



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

June 6, 2013

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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 report of December 11, 2012. 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 College Savings Plans of Maryland and the Board of Trustees of the State Retirement and Pension System. She is a member of the governing boards of the Teachers’ and Employees’ Supplemental Retirement Plans, the Maryland Health and Higher Education Facilities Authority, the Maryland Small Business Development Financing Authority and of the Maryland Agricultural Land Preservation Foundation. Several of these Boards work under the general oversight of legislative committees which are in periodic receipt of reports and communications from the Office, as do the two legislative budget committees.

We continue 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 School Construction Bonds, Qualified Zone Academy Bonds and Qualified Energy Conservation Bonds. Lastly, we continue to invest State funds prudently and conservatively to minimize risk to the Maryland taxpayers.

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

BOARD OF PUBLIC WORKS

Between December 1, 2012 and May 31, 2013, the Board of Public Works (“BPW”) met 13 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, the following items worthy of note were considered by the Board of Public Works:

Capital Equipment Lease-Purchase Financing

- The Legislative Policy Committee (“LPC”) approved the request of the State Treasurer periodically to lease-finance equipment acquisitions in an aggregate amount not to exceed \$40 million over a two-year period beginning July 1, 2011 and ending June 30, 2013. The BPW approved the following lease-purchase equipment financing consistent with this authorization:
 1. **December 2012** Tax-Exempt Equipment Lease-Purchase Agreement for financing the acquisition of **\$238,050 of capital equipment** with a 1.033% weighted average interest rate for the winning bid. (12/05/12)
 2. **March 2013** Tax-Exempt Equipment Lease-Purchase Agreement for financing the acquisition of approximately **\$1.005 million of capital equipment** with a 1.010% weighted average interest rate for the winning bid. (02/20/13)
 3. **June 2013** Tax-Exempt Equipment Lease-Purchase Agreement for financing the acquisition of approximately **\$1.2 million of capital equipment** with a 0.940% weighted average interest rate for the winning bid. (05/29/13)
- Following the most recent financing (June 2013), the total amount financed during the 2-year authorization period is approximately \$7.8 million. The remaining balance of the LPC authorization for equipment lease-purchase financing is approximately \$32.2 million.

Public School Construction

- **State School Construction – Capital Improvement Program (CIP) for FY 2014:** Approved allocations totaling \$345.4 million. (05/15/13)
 - Incorporates \$187.5 million approved by the BPW on January 23, 2013.
 - Approval at the May 15, 2013 BPW meeting was given for:

- Additional projects in the amount of \$109.4 million;
 - \$23.5 million for projects that improve energy efficiency;
 - \$0.4 million for the FY 2014 Air Conditioning Initiative; and
 - \$24.6 million was reserved for additional Air Conditioning Initiative projects.
- The FY 2014 CIP includes \$300 million of new bond authorizations (which includes \$25 million for the Air Conditioning Initiative), \$23.5 million from the FY 2013 Energy Efficiency Incentive Reserves, and \$21.9 million in reverted funds from the Statewide Contingency Account.
- **Aging School Program for FY 2014:** Approved allocations totaling \$8,383,252. (05/15/13)
 - **Security Initiative for FY 2014:** Approved allocations totaling \$25 million. (05/15/13)

State Services and Facilities

- Approved the award of the construction management at risk services contract for the **Science and Technology Center at Coppin State University**. (05/15/13)
- Approved the demolition of Caruthers Hall on the campus of Salisbury University and approved the award of the design-build contract with guaranteed maximum price for the new **Academic Commons/Library Building at Salisbury University**. Among other uses, the Academic Commons/Library Building will house the Edward H. Nabb Research Center for Delmarva History and Culture. (04/03/13)
- Approved an Agreement of Sale to **purchase the historic Annapolis Post Office** from the U.S. Postal Service for \$3.2 million. (05/15/13)
- Approved a 15-year **lease for office space for the Department of Housing and Community Development (DHCD)** to relocate to the New Carrollton Transit Oriented Development in **Prince George's County**. Approval was also given for the leasing of parking spaces for employees. The 4-story office building that will house the DHCD offices is new construction that will take approximately 2 years to complete. Estimated relocation of the DHCD offices will be June 2015. In addition to the office building, the developer, Berman Enterprises, over time, will construct up to 500 residential apartment units and 40,000 – 120,000 square feet of retail space. (05/29/13)
- Approved of a 10-year **Lease and Purchase Option Agreement** between the Maryland Transit Administration (MTA) and CSX. The lease with option to purchase is for the **locomotive maintenance and repair facility located in Locust Point**. This facility is used to support MARC train service. This new lease/purchase option is precipitated by the fact that CSX is getting out of the

- business of providing MARC service on the Camden and Brunswick lines and is therefore willing to ultimately sell this facility to the State. (05/29/13)
- Approved a Standard Maximum 10-year Lease Contract for the lease of land and facilities for **corporate hangars at Martin State Airport**. (04/03/13)
 - Approved the award of a contract to **deconstruct** the Montebello E-Wing, Morgue, Power Plant and Power Plant Garage at **Morgan State University**. (04/17/13)
 - Approved the award of a contract to **deconstruct** Buildings 15 (inmate waiting wing) and 16 at the **Maryland House of Corrections**. Prior approval was granted for the demolition of the first 14 buildings in this 16 building complex. (04/03/13)
 - Approved the **emergency demolition** of 18 buildings at **Henryton State Hospital** Center in Carroll County in order to eliminate unsafe conditions resulting from numerous acts of vandalism and fires that have occurred since the closure of this facility in 1985. (05/01/13)
 - Approval to **declare surplus** the Hamilton Building located on 8.8 acres +/- at **Spring Grove Hospital** Center in Baltimore County. It is anticipated that Baltimore County will use the property as a regional park. (05/01/13)
 - Approved the award of a revenue generating contract to provide **Commissary Services for inmates within the various State correctional facilities**. Payments as a percentage of goods sold to inmates by the private contractor will flow back to the State for use in the Inmate Welfare Fund. (12/19/12)
 - Approved the award of a revenue-producing contract to provide **payphone telephone services to inmates in State correctional facilities**. Revenue generated by this contract will be credited to the Inmate Welfare Fund. (12/19/12)
 - Approved the award of a contract to **develop specifications** for a new **financial platform for the Developmental Disabilities Administration**. (01/02/13)
 - Approved the award of a contract to **identify the core software application** that will be implemented in the State's **debt collection system within the Central Collection Unit** of DBM as the first step in procuring new debt collection system software for the State. (03/06/13)
 - **State Employee/Retiree Health Care**: In order to accommodate federal reporting requirements of the Affordable Care Act and those of the Centers for Medicare and Medicaid (CMS), **modifications** of the various Employees' and Retirees' **benefits services contracts** were approved. The modifications will **change the plan years from a fiscal year to a calendar year** beginning with Calendar Year 2014 and will create a short plan year to cover the six month

period from July 1, 2013 to December 31, 2013 for the following benefits programs:

- Employees' and Retirees' healthcare benefits services;
 - Employees' and Retirees' dental benefits services;
 - Employees' and Retirees' behavioral health and employee assistance program benefit administration services;
 - Employees' flexible spending accounts;
 - Employees' and Retirees' pharmacy benefits management and prescription coverage services;
 - Employees' and Retirees' group long term care insurance benefits; and
 - Employees' and Retirees' voluntary accidental death and dismemberment insurance. (03/20/13)
- Approved the modification of the contract for **Inmate Medical Health Care and Utilization Services** to include the provision of **Enhanced Telemedicine Services** by the Contractor, Wexford Health Sources, Inc. (04/17/13)

Information Technology

- Approved the award of a 5-year multiple award, indefinite quantity Purchase-Order- Request-for-Proposals-based **Master Contract to provide mobile radio, communications consoles, and radio communications installation and communications maintenance services**. Of the 22 Contractors approved for award of a Master Contract, 17 are Maryland resident businesses, 7 are small businesses, and 3 are MBEs. The cost of the overall contract is estimated to be \$31 million. (01/23/13)
- Approved the award of a 15-year multiple award, indefinite quantity, task order based **Master Contract to provide Statewide Information Technology technical and consulting services** in 17 functional areas (CATS+). Of the 320 Contractors approved for award of a Master Contract, 196 are Maryland resident businesses, 134 are small businesses, and 138 are MBEs. The cost of the first 3 years of this contract is estimated to be \$150 million. (04/03/13)

BWI Marshall Airport

- Approved a **Domestic Incentive Program** at BWI Marshall Airport. The Maryland Aviation Administration (MAA) will reward new non-stop service to a market not currently served by non-stop service at BWI by providing a discount off of fees charged to domestic carriers at BWI Marshall. MAA hopes to attract

new airlines through the incentives, as well as encourage existing airlines to add new routes. (12/19/12)

- Approved a modification of the duty free merchandise provisions of the Lease and Concession Contract to allow the **sale of “duty paid” merchandise** only in the duty free stores at BWI Marshall to BWI patrons and employees that will be in addition to the duty free sales to departing international travelers. (05/15/13)
- Approved MAA’s request to use expedited procurement to obtain long lead-time items that are a necessary component of the Runway Safety Area Pavement Management and Standards Compliance Program which is dictated by the Federal Aviation Administration in response to a mandate from Congress. (05/15/13)

State Property Tax Rate

- Set the State Real Property Tax Rate 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. (04/17/13)

Bonds

- Adoption of a Resolution for the **sale of \$665,135,000 of State of Maryland General Obligation Bonds**, to be known as the State and Local Facilities Loan of 2013, First Series:
 - First Series A: \$500,000,000 tax-exempt bonds (competitive)
 - First Series B: \$165,135,000 tax-exempt refunding bonds (competitive) (03/06/13)
- Adoption of Resolutions authorizing the issuance and **sale by the Maryland Department of Transportation** of its **Consolidated Transportation Bonds, Series 2013** in an amount not to exceed **\$315,000,000** at a public sale to occur on or before June 30, 2013. (01/23/13)

Procurement

- Finalized publication of a **list of persons engaged in investment activities in Iran** and issued a procurement advisory providing general guidance to State Agencies concerning the **2012 Investment Activities in Iran Act**. (Chapter 447 of the Acts of 2012) Inclusion on the Investment Activities in Iran List would make these persons ineligible to bid on, submit a proposal for, or enter into or renew a contract with a public body in Maryland for goods or services. Inclusion on the IAI List also bars financial institutions extending credit to those persons in certain situations from contracting with public bodies in the State. (12/19/12)

- Adopted final regulations to implement the **2012 Investment Activities in Iran Act**. (04/17/13)
- Adopted final regulations to implement miscellaneous 2012 legislation, including:
 - Implementation of a requirement to disclose certain information regarding **conflict minerals originating in the Democratic Republic of Congo** or its neighboring countries; (04/17/13)
 - Establishing **environmental standards for electronic products** used by the State; (04/17/13)
 - Changing the standards for eligibility as a State-certified small business for purposes of the **Small Business Reserve Program**; (04/17/13)
 - Implementation of changes to the State's **Minority Business Enterprise Program**; and (04/17/13)
 - Establishing minimum compensation rates for the State's Tidal Wetlands Licensing Procedures. (12/19/12)
- Approved publishing for comment regulations to enhance the **indoor air quality of relocatable classrooms**. (04/03/13)

Lottery & Gaming

- Approved the MD State Lottery & Gaming Control Commission renewing the contract to provide **investigative services for VLT licensing**. (03/06/13)
- Approved the **award of contracts to three fund managers** to provide capital and loans to small, minority and women-owned businesses across the State as a part of the **Small, Minority and Women-Owned Business grant program** funded by video-lottery-terminal proceeds. (04/17/13)

Environmental Programs & Natural Resources

- Approved the modification of the Cooperation Agreement between the U.S. Department of the Army and the State for the construction of the **Ecosystem Restoration Project at Poplar Island** to authorize acceptance of dredged material from southern approach channels to the C&D Canal south of the Sassafas River. (12/05/12)
- Approved the **acquisition in fee simple of a 14 +/- acre property** located in Frederick County within the boundaries of the **Crampton's Gap Historical District**. This area was the scene of a Civil War battle on September 14, 1862 where Union forces skirmished with Confederate cavalry guarding Crampton's

Gap. Program Open Space State Share funds will be used to purchase this property in conjunction with a grant from the Civil War Trust's American Battlefield Protection Program (01/02/13)

- Approved the **acquisition of a conservation easement on a 298 +/- acre parcel of land** located in Frederick County. The property is located within the boundaries of the **Turner's Gap and Fox's Gap Battlefield Historic District**. This property was in the path of General Joseph Hooker's Corps as they traveled up South Mountain to engage Confederate troops. Program Open Space State Share funds will be used to purchase this easement in conjunction with a grant from the Civil War Trust's American Battlefield Protection Program. (05/29/13)
- Approved the award of a contract to conduct a high-resolution **geophysical survey** of the area of the Outer Continental Shelf designated by the U.S. Department of the Interior as the **Maryland Wind Energy Area**. To facilitate deployment of offshore wind turbines, this assessment will be undertaken recognizing it to be a necessary component of the development of offshore wind energy generation. (01/02/13)
- Granted a **wetlands permit** to the MD Department of Natural Resources to **restore natural, self-sustaining oyster population** and oyster bottom habitat on **184 acres of natural oyster bed** located in **Harris Creek** in Talbot County. (05/29/13)

TREASURY MANAGEMENT DIVISION

Investment Services

The Treasurer's conservative investment policy and practices have protected the investment portfolio through these continued volatile and unprecedented economic times. It is a true accomplishment in this environment to report that all principal is intact and a modest but continuous return has been earned on the portfolio. The par value of the General Fund investment portfolio for April 30, 2013 was \$6,053,802,227.63 as compared to April 30, 2012 when it was \$5,557,477,892.46. This is an increase of \$496 million dollars.

On April 30, 2013, the portfolio was earning an average of 1.022%, compared to 1.348% for the same date in 2012. The lower return reflects the impact of the Federal Open Market Committee maintaining the Fed Funds Target rate at .25% or less since December 16, 2008. For comparison, the three month constant maturity Treasury Bill averaged 0.089% from July 2012 until the end of April 2013, as compared with 0.039% for the same time period in the previous fiscal year. The low rate environment combined with the highly conservative portfolio strategy focused on liquidity to offset unpredictable and volatile cash flows has resulted in continued moderate but positive interest earned.

The General Fund gross interest earnings received year-to-date for FY 2013 are \$41,242,436.39 as compared with \$60,123,179.71 received for the same time period in FY 2012. The over \$18 million decline in interest received is directly attributable to the continued lower interest rate environment combined with the increased liquid balances which earn a lower return.

The following chart tracks the impact of the legislation passed last fiscal year to reduce the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio. It should be remembered that as the total General Fund portfolio decreases, the proportion of Agency Funds to General Funds increases and therefore their allocated share 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	53,002,765	87,698,955	140,701,720	62%
2012	22,981,014	48,647,953	71,628,967	68%
April 2013	7,824,943	33,417,493	41,242,436	81%

The Securities Lending Program continues to provide additional revenue. The program has earned \$364,009.36 so far in FY 2013. This compares with \$375,343.33 for the same period in FY 2012. The Federal Reserve and Federal Treasury programs designed to add liquidity to the financial markets which reduced borrowers' need for the securities in the State's portfolio is being scaled back.

The Office continues to increase MBE participation in the investment of State funds. Twenty-four MBE broker/dealers are on the Office's approved list for FY 2013

and they have handled investments of \$623 million so far this fiscal year. This compares with FY 2012, when the Office had twenty-two approved MBE broker/dealers who handled \$718 million in investments by the end of April.

The Maryland Local Government Investment Pool (MLGIP) AAAM rating was reaffirmed by Standard and Poor's on March 25, 2013. The pool balance at April 30, 2013 was \$2,861,962,915.34 compared with \$2,750,575,793.23 for the same date in 2012. This is an increase of over \$111 million dollars due to higher available cash balances of the participants. The MLGIP is paying .10% as of April 30, 2013 as compared with .12% last year. The participants continue to use the pool due to the lack of safe short term investment alternatives for Investment Pool members at a comparable yield. The MLGIP is in total compliance with the 2010 changes in Money Market rules and regulations.

The Office continues to invest according to the officially adopted State Treasurer's Investment Policy, which sets out investment goals, priorities and constraints. The overriding goal is to assure sufficient liquidity to maintain uninterrupted funding of State government and legislated payments. As revenues have become less predictable and more volatile, the strategy has been adjusted to ensure liquidity. The State Treasurer's Office continues to review and compare our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are followed and implemented.

Banking Services

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

Banking Services 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 Unit 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 Banking Services to proactively resolve agency banking issues. Even as the volume of transactions has increased, the processes and controls developed by Banking continue to result in a timely, accurate, and well documented reconciliation of the State's cash accounts. For FY 2013, total cash receipts and disbursements each exceeded \$134 billion through April 30th and the State's bank accounts continued to be reconciled to the penny on a daily basis to the State's general ledger.

Banking Services continues to work with the Department of Information Technology (DoIT) and NIC USA (NIC), on the implementation of self-funded eGovernment applications using a centralized web portal.

Another responsibility of the Unit 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), Banking

Services monitors over 1,800 agency bank accounts at 23 financial institutions. Total posted collateral as of April 2013 was \$587 million.

Banking Services 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. We will continue to explore new financial products and improved data delivery methods that will increase its capabilities to provide efficient, cost-saving, banking services to Maryland State agencies.

DEBT MANAGEMENT DIVISION

Ratings

Maryland is one of now nine states with AAA ratings from all three rating agencies. The states are Maryland, Alaska, Delaware, Virginia, North Carolina, Georgia, Missouri, Iowa and Utah. Alaska just joined this group in January, 2013. On February 25 and February 26, 2013, Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings all affirmed the State's AAA rating.

Moody's has assigned a negative outlook to Maryland's General Obligation Bonds. In its latest confirmation of Maryland's Aaa rating dated February 25, 2013, Moody's stated that the negative outlook on Maryland's Aaa rating is due to Maryland's indirect linkages to the weakened credit profile of the U.S. government, which itself was assigned a negative outlook by Moody's on August 2, 2011. Moody's has determined that issuers with such indirect linkages, such as Maryland, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, or high levels of short-term and puttable debt. In a December 7, 2011 assessment of issuers with these indirect linkages, Moody's specifically cited Maryland's and Virginia's economic sensitivity to federal employment and spending as an outlier having high risk exposure when compared to national norms. Moody's did not cite any elevated risk exposure for economic sensitivity to the healthcare industry or capital markets exposure as evidenced by the fact that the State has no general obligation variable rate debt.

On September 11, 2012, Moody's issued an update on the U.S. government stating that the Aaa rating with a negative outlook remains unchanged. The report continued to state that "The direction of the U.S. rating and its outlook will most likely be determined by the outcome of budget negotiations during the course of 2013 and that the maintenance of the current rating and outlook into 2014 is highly unlikely". The Treasurer's Office anticipates that Moody's would review the State's rating and negative outlook shortly following any changes to the U.S. rating or outlook.

Meetings with Rating Agencies

As of the date of this report, there have been no further rating actions. The Treasurer's Office has provided the rating agencies 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 2013 Second Series General Obligation Bonds in June, 2013.

Ratings Reports

All three rating agencies point to the State's history of strong, sound financial management as a strength for Maryland. In assessing Maryland's management practices, Standard & Poor's assigned a rating of "strong" to this factor, noting, "Based on a review of several key financial practices, Maryland has made continuing efforts to institutionalize sound financial management practices. In reviewing its practices and policies, it was very apparent to us that the state's use of a five-year financial plan, which is updated annually with the adopted budget, provides the basis for future fiscal decisions and recognizes future fiscal year gaps. Monthly monitoring and reporting of key revenues allows the state to make midyear financial adjustments, if necessary, to maintain balance. Maryland has consistently maintained its statutory rainy-day fund at or above its legal minimum of 5% of revenues."

Fitch, in assigning its AAA rating and stable outlook, said, "Debt oversight is strong and centralized, and the debt burden is moderate. The state has policies to maintain debt affordability, and the constitution requires GO [General Obligation] and transportation bonds to amortize within 15 years." Fitch Ratings further said, "Financial operations are conservative, and the state maintains a well-funded rainy day fund. The state took repeated action during the course of the recession to address projected budget gaps, including raising tax revenues, cutting spending, and using rainy day and other balances."

Moody's, in explaining its Aaa rating and negative credit outlook said, "The highest quality rating reflects Maryland's strong financial management policies and stable economy with high personal income levels. The rating also acknowledges the state's above average debt burden and large unfunded pension liabilities relative to the size of its economy."

In assigning its 'AAA' long-term rating and stable outlook, Standard & Poor's said, "The rating reflects what we view as the state's Broad and diverse economy, which has experienced steady recovery; however, potential federal fiscal consolidation could negatively affect near-term growth prospects; High wealth and income levels; Long history of proactive financial and budget management, including implementation of frequent and timely budget adjustments to align revenues and expenditures; Well-developed financial and debt management policies including long-term financial planning, which should be helpful in addressing future budget challenges; and Moderate debt burden that we expect to continue due to a clearly defined debt affordability process, which limits annual issuance, coupled with a constitutional 15-year debt maturity schedule." Standard and Poor's further states, "The stable outlook on Maryland reflects our view of the state's proactive budget management in recent years and the steady

economic recovery underway, which has stabilized revenues and allowed for continued funding of reserves.”

The rating agencies assessed the fiscal effects in Maryland from sequestration or changes to federal spending and tax policy. S&P noted, “While federal fiscal consolidation remains a risk to Maryland’s budget and long-term financial plan, we believe that the state is monitoring developments and has options to mitigate this risk based on its well-developed budget policies and financial reserves.” In assessing rating sensitivities, Fitch indicated “Sound fiscal management practices and the consistent maintenance of fiscal flexibility, including in the form of budgetary reserves, provides the state with significant ability to respond to near-term economic or fiscal shocks, including from federal budget uncertainty, in a manner consistent with the ‘AAA’ rating.”

Pension reforms enacted during the 2011 Legislative Session and teacher pension sharing enacted during the 2012 Legislative Session are noted by each of the three rating agencies. Fitch Ratings noted “Although pension funded ratios have weakened, the state has undertaken multiple reforms to reverse funded ratio declines.” Moody’s indicated “The funded levels of Maryland’s retirement system represent a credit challenge for the state” but goes on to recognize that “[t]he state has taken a number of measures to reduce its pension burden.” While noting “Based on the enacted reform and investment performance through fiscal 2012, Maryland’s actuary projects that the system will be 80% funded by 2023 and will achieve full funding by 2031”, S&P indicated “Maryland’s below-average pension-funded ratios continue to represent downside risk to the rating.”

The State Treasurer’s Office sends copies of the ratings reports for each bond sale to all members of the General Assembly and current reports are also available on the Treasurer’s website at www.treasurer.state.md.us.

Closed Financing - General Obligation Bonds

Since our last report, the State has had one successful bond sale. The 2013 First Series was sold in a competitive sale on March 6, 2013 and totaled \$665,135,000. The proceeds were used to finance new projects and refund existing bonds. The sale closed on March 15, 2013 and had two series.

The Series A bonds provided \$500.0 million, at a very favorable true interest cost of 2.33%, to finance investments in capital projects that benefit communities throughout the State. The Series B refunding bonds totaled \$165.1 million and saved taxpayers \$8.1 million in interest costs.

Closed Financing – 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. Between December 1, 2012 and May 31, 2013, \$1.2 million in capital equipment was leased by State agencies through the State Treasurer’s Office. On June 7, 2013, the State Treasurer’s Office will finalize the financing of another equipment lease totaling \$1.2 million.

The Treasurer's Office also finances Energy Performance Leases in cooperation with the Department of General Services (DGS), providing funding for energy conservation at State facilities. The program finances significant up-front investments in conservation projects; the lease is paid using the savings in operating costs. No energy leases were financed between December 1, 2012 and May 31, 2013.

2013 Financing Plans

The next general obligation tax-exempt financing, projected to total approximately \$475 million, is planned for late July 2013. In light of reduced retail demand for the State's bonds due to the current low interest rate environment, the State Treasurer's Office does not expect to offer a retail component for this sale. 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 July.

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 real property tax receipts. The Commission on State Debt met and released its annual report on April 8, 2013. In fiscal year 2014, \$83.0 million 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 fiscal years 2015 through 2018. The complete report is available on the Treasurer's website at <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>.

Capital Debt Affordability Committee (CDAC)

The CDAC will be meeting during the summer of 2013 in order complete its review of State debt and make recommendations on the total amount of new State debt and new bonds for academic facilities that prudently may be authorized for the next fiscal year. Meeting materials and the final 2013 CDAC Report will be available on the Treasurer's website.

PROCUREMENT

State Finance and Procurement designates the Treasurer as the primary procurement authority for all banking and financial services, insurance and insurance services. The Office, on behalf of the Department of Labor, Licensing and Regulation, Unemployment Insurance Benefit Division (DLLR/DUI), awarded a Contract in November 2012, to provide benefit payment and escrow account services. The benefit payment account's primary function is the payment of unemployment insurance benefits and the refund of overpaid employer contributions. The escrow account is for deposit of

collateral from employers who have elected to self-insure against anticipated unemployment claims.

In April 2013, the Office, on behalf of DLLR/DUI, awarded a Contract for Electronic Payment Card Services for the disbursement of Unemployment Insurance benefit payments to be provided to claimants via an electronic payment card. Also included is a traditional direct deposit service for claimants that elect to have UI benefits deposited to their designated bank accounts.

In May 2013, the Office procured insurance broker services to market, manage and service insurance policies for specified coverage needs in the areas of aviation coverages and transit coverages.

Currently, the Office is in the process of procuring general banking services for The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans. An award is expected in June 2013.

INSURANCE DIVISION

The Insurance Division is responsible for administering the State's Insurance Program which is comprised of both commercial 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 maintained 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 is comprised of three units: Underwriting, Loss Prevention, and Claims. 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

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:

The Maryland Port Administration's (MPA) liability coverage was renewed on January 31, 2013. The broker approached the incumbent carrier and four others. The

expiring primary coverage was with Allianz, but it was renewed with Liberty. There was a lot of interest and competition from the carriers trying to write our account this year. Liberty provided the lowest premium of all of the carriers **saving MPA \$57,320 at inception.**

The Underwriting Unit buys commercial marine liability insurance to cover State-owned watercraft. The broker approached the incumbent carrier and two others for the January 1, 2013 renewal. The number of vessels was up from last year's 1,046 to 1,062 for 2013. Two carriers declined to quote, and the incumbent carrier, Ace, originally quoted \$47,045. Most marine carriers were seeking rate increases after the large losses they paid for Hurricane Sandy claims. Our broker went back to the carrier and negotiated the premium down to \$44,809 **realizing savings of \$2,236.**

The statewide excess property coverage renewed April 1, 2013. The broker shopped our coverage to 16 carriers which netted three quotes. Carriers were seeking rate increases of 10%-15% attributable to the State's large losses including those sustained from Hurricane Sandy in October 2012. The State's Hurricane Sandy losses were approximately \$3,500,000, and there is an open claim from a UMES greenhouse fire valued at approximately \$5,100,000. We renewed with the lead carrier, Lexington, the incumbent, who required two changes in the renewal coverage. First, a new sub-limit of \$1,000,000 was imposed on trees, plants, and shrubs (previously unlimited) due to the recent claim activity. Secondly, a \$1,000,000 sub-limit was added for research animals (previously unlimited) that some of the schools have. There are no known losses in the past from research animals. Lexington will include 7-10 property inspections in the renewal, depending on the size of the locations we request. The renewal property values were up 2.7%. Bottom line, even with our loss experience, our values going up \$775,000,000, and market conditions, our premium only went up \$119,556.

The Maryland Port Administration's (MPA) auto liability insurance coverage, effective January 1, 2013, was marketed to the incumbent carrier, Travelers, and two other carriers. The exposure has decreased from 162 vehicles down to 147 for the 2013 renewal. The expiring premium was \$70,056 and coverage was renewed for \$63,002 which **saved MPA \$6,054.**

The Maryland State Police Aviation Command (MSPAC) annual meeting was held at their headquarters in Middle River in May. The broker, insurance carrier representatives, and Insurance Division personnel from Underwriting, Loss Prevention, and Claims were in attendance. The main topic for the meeting was the new helicopters. MSPAC took delivery of six new AW139 helicopters in late February, and the remaining four should be delivered by the end of 2013. Our meeting included updates on two pilot operations, training, dispatch, and maintenance, the timeline for the transition to new helicopters, NTSB recommendations, the FAA Part 135, and a tour of one of the new helicopters.

The Underwriting Unit frequently addresses agencies' questions about commercial insurance and self insurance coverage and has worked on special projects with at least seven State agencies.

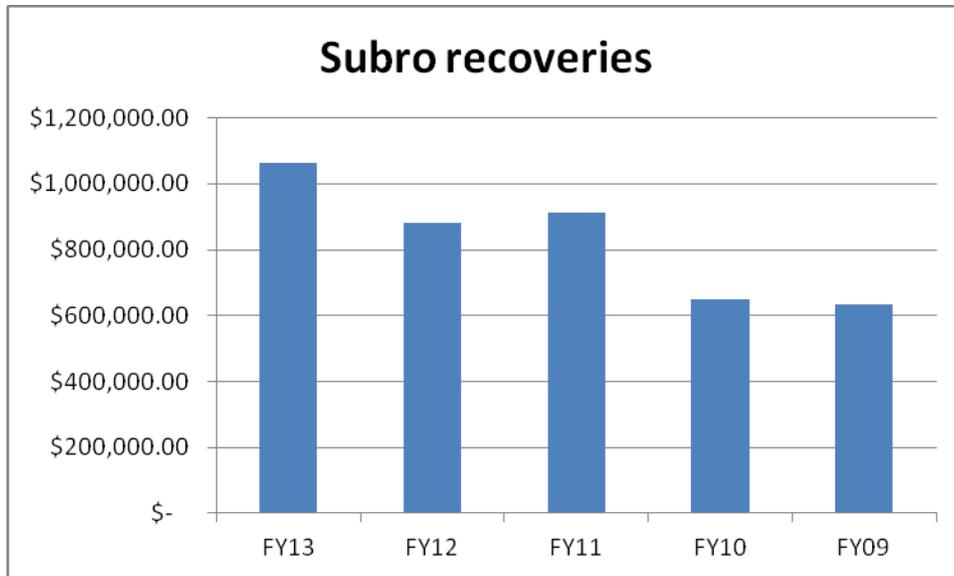
- Maryland Energy Administration (MEA) contacted us twice regarding an RFP for “Energy Technical Services” asking for assistance on the insurance requirements.
- Maryland Aviation Administration (MAA) asked for assistance with the insurance requirements for an Amtrak agreement, and also to advise them on the insurance requirements for the renewing airline agreements.
- Department of Information Technology (DOIT) requested our input on insurance requirements for their RFP for a new statewide HR system and subsequently had follow up questions.
- UMCES entered in to a “Canadian Collaborative Agreement” to do sampling in the Western Arctic (Chukchi Sea) and both the Underwriting Unit and our AAG offered input to UMCES.
- UMES had insurance questions regarding an agreement they had for “coastal ocean sampling”.
- Maryland Health Insurance Plan (MHIP) needed insurance guidance on the RFP for the State’s High Risk Health Insurance Pools.
- The Maryland State Police were putting out an IFB for lab services related to forensics and asked for our insurance input.

Claims

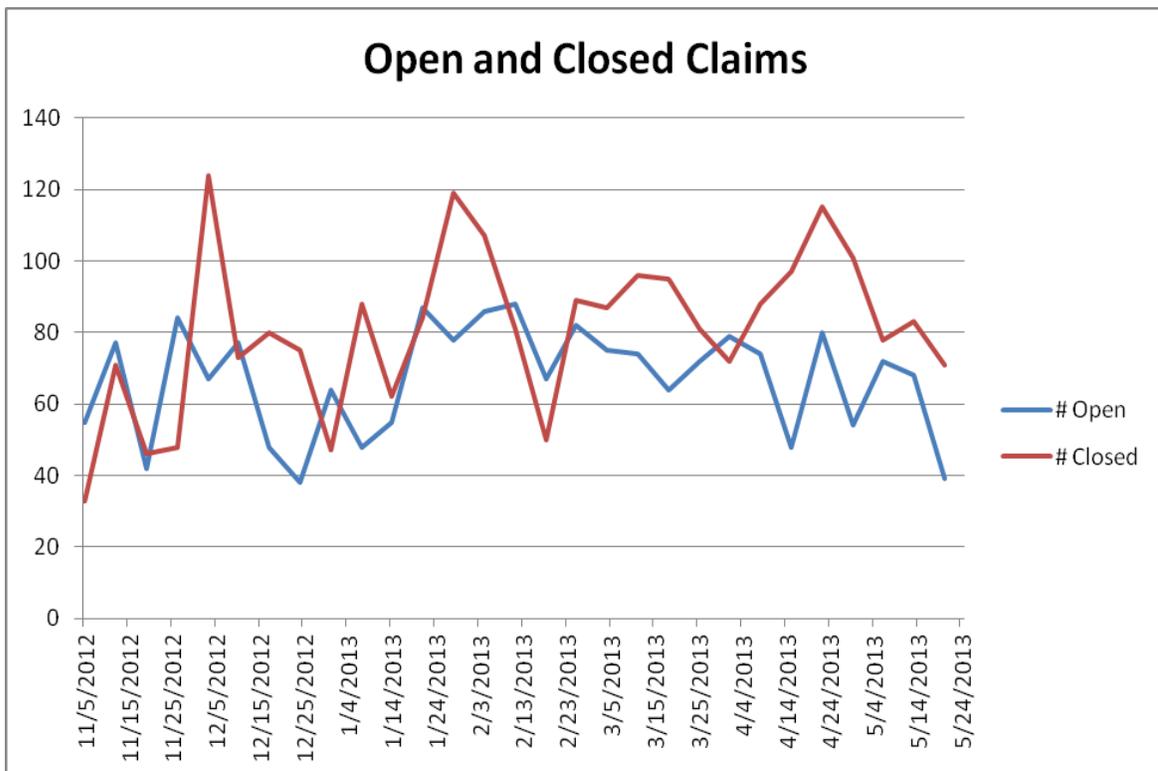
The Insurance Division’s Claims Unit investigates and resolves liability claims filed under the Maryland Tort Claims Act, Md State Gov’t Code Ann. §§12-101 *et seq.* The Unit also handles claims for damage to State-owned property arising from sudden and accidental perils such as collision and comprehensive 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 focused on increasing subrogation recoveries by designating specific claims personnel to pursue these debts.

Year-to-date recoveries in FY13 of \$1,065,002 surpassed both FY12’s recovery total of \$880,929 and FY11’s recovery total of \$912,156 by over 15%.



In addition to subrogation activity, the open and closed claims are tracked to gauge activity and inventory. From November 6, 2012 through May 24, 2013, 1,942 claims were opened, and 2,341 claims were closed; which reflects a 1:1.2 open to close ratio.



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 to the Assistant Attorneys General on behalf of the Treasurer. In cases valued over \$100,000, the Litigation Manager briefs the Insurance Review Committee which is comprised of the Chief Deputy Treasurer, the Supervising Tort Attorney, and other stakeholders. The Litigation Manager also attends settlement conferences and other court mandated activities. The Litigation Manager provides feedback to adjusters on investigations, and provides updates on the status of certain litigation claims of interest.

The Tort Unit handles a rolling docket of approximately 120 litigation claims. 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 disposed of between November 6, 2012 and April 30, 2013, is noted in the following table:

Disposition	Reason or Method	Count
Dismissal	Motions granted	8
	Notice of claim not provided	0
	State not served	0
	Non – State	2
	Voluntary w/o prejudice	2
	Voluntary w/prejudice	2
Verdict	Adverse	1
	State	6
Settlement	Pre trial settlement	14
	Pre trial settlement conference	7
	Mediation	3
	Settlement at trial	0
	Post trial settlement	0
TOTAL CASES CLOSED AS OF April 30, 2013		45

Loss Prevention

The aim of loss prevention is to help State agencies develop specific action plans and safety practices to mitigate or eliminate State agencies' most frequent or severe sources of preventable losses.

Annually, the Loss Prevention Unit conducts a comprehensive review of numerous State agencies' loss histories to identify problem areas and to help agencies with high severity and/or frequency claims take corrective measures. These efforts are

expected to significantly reduce loss frequency and the severity of damage sustained to State-owned buildings and contents.

The Loss Prevention Manager met individually with the Department of General Services, Annapolis Complex, the University of Maryland, Baltimore County, and the University of Maryland, Baltimore to discuss water related property claims, loss control measures and preventive maintenance.

Meetings were held with the Department of Health and Mental Hygiene and the University of Maryland College and Motor Transportation Services to discuss auto loss histories. The discussions focused on preventable accidents and the fleet management program.

The Loss Prevention Manager and two adjusters from the claims unit met with the Motor Vehicle Administration to discuss liability claims involving computers and human errors.

The Electrical Infrared Testing program for 2013 includes the University of Maryland, Baltimore (UMB), the University of Maryland, Baltimore County (UMBC), the University of Baltimore (UB), Maryland Military Department (Md. Military), and the Department of Health and Mental Hygiene (DHMH). Testing for DHMH will be conducted across the State hospitals (Clifton T. Perkins, Deer's Head, Eastern Shore, Holly Center, Potomac Center, Springfield, Spring Grove, and Western Maryland) as well as the Thomas B. Finan Center. These inspections provide valuable information on the condition of equipment in State agency facilities.

Electrical infrared imaging identifies potential equipment failures and loose connections that create heat that can be imaged to show the exact location of a threat so that appropriate action can be taken before costly repairs and downtime are incurred.

INFORMATION TECHNOLOGY DIVISION

The Information Technology (IT) Division provides a platform of integrated systems that include midrange, server, and web based hardware that host customized and industry standard applications and communications that support the State Treasurer's Office's (STO) operations.

Over the last six months, the IT Division worked with the Office's Divisions and our State agency clients to support many changes and upgrades to our list of services provided to state agencies. These services include direct deposit, direct debit, check printing, positive pay and account reconciliation process services for the Comptroller's Office, the State Retirement System, as well as the Department of Human Resources.

The IT Division's custom programming supports the Banking Services' Account Reconciliation process. These programs work together as a single menu driven application that processes incoming deposits, disbursements and adjusting entries.

Deposit transactions are filtered through our ACH Validation process and assigned to their appropriate agency.

The Banking system also tracks issued, paid, reissued and stop payment status of all checks for GAD, RAD, Retirement and DHR. The IT Division, in cooperation with the Banking Services has elected to take advantage of our faster file transmission and system processing power and modify the paid check posting to occur prior to the start of the workday. This change gives STO, RAD and Central Payroll, issued and paid check data one day sooner, which will benefit everyone's reconciliation and offer even better protection against fraudulent checks.

Upon completion of the daily cash reconciliation a same day report is sent to each agency allowing the agency to see what will be posted to their agency one day in advance of the actual posting by FMIS. The IT Division is receiving more requests from agencies to distribute this information electronically so that it can then be read into their reconciliation systems. To meet this need, IT is expanding our list of transmission options to include secure email, Open SSH and Secure FTP. These new alternatives will satisfy current agency requests for such a format that can be utilized regardless of their hardware platform.

The IT Division continued to enhance and support the Treasury Bank Account Information System (TBAIS). The TBAIS system tracks account approval requests, routes them to GAD and Banking Services for approval, and generates up-to-date reporting and management of agency bank accounts.

The Network Services staff maintained support of all network, firewall, email, web, file and application server hardware and software for the agency. Additional responsibilities include maintaining reliable PC hardware and software built via a standard image. This standard provides the staff with the ability to utilize automated scripts for the deployment of security, anti-virus and application patches. They also support custom software utilized within the agency, including, but not limited to, Mun-ease, SunGard, LAS (Leave Accounting System), M&T Check Viewer, Matter Tracker, PTX Viewer, Rumba, J-Walk, NGS Query, Org Plus and the entire MS Office Suite including MS Project. Recent accomplishments include maintaining excellent uptime despite several hardware failures; migrated the web server to new hardware; and began rollout of new antivirus/security software with improved protection capabilities.

Other IT projects completed include creation of a new Admissions and Amusement Direct Debit for RAD, establishing a new data transmission file for Judiciary, testing for MVA and completed modifications requested by State Retirement to change deduction title(s) used on checks and remittance advices for the annual run in July.

As noted in the opening section of this Report, present revenue and market conditions continue to impact the operations and achievements of the State Treasurer's Office in many ways. 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.