



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

December 13, 2016

Nancy K. Kopp

State Treasurer

Section 5-104 of the State Government Article of the Annotated Code of Maryland provides that, “*The Treasurer shall address the Legislative Policy Committee of the General Assembly on a semi-annual basis and as necessary on issues of legislative importance, including the activities of the Board of Public Works, bond sales, and investment and procurement initiatives.*” This Report is in fulfillment of that law and covers the period since the last Report of June 3, 2016. I invite and welcome further discussion with the Committee at your convenience.

The State Treasurer’s activities and responsibilities are of particular concern to the Legislature. One of seven statewide Constitutional officers, and the only one elected by the General Assembly, the State Treasurer’s duties are multifaceted and extend throughout State government and higher education. The Treasurer’s duties include membership on the Board of Public Works and Board of Revenue Estimates and Chairmanship of the Capital Debt Affordability Committee. The Treasurer presently also serves as Chair of the Board of Trustees of the State Retirement and Pension System and is the Chair of the Board of Trustees of the Maryland 529 Plans. The Treasurer is a member of the governing boards of the Maryland Teachers’ and Employees’ Supplemental Retirement Plans, the Maryland Health and Higher Education Facilities Authority, the 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 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, 2016 and November 30, 2016, the Board of Public Works (BPW) met eleven 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 advance refund up to \$29,205,000 of its Revolving Loan Fund Revenue Bonds, Series 2008A. Over \$2,500,000 in debt service savings is anticipated from the refunding. (9/7/16)
- Adopted resolutions authorizing the issuance and sale by the Maryland Department of Transportation of its Consolidated Transportation Bonds, Series 2016, in an amount not to exceed \$450,000,000 and its Refunding Bonds, Series 2016, in an amount not to exceed \$325,000,000. (9/7/16)
- Authorized the Maryland Department of Transportation to issue Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016, in an amount not to exceed \$16,000,000. The refunding will result in an estimated net present value savings of \$1,900,000. (10/19/16)

FY 2017 State Operating Budget

- Approved a request to abolish 657 full-time equivalent (FTE) positions, effective July 1, 2016, and to reduce executive branch agency appropriations by \$20 million in General Funds and \$5 million in Special Funds in FY 2017. The FY 2017 Budget Bill (Chapter 143 of the Acts of 2016) required the abolition of these positions. (6/22/16)
- Approved reductions in the FY 2017 State budget totaling \$82,338,790 in General Funds and \$982,000 in Special Funds and a reduction of 113 positions at public higher education institutions (101 positions within the University System of Maryland + 12 positions at Morgan State University). (11/2/16)

Lottery & Gaming

- Approved additional grant funding of \$22,181,623 to the seven incumbent fund managers to provide investment 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 (VLT) proceeds. (6/22/16)
- Approved the award of a contract and \$2,000,000 in grant funding to one additional fund manager to provide investment 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 VLT proceeds. (6/22/16)
- Approved a \$100,000 allocation to the Department of Commerce as reimbursement for costs incurred in administering the Small, Minority and Women-Owned Business grant program funded by VLT proceeds for FY 2016. (6/22/16)
- Approved the designation of the Department of Housing and Community Development (DHCD) as a fund manager and provided DHCD with \$2,500,000 in grant funding to provide investment capital and loans to small, minority, and women-owned businesses in Ellicott City that were destroyed or damaged by the July 30, 2016 flood. (8/27/16)

Procurement

- Approved submitting to the AELR Committee and publishing for comment in the *Maryland Register* new regulations and amendments to existing COMAR provisions. The regulations will:
 - Provide for the prompt payment of State obligations to contractors;
 - Update the mandatory contract provisions relating to political contribution disclosure requirements pursuant to Chapter 454 of the Acts of 2015;
 - Permit participation by a subcontractor dually-certified as an MBE and a VSBE to count toward meeting both the MBE and the VSBE contract goals and to be counted toward the particular agency's overall MBE and VSBE goals; and
 - Add the Department of Disabilities as an agency that is required to follow specific solicitation requirements for human and social services. (7/27/16)
- Approved submitting to the AELR Committee and publishing for comment in the *Maryland Register* modifications to procurement regulations to implement Chapter 582 of the Acts of 2016 pertaining to the approval and award of construction contract change orders. (11/16/16)

School Construction - Baltimore City 21st Century Public School Construction Initiative

- Robert Poole Building: Renovation and Addition: Approved a request from the Maryland Stadium Authority (MSA) to award Bid Package No. 1 (site work & construction) to the construction manager. (7/27/16)
- Arundel Elementary School (PK-2): Replacement School: Approved a request from MSA to award Bid Package No. 1 (site work & construction) to the construction manager. (7/27/16)
- John Eager Howard Elementary School: Renovation and Addition: Approved a request from MSA to award Bid Package No. 1 (site work & construction) to the construction manager. (7/27/16)
- Patterson-Claremont School: Replacement School:
 - Approved a request from MSA to award a contract for preconstruction services to the construction manager. (7/27/16)
 - Approved a request from MSA to award a contract for design and engineering services for the school replacement project. (7/27/16)

State Services

- Approved the awards of four 4-year contracts to provide a variety of welfare-to-work services designed to enable Temporary Cash Assistance recipients to be placed in full-time unsubsidized employment for a minimum of 16 consecutive weeks. (6/22/16)
- Approved the award of a three-year contract for a software application that supports the identification and tracking of cannabis in all of its forms for the purposes of inventory, enforcement, investigations, and diversion prevention for the Maryland Medical Cannabis Commission. (8/27/16)
- Approved the award of a contract to replace the State's current budgeting system with a commercial budgeting software package that will support creation, analysis, publication, and maintenance of operating budgets for all State agencies. (9/7/16)

Transportation

- BWI Marshall Airport:
 - Approved the award of a five-year contract to provide trained, uniformed customer service agents at BWI Marshall Airport to assist international passengers through passport control via the use of Automated Passport Control (APC) kiosks and a Mobile Passport Control (MPC) Smartphone application. Both technologies are

- being introduced to reduce processing times and expedite international passengers through the Airport's federal inspection process. (6/8/16)
- Approved a request from the Maryland Aviation Administration (MAA) to allow AIRMALL, the Airport's Concessionaire, to enter into seven subleases that extend beyond the end date of AIRMALL's Lease and Concession contract (March 31, 2022) but do not go beyond December 31, 2024. After the expiration of the AIRMALL lease, the subleases will continue as direct leases with MAA. (9/21/16)
 - Mass Transit Administration (MTA): Approved a modification to a contract for software maintenance and technical support for MTA's Automatic Fare Collection System in order to upgrade the software and support the migration of the fare collection system to a stand-alone cloud-based system that is separate from the Washington Metropolitan Area Transit Authority (WMATA) regional fare collection system. (9/21/16)

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 procures financial products and services statewide. The Child Support Enforcement Administration (CSEA) contract for banking services was awarded and the kickoff meeting will be held December 13th, 2016. The Statewide Lockbox Services RFP was released November 21, 2016 with proposals due January 11, 2017.

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Department must account for the receipt of all warranted deposits and the disbursement of all warranted payments. To meet these responsibilities, a comprehensive daily cash reconciliation is performed which allows BSD to proactively resolve agency banking issues. Even as the volume of transactions has increased, the processes and controls developed by BSD continue to result in a timely, accurate, and well documented reconciliation of the State's cash accounts. For FY 2016, total cash receipts and disbursements exceeded \$565 billion. As of November 30th, 2016 total cash receipts and disbursements exceeded \$242 billion for the current fiscal year. The State's General Fund bank accounts continue to be reconciled to the to the State's general ledger to the penny, daily.

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

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

Another responsibility of the Department is to ensure protection of all State funds on deposit with financial institutions through monitoring of bank account and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors over 1,800 agency bank accounts at 23 financial institutions. Total posted collateral as of November 30, 2016 was \$615+ million (unaudited). The request for Agency update of all State bank accounts went out before end of July 2016. The information gathered was used to update the TBAIS

system and reassure the Legislative Auditors that every penny of the \$34,000+ of interest earned on working funds during Fiscal Year 2016 was deposited in the General Fund.

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

Investment Department

The Treasurer's prudent investment policy and practices have protected the investment portfolio through these continued unprecedented economic times and has resulted in a modest but continuous return on the portfolio. The par value of the General Fund investment portfolio for November 30, 2016 was \$5,885,658,247 as compared to November 30, 2015 when it was \$6,013,562,338. This is a decrease of over \$127,000,000.

On November 30, 2016, the portfolio was earning an average of 1.339%, compared to 0.881% for the same date in 2015. 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 .50% or less since December 16, 2008. For comparison, the three month constant maturity Treasury Bill averaged 0.31% from July 2016 until the end of November 2016 as compared with 0.08% 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. It is widely forecasted that the FOMC will raise rates on December 14, 2016.

The General Fund gross interest earnings received year-to-date for FY 2017 are \$20,868,314 compared to \$25,587,997 received for the same time period in FY 2016. The almost \$5,000,000 decrease in interest received is directly attributable to much lower cash balances available for investment and slightly higher interest rates in the market's anticipation of a further increase in rates by the FOMC have only been effective the last month.

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

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

Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
2000	121,951,720	103,173,287	225,125,007	46%
2001	136,981,074	144,249,899	281,230,973	51%
2002	82,641,807	66,399,769	149,041,576	45%
2003	37,205,637	42,240,523	79,446,160	53%
2004	25,037,345	29,053,449	54,090,794	54%
2005	52,886,074	54,538,463	107,424,537	51%
2006	149,613,238	109,222,108	258,835,346	42%
2007	150,798,001	205,589,917	356,387,918	58%
2008	155,170,184	207,179,098	362,349,282	57%
2009	102,768,740	142,619,087	245,387,827	58%
2010	44,190,425	87,921,654	132,112,079	67%
2011	53,178,733	87,900,159	141,078,892	62%
2012	23,207,535	48,647,954	71,855,489	68%
2013	8,646,595	40,710,863	49,357,458	83%
2014	19,133,149	52,602,770	71,735,919	73%
2015	7,064,094	55,460,767	62,524,861	88%
2016	15,241,045	60,075,483	75,316,528	80%
YTD FY 2017	-10,422,911	31,291,225	20,868,314	155%

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-six MBE broker/dealers are on the Office's approved list for FY 2017, and have handled investments of \$829,000,000 out of \$3.25 billion (25%) so far this fiscal year. This compares with fiscal year 2016, when the Office had twenty-five approved MBE broker/dealers who handled \$271,000,000 out of \$989,000,000 (27%) investments by the end of November.

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on September 26, 2016. The MLGIP has maintained this highest rating since April 2000, a truly commendable accomplishment considering the economic

turbulence during the past 16 years. The MLGIP's balance at November 30, 2016 was \$4,998,916,944 compared with \$4,086,457,225 for the same date in 2015. This is an increase of over \$912,000,000 due to participants' higher available cash balances and lack of trusted alternative investments. The MLGIP yield is 0.42% as of November 30, 2016, compared to 0.09% last year. The 303 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, and expenditures continue to grow, the 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 implemented and followed.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2016, First Series, Moody's Investors Service, S&P's Global Ratings and Fitch Ratings all affirmed their AAA ratings for Maryland's General Obligation debt in May of 2016. Maryland is one of only eleven states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P's Global Ratings has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other ten states that hold AAA ratings from all three rating agencies are Delaware, Georgia, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

Meetings with Rating Agencies

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 2017 First Series General Obligation Bonds in March 2017.

Ratings Reports

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

Financial Management

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

Debt Policies and Debt Burden

In the case of all three rating agencies, the State's debt affordability guidelines and rapid amortization of debt are considered credit strengths and help offset concerns the rating agencies

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

Economy

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

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

Pension and other liabilities

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

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

General Obligation Bonds

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

- The 2016 General Obligation Bond, First Series was sold on June 8, 2016 and totaled \$1,036,000,000. The proceeds were used to finance new projects. The sale closed on June 22, 2016.

The 2016 Bonds provided \$1,036,000,000, at a True Interest Cost (TIC) of 2.17%, to finance investments in capital projects critical to our State. In addition, the State received a premium of \$177,300,000 to offset 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 4, 2016 and November 30, 2016, \$4,230,983 in capital equipment was leased by State agencies through the State Treasurer's Office. On September 2, 2016, this committee authorized \$35,000,000 for equipment lease purchase financing through June 30, 2018. As of November 30, 2016, all \$35 million of that authorization is still available.

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 has not entered into any new energy leases since the last report to this committee. On September 2, 2016, this committee authorized \$80,000,000 for energy lease purchase financing through June 30, 2018. As of November 30, 2016, all \$80 million of that authorization is still available.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$570,000,000 is planned for March 2017. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions. Throughout the year, the Office monitors interest rates to gauge refunding opportunities that meet present value savings criteria in debt policy. If these benchmarks are met, refunding bonds could also be issued in 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 20, 2016. In FY 2017, \$283,000,000 is appropriated from the General Fund to support debt service. Assuming current property tax rates are maintained and other assumptions remain as currently estimated, a continued General Fund subsidy is projected for FY 2018 - 2021. The complete Commission on State Debt report is available on the Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>

Annuity Bond Fund Forecast, FY 2015 – 2021 (\$ thousands)

	2015 Act.	2016 Est.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.
Beginning Balance (\$1000s)	\$1,277	\$86,804	\$198,831	\$82,525	\$2,127	\$2,971	\$2,727
Total Property Tax Collections	\$730,694	\$750,504	\$779,864	\$799,238	\$807,431	\$815,637	\$823,879
General Fund Appropriation	\$140,000	\$252,400	\$283,000	\$356,000	\$489,000	\$509,000	\$521,000
Bond Sale Premium	\$94,573	\$209,090	\$0	\$0	\$0	\$0	\$0
Federal Subsidy for ARRA Bonds	\$11,483	\$11,511	\$11,539	\$11,539	\$11,539	\$10,855	\$10,134
Transfer Tax	\$6,270	\$6,422	\$6,575	\$6,735	\$7,059	\$6,851	\$6,884
Other Cash Receipts	\$3,146	\$3,093	\$3,106	\$3,106	\$3,106	\$3,106	\$3,106
Debt Service	-\$1,027,091	-\$1,120,994	-\$1,200,391	-\$1,257,015	-\$1,317,292	-\$1,345,692	-\$1,364,740
Ending Balance	\$86,804	\$198,831	\$82,525	\$2,127	\$2,971	\$2,727	\$2,990

Capital Debt Affordability Committee (CDAC)

General Obligation Recommendation

At its final meeting on September 28, 2016, 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 2016. On a motion made by the Secretary of the Department of Budget and Management, the Committee approved a recommendation of \$995,000,000 for new general obligation authorizations to support the FY 2018 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. 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 \$995,000,000 in future fiscal years. The vote was 4-1, with the Treasurer voting against the proposal.

CDAC Affordability Ratios, FY 2017 – 2026 (projected)

\$995m Annual Authorization		
Fiscal Year	4% Outstanding Personal Income	Debt to 8% Debt Service to Revenues
2017	3.54%	7.58%
2018	3.59%	7.81%
2019	3.58%	7.88%
2020	3.49%	7.80%
2021	3.39%	7.82%
2022	3.29%	7.93%
2023	3.19%	8.00%
2024	3.08%	7.74%
2025	2.94%	7.84%
2026	2.81%	7.59%

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 2017 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 \$32,000,000 for new academic facilities bonds for the University System of Maryland for fiscal year 2018. 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 2016 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-owned toll bridges, tunnels and roads, the Baltimore Washington International Thurgood Marshall Airport, the Port of Baltimore, Maryland Transit Administration liability, assorted professional liability exposures, and student athlete accident insurance. The State self-insures a significant portion of its exposures and maintains the State Insurance Trust Fund to pay claims and the costs associated with handling those claims. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act.

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

Underwriting, Loss Prevention and Claims

The Insurance Division, our insurance broker and insurance carrier participated in the annual meeting held with the Maryland Port Administration on September 28, 2016, in Baltimore. We toured North and South Locust Points and the cruise terminal where we met to discuss open claims, changes in the Port in the past year, expected operational changes in the future, contract renewals, the recent berth rehab at Dundalk Marine Terminal, and loss control services the carrier can offer.

The Insurance Division and our insurance broker conducted an annual meeting with Mass Transit Administration (MTA) in Baltimore on October 26, 2016. We discussed the rail car floater coverage first, followed by a discussion of the excess liability coverage. We discussed the status of Baltimore Link, the Purple Line, Positive Train Control (PTC), and confirmed there are no new "special trains". MTA is building two new facilities on Kirk Avenue and Bush Street so we got an update on when those are expected to be completed. We also discussed that there are some risk control services available to them and that are included in their total insurance cost, so MTA will consider what services they can use going forward.

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:

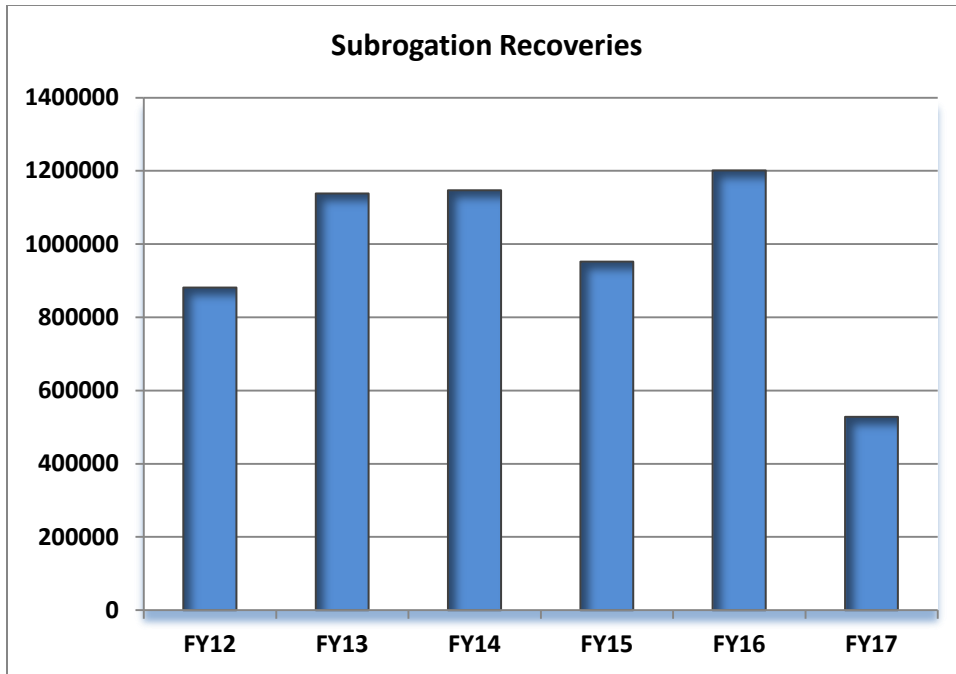
- The Maryland Transit Administration's excess liability coverage renewed effective July 1, 2016 with ridership up 2.8% and a rate reduction of 6.5% overall, resulting in a premium **savings of \$326,867**.
- The Maryland Transit Administration's rail car floater coverage renewed effective July 1, 2016 with values up \$5,945,000 and a rate reduction of 3.3%, generating a **savings of \$17,034**.
- The Maryland Transit Administration's auto physical damage coverage for their bus fleet renewed July 1, 2016. The bus values were up by \$28,150,740, but our renewal premium only increased by \$27,600.
- Maryland Aviation Administration's airport liability coverage renewed effective August 15, 2016. The number of enplanements was up 7%, but the premium **savings were \$55,582**.
- The Allied Health professional liability coverage for student interns from various schools renewed effective September 1, 2016. There was a 4.3% drop in the number of student interns, and a rate reduction of 13.5%, resulting in a premium **savings of \$13,147**.

Claims Unit

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

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

Year-to-date subrogation recoveries for FY 2017 total \$527,999.71. The subrogation recoveries for FY 2016 totaled \$1,251,439.48. The current subrogation recoveries are on target to meet the \$1 million goal. This is a continued area of focus and is a priority within the Claims Unit.

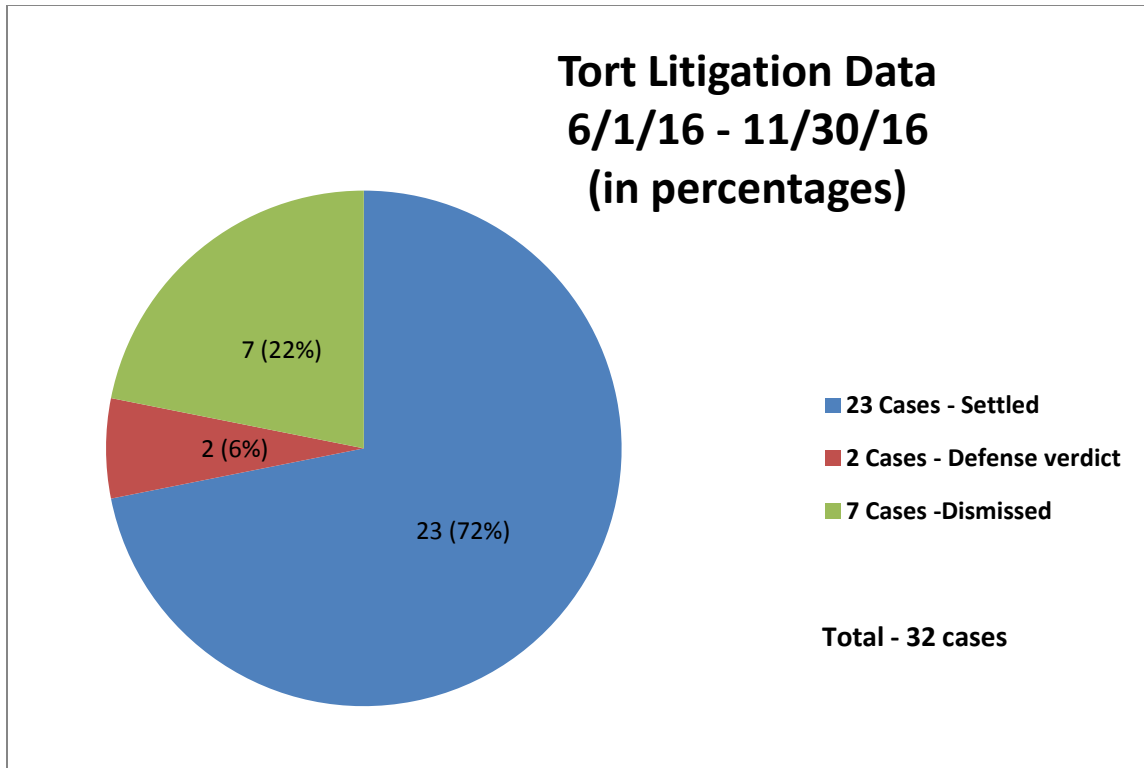


Tort Litigation Management

The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation. The Litigation Manager investigates, evaluates and extends settlement authority on behalf of the Treasurer to the Office of the Attorney General. In cases valued over \$200,000 (\$400,000 beginning October 1, 2015), 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 1st – November 30th, 2016 total \$480,000. Expense costs for this same timeframe total \$48,011.76. 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 and upon resolution to help improve the adjusters’ investigative skills. The Litigation Manager also assists with developing strategies to prevent similar claims from recurring.

The Tort Unit handles a rolling docket of approximately 120 - 130 litigation claims. The current litigation caseload is 120. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the State Insurance Trust Fund. The Litigation Manager also analyzes the data in order to track the litigation outcomes. The disposition of the cases during the timeframe of June 1st – November 30th, 2016 is presented in the chart below:



Loss Prevention Unit

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

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, mitigation strategies, lessons learned and agency success stories.

State agencies visited over the last several months include Maryland Port Administration and the Department of Natural Resources. Topics included preventive maintenance, pre- and post-loss activities and strategies aimed to prevent or mitigate property damage losses caused by water; i.e. floods, rain, snow and windstorms, and extreme cold temperatures. Auto claims reporting and driver training for newly appointed drivers and actions to take after an at fault accident.

The claims unit met to discuss and develop an action plan aimed at reducing response time from State Highway Administration (SHA), which will in turn improve claim handling process. Phone discussions were held with SHA Shop Engineers responsible for District Shops, to discuss road hazard claims and strategies to reduce losses and complaints, with follow-up emails outlining the plan of action.

As a result of the high value water loss at University of Maryland, Baltimore (UMB) in December 2015, the replacement equipment is now housed beneath protective shields to prevent or reduce future water losses.

Loss Prevention also sent out emails at the announcement and expectation of Hurricane Matthew to Agencies with ideas to help prevent and reduce loss from high winds and water. A process was also set in place to provide valuable information to agencies during inclement weather condition to emphasize the importance of active loss reduction and prevention actions.

There has also been a more active follow up with agencies for proper and prompt response to Continental Assurance Company of North America (CNA) loss control reports on violations and recommended measures.

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