



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

**JUNE 3, 2019**

**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 20, 2018. 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 items set forth below detail a number of our recent achievements. We are always available to provide additional information or answer questions regarding these and other issues.

## **BOARD OF PUBLIC WORKS**

Between December 1, 2018 and May 31, 2019, 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 and the Energy-Lease and 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:

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

- Cross Country Elementary/Middle School renovation project: Approved a request of the Maryland Stadium Authority (MSA) to award a construction management contract for pre-construction services. (12/19/18)
- Walter P. Carter Elementary School replacement project: Approved two MSA requests for award:
  - A contract for demolition, concrete, masonry, steel and site work/utilities; (1/23/19) and
  - A contract for concrete, steel, site works/utilities (4/3/19)
- Robert W. Coleman Elementary School renovation project: Approved a MSA request to award an architectural and engineering design services contract. (1/23/19)
- James Mosher Elementary School renovation project: Approved two MSA requests to award:
  - An architectural and engineering design services contract; (1/23/19) and
  - A construction manager contract for pre-construction services contract (1/23/19)
- Northwood Elementary School: Approved two MSA requests to award:
  - An architectural and engineering design services contract; (4/3/19) and
  - A construction manager contract for pre-construction services. (4/23/19)

### **Environment**

- Approved a request from the Maryland Department of the Environment (MDE) to approve new grant and loan funding up to \$46,959,973 to the Washington Suburban Sanitary Commission (WSSC) for the Piscataway Wastewater Treatment Plant Bio-Energy project in Prince George’s County. This project involves the design and construction of bio-energy facilities at the existing plant that will receive sludge from other WSSC plants. (1/2/19)
- Approved a request from the MDE for new loan funding up to \$60,619,600 to Montgomery County for the Montgomery County Municipal Separate Storm Sewer System Permit - Water Quality Restoration project. The goal of the project is to retrofit or install a best

management practice that will help improve water quality in local watersheds and thereby the Chesapeake Bay. (2/6/19)

### **Personnel, Procurement, & Regulations**

- Approved a request from Historic St. Mary's City to award a contract to replace the Maryland Dove, a reproduced seventeenth century sailing ship. (12/19/18)
- Adopted, with non-substantive changes, new and amended COMAR Title 21 State Procurement Regulations pertaining to Master Contracting and task order awards, as well as notable changes to the Small Business Reserve Program (SBR) and small procurement threshold. (1/2/19)
- Proposed new regulations and amendments to COMAR Title 21 to implement recently enacted legislation, update requirements, and correct outdated or inconsistent terminology. This included improving the Minority Business Enterprise Program (MBE) to allow the State to waive or bidders to cure minor irregularities in MBE forms. In addition, this package also proposed regulatory changes including reciprocal preferences for Architectural and Engineering procurements and surety requirements for multi-year contracts. (1/2/19)
- Approved the University of Maryland University College (UMUC) request to award a contract to provide extensive digital advertising and media-buying services in local, regional and national markets. (1/23/19)
- Approved a Department of General Services (DGS) request to award a sole source contract to design, fabricate, and erect bronze statues of Harriet Tubman and Frederick Douglass in the historic Old House of Delegates Chamber within the Maryland State House in Annapolis. The project includes structural and potential infrastructure modifications to accommodate the new statues. (1/23/19)
- Approved a Maryland State Lottery and Gaming Control Agency request to award a contract to provide advertising, marketing, media and related services for the Maryland State Lottery. (3/6/19)
- Approved a Maryland Department of Commerce request to award a contract to provide publication and content in a wide range of multi-media formats that positions Maryland as a competitive destination worldwide. (3/6/19)
- Approved a Department of Information Technology (DoIT) request to award a contract to provide an enterprise-wide, multijurisdictional, self-supporting eMaryland Marketplace (eMM) eProcurement solution. This solution will also be available for use by any State, local, or Maryland public body. (3/6/19)
- Approved a DGS request to award a contract to provide conceptual design services to reconstruct Lawyer's Mall, including the Thurgood Marshall Memorial Plaza, with all original artwork elements. (3/20/19)

- Approved a request from St. Mary's College of Maryland to award a contract funded with general obligation bond proceeds, to construct a Commemorative to Enslaved People of Southern Maryland. With this contract, the College is commissioning an artistic structure to denote the location of slave quarters found during the archeological phase of the Jamie L. Roberts Stadium project. The art will commemorate the lives of the enslaved people who lived there and throughout Southern Maryland. (4/24/19)
- Set the State Real Property Tax Rate based on 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 cents per \$100 of the full assessed value of real property of public utilities. (4/24/19)
- Approved the DGS request to award a contract for Phase II to replace underground steam and condensate lines and chilled water and condensate lines located along Bladen Street, College Avenue and into Lawyer's Mall. (4/24/19)
- Approved a Department of Human Services (DHS) request to award a contract to provide In-State Residential Child Care Services to children who are committed to local departments of social services that were found to have a high level of behavioral, educational and medical needs, and were sexually abused as a result of their involvement with sex trafficking. These are new in-state programs that DHS is implementing. (5/8/19)
- Approved the DoIT request to award a contract to provide a time clock management system to integrate with the Statewide Personnel System Workday timekeeping system. (5/8/19)
- Approved the Comptroller's request to award a sole source contract to provide mainframe disaster recovery for hot site, cold site, electronic vaulting and consulting services for the Annapolis Data Center. (5/22/19)
- Approved the DGS request to award a contract to demolish and replace the existing State Police Barrack C and Garage in LaVale. Barracks will house offices, crime scene processing, interrogation rooms, holding cells, space for the state fire Marshall and the Department of Natural resources Police. (5/22/19)

### **State Services, Facilities, & Assets**

- Approved the Maryland State Department of Education (MSDE) request to award a contract to develop content for summative assessments in English Language/Literacy, Mathematics, Science, and Social Studies for grades 3-11. (12/19/18)
- Approved the MSDE request to award a contract to administer, score and report summative assessments in grades 3-12 for the Maryland Comprehensive Assessment Program (MCAP). (12/19/18)

- Approved a Maryland Department of Public Safety and Correctional Services (DPSCS) request to award a contract to provide Statewide medical care and utilization services for approximately 20,000 inmates within correctional institutions of the DPSCS. (12/19/18)
- Approved the Comptroller's request to award a contract to supply, implement, and manage an on-line integrated tax system solution. (12/19/18)
- Approved a request from the Office of the Attorney General to compensate outside special litigation counsel with a portion of the State's recovery in litigation concerning the manufacturing and distribution of prescription opioids. (1/2/19)
- Approved a request from Maryland Department of Health to award a revenue-generating contract to provide monetary rebates on all milk and soy-based infant formula purchased with the Women, Infants and Children (WIC) Program's State-issued checks. (1/2/19)
- Unanimously disapproved a request by the Department of Natural Resources to approve an easement to install a natural gas transmission pipeline under the Western Maryland Rail/Trail. (1/2/19)
- Approved MSA's request to issue revenue bonds with a principal amount not to exceed \$55 million (Series 2019 Bonds), the proceeds of which will be used to finance capital improvement projects at the Camden Yards Sports Complex. (1/23/19)
- Approved a MSA request to award a contract to the construction manager for the Camden Yards Pedestrian Spine renovation project. The pedestrian spine that serves the Camden Yards Sports Complex will be renovated to include enhanced security features, new hardscaping and landscaping and storm water improvements. (1/23/19)
- Approved the Department of Budget and Management's request to award a contract to provide foreign language interpretation and translation services. (1/23/19)

## **Transportation**

- Approved a Maryland Aviation Administration (MAA) request to award two contracts for the A/B Connector and Baggage Handling System Improvement Project at Baltimore Washington International Thurgood Marshall Airport (BWI) for:
  - Design and program management services (12/19/18); and
  - Pre-construction and construction processes (12/19/18)
- Approved the State Highway Administration request to award a contract to provide comprehensive engineering and support services for the I-495 and I-270 P3 Program including: planning and development through solicitation, final design and construction. The Treasurer abstained on this vote. (12/19/18)
- Approved a Maryland Transit Administration (MTA) request to award a contract to provide services to operate Americans with Disabilities Act (ADA) paratransit services for the Mobility program. (3/20/19)

- Approved MTA’s request to award a contract to provide for Quality Assurance (QA) monitoring services as well as MTA’s Paratransit Mobility Operations Control Center contractor, and the service delivery contractors. (3/20/19)
- Approved the Maryland Department of Transportation (MDOT) request for a lease between MAA and Maryland Transportation Authority (MDTA). This lease is a condition for issuing Revenue Bonds to finance up to \$130 million in capital improvements, issuance costs, and other related costs at BWI. In addition, a loan from MDTA to MAA for a Not-To-Exceed amount of \$20,000,000 to finance a portion of the costs of the capital projects in terminal A, B & D. (5/22/19)
- Approved an MAA Standard Use and Lease Agreement for Southwest Airlines Co, as well as all other signature airlines at BWI. It is the primary contractual agreement offered to qualifying air carriers at BWI. (5/22/19)
- Approved a request to modify an existing contract approved in 1999 to develop, construct, operate and maintain new air cargo facilities in the Midfield Cargo Complex (MCC) and purchase, operate and maintain three existing MAA owned air cargo buildings at BWI (leased premises Parcels A and B). The lease modification will waive a repayment obligation by the contractor of the unamortized \$8.2 million in cost of the MCC apron and related improvements that were completed by MAA in fall 2017 and were to be amortized over 20 years. (5/22/19)
- Approved MTA’s requests to award the following contracts as part of the North Avenue Revitalization Project in Baltimore:
  - Aesthetic and safety improvements to the Penn-North Metro SubwayLink station on North Avenue; (5/22/19) and
  - Improvements along the North Avenue bus stop corridor between Hilton Parkway and North Rose Street, as part of a joint venture between the MTA and the Baltimore City’s Department of Transportation, to increase transit and economic development opportunities. (5/22/19)

## **Wetlands**

- Approved a recommendation from the Board of Public Works Wetlands Administrator that the Board: (1) grant the MDTA a license for a project involving dredging and filling in the navigable waters of Maryland; and (2) require MDTA to mitigate impacts to tidal wetlands as detailed in the *Governor Harry W. Nice Bridge Replacement Project – Final Compensatory Mitigation Plan*. (1/23/19)

# TREASURY MANAGEMENT DIVISION

## Banking Services Division

The primary mission of the Banking Services Division (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 also procures financial products and services on behalf of the State. On May 23, 2019, a new Merchant Services contract was awarded to Branch Banking & Trust Merchant Services (BB&T). The term of this contract is five years with an option to renew for three additional two year periods. BB&T will provide the necessary services to process merchant card payments, Web based gateway solutions, Internal Voice Response solutions and convenience fee processing for State agencies.

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 May 31, 2019, total cash receipts and disbursements exceeded \$471 billion for this 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 nearly 1,500 agency bank accounts at 30 financial institutions.

Total posted collateral on May 31, 2019 was \$703 million (unaudited). The State bank account validation reports will be sent out in early July, with anticipated responses due by the end of July. The returned data is used to update TB AIS which is used to ensure all accounts are properly collateralized and monitored monthly. The results are also used 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 Division**

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 May 31, 2019. The balance of the General Fund Investment Portfolio for May 31, 2019 was \$7,837,381,467, (unaudited) compared to \$6,861,316,612 on May 31, 2018, an increase of \$976,064,855.

The portfolio was earning an average of 1.817% on May 31, 2019, compared to 1.53% on May 31, 2018.

The General Fund gross interest earnings fiscal year-to-date for FY19 through May 31, 2019 were \$136,961,882, (unaudited) compared to \$106,324,246 received for the same time period in FY18. The year over year gross interest earnings increased by \$30,637,636.

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>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>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>2018</b>	20,963,584	94,860,659	115,824,244	82%
<b>YTD 5/31/19</b>	24,130,531*	95,810,283*	119,940,814*	80%*

\*Interest allocations are through 4/30/19 as May allocation has not yet been performed

The Maryland Local Government Investment Pool's (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on March 24, 2019. 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, 2019 was \$6,329,498,440,(unaudited) compared with \$5,527,553,852 a year ago on May 31, 2018, an increase of \$801,944,588. The MLGIP yield was 2.45% as of May 31, 2019, compared to 1.788% on May 31, 2018. 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 provide sufficient funds to meet cash flow needs and to achieve a return on investment all while maintaining safety of principal. The STO compares our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are implemented and followed and actively works to seek improved ways to protect Maryland State Funds.

## DEBT MANAGEMENT DIVISION

### Rating Agency Update

On March 7, 2019, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2019, First Series, Moody's Investors Service, S&P Global (S&P) and Fitch Ratings all reaffirmed their AAA ratings for Maryland's General Obligation debt. The rating reports from this sale are available on the Treasurer's website at [www.treasurer.state.md.us](http://www.treasurer.state.md.us).

Maryland is one of only twelve states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P has rated the bonds AAA since 1961. Moody's Investors Service has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other eleven states that hold AAA ratings from all three rating agencies are Delaware, Georgia, Florida, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

The State of Maryland's next meeting with all three major rating agencies is anticipated to occur in July 2019 to discuss the State's rating in advance of the 2019 Second Series General Obligation Bond sale. As always, the Treasurer's Office will provide updates on the rating agency reports once we receive the State's ratings.

### Overview of Maryland's Credit

There is a broad consensus about the State's credit strengths and challenges. An overview of some of those factors follows, but should not be considered exhaustive. As mentioned above, reports issued in conjunction with the State's bond sales are available on our website. The rating agencies also frequently issue general research reports pertaining to credit issues and challenges which are available upon request.

#### Credit strengths:

One of Maryland's greatest credit strengths is its fiscal management, which is supported by strong institutionalized tools. These include the Capital Debt Affordability Committee (CDAC) process, which ensures that State tax-supported debt remains within affordable levels; the Board of Revenue Estimates process, which produces a consensus revenue forecast agreed upon by the different branches of government; the strong Executive budgeting system; the ability of the BPW to make midyear spending adjustments; the lack of a supermajority requirement for tax increases; and rapid fifteen-year amortization of general obligation debt required by the Constitution, among other things.

The State also has a proven track record of proactive fiscal management. Operating budgets are balanced and nearly always passed within the 90 day legislative session, the BPW has made numerous spending adjustments in response to new revenue information over the years, and adjustments such as tax increases and reforms to the pension system have been made when necessary. Maryland's "middle temperament" and tradition of proactive cooperation on fiscal matters are subjective but critically important factors in the State's credit rating.

Maryland has a broad-based, service-oriented economy anchored by the federal government, which has a positive impact on the State's economy overall despite occasional drag caused by dysfunction in the federal government. The State's economy has a long record of resilience and above average performance relative to the nation as a whole. Maryland also tends to have lower unemployment and more high-paying jobs than the national average.

The State's population ranks in the top echelon of the U.S. in terms of its educational attainment status and income level, creating a dynamic and reliable revenue base. Policies that help us maintain our status as a highly educated, wealthy state are critical to the State's ability to retain its AAA bond rating.

### **Credit challenges:**

Long-term liabilities in Maryland are considered to be somewhat high relative to peer triple AAA states. The State's debt burden is considered moderate, and the Constitutional requirement to retire debt within fifteen years, though a credit positive overall, leads to higher annual debt service costs. Maryland also directly funds a large portion of school construction needs for its counties, which is unusual among states. Pensions are still below the ideal levels of funded status, and though the rating agencies credit us for the 2011 reforms, they also warn against any backsliding on the reforms that could jeopardize the progress we have made. Taking steps to manage these long-term liabilities while still meeting Marylanders' need for State services is crucial.

Despite the need to manage liabilities, the State continues to have significant need for capital investments that will keep the State economically competitive in the 21<sup>st</sup> century. Demand for capital projects such as school renovation and replacement, economic development, housing, etc. have consistently far exceeded actual spending, a trend which has accelerated over the last few years. During the Great Recession and years of slow growth that followed, maintenance on State facilities was deferred due to budgetary restraints, leading to a significant backlog that must be addressed. Though it is important to manage long-term liabilities, the State must continue to make investments in its people and infrastructure, while protecting its existing assets to avoid the need for more expensive repairs or replacements in the future.

In the State's long-term forecasts, revenues are not expected to keep up with expenditures. As Maryland's Bureau of Revenue Estimates recently reported, this is in part due to depressed revenue growth resulting from the demographic structure of the State's population, in which a growing portion of Marylanders are above prime working age, while prime-age workers themselves are participating in the labor force at lower rates than they have historically<sup>1</sup>. Policies that attract new immigrants and prime-age workers, retain the workers we have, or encourage participation by those not currently in the workforce can offset this decline. An additional revenue challenge is that the State's taxation system is designed for a 20<sup>th</sup> century economy. The State is transitioning to a service-based economy, meaning a growing sector of the economy is not taxed; likewise, the State has not adjusted for technological change, such as taxing digital goods and subscriptions. The *South Dakota vs. Wayfair, Inc.* decision delivered some rare good news on this front, allowing the State

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<sup>1</sup>The Bureau of Revenue Estimates studied this problem at length and its report can be found here: [https://finances.marylandtaxes.gov/static\\_files/revenue/BRE\\_reports/FY\\_2018/BRE%20Report%20on%20Age%20Demographics.pdf](https://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf)

to tax online sales of entities with no physical footprint in Maryland. The State is already seeing significantly increased sales tax revenue from this change.

## **General Obligation Bonds**

Since our last report to this committee, the State has conducted one General Obligation bond sale consisting of two separate groups. Both groups were sold on March 26, 2019 and closed on April 9, 2019.

- The 2019 General Obligation Bonds, First Series Bidding Group 1 consisted of \$265,040,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received a True Interest Cost (TIC) of 1.78% and included a premium of \$53,420,531.
- The 2019 General Obligation Bonds, First Series Bidding Group 2 consisted of \$224,960,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received a TIC of 2.71% and included a premium of \$39,329,370.

## **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, 2018 through May 31, 2019, \$2,191,191 in capital equipment was leased by State agencies through the State Treasurer's Office:

- One Equipment lease award was approved by the Board of Public Works on May 22, 2019. The lease, in the amount of \$2,191,191, was awarded to TD Equipment Finance, Inc. with a weighted average interest rate of 2.285%. This lease will close on June 5, 2019 and provide capital equipment including network equipment, computers, printers, communication equipment and heavy machinery for the DPSCS, Maryland Department of Health, Office of the Public Defender, the Department of Energy, and Department of Natural Resources.

On August 13, 2018, this committee authorized \$35,000,000 for equipment lease purchase financing through June 30, 2020. After the June 5<sup>th</sup> closing, the balance will be \$32,808,809.

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.

Although there was no equipment for EPC's leased for the period of December 1, 2018 through May 31, 2019, there is a balance of \$23,775,291.65 still available from the original \$36,000,000.00 authorized on August 13, 2018.

## Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$500,000,000, is planned for August of 2019. The State Treasurer’s Office will consider whether a retail or refunding 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. The primary source of revenue for this Fund is the State’s real property tax receipts. However, over the years, the debt service has also been supported by appropriations from the General Fund. According to the latest Commission on State Debt report, \$286,000,000 is appropriated from the General Fund to support debt service in fiscal 2019. Assuming current property tax rates are maintained and other assumptions remain as currently estimated, a continued General Fund subsidy is projected for fiscal years 2020-2024. 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, FY18 – FY24 (\$ millions)

	2018	2019	2020	2021	2022	2023	2024
	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
<b>Beginning Balance</b> <b>(\$1,000,000s)</b>	\$ 162.1	\$ 159.0	\$ 123.3	\$ 33.0	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 800.8	\$ 837.1	\$ 863.6	\$ 880.8	\$ 898.5	\$ 916.4	\$ 934.8
General Fund Appropriation	\$ 259.6	\$ 286.0	\$ 287.0	\$ 411.5	\$ 475.5	\$ 493.6	\$ 502.2
Bond Sale Premium	\$ 150.7	\$ 116.9	\$ 70.0	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds	\$ 11.5	\$ 12.4	\$ 11.6	\$ 10.9	\$ 10.1	\$ 8.9	\$ 7.5
Transfer Tax	\$ 6.7	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9	\$ 7.0	\$ 7.0
Other Cash Receipts	\$ 2.4	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2
Debt Service	\$(1,234.9)	\$(1,298.3)	\$(1,332.5)	\$(1,348.2)	\$(1,398.0)	\$(1,433.0)	\$(1,458.6)
<b>Ending Balance</b>	\$ 159.0	\$ 123.3	\$ 33.0	\$ 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 and liability protection (Claims and Tort Litigation).

### Underwriting Unit

The Insurance Division procures broker services for the purchase of commercial insurance to protect the State Insurance Trust Fund (SITF) 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:

As a result of a recent series of catastrophic events and a litigious legal environment the capacity of insurance carriers to write new policies has been reduced. Insurers are tightening their underwriting standards, some coverages are difficult to secure and fewer insurers are competing to write policies even for low risk insureds. Premiums have been increasing and insurers have been disinclined to negotiate terms. Broad coverage may now be costly or unavailable, and some coverage extensions are only available for an additional premium.

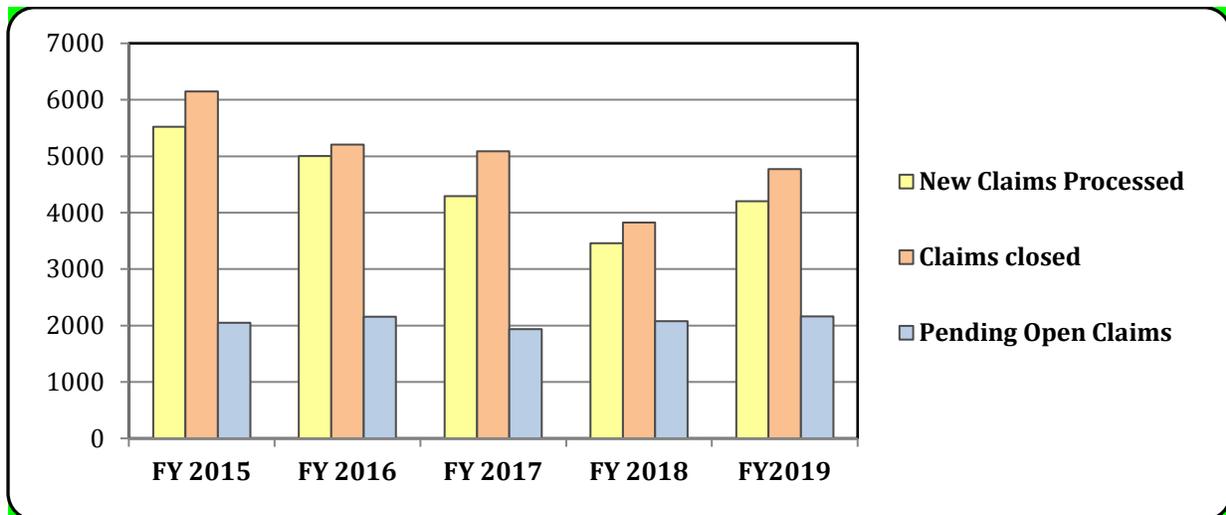
- Maryland Transportation Authority's property insurance for toll bridges and tunnels renewed effective 12/01/2018-2019. The overall pricing was down from \$3,036,786 to \$2,813,750 which is an **overall savings of \$223,036.**
- Maryland Port Administration's liability and terrorism coverages renewed effective January 31, 2019. The overall pricing was down from \$525,848 to \$523,866 which is an **overall savings of \$1,981.**
- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2019. The overall premium was down from \$36,500 to \$35,905, which is an **overall savings of \$595.**

- The Fine Art on Loan policy covering fine art owned by others renewed effective March 1, 2019. The overall premium stayed the same at \$15,184.

## Claims Unit

The Insurance Division’s Claims Unit investigates and resolves claims filed under the Maryland Tort Claims Act (MTCA) 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.

Claims are tracked to gauge activity, inventory and to identify any trends. From December 1, 2018 through May 31, 2019, there were 2464 new claims processed and 2184 claims closed. The chart below shows claims detail of all claims year-to-date from July 1, 2019. There are currently 2159 open pending claim files for FY 2019.



## Recently Reported Major Claims

On February 19, 2019, the University of Maryland, College Park (UMCP) reported a HVAC hot water system failure which occurred on February 9, 2019 and caused damage to associated equipment and property. The claim is currently under investigation, damages are estimated at \$250,000.

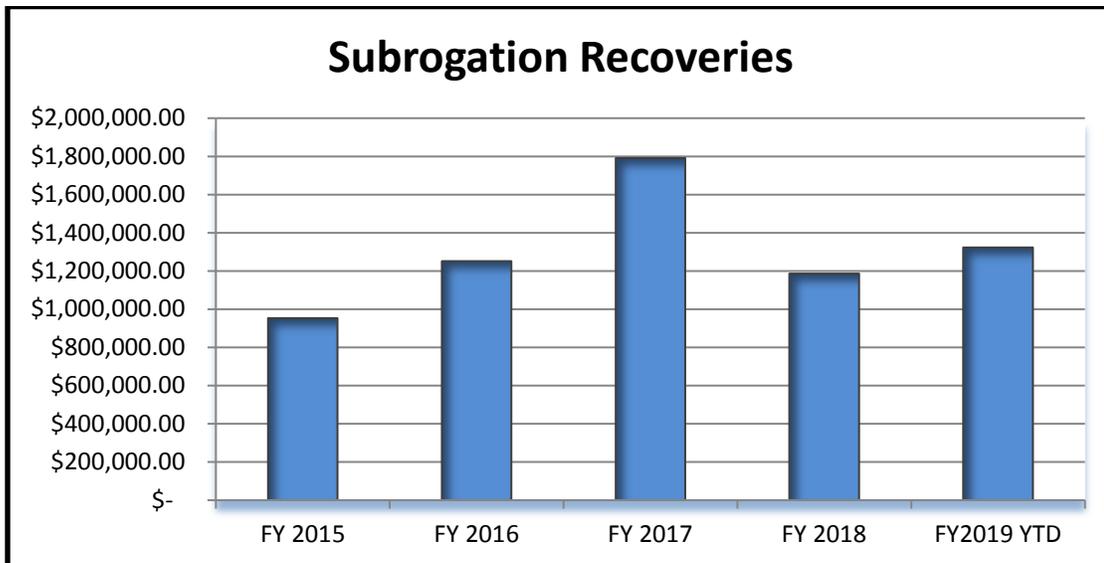
On May 8, 2019, the UMCP had a HVAC hot water line break causing significant flooding with damage to property and building on May 6, 2019. The claim is currently under investigation, damages are estimated at \$600,000.

On May 10, 2019, the UMCP reported a building fire which occurred on May 1, 2019. There was damage to several rooms in the building, as well as having 17 individuals transported to various hospitals. Claim is currently under investigation, property damages are estimated at \$70,000.

## Subrogation Recoveries

In addition to adjusting claims filed under the MTCA, 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 SITF liabilities and positively affects the Fund's solvency. The Claims Unit has renewed its focus on increasing subrogation recoveries by designating specific claims personnel to pursue these debts.

Total year-to-date subrogation recoveries for FY19 is \$1,322,775 as of May 31, 2019.



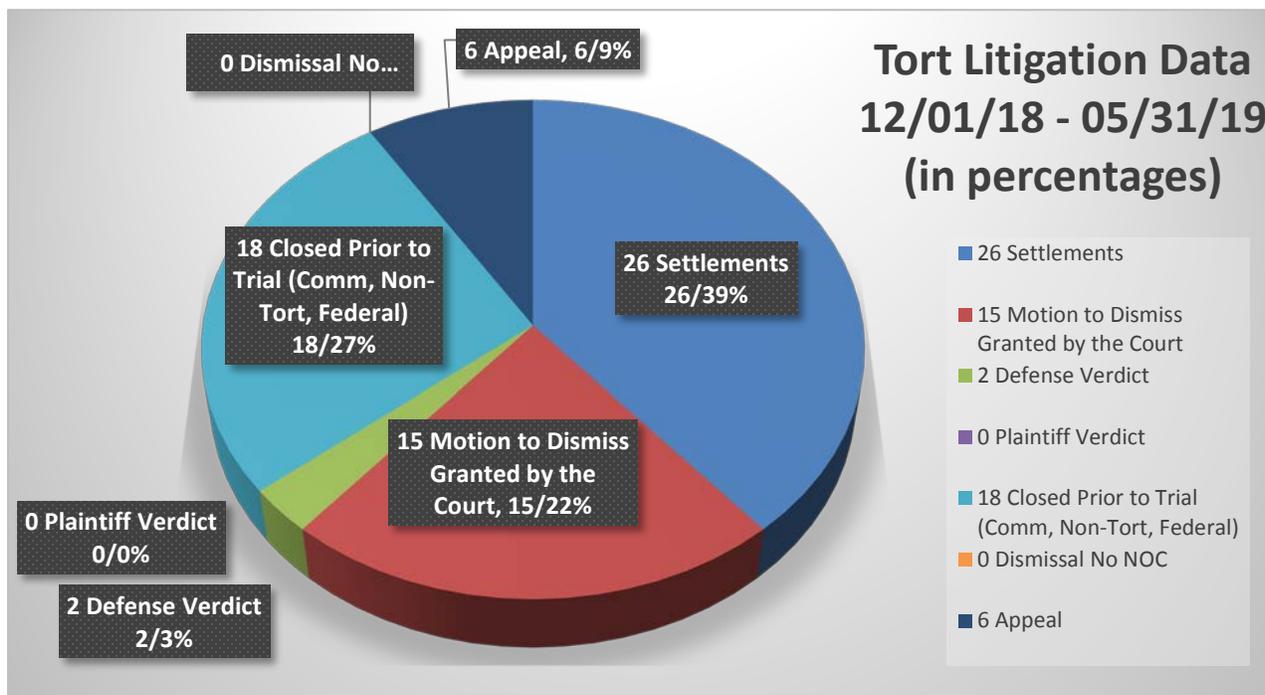
## Tort Litigation Management

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 Insurance, the Deputy Director of Insurance, the Tort Attorneys, and any other stakeholders requesting settlement authority.

Litigation settlement costs for the period of December 1, 2018 through May 31, 2019, totaled \$580,100, while litigation expense costs were \$39,847, for a total of \$619,947. 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 147, as of May 31, 2019. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the SITF.

The disposition of the cases during the timeframe of December 1, 2018 through May 31, 2019, 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.

Our Office recognizes the importance of meeting in person and working directly with representatives of state agencies and universities. This effort helps to facilitate partnerships and establish and strengthen relationships. Additionally, together, we develop knowledge and gain an understanding of mutual objectives.

Meetings were scheduled with various agency representatives and insurance coordinators to learn about their operations, primary objectives, discuss historical loss trends, loss cost opportunities, prevention programs, and mitigation strategies. Our Office met with the following agencies from December 1, 2018 through May 31, 2019: Maryland Stadium Authority, Department of General Services, Maryland State Police, University of Maryland College Park, Morgan State University, State Highway Administration and Department of Public Safety and Correctional Services.

*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.*