



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

**December 12, 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 June 6, 2017. 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 June 1, 2017 and November 30, 2017 the Board of Public Works (“BPW”) met 11 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 and the Capital-Lease and Energy Performance 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:

### **FY 2018 State Operating Budget**

- Approved the Governor’s request to reduce General Funds by \$60,978,555 and Special Funds by \$1,950,000 for FY18. The reductions will result in the elimination of 30 vacant positions at the University System of Maryland. (09/06/17)

### **Natural Resources**

- Approved a request from the Department of Natural Resources (DNR) to grant \$4,871,000 of Program Open Space statewide funds for the acquisition in fee simple of approximately 460 acres in Cecil County (the OBX Farms property). The property features 14,000 linear feet of frontage along the Bohemia River and its tributaries. This purchase will allow for recreational boating, fishing, water trails, hiking and bird watching. (6/7/17)
- Approved a request from DNR to provide \$295,000 in capital grants to design four shoreline restoration projects as a part of DNR’s Coastal Resiliency Program. (9/20/17)
- Approved a request from DNR to provide \$1,836,282 in capital grants from the Chesapeake and Atlantic Coastal Bays Trust Fund for storm water management facilities installation projects. (9/20/17)

### **School Construction**

- Adopted 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. (8/16/17)
- Modified the recommendations from the Interagency Committee on School Construction to establish the State cost share percentages for the FY19 State Public School Construction Program at a level that holds nine counties harmless by setting their cost share percentage at the FY18 level rather than reducing the percentage to the amount determined applying the regulatory formula. Approval of the modified item authorized the Public School Construction Program to submit proposed COMAR amendments that reflect the updated FY19 cost share percentage and that include Qualified School Construction Bonds debt in

the formula for calculating the cost share percentage to the AELR Committee and to the *Maryland Register* for public comment. (10/18/17)

### **School Construction -- Baltimore City 21<sup>st</sup> Century Public School Construction Initiative**

- John Rurah Elementary/Middle School: Renovation and Addition:
  - Approved a request from the Maryland Stadium Authority (MSA) to award a contract for architectural design and engineering services. (6/7/17)
  - Approved a request from MSA to award a contract for preconstruction services throughout the design phase of the project. (7/5/17)
- Bay-Brook Elementary/Middle School: Replacement:
  - Approved a request from MSA to award a contract for architectural design and engineering services. (8/16/17)
  - Approved a request from MSA to award a contract for construction management services. (8/16/17)
- Calvin M. Rodwell Elementary School: Replacement:
  - Approved a request from MSA to award a contract for architectural and engineering services. (8/16/17)
  - Approved a request from MSA to award a contract for construction management services. (8/16/17)
- Fairmount Harford Building: Renovation: Approved a request from MSA to award a contract for early design-build services for the Reach Partnership High School that will be sited in the Fairmount Harford Building. (8/16/17)
- Approved an amendment to the Memorandum of Understanding between MSA, the Interagency Committee on School Construction, the Baltimore City Board of School Commissioners, and the Mayor and City Council of Baltimore to formally recognize MSA as the manager of all projects in the Baltimore City 21<sup>st</sup> Century Public School Construction Initiative. (8/16/17)
- Approved MSA issuing up to \$426.44 million in Baltimore City Public Schools Construction and Revitalization Program Revenue Bonds, Series 2017, to finance the completion of the renovations or replacements of six of the 11 public school facilities for which the first series of bonds (2016 Series) was issued and to finance a portion of the costs to construct, renovate, replace, equip, and furnish 17 additional public school facilities. (11/15/17)

### **State Facilities and Assets**

- Approved the sale of 117 acres of the original Rosewood Hospital Center in Baltimore County to Stevenson University for \$1. Before the sale is finalized, Stevenson University must perform environmental remediation on the property, using State capital grants. As part of the requirements of the transaction, Stevenson must use the property for educational purposes and educational-related activities for fifteen years or until Stevenson has spent at least \$20 million in constructing capital improvements to the property for education purposes. (6/7/17)
- Approved a request from the University of Maryland College Park to declare 10 University of Maryland properties in College Park (29.4 acres) as surplus. The University intends ultimately to convey these properties to Terrapin Development Company, LLC, a two-member limited liability company comprising the University and the University of Maryland College Park Foundation, as the next step in the Greater College Park initiative. (10/18/17)

### **State Services**

- Approved on a 2-1 vote, with the Treasurer voting no, a request from the Department of Information Technology and the Department of General Services to:
  - Award compensation without a contract to the current contractor, Periscope Holdings, Inc., for providing electronic procurement services (eMaryland Marketplace) to the State from October 2016 - July 2017; and
  - Approve the award of a sole source contract to Periscope Holdings, Inc. for the continued provision of the same services to the State from two years (July 2017 - July 2019). (7/26/17)
- Approved a request from Maryland 529 (formerly College Savings Plan of Maryland) for approval of the State's participation in an intergovernmental cooperative purchasing agreement with the State of Oregon and to award a contract to Oregon's management services contractor to implement the Maryland ABLE Program. (9/6/17)
- Approved a request from the Department of Budget and Management to award a statewide master contract to 18 contractors to provide customer service training and process improvement consultation to State agencies. (9/20/17)

### **Transportation**

- BWI Marshall Airport:
  - Approved a request from the Maryland Aviation Administration (MAA) to award a contract to Lyft, Inc. and Raiser, LLC (Uber) to provide ground transportation services at BWI Marshall Airport using technology that connects passengers to authorized drivers. (6/7/17)
  - Approved a request from MAA to award a contract to provide pre-arranged concierge passenger services to travelers at BWI Marshall Airport. (8/16/17)

- Approved a request from MAA to allow AIRMALL, the Airport's Concessionaire, to enter into seven new subleases and to modify three existing subleases so that all 10 subleases extend beyond the end date of AIRMALL's Lease and Concession contract (March 31, 2022) but do not go beyond December 31, 2025. After the expiration of the AIRMALL lease, the subleases will continue as direct leases with MAA. (11/15/17)
- Adopted resolutions authorizing the issuance and sale by the Maryland Department of Transportation of its Consolidated Transportation Bonds Series 2017, Second Issuance in an amount not to exceed \$500 million. (6/7/17)

# 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 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.

As of November 30, 2017, total cash receipts and disbursements exceeded \$132 billion. 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 1,500 agency bank accounts at 28 financial institutions.

Total posted collateral as of October 31, 2017 was \$564+ million (unaudited). The annual update of all State agency bank accounts have been received and reviewed. The information gathered was used to update the TBAIS system and reassure the Legislative Auditors that every

penny of the \$127,362 of interest earned on working funds during FY17 was deposited in 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 focus primarily on safety of principal to ensure protection of Maryland State Funds. The information in this report is based on the daily verification of investments as of December 1, 2017. The par value of the General Fund investment portfolio for November 30, 2017 was \$6,588,747,574 as compared to November 30, 2016 at \$5,855,658,247. The General Fund Investment Portfolio increased by \$733,089,328.

On November 30, 2017, the portfolio was earning an average of 1.438%, compared to 1.301% on November 30, 2016. The Federal Open Market Committee (FOMC), on December 15, 2016 increased rates 0.25%. On March 16, 2017 and June 15, 2017, there were 2 increases of 0.25%. The current FOMC target Federal Funds rate ranges between 1 – 1.25%.

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 November 30, 2017, the three month Treasury Bill yield is 1.24%. In the prior year as of November 30, 2016, the three month Treasury Bill yield was 0.48%. The General Fund Investment Portfolio yield is greater than the three month Treasury Bill yield as of November 30, 2017. The Federal Funds Target Rate is expected to rise on December 13, 2017.

The General Fund gross interest earnings received year-to-date for FY18 are \$41,854,573 compared to 21,405,215 received for the same time period in FY17.

The following chart tracks the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio:

<b>Total Interest Earned</b>				<b>Percentage of</b>
<b>Total Interest Earned Allocated to State Agencies</b>				
<b>Fiscal Year</b>	<b>Net General Fund</b>	<b>Allocated to State Agencies</b>	<b>Total</b>	<b>% of Total Allocated to State Agencies</b>
<b>2008</b>	155,170,184	207,179,098	362,349,282	57%
<b>2009</b>	102,768,740	142,619,087	245,387,827	58%
<b>2010</b>	44,190,425	87,921,654	132,112,079	67%
<b>2011</b>	53,178,733	87,900,159	141,078,892	62%
<b>2012</b>	23,207,535	48,647,954	71,855,489	68%
<b>2013</b>	8,646,595	40,710,863	49,357,458	83%
<b>2014</b>	19,133,149	52,602,770	71,735,919	73%
<b>2015</b>	7,064,094	55,460,767	62,524,861	88%
<b>2016</b>	15,241,045	60,075,483	75,316,528	80%
<b>2017</b>	2,161,351	84,108,492	86,269,843	97%
<b>YTD FY 2018</b>	*	*	41,854,573	*

\* The interest allocation calculation has been revised and updated after consultation with DBM. Each month's transaction for FY 2018 is currently being processed and reviewed.

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 five MBE broker/dealers are on the Office's approved list for FY18 and have purchased investments of \$25,000,000 out of \$125,000,000 (20%) so far this fiscal year. This compares to FY17, when the Office had twenty-six approved MBE broker/dealers who purchased \$826,373,000 out of \$3,286,344,901 (25%) by this same time last year.

The Maryland Local Government Investment Pool's (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on September 25, 2017. The MLGIP has maintained the AAAM rating since April 2000. The MLGIP's balance, which is the amount invested by all participants, on November 30, 2017 is \$5,141,268,286 compared with \$4,998,916,944 on November 30, 2016. This is an increase of \$142,351,342, due to participants' higher available cash balances and lack of safe alternative investments. The MLGIP yield is 1.10% as of November 30, 2017, compared

to 0.42% last year. The MLGIP consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

The objectives of the Maryland State Treasurer's Investment Policy are to maintain safety of principal, to provide sufficient funds to meet cash flow needs, and to achieve a return on investment. 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, Second 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 August 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 2018 First Series General Obligation Bonds in March 2018.

### *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 with Moody's saying the State has a "history of proactive financial management." All three commend the Board of Revenue Estimates' binding, consensus-based revenue forecast and the Board of Public Works' ability to adjust spending mid-year when necessary, with S&P Global Ratings mentioning the State has a "long history of... frequent and timely budget adjustments to align revenues and expenditures and long-term financial planning." Fitch Ratings notes that its rating reflects Maryland's "exceptionally strong" financial resilience and its unlimited ability to increase revenues, as well as its strong reserve levels. Moody's likewise highlights the State's liquidity, which it states is "bolstered by unfettered access to the State's short-term investment pool," which totaled \$6.2 billion at the end of FY17.

## *Debt Policies and Debt Burden*

In the case of all three rating agencies, the State's Capital Debt Affordability Committee process and constitutionally imposed fifteen-year amortization of debt are considered credit strengths and help to offset concerns the rating agencies have regarding the State's debt burden, which S&P Global Ratings calls "moderate." Fitch notes that "centralized debt planning and issuance" managed by the State Treasurer's Office is an additional credit strength. 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 our "well-developed debt management practices with a moderate debt burden for most measures and rapid amortization."

## *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 "continued 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" and notes that the State's dominant sector is services, including "professional and business services, education, health, and government", with Baltimore's trade and port activity also factoring in as a significant part of its economic base. Fitch also mentions a recent uptick in economic growth in the State which has brought Maryland's personal income and employment growth to a level "matching or exceeding national levels in recent months."

Each rating agency cites ties to the federal government as both a benefit and a risk to Maryland's economy, with Moody's calling the large federal presence in Maryland a "mixed blessing." S&P Global Ratings notes the State's economy "continues to recover slowly after weakness in recent years due to federal budget uncertainty and sequestration" 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*

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 steps to manage its pension burden," which demonstrates its "proactive management approach." S&P indicates "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](http://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 two separate series. Both series were sold August 16, 2017 and closed August 30, 2017.

- The 2017 General Obligation Bonds, Second Series A consisted of \$550,000,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Series A received a True Interest Cost (TIC) of 2.29% and included a premium of \$93,874,850 to offset debt service costs.
- The 2017 General Obligation Bonds, Second Series B consisted of \$785,340,000 in tax-exempt refunding bonds. The proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$75,832,051 in debt service costs on a net present value basis. Series B received a TIC of 1.66%.

## **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 June 1, 2017 through November 30, 2017, \$1,326,618 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 November 30, 2017, \$33,059,468 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 June 1, 2017 through November 30, 2017, \$9,459,123 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, 2017, \$65,858,105 of that authorization is still available.

## **Upcoming Financing Plans**

The next General Obligation tax-exempt financing, projected to total approximately \$475,000,000, is planned for March 2018. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions.

## 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 FY18, \$263,000,000 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 FY19 - FY23. 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, FY17 – FY23 (\$ millions)

	2017	2018	2019	2020	2021	2022	2023
	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
<b>Beginning Balance</b> <b>(\$1,000,000s)</b>	\$ 202.3	\$ 162.1	\$ 104.5	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 773.1	\$ 804.5	\$ 814.5	\$ 831.8	\$ 849.4	\$ 866.8	\$ 884.5
General Fund Appropriation	\$ 259.4	\$ 263.0	\$ 367.7	\$ 485.3	\$ 484.8	\$ 512.6	\$ 530.6
Bond Sale Premium	\$ 91.2	\$ 93.9	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA							
Bonds	\$ 11.5	\$ 11.5	\$ 10.9	\$ 9.9	\$ 9.4	\$ 8.3	\$ 5.1
Transfer Tax	\$ 6.6	\$ 6.7	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9	\$ 6.9
Other Cash Receipts	\$ 8.7	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1
Debt Service	\$ (1,190.7)	\$ (1,240.3)	\$ (1,305.7)	\$ (1,337.0)	\$ (1,353.4)	\$ (1,397.8)	\$ (1,430.2)
<b>Ending Balance</b>	\$ 162.1	\$ 104.5	\$ 2.0	\$ 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 an annual Stewardship conference with our Commercial Liability Broker in July 2017. This meeting provided an opportunity to review, discuss and report on all critical policy renewals and premium trends, current premium positions and future market projections. The insurance Division provided our broker with Division updates, functionality and any new policy requirements and exposures for future renewals.

The Insurance Division attended two meetings with SHA, one on August 30, 2017, and a second one on September 14, 2017. The primary objective for both meetings was to discuss the process for responding to claim division inquiries about road hazard claims. The effective, efficient and comprehensive use of the electronic CCMS system was the focus of the meeting. This was determined to be the best way to help SHA employees respond to claim inquiries and help cut down on the total response timeframes.

Also, the Insurance Division met with the Maryland Conservation Jobs Corps Academy on June 20, 2017. This meeting was held to help provide claim reporting processes for proper and prompt notification of accidents by temporary summer drivers. The meeting was held at DNR with the program manager in attendance. The meeting included an observation of the safety training along with a tour of the safety course. A presentation was done by the Insurance Division, including recommendations for proper incident reporting.

The Insurance Division, our insurance broker and our insurance carrier also participated in the annual meeting with the Maryland Aviation Administration staff at BWI Airport on August 2, 2017. The group, which included the commercial carrier's claims manager and assigned adjuster, reviewed all open and closed claims for the calendar year. An open discussion and brain storming

session provided direction and handling protocol for a number of open claims. The MAA staff provided a tour of the new Concourse E, the International Concourse, and other newly constructed sections of the airport. There was a loss prevention discussion around incident reporting at the airport and the process for documenting and reporting such incidents. MAA provided a presentation of the safety improvements they have made in the past year, and the insurance carrier discussed expectations for the upcoming renewal.

## **Underwriting Unit**

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

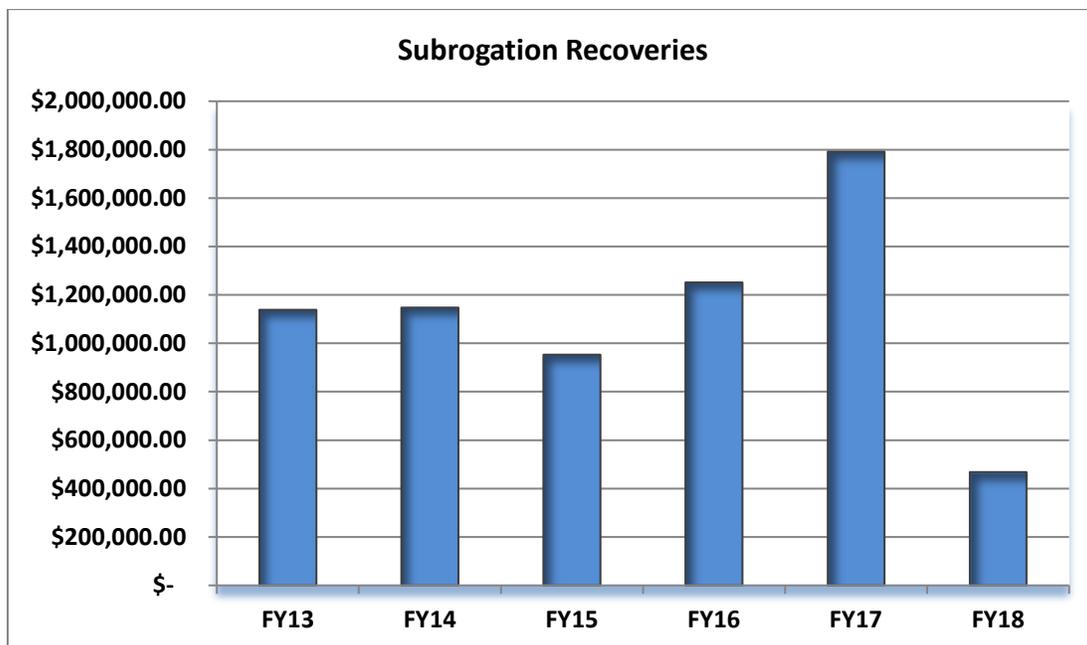
- The Maryland Transit Administration’s excess liability coverage renewed effective July 1, 2017, with overall premium reduction of 2% for a **savings of \$94,746**.
- The Maryland Transit Administration’s rail car floater coverage renewed effective July 1, 2017, with total insured values down less than 1%. The coverage was renewed with AIG, who agreed to adjust losses on a replacement cost basis, despite the average age of railcars being over 10 years. There was an overall rate reduction of 22% resulting in overall premium **savings of \$105,553**.
- Maryland Aviation Administration’s airport liability coverage renewed effective August 15, 2017, with a stable/flat premium pricing of \$276,000.
- The Allied Health professional liability coverage for student interns from various schools renewed effective September 1, 2017. There was a 3% increase in the number of student interns in addition to a rate increase of slightly less than 2%. The overall resulting premium increase was \$2,350.
- The Blanket Boiler & Machinery coverage for the State renewed effective September 30, 2017. The State’s overall values were up by 5.7%. Due to frequency of water damage losses, the incumbent initially proposed to renew with a \$2.5 million water damage deductible for all locations along with a 27% rate increase. Following negotiations, the incumbent agreed to amend the water damage deductible to \$1 million for all State Universities and \$250,000 for all others. The coverage for “all other perils” remains a \$250,000 deductible for all locations. Overall premium cost increase was \$148,256.
- The Maryland Transportation Authority Bridges & Tunnels Liability coverage renewed effective October 17, 2017, with an overall premium **cost savings of \$14,107**.
- The Maryland Port Administration Cranes coverage was renewed effective November 25, 2017 with an overall premium **savings of approximately 7%**.

## 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 FY18 total is \$467,981 as of November 30, 2017. The subrogation recoveries for all of FY17 totaled \$1,791,469. This is a continued area of focus and is a priority within the Claims Unit.



On September 20, 2017, the Insurance Division's Claims unit received a potential high severity claim from Frostburg State University which occurred on September 1, 2017. The claim involves possible damage to a number of critical "IT" equipment in the computer server room, caused by a lack of cooling which was a result of failure of the cooling unit. The cooling unit has been restored to proper working order. This claim is currently being evaluated and processed by the Insurance Division along with the Commercial Carriers for Property and Boiler and & Machinery coverages.

On November 9, 2017, the Insurance Division's Claims unit received a potential high severity claim from University of Maryland Baltimore, North Pharmacy Hall which occurred on October 24, 2017. The nitrogen generation system was found to contain a significant amount of water which resulted in damage to three nitrogen generators and at least one or more mass spectrometers. The nitrogen system is connected to all ten (10) of the mass spectrometers in the labs and there is the possibility that there is damage to other equipment. The source of the water in the nitrogen system is not known at this time. This claim is currently being evaluated and processed by the Insurance Division along with the Commercial Carriers for Property and Boiler & Machinery coverages.

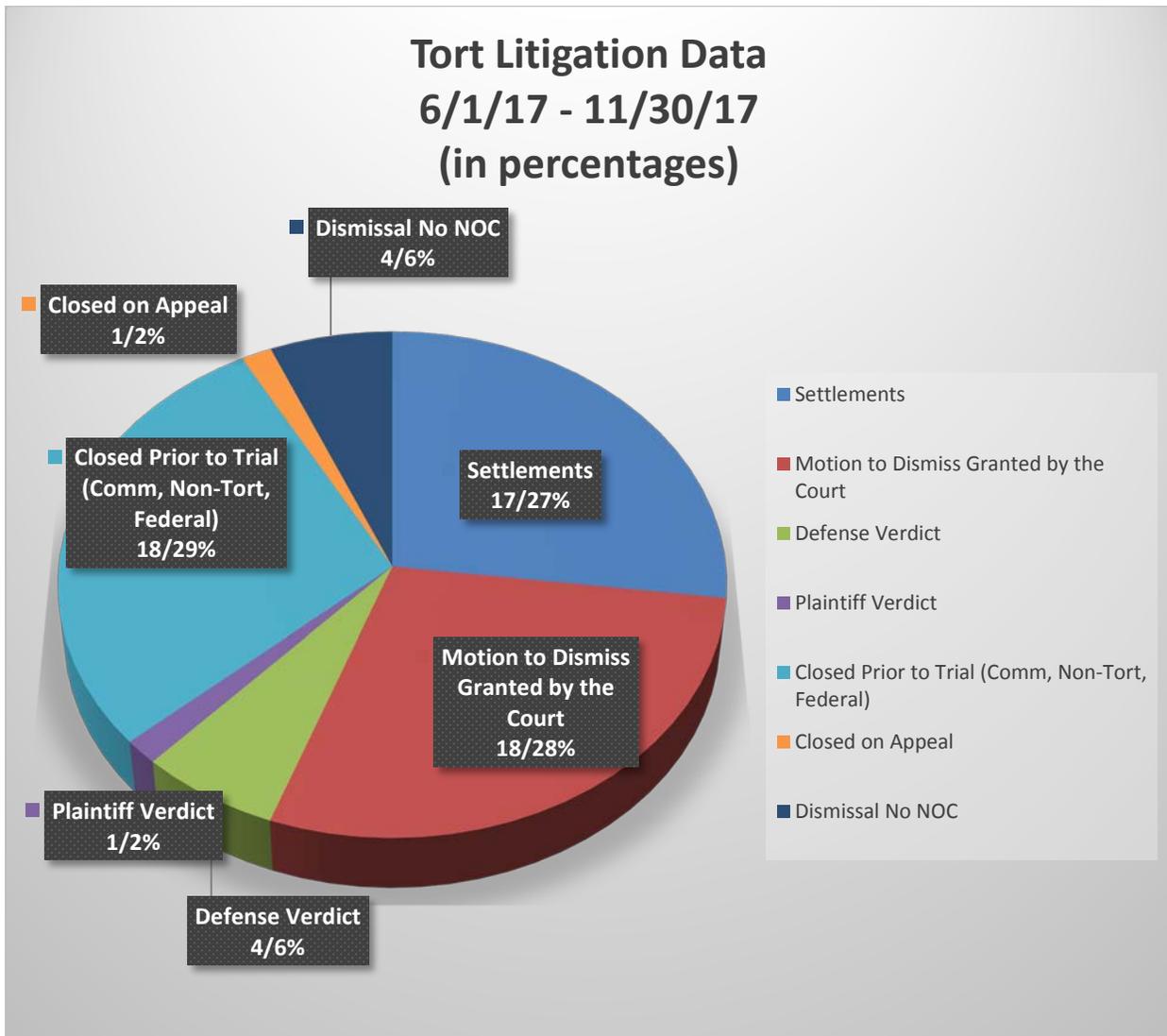
### **Tort Litigation Management**

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, and the Deputy Director of the Insurance Division, the Supervising Tort Attorney, and other stakeholders requesting settlement authority.

Settlement costs for the period of June 1, 2017, through November 30, 2017, totaled \$625,250; litigation expense costs were \$37,956; for a total of \$663,206. The Litigation Manager attends settlement conferences and other court mandated activities and provides periodic updates on the status of litigation claims, as requested. The Litigation Manager provides feedback to adjusters during the discovery process and upon resolution as required.

The Tort Unit handles a rolling docket of approximately 100 - 135 litigation claims. The current litigation caseload is 117, as of November 30, 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 June 1, 2017 – November 30, 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, 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.

The new Loss Control Management Specialist was hired on August 2, 2017. The opportunity to facilitate learning was identified; to meet in person, working directly with representatives of state agencies and universities to establish and strengthen relationships, develop knowledge and gain an understanding of mutual objectives.

Meetings are continuously scheduled with the various agency representatives to learn about their operations, primary objectives, discuss historical loss trends, loss cost opportunities, prevention programs, mitigation strategies and lessons learned. Meetings and inspections were held with:

### **Agency and Insurance Carrier Meetings:**

1. University of Maryland College Park:
  - Discussed with UMCP Department of Environmental Safety; departmental duties and operations, insurance and claims, maintenance, training opportunities, current challenges, supporting UMCP goals and future site inspection and training.
2. Maryland Aviation Administration (Baltimore Washington International Airport) - Property inspection close out meeting:
  - Met with 23 agency representatives from the offices of: Maryland Airport Administration, Office of Safety and Risk, Fire Prevention Division, BWI Airport & Rescue Department, Offices of Management Service, Commercial Management, Airport Operations, Building operations, Airmall, Property and Special Risks, Client Risk Service, Fireline and Engineering and Construction
  - Discussed the inspection, additional information requests, recommendations, timelines and communications – Provided a draft and final inspection documents
3. AIG – Property and Special Risks Meeting with AIG representatives;
  - Discussed AIG’s property inspection and risk improvement recommendation, process timelines, current and prior property inspections.
  - Drafted 2017 property inspection schedule, discussed prior losses and Maryland property deductible.
  - Requested copies of all prior property inspection reports and discussed training and additional services available to the state.
4. CNA – Equipment Breakdown and Risk Control - Met with Marshall Vosburg, Risk Control Director and David Zalusky Senior Risk Control Consultant:
  - Discussed the state of Maryland policy, covering over 400 buildings and campuses containing approximately 150 boilers and pressure vessels.
  - Confirmed CNA has completed 1,990 statutory and loss control inspections (including violations and re-inspections), visiting 302 state locations.

- Discussed and reviewed risk control service and inspection overview, violations, available education and training along with claims loss history.

### **Property Pre-Inspections:**

The Pre-Inspections are completed prior to the commercial carrier's scheduled property inspection. Pre-inspections are conducted on select property sites based on either age, value or facility condition. The purpose is to meet with and familiarize the facility manager and staff of the inspection process, areas that will be viewed (roof, mechanical room and utility closets), required information (pump test results) and timelines.

Agencies inspected were as follows:

1. Maryland State House, Annapolis, MD
2. University College Inn and Conference Center, University of Maryland, Adelphi, MD
3. State Office Building #1, Baltimore, MD
4. 5<sup>th</sup> Armory Regiment, Baltimore, MD

### **Property Inspections:**

The property inspections are completed by the insurance carrier and Loss Control Manager on an annual basis. Properties are determined at renewal based on last inspection dates, building values and condition of property.

The purpose of the inspection is to evaluate the exposures for property loss through fire, flood and other perils. It is our intention to understand the local operations, protection systems, management programs and possible causes of loss. The inspection assists in identifying any possible loss prevention measures in order to reduce potential loss.

Agencies inspected were as follows:

1. Marriott Conference Center Hotel, Towson University, Towson, MD
2. Columbus Center, University of Maryland Baltimore County, Baltimore, MD
3. Baltimore City Jail, Baltimore, MD
4. M&T Bank Stadium, Baltimore, MD
5. Oriole Park, Camden Yards, Baltimore, MD
6. University College Inn and Conference Center, University of Maryland, Adelphi, MD
7. Maryland State House, Annapolis, MD
8. Point Breeze Business Park, Baltimore, MD
9. Baltimore Washington International Airport, Baltimore, MD
10. State Office Building #1, Baltimore, MD
11. HSF III, University of Maryland Baltimore City, Baltimore, MD
12. 5<sup>th</sup> Armory Regiment, Baltimore, MD

*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](http://www.treasurer.state.md.us). If the Committee or its members would care to pursue these or other STO developments further, 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.*