrain growth in outstanding balance.” S&P echoes this assessment, noting that more than 80% of the State’s outstanding tax-supported debt will be retired within the next ten years. All three rating agencies note the importance of the Capital Debt Affordability Committee and the positive role it plays in the State’s debt management practices.

Economy

In assigning its ‘AAA’ long-term rating and stable outlook, S&P Global Ratings said: The rating “reflects what we view as the state’s “broad and diverse economy,” and “strong wealth and income levels.” S&P’s further states: “The stable outlook reflects Maryland’s continued focus on structural budget alignment and maintenance of minimum state reserve levels.” Fitch observed that Maryland’s economy “has long benefited from proximity to the nation’s capital,” while also citing lower than national unemployment and high personal income as strengths of the Maryland economy.

Each rating agency cites ties to the federal government as both benefits and risks to Maryland’s economy. S&P Global Ratings notes the “slower pace of growth in 2013 and 2014 as a result of federal sequestration and the loss of government jobs” while also stating that the government sector and federal research agencies are economic strengths. Fitch writes that despite the “drag posed by federal sequestration,” the federal government continues to be an “important anchor... supporting the State’s solid economic performance.”

Pension and other liabilities

Pension reforms enacted during the 2011 Legislative Session, the teacher pension sharing enacted during the 2012 Legislative Session, the phase-out of the corridor funding method that was enacted during the 2013 Legislative Session, and the acceleration of the corridor funding method phase-out along with annual supplemental contributions passed in the 2015 Legislative Session are noted by each of the three rating agencies. On the topic, Fitch Ratings calls pensions a “significant burden,” but notes that the state has taken multiple steps to reduce their burden and improve sustainability over time. Moody’s indicated it considers the State’s retirement system its “most significant credit challenge,” but goes on to recognize that “the state has taken a number of measures to manage its pension burden,” which demonstrates its “proactive management approach.” S&P notes that in their view, “failure to demonstrate a consistent commitment to fully funding its pensions could also pressure [Maryland’s] rating.”

The State Treasurer’s Office provides information about the State’s ratings reports for each bond sale to all members of the General Assembly. Current reports are also available on the Treasurer’s website at www.treasurer.state.md.us.

General Obligation Bonds

Since our last report to this committee, the State has conducted one General Obligation bond sale consisting of three separate series. All three series were sold March 9, 2017 and closed March 22, 2017.

- The 2017 General Obligation Bonds, First Series A consisted of \$575,000,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Series A received a True Interest Cost (TIC) of 2.84% and included a premium of \$91,186,971 to offset debt service costs.
- The 2017 General Obligation Bonds, First Series B consisted of \$100,000,000 in taxable new money bonds. The proceeds were used to finance new projects. Series B received a TIC of 2.04%.
- The 2017 General Obligation Bonds, Series C consisted of \$465,685,000 in tax-exempt refunding bonds. The proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$24,251,272 in debt service costs on a net present value basis. Series C received a TIC of 1.72%.

Leases

The Capital Lease-Financing Program allows State agencies to acquire equipment and pay for those items over a three, five, or ten year time frame. From December 1, 2016 through May 31, 2017, \$613,914 in capital equipment was leased by State agencies through the State Treasurer's Office. On September 2, 2016, this committee authorized \$35,000,000 for equipment lease purchase financing through June 30, 2018. As of May 31, 2017, \$34,386,086 of that authorization is still available.

The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for Energy Performance Contracts (EPCs) and pay for the equipment over multiple years using the utility savings generated by the project. From December 1, 2016 through May 31, 2017, \$4,682,772 in equipment for EPCs was leased by State agencies through the State Treasurer's Office. On September 2, 2016, this committee authorized \$80,000,000 for energy lease purchase financing through June 30, 2018. As of November 30, 2016, \$75,317,228 of that authorization is still available.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$550,000,000, is planned for August 2017. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions. Throughout the year, the Office monitors interest rates to gauge refunding opportunities that meet present value savings criteria in debt policy. If these benchmarks are met, refunding bonds could also be issued in August.

Status of the Annuity Bond Fund

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund, and the primary source of revenue for this Fund is the State's real property tax receipts. Over the years, however, the debt service has occasionally been supported by appropriations from the General Fund, as well. The Commission on State Debt met and released its annual report on April 24, 2017. In FY 2018, \$259,648,777 is appropriated from the General Fund to support debt service. Assuming current property tax rates are maintained and other assumptions remain as currently estimated, a continued General Fund subsidy is projected for FY 2019 - 2022. The complete Commission on State Debt report is available on the Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>

Annuity Bond Fund Forecast, FY 2016 – 2022 (\$ thousands)

	2016	2017	2018	2019	2020	2021	2022
	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance (\$1,000,000s)	\$ 132.2	\$ 202.3	\$ 162.5	\$ 5.6	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 747.0	\$ 779.8	\$ 810.0	\$ 830.0	\$ 850.7	\$ 871.9	\$ 893.6
General Fund Appropriation	\$ 252.4	\$ 259.4	\$ 259.6	\$ 453.6	\$ 487.4	\$ 477.4	\$ 500.4
Bond Sale Premium	\$ 171.2	\$ 91.2	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 10.8	\$ 10.1	\$ 9.4
Transfer Tax	\$ 6.4	\$ 6.6	\$ 6.7	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9
Other Cash Receipts	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5
Debt Service	\$(1,121.0)	\$(1,190.7)	\$(1,247.4)	\$(1,308.3)	\$(1,358.3)	\$(1,368.9)	\$(1,412.9)
Ending Balance	\$ 202.3	\$ 162.5	\$ 5.6	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0

INSURANCE DIVISION

The Insurance Division is responsible for administering the State's Insurance Program which includes both commercial insurance and self-insurance. Commercial insurance policies are procured to cover catastrophic property and liability losses and other obligations derived from State contracts, statutes and regulations. Among the several exposures covered by commercial policies are State-owned toll bridges, tunnels and roads, the Baltimore Washington International Thurgood Marshall Airport, the Port of Baltimore, Maryland Transit Administration liability, assorted professional liability exposures, and student athlete accident insurance. The State self-insures a significant portion of its exposures and maintains the State Insurance Trust Fund to pay claims and the costs associated with handling those claims. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act.

The Insurance Division has three Units: Underwriting, Loss Prevention, and Claims, which includes Tort Litigation. The Division's goal is to provide statewide risk management through loss protection (Underwriting), loss control (Loss Prevention), and loss restoration (Claims and Tort Litigation).

Underwriting, Loss Prevention and Claims

The Insurance Division conducted two meetings with DPSCS. One of the meetings took place in Towson on January 29, 2017, and the other on March 2, 2017 in Baltimore. Topics included in the first meeting were preventive maintenance, pre-loss and post-loss activities, and strategies aimed to prevent or mitigate property damage and liability losses. During the second meeting, auto claims reporting, driver training for newly appointed drivers and actions to take after an at fault accident were discussed. Additionally, there were discussions regarding new insurance coverage for the new youth facility in Baltimore that is expected to be completed in the summer of 2017. Follow-up from DPSCS includes a list of agency contacts for claim issues and a better communication with the insurance coordinators. The importance of loss mitigation and the continuance of productive communication with the Insurance Division was also discussed.

The Insurance Division, our insurance broker and insurance carrier participated in an annual meeting held with the Maryland State Police Aviation Command on Wednesday, May 3, 2017, at Martin's Airport. Topics included open claims, changes in safety protocols over the past several years, expected operational changes in the future, contract renewals, and the handling of the recent safety concerns with props.

Underwriting Unit

The Insurance Division procures broker services for the purchase of commercial insurance to protect the State Insurance Trust Fund from catastrophic loss, to meet statutory or regulatory requirements, and for compliance with agency contractual agreements. Underwriting highlights for the past six months include the following:

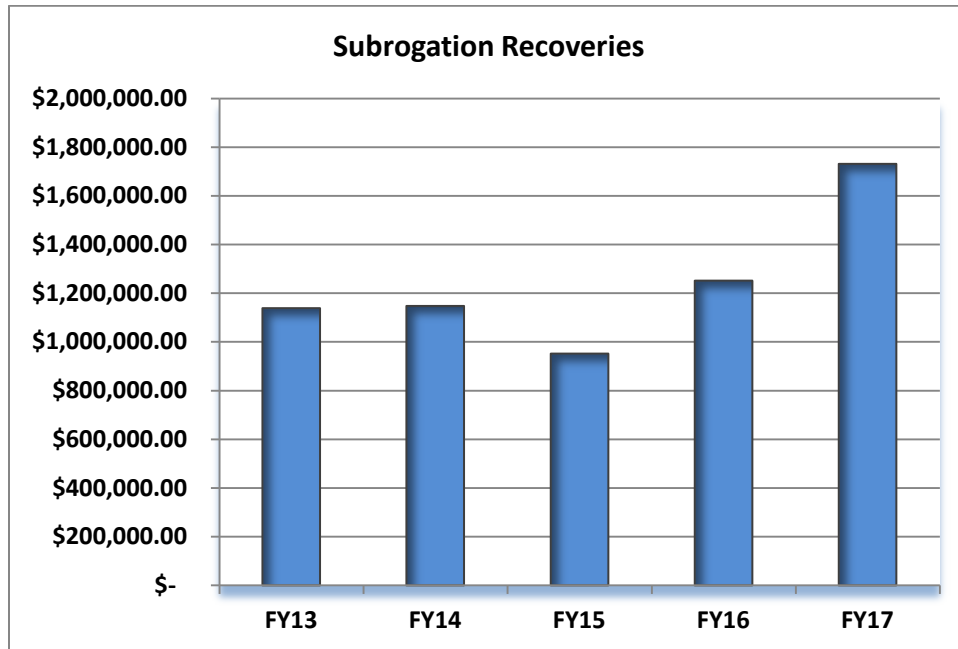
- Maryland Transportation Authority's Bridges & Tunnels property coverage renewed effective December 1, 2016 with overall values down 4.8% and overall insurance rates were down by 9.9%. **This resulted in premium savings of \$446,757.**
- MPA commercial automobile coverage renewed effective January 1, 2017 with 8 fewer vehicles, **resulting in a premium savings of \$2,718.**
- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2017. The total number of vessels was up from 1138 to 1190 (a total increase of 52 vessels). **With a rate reduction of 20.4%, the premium savings were \$8,860.**
- MPA's liability and terrorism coverage renewed effective January 31, 2017. Although revenue was up by \$713,000, **a rate reduction of 11% resulted in overall premium savings of \$64,955.**
- The Fine Art on Loan policy covering fine art owned by others renewed effective March 1, 2017. We increased the limit due to overall increase of \$3,000,000 in values on loan. This resulted in a relatively small premium increase of \$813.
- Foster Parent liability for DHR and DJS renewed effective March 15, 2017. The number of foster placements was down by 160 (from 7440 to 7280). **This resulted in premium savings of \$4,365.**
- State Blanket Excess Property insurance renewed effective April 1, 2017. Overall values increased by 6%, but overall insurance rates were down by 6.9%. **This resulted in premium savings of \$67,338.**

Claims Unit

The Insurance Division's Claims Unit investigates and resolves claims filed by private citizens under the Maryland Tort Claims Act for property damage and personal injury. The Unit also handles claims for damage to State-owned property arising from sudden and accidental perils such as collision and comprehensive losses to autos, and a number of other perils such as fire, hail, lightning, and wind, which may cause damage to State structures, equipment, and contents.

In addition to adjusting claims filed under the Maryland Tort Claims Act, the Unit is also charged with recovering the cost of damage to State automobiles and property caused by others. This subrogation recovery process helps to offset State Insurance Trust Fund liabilities and positively affects the Fund's solvency. Since 2007, the Claims Unit has renewed its focus on increasing subrogation recoveries by designating specific claims personnel to pursue these debts.

Year-to-date subrogation recoveries for FY 2017 total \$1,713,793 as of May 31, 2017. The subrogation recoveries for all of FY 2016 totaled \$1,251,439. The current subrogation recoveries have exceeded the target goal of \$1 million. This is a continued area of focus and is a priority within the Claims Unit.



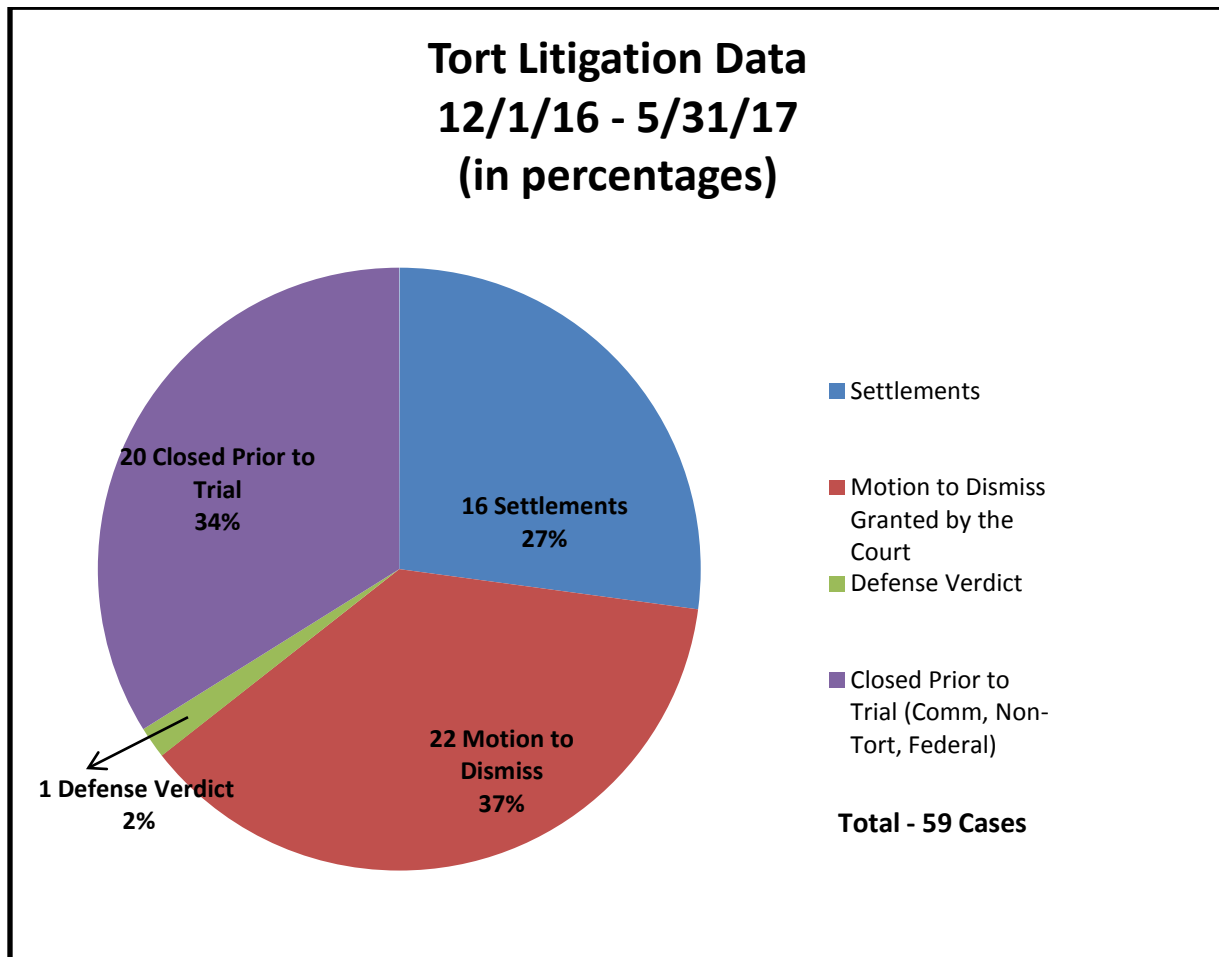
Tort Litigation Management

The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation. The Litigation Manager investigates, evaluates and extends settlement authority on behalf of the Treasurer to the Office of the Attorney General. In cases valued over \$400,000, the Litigation Manager briefs the Insurance Review Committee which includes the Chief Deputy Treasurer, the Director of the Insurance Division, the Deputy Director of the Insurance Division, the Supervising Tort Attorney, and other stakeholders requesting settlement authority.

Settlement costs for the period of December 1, 2016 – May 31, 2017 total \$876,919. Expense costs for this same timeframe total \$70,321. The Litigation Manager attends settlement conferences and other court mandated activities and provides periodic updates on the status of certain litigation claims of interest. The Litigation Manager provides feedback to adjusters during the discovery process and upon resolution to help improve the adjusters’ investigative skills. The Litigation Manager also assists with developing strategies to prevent similar claims from recurring.

The Tort Unit handles a rolling docket of approximately 100 - 135 litigation claims. The current litigation caseload is 103, as of May 31, 2017. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the State Insurance Trust Fund. The Litigation Manager also analyzes the data in order to track the litigation outcomes.

The disposition of the cases during the timeframe of December 1, 2016 – May 31, 2017, is presented in the chart below:



The Litigation Manager will continue to monitor litigation outcomes and provide relevant data and analytical information to the Insurance Director, Deputy Director and Loss Prevention, Underwriting, and Claims units, which will be used to determine future risk prevention activities.

Loss Prevention Unit

The goal of the Loss Prevention Unit is to help State agencies develop specific action plans and safety practices to mitigate or eliminate the most frequent or severe sources of preventable losses.

Loss reports are distributed to the agencies and universities with the highest claims frequency. Meetings are arranged with various representatives within the agencies to discuss their loss prevention programs, mitigation strategies, lessons learned and agency success stories.

Maryland Aviation Administration (MAA) - Loss Control/Safety Management training was facilitated for BWI on March 28, 2017 and a presentation was done our Carrier. Topics of critical importance were addressed. They include, but were not limited to FAA regulations and developing and implementing a Safety Management System for the Airport. This meeting was well received and a follow-up was completed by our insurance carrier, STARR Aviation Agency, Inc. They provided informative handouts and materials to MAA leadership and staff during the meeting.

State Highway Administration/Fairland District (SHA) – There has been an overall percentage increase in road hazard claims from the Fairland Shop area. We continue to work with the leadership group at SHA and the Fairland shop to help facilitate our road hazard claim handling processes. The relationship is improving, and an understanding is being established between Fairland District and the Insurance Division.

Continental Assurance Company of North America (CNA) – Commercial Carrier for the Boiler & Machinery policy and the STO loss control unit continue to follow up with a number of agencies on maintenance issues that require updates and code compliance. There continues to be active follow-up with agencies for proper and prompt response to loss control reports on violations and recommended measures.

The Treasurer appreciates the opportunity to provide this Report to the Legislative Policy Committee on a regular schedule. A copy of this Report is also available on the State Treasurer's website: www.treasurer.state.md.us. If the Committee or its members would care to pursue further these or other STO developments, or any other aspects of the Treasurer's activities, please call the Treasurer at (410) 260-7160 or Chief Deputy Treasurer Bernadette T. Benik at (410) 260-7390.