



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

December 15, 2015

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 Report of June 1, 2015. 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. The Treasurer 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.

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

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

BOARD OF PUBLIC WORKS

Between June 1, 2015 and November 30, 2015, the Board of Public Works (BPW) met ten times to consider State procurements, expenditures of capital appropriations, the acquisition, use and transfer of State assets, issuances of licenses to dredge and fill wetlands, and the acquisition of land and easements in support of Program Open Space, the Conservation Reserve Enhancement Program, the Rural Legacy Program and the Agricultural Land Preservation Program.

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

Bonds

- Approved the Maryland Water Quality Financing Administration's request to issue up to \$180 million in Bay Restoration Fund Revenue Bonds to provide grants for the upgrade of wastewater treatment plants with enhanced nutrient removal technologies. (09/16/15)
- Adopted resolutions authorizing the issuance and sale by the Maryland Department of Transportation of its Consolidated Transportation Bonds, Series 2015 (Third Issue) in an amount not exceeding \$450 million. (10/07/15)

FY 2015 State Operating Budget

- On the basis of the State of Emergency declared on April 27, 2015, in response to the civil unrest in Baltimore City, the Governor transferred \$20 million from the Rainy Day Fund to the BPW's Contingency Fund to cover expenses incurred during the State of Emergency in Baltimore City and to provide assistance in the revitalization of the City. The BPW approved the following fund transfers:
 - \$7,905,501 to reimburse the Military Department, the Department of Natural Resources Police, the Department of Public Safety and Correctional Services, and the Maryland State Police for costs incurred during the civil unrest in Baltimore City;
 - \$1,000,000 to the Department of Labor, Licensing and Regulation to fund the Baltimore City Summer YouthWorks Program;
 - \$4,150,000 to the Department of Housing and Community Development to fund business and neighborhood recovery efforts in Baltimore City; and
 - The balance of the \$20 million (\$6,944,499) to be returned to the Rainy Day Fund. (06/23/15)

Elections

- Rejected (2-1 vote) the award of an 18-month contract to provide a statewide voter outreach campaign to create awareness and promote acceptance of the State's new voting system. (06/23/15)

Economic Development

- Approved the award of a contract to provide consulting services in support of the development of the Southern Maryland Technology Commercialization Pilot Program. This Program will focus on diversifying the Southern Maryland Region's economy through the commercialization of defense technologies. (06/23/15)

Lottery & Gaming

- Approved additional grant funding of \$11.1 million for the seven incumbent fund managers to provide investment capital and loans to small, minority and women-owned businesses across the State using VLT proceeds. (06/23/15)
- Approved the allocation of \$100,000 from VLT proceeds to the Department of Business and Economic Development (DBED) to reimburse DBED for its FY 2015 administration of the Small, Minority, and Women-Owned Business Fund Manager Program. (06/23/15)

Personnel – FY 2015

- “Rule of 100”: The FY 2015 Budget enables the Board of Public Works to authorize the creation of up to 100 positions within the Executive Branch. While no requests for positions within the “Rule of 100” were considered by the BPW in June, 2015, during FY 2015, the BPW authorized the creation of 56.1 positions within the “Rule of 100”.
- Positions Outside of the “Rule of 100”: Positions that are supported with federal or other non-State funding sources and will be abolished when the specific funding is no longer available:
 - Four positions at the Department of Health and Mental Hygiene (DHMH) dedicated to chronic disease evaluation and health systems change, with a focus on obesity, diabetes and heart disease health outcomes; (06/23/15)
 - Four positions at DHMH focused on building domestic capacity for a public health response to Ebola and other emerging and highly infectious diseases; (06/23/15) and
 - Two positions at DHMH focused on hospital preparedness for a public health response to Ebola and other emerging infectious diseases. (06/23/15)

- In FY 2015, the BPW authorized the creation of 13 positions outside of the “Rule of 100”.

Personnel – FY 2016

- “Rule of 100”: The FY 2016 Budget enables the BPW to authorize the creation of up to 100 positions within the Executive Branch. Between July 1, 2015 and November 30, 2015, the BPW authorized the creation of 6 positions:
 - Five positions at the Office of Administrative Hearings by converting five long-term contractual positions to FTEs in order to facilitate recruitment and retention of an Administrative Law Judge, a staff attorney and three docket clerks; (08/26/15) and
 - One special-funded Assistant Attorney General position within the Office of the Secretary of State to support the administration and enforcement of the Maryland Solicitations Act. Funding for the position comes from the Charitable Enforcement Fund (Ch. 654, Acts of 2014). (09/16/15)
- Positions Outside of the “Rule of 100”:
 - One position supported with federal funding in the Behavioral Health Administration within DHMH to serve as the Project Director for the Medication Assisted Treatment-Prescription Drug and Opioid Addiction grant. (10/21/15)

Public Safety

- Approved the issuance of a notice to proceed to implement Region 5 (Prince George’s, Montgomery, and Southern MD Counties) of the statewide Public Safety Wireless Communications System for First Responders. (09/16/15)
- Ratified 14 emergency contracts for maintenance and preventive maintenance services at the Baltimore Pre-Trial Jail Complex in order to prepare buildings in the complex to accept detainees being relocated from the Men’s Detention Center following that building’s closure in July 2015. (11/04/15)

Public School Construction

- Approved regulations for final adoption that:
 - Establish in regulation the State cost share percentage for each subdivision and the Maryland School for the Blind for Fiscal Years 2016, 2017, and 2018 and to set a maximum State cost share percentage of 98% in FY 2019 and subsequent years; (08/26/15) and

- Establish relocatable classroom indoor environmental quality standards for relocatable classrooms built after July 1, 2015. (08/26/15)
- Approved increased school construction funding for the local school boards in Anne Arundel and Montgomery Counties, representing allocations from the Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms. The other four public school systems eligible to receive funding under this grant program (Baltimore, Dorchester, Howard, and Prince George's) requested that their grant funds be applied to the FY 2017 CIP. (11/04/15)

State Services

- Approved the award of a 5-year contract to Scion Dental, Inc. to provide Dental Plan Administrator Services for a comprehensive, fee-for-service dental program for Medicaid participants. (09/16/15)
- Approved the award of 5-year contract to CareFirst of Maryland, LLC to serve as the healthcare provider in the areas of medical, vision, pharmacy, and dental benefits for the employees and retirees of the Maryland Transit Administration. (10/07/15)
- Approved the award of a contract to study and develop a rate setting process that will replace the current prospective payment system for the Developmental Disabilities Administration's provider community. (07/16/15)
- Approved the award of a contract to design, develop and implement a core Unemployment Insurance (UI) system to replace the existing UI system in Maryland. (09/16/15)
- Approved the transfer of \$75,000 from the FY 2016 BPW Contingency Fund to the Maryland Department of Disabilities to provide oversight of the Ethan Saylor Alliance for Self-Advocates as Educators (Ch. 387 & 388, Acts of 2015), the purpose of which is to advance the community inclusion of individuals with intellectual disabilities and developmental disabilities. (10/07/15)

Transportation

- BWI Marshall Airport:
 - Approved the award of a contract to Supreme Airport Shuttle for the exclusive right to operate an on-demand shared-ride ground transportation service to BWI Marshall Airport; (08/26/15)
 - Approved a concession contract with Zipcar, Inc. to operate a non-exclusive off-airport Rental Auto Concession at BWI Marshall Airport; (10/07/15) and

- Approved a request from the Maryland Aviation Administration (MAA) to allow AIRMALL, the Airport's Concessionaire, to enter into leases with subtenants that extend beyond the end date of AIRMALL's Lease and Concession contract (March 31, 2022). After the expiration of the AIRMALL lease, the subleases will continue as direct leases with MAA. (11/18/15)
- Approved the award of a contract for engineering consultant, design and construction management services for the replacement of the Governor Harry W. Nice Memorial Bridge. (06/23/15)

Wetlands Licenses

- Approved the Swan Point Development Co., LLC application for a wetlands license to construct a Potomac River marina, observation piers, shoreline stabilization measures, and create marshlands in Charles County. (07/16/15)
- Approved the application of K. Hovnanian's Four Seasons at Kent Island, LLC for a wetlands license for a residential development project in Queen Anne's County involving horizontal directional drilling in navigable waters of the State, discharging fill from the project's stormwater management system into tidal wetlands, and constructing a pier. (11/18/15)

TREASURY MANAGEMENT DIVISION

Banking Services Department

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

The Department is directly responsible for managing the banking needs for all agencies of the State. BSD continues to oversee enhancements for lockbox processing and improved reconciliation processes throughout the State. Total business process improvement at the agencies continues.

The Department procures financial products and services statewide. BSD conducted procurement on behalf of the College Savings Plans of Maryland (CSPM) to provide services for the accounts and assets under the control of the Board, including depository, disbursements, lockbox and custodial services. The BSD is providing on-site assistance in implementation of best practices for the procured services for College Savings Plan of Maryland. The Department continued the implementation process for the Agency Depository Contracts for statewide banking depository services. Almost 400 agency bank accounts have been moved to the newly-designated depositories. Reminder notices have been sent to all Agencies with deposits at ineligible depositories. BSD led the Evaluation Committee for the RFP process for E-WIC processing for WIC for Maryland and U.S. Virgin Islands. BSD has been drafted to assist the Child Support Enforcement Administration (CSEA) in drafting an RFP for banking services and will lead the Evaluation Committee.

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Department must account for the receipt of all warranted deposits and the disbursement of all warranted payments. To meet these responsibilities, a comprehensive daily cash reconciliation is performed which allows BSD to proactively resolve agency banking issues. Even as the volume of transactions has increased, the processes and controls developed by BSD continue to result in a timely, accurate, and well documented reconciliation of the State's cash accounts. For FY 2015, total cash receipts and disbursements exceeded \$216 billion. As of November 30th total cash receipts and disbursements exceeded \$126 billion for the current fiscal year. The State's General Fund bank accounts continued to be reconciled to the penny on a daily basis to the State's general ledger.

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

- Processing the drawdown of funds from federal programs and grants;
- Initiating Federal Reserve wire payments;
- Managing foreign currency transactions;
- Processing check stop payments, cancellations and reissues;
- Initiating replacement checks for failed ACH payments;

- Recovering funds for fraudulent check presentments;
- Providing transaction research assistance to State agencies;
- Managing the Unpresented and Undeliverable Check Funds;
- Recordation in R*STARS of all bank adjustments; and
- Maintenance of tables to allow for accurate posting of electronic receipts.

Another responsibility of the Department is to ensure protection of all State funds on deposit with financial institutions through monitoring of bank account and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors over 1,800 agency bank accounts at 23 financial institutions. Total posted collateral as of October 31, 2015 was \$586+ million. The annual Bank Account Survey, a verification tool used to ensure all accounts are collateralized appropriately and monitored monthly, has been completed. The results of the survey were updated in TBAIS to ensure collection of all interest owed to the General Fund.

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

Investment Department

The Treasurer's conservative investment policy and practices have protected the investment portfolio through these continued unprecedented economic times and has resulted in a modest but continuous return on the portfolio. The par value of the General Fund investment portfolio for November 30, 2015 was \$6,013,533,850.48 as compared to November 30, 2014 when it was \$4,816,265,602.81. This is an increase of over \$1.1 billion dollars.

On November 30, 2015, the portfolio was earning an average of 1.043%, compared to 0.937% for the same date in 2014. The return reflects the diligence of the investment staff despite the impact of the Federal Open Market Committee (FOMC) maintaining the Fed Funds Target rate at .25% or less since December 16, 2008. For comparison, the three month constant maturity Treasury Bill averaged 0.051% from July 2015 until the end of November 2015 as compared with 0.023% for the same time period in the previous fiscal year. The low interest 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 2016 are \$25,591,714 compared to \$19,287,616 received for the same time period in FY 2015. The almost \$6.3 million increase in interest received is directly attributable to higher cash balances available for investment and slightly higher interest rates in the market's anticipation of an increase in rates by the FOMC.

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

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

Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
2000	121,951,720	103,173,287	225,125,007	46%
2001	136,981,074	144,249,899	281,230,973	51%
2002	82,641,807	66,399,769	149,041,576	45%
2003	37,205,637	42,240,523	79,446,160	53%
2004	25,037,345	29,053,449	54,090,794	54%
2005	52,886,074	54,538,463	107,424,537	51%
2006	149,613,238	109,222,108	258,835,346	42%
2007	150,798,001	205,589,917	356,387,918	58%
2008	155,170,184	207,179,098	362,349,282	57%
2009	102,768,740	142,619,087	245,387,827	58%
2010	44,190,425	87,921,654	132,112,079	67%
2011	53,178,733	87,900,159	141,078,892	62%
2012	23,207,535	48,647,954	71,855,489	68%
2013	8,646,595	40,710,863	49,357,458	83%
2014	19,133,149	52,602,770	71,735,919	73%
2015	7,064,094	55,460,767	62,524,861	88%
Year to Date	8,306,706	17,285,008	25,591,714	68%

The Office continues to encourage minority business participation in the investment of State funds. The evolving bond market has made this task more difficult. A number of MBE firms have merged, been acquired, or ceased to exist during the last few years. The STO has been diligent in the pursuit of qualified MBE broker/dealer firms. Twenty-five MBE broker/dealers are on the Office’s approved list for FY 2016, and have handled investments of \$271 million out of \$989 million so far this fiscal year. This compares with fiscal year 2015, when the Office had twenty-four approved MBE broker/dealers who handled \$24 million out of \$599 million investments by the end of November.

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by Standard and Poor's on September 28, 2015. The MLGIP's balance at November 30, 2015 was \$4,086,460,658.23 compared with \$4,022,968,363.58 for the same date in 2014. This is an increase of over \$63 million dollars due to participants' higher available cash balances and lack of trusted alternative investments. The MLGIP is paying 0.10% as of November 30, 2015 compared to 0.05% last year. The 302 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 overriding goal of the State Treasurer's Investment Policy is to secure sufficient liquidity in order to maintain uninterrupted funding of State government and legislated payments. As revenues have become less predictable and more volatile, our investment 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.

DEBT MANAGEMENT DIVISION

Ratings

On June 19, 2015, in conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2015, Series A and B, Moody's Investors Service, Standard & Poor's and Fitch Ratings all affirmed their AAA ratings for Maryland's General Obligation debt. Maryland is one of only eleven states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. Standard & Poor's has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other ten states that hold AAA ratings from all three rating agencies are Alaska, Delaware, Georgia, Indiana, Iowa, Missouri, North Carolina, Texas, Utah and Virginia.

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 with regular updates on the financial condition of the State. The next conference call with the rating agencies is expected prior to the sale of the 2016 First Series General Obligation Bonds in March, 2016.

Ratings Reports

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

Financial Management

All three rating agencies point to the State's history of strong, sound financial management as a credit strength. Moody's cites a "history of strong financial management" and "adequate reserve levels despite recent draws" as two of the three highlighted "strengths" of Maryland's credit profile. In assessing Maryland's management practices, Standard & Poor's assigned a rating of "strong" to this factor, noting: "Long history of proactive financial and budget management, including implementation of frequent and timely budget adjustments to align revenues and expenditures." 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."

Debt Policies and Debt Burden

In the case of all three rating agencies, the State's debt affordability guidelines and rapid amortization of debt are considered credit strengths and help offset concerns the rating agencies have regarding the State's debt burden. According to Fitch, [t]he burden of Maryland's total

tax-supported debt is moderate, and its strong and centralized debt management remains a credit strength.” Fitch specifically highlights the State’s debt affordability policies and the constitutional requirement to amortize debt within 15 years. Moody’s states the constitutional limit “somewhat offset[s] the credit impacts of a high debt burden.” The Capital Debt Affordability Committee is referred to as having a positive role in debt management by both Moody’s and Standard & Poor’s, with Standard & Poor’s stating “the clearly defined debt affordability process” has a positive stabilizing effect on the State’s debt profile and “[s]till-moderate debt burden across all measures.

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, and; High wealth and income levels.” Standard & Poor’s further states: “The stable outlook on Maryland reflects our view of the state’s proactive budget management in recent years and the economic recovery underway, although recent revenue growth has been hampered by events at the federal level.” Fitch notes “the state has a diverse, wealthy economy, benefiting from its proximity to the nation’s capital”, and observed Maryland’s “diverse and wealthy service-oriented economy remains a source of credit strength,” citing lower than national unemployment and high personal income as strengths of the Maryland economy.

Each rating agency cites ties to the federal government as both benefits and risks to Maryland’s economy. Moody’s noted that there has been a decline in federal employment due to sequestration yet “the employment impacts on the state are less severe than nationwide.” Standard & Poor’s noted “[w]hile federal fiscal policy remains a challenge to the state’s budget and long-term financial plan, we believe that Maryland continues to monitor developments and has options to mitigate this risk based on its well-developed budget policies and financial reserves.” In assessing the State’s economy, Fitch indicated “[t]he state’s economy has long benefited from proximity to the nation’s capital, although the prospect of federal budget austerity poses a degree of uncertainty for the state’s large federal agency presence and associated private contracting.”

Pension and other liabilities

Pension reforms enacted during the 2011 Legislative Session, the teacher pension sharing enacted during the 2012 Legislative Session, and the phase-out of the corridor funding method that was enacted during the 2013 Legislative Session are noted by each of the three rating agencies. On the topic, Fitch Ratings stated “Despite pensions being a comparative credit weakness, the state has taken multiple steps to reduce their burden and improve sustainability over time.” Moody’s indicated “[t]he financial condition of Maryland’s retirement system represents 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.” Standard & Poor’s indicated “[t]he state’s below-average pension funded ratios continue to represent downside risk to the rating.”

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

General Obligation Bonds

Since our last report to this committee, the State has conducted one General Obligation bond sale;

- The 2015 General Obligation Bond, Second Series was sold on July 16, 2015 and totaled \$500,000,000. The proceeds were used to finance new projects. The sale closed on August 3, 2015 and had two series:

Series A: \$450 million in Tax-Exempt Bonds sold on a competitive basis primarily to institutions

Series B: \$50 million of Taxable Bonds

The Series A bonds provided \$450.0 million, at a TIC of 2.83%, to finance investments in capital projects critical to our State. Series B provided \$50 million, at a TIC of 1.36% to finance loan programs and other capital projects with the potential to benefit non-governmental entities. In addition, the State received a premium of \$45,918,725 to offset FY 2016 debt service costs.

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 June 1, 2015 and November 30, 2015, \$2,728,504 in capital equipment was leased by State agencies through the State Treasurer's Office, leaving a current balance of \$26.9 million authorized by the Legislative Policy Committee for equipment lease-purchase financing through June 30, 2016.

The Treasurer's Office also finances Energy Performance Leases in cooperation with the Department of General Services, providing funding for energy conservation improvements at State facilities. The program finances significant up-front investments in conservation projects; the lease is paid using the savings in operating costs. The State closed on a \$5,282,358 energy lease on November 13, 2015 to finance improvements at six Department of Juvenile Services' facilities. A total of \$44.7 million remains of the \$50 million authorized by the Legislative Policy Committee for energy performance lease-purchase financing through June 30, 2016.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$500 million, is planned for March, 2016. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions. Throughout the year, the Office

monitors interest rates to gauge refunding opportunities that meet present value savings criteria in debt policy. If these benchmarks are met, refunding bonds could also be issued in March.

Status of the Annuity Bond Fund

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund, and the primary source of revenue for this Fund is the State’s real property tax receipts. Over the years, however, the debt service has also been supported on occasion by appropriations from the General Fund, as well. The Commission on State Debt met and released its annual report on April 15, 2015. In FY 2016, \$252.4 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 FY 2017 - 2020. 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>

Fiscal Year	2016	2017	2018	2019	2020
Beginning Balance	\$ 130,012,667	\$ 1,826,473	\$ 2,378,594	\$ 2,633,683	\$ 2,812,996
Property Taxes	740,839,457	757,151,628	767,699,397	779,234,132	798,714,985
Bond Premium	30,000,000	-	-	-	-
Other Revenues	20,992,968	21,158,530	21,318,247	21,642,225	20,753,351
General Fund	252,400,000	416,000,000	473,000,000	495,000,000	539,000,000
Debt Service	(1,124,025,619)	(1,193,758,037)	(1,261,762,555)	(1,295,697,044)	(1,359,092,289)
Capital Projects	(48,393,000)	-	-	-	-
Ending Balance	\$ 1,826,473	\$ 2,378,594	\$ 2,633,683	\$ 2,812,996	\$ 2,189,043

Capital Debt Affordability Committee (CDAC)

General Obligation Recommendation

At its final meeting on September 30, 2015, the Committee reviewed its assumptions on revenues, personal income, interest rates, debt issuance, debt service and bond authorizations. The Committee believes that these variables have been estimated prudently. The personal income and revenue estimates reflect the most recent forecast by the Board of Revenue Estimates in September 2015. At this meeting, the Committee considered several options for a recommended amount of new general obligation debt to be authorized. On a motion made by the Secretary of the Department of Budget and Management, the Committee approved a recommendation of \$995 million for new general obligation authorizations to support the FY 2017 capital program. The vote was 4-1, with the Treasurer voting against the proposed amount.

The Committee approved a recommendation of \$995 million for new general obligation authorizations to support the FY 2017 capital program. The vote was 4-1, with the Treasurer voting against the proposed amount.

In addition to determining and recommending a prudent affordable debt authorization level for the coming year, the Committee also sets out planning assumptions for the State to use in its capital program planning process. The Committee reviewed several options that were projected to maintain debt affordability ratios within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues. Again, on a motion made by the Secretary of Budget and Management, in support of that motion, the committee voted to maintain the authorization at \$995 million in future fiscal years. The vote was 4-1, with the Treasurer voting against the proposal commenting that the role of the Committee was to recommend an affordable authorization level while the role of the General Assembly was to balance the needs of the State. The Treasurer also noted that by maintaining the 3% growth level instituted by the Committee in 1992, the debt outstanding would remain within the CDAC affordability benchmarks. The affordability analysis presented at the Committee’s meeting illustrate that, based on the Committee’s historical projection of 3% annual growth in General Obligation Bond authorizations, debt service will continue to be within the affordability guidelines going into the future.

Projected Affordability Ratios-Baseline					
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Service to Revenues	Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Service to Revenues
2016	3.45%	7.28%	2021	3.47%	7.60%
2017	3.52%	7.56%	2022	3.46%	7.79%
2018	3.52%	7.84%	2023	3.39%	7.94%
2019	3.50%	7.73%	2024	3.33%	7.83%
2020	3.48%	7.59%	2025	3.26%	7.84%

Projected Affordability Ratios with \$995 million Annual Authorization					
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Service to Revenues	Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Service to Revenues
2016	3.45%	7.28%	2021	3.30%	7.48%
2017	3.51%	7.56%	2022	3.23%	7.59%
2018	3.49%	7.84%	2023	3.11%	7.65%
2019	3.44%	7.71%	2024	2.99%	7.42%
2020	3.37%	7.53%	2025	2.86%	7.30%

The Committee recognizes that there are multiple annual authorization levels and patterns that would result in adherence to the benchmarks, depending on future levels of personal income and State revenue. The Committee's planning assumptions for future authorizations will be reviewed in preparation for the 2016 report in light of updated revenue and personal income projections and authorization levels may be adjusted to adhere to these affordability benchmarks.

Academic Facilities Bonds Recommendation

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommended a limit of \$22.0 million for new academic facilities bonds for the University System of Maryland for fiscal year 2017. The Committee did not receive any requests for new issuances for Morgan State University, St. Mary's College of Maryland or Baltimore City Community College and therefore made no recommendations for these institutions.

The 2015 Capital Debt Affordability Report and the 2015 meeting materials are available on the State Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx>

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

The Insurance Division collaborated with The Office of the Attorney General and two vendors to host two State Insurance Program workshops in September. The target audience included insurance coordinators, risk and safety managers, facilities and plant managers and other key stakeholders within the State. The agenda incorporated property insurance, liability for the acts of State personnel, what to do when an accident or natural disaster occurs, how to reduce the impact of future losses, and fiscal stewardship relative to the State Insurance Trust Fund. This meeting was offered in advance of the tort cap increase effective October 1, 2015, to advise agencies of the impact of the pending change.

Underwriting Unit

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

- The Maryland Transit Administration's (MTA) excess liability coverage was renewed effective July 1, 2015. The ridership was up ½% and the renewal rate was basically flat making the MTA's renewal increase only \$67;
- The MTA's rail car property coverage was renewed effective July 1, 2015. The rail car values increased by 4%, and their renewal premium rose by \$20,649 over prior period which was a direct result of the increase in values;

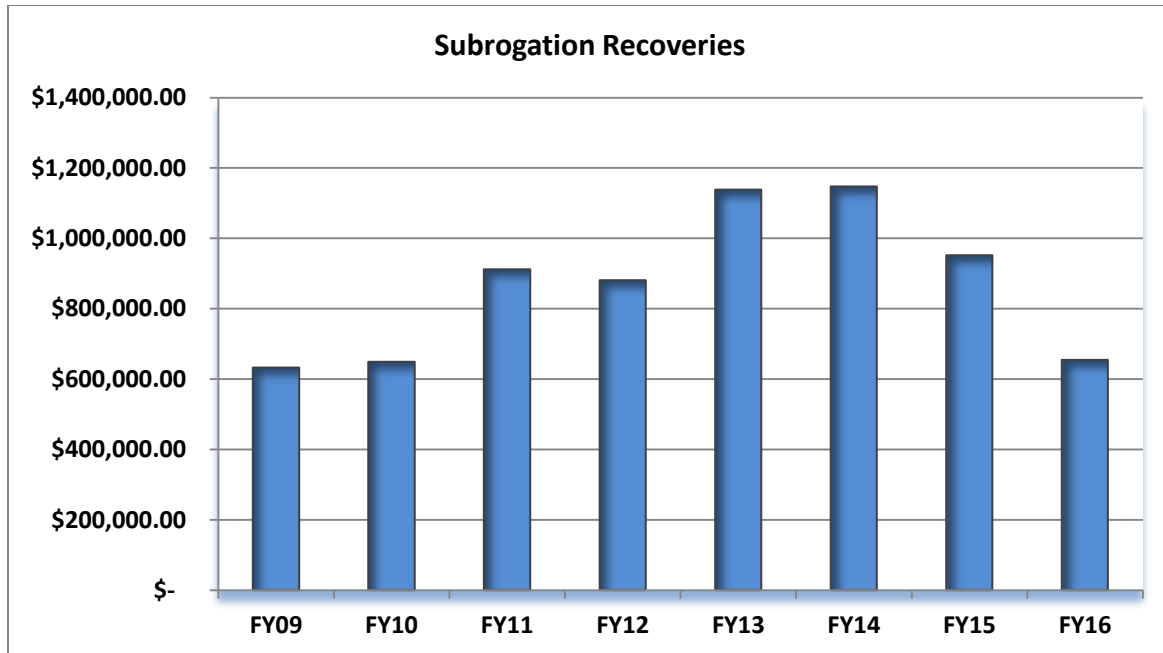
- The Allied Health professional liability coverage for student interns was renewed with no coverage change effective September 1, 2015. The number of students insured decreased by 161, saving the participating schools \$11,870;
- The statewide Boiler and Machinery coverage was renewed effective September 30, 2015. We stayed with the incumbent carrier and maintained our 20 days of infrared testing and three statewide carrier training classes per year. With substantial value increases, the premium rose proportionally by \$31,871;
- The law clinic professional liability coverage for the University of Maryland, Baltimore and University of Baltimore was renewed effective October 10, 2015, with no rate or coverage changes; and
- The three terrorism policies providing coverage for State-owned property exposures was renewed October 13, 2015, with the same coverage and limits. One policy renewed at the same premium, and the two other policies, which had value increases, renewed with a **savings of \$161,553**.

Claims Unit

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

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

Year-to-date subrogation recoveries for FY 2016 totals \$654,681. The current subrogation recoveries are on track to meet or exceed the \$1 million target. This is a continued area of focus and is a priority within the Claims Unit. The total recovery for 2015 was \$952,428.83 which was just short of the \$1 million objective, but fell short of the prior fiscal year's collections by 17.0%. The total recovery for FY 2014 was \$1,147,263, which surpassed both FY 2013's recovery total of \$1,138,168 by 0.8% and FY 2012's recovery total of \$880,929 by over 30.2%.



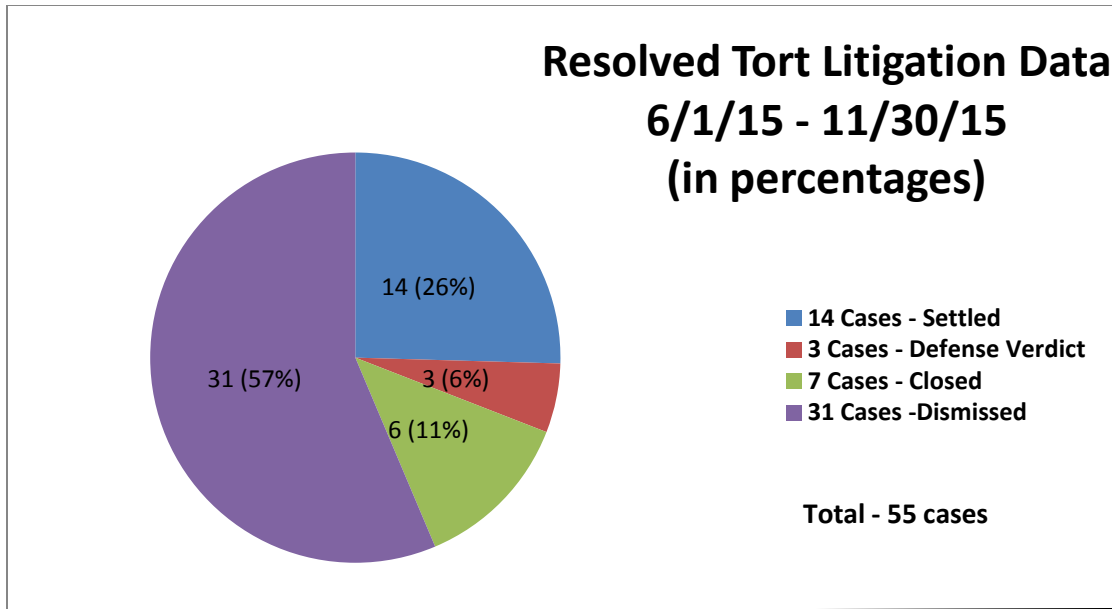
Tort Litigation Management

The Litigation Manager works closely with the Office of the Attorney General to resolve cases in litigation proactively. 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 \$200,000, the Litigation Manager briefs the Insurance Review Committee which includes the Chief Deputy Treasurer, the Director of the Insurance Division, the Deputy Director of the Insurance Division, the Supervising Tort Attorney, and other stakeholders requesting settlement authority.

Settlement costs for the period of June 1, 2015 – November 30, 2015 total \$633,551.62 compared to settlement costs of \$768,278.52 for the same time period of the previous year (June 1, 2014 – November 30, 2014), which reflects an 18% decrease in actual litigation dollars spent (expenses not included).

The Litigation Manager also attends settlement conferences and other court mandated activities and provides periodic updates on the status of certain litigation claims of interest. The Litigation Manager provides feedback to adjusters during the discovery process, upon resolution to help improve the adjusters’ investigation, and assists with developing strategies to prevent similar claims from recurring.

The Tort Unit handles a rolling docket of approximately 110 - 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 between June 1, 2015 and November 30, 2015 is noted in the following table:



Loss Prevention Unit

The aim 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.

Monthly loss reports are distributed to the agencies and universities with the highest claims frequency. Meetings are arranged with various representatives within the agencies to discuss their loss prevention programs and mitigation strategies.

Topics include preventive maintenance, pre-loss activities related to weather events, freeze-up prevention, contractor management, facility self-audit inspections, and fire protection impairment programs. State agencies and universities visited over the last several months include Department of Health and Mental Hygiene (Public Health Laboratories Administration), Department of Natural Resources, University of Maryland Baltimore County and University of Maryland College Park. Risk topics discussed with the Universities also include strategies aimed at protection of expensive research and lab equipment from losses generated as a result of power outages and water damage.

Due to the increase in road hazard and State Highway claims, several meetings were held with various SHA District that included both the Loss Prevention and Claims Units. As a result, in September 2015, the Loss Prevention and Claims Units participated in the State Highway Administration’s Annual Highway Maintenance Seminar. The presentation included loss data pertaining to preventable incidents, recent trends and risk improvement strategies resulting in improved communication and procedures between the Insurance Division and State Highway District Shops.

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.