



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

**December 20, 2018**

**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 May 24, 2018. I invite and welcome further discussion with the Committee at your convenience.**

The State Treasurer’s activities and responsibilities are of particular concern to the Legislature. One of seven statewide Constitutional officers, and the only one elected by the General Assembly, the State Treasurer’s duties are multifaceted and extend throughout State government and higher education. The Treasurer’s duties include membership on the Board of Public Works and Board of Revenue Estimates and Chairmanship of the Capital Debt Affordability Committee. The Treasurer presently also serves as Chair of the Board of Trustees of the State Retirement and Pension System and is the Chair of the Board of Trustees of the Maryland 529 Plans. The Treasurer is a member of the governing boards of the Maryland Teachers’ and Employees’ Supplemental Retirement Plans, the Maryland Health and Higher Education Facilities Authority, and the Maryland Agricultural Land Preservation Foundation.

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

## **BOARD OF PUBLIC WORKS**

Between June 1, 2018 and November 30, 2018, the Board of Public Works (“BPW”) met 10 times to consider State procurements, expenditures of capital appropriations, the acquisition, use and transfer of State assets, issuances of licenses to dredge and fill wetlands, and the acquisition of land and easements in support of Program Open Space, the Conservation Reserve Enhancement Program, the Rural Legacy Program, and the Agricultural Land Preservation Program.

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

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

- Bay-Brook Elementary/Middle School: Replacement: Approved two requests of the Maryland Stadium Authority (MSA) to modify the construction manager contract to include construction bid packages. (07/19/18 and 09/05/18)
- Calverton Elementary/Middle School: Replacement: Approved a request of MSA to award:
  - The architectural and engineering design services contract; and
  - The construction manager contract. (10/03/18)
- Calvin Rodwell Elementary/Middle School: Replacement: Approved two requests of MSA to modify the construction manager contract to include the construction bid packages. (07/19/18 and 10/03/18)
- Harford Heights Elementary School: Renovation: Approved a request of MSA to award:
  - The architectural and engineering design services contract; and
  - The construction manager services contract. (08/01/18)
- John Ruhrah Elementary/Middle School: Renovation/Addition: Approved a request of MSA to modify the construction manager contract to include a comprehensive construction bid package. (09/05/18)

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

- Approved, for final adoption, amendments to existing COMAR provisions to require protests of architectural or engineering services procurements to be directed to the jurisdiction of the Maryland State Board of Contract Appeals in the same manner as protests of procurement contracts in general, consistent with legislation enacted during the 2017 Session (Chapters 588/589 of the Laws of 2017). (07/19/18)
- Approved submitting to the AELR Committee, and publishing for comment in the *Maryland Register*, new regulations and amendments to existing COMAR provisions to

implement procurement reform legislation enacted during the 2017 Session (Chapters 340, 438, 586, 587, 588, 589, and 774 of the Laws of 2017). (07/19/18)

- Received a report from the Maryland State Department of Education (MSDE) of an emergency procurement to conduct a follow-up independent performance audit of the Prince George's County Public Schools graduation rates to assess the School System's implementation of its corrective action plan developed after the initial graduation rates independent audit commissioned by MSDE. (08/22/18)

#### Salaries of Elected Officials

- Approved the recommendation of the Chief Judge of the Court of Appeals and the State Court Administrator to increase the salaries of the Clerks of the twenty-four Circuit Courts to become effective at the beginning of the next term of office for the duration of the new term. (11/14/18)
- Approved the recommendation of the Comptroller of Maryland to increase the salaries of the Registers of Wills of the State's twenty-four subdivisions to become effective at the beginning of the next term of office for the duration of the new term. (11/14/18)

#### State Services, Facilities, & Assets

- Approved a request of Morgan State University (MSU) to enter into a long-term operating lease for space at the Northwood Shopping Center to be the location for the University's co-branded Barnes and Noble Bookstore. In accordance with this lease, the landlord will develop the space for the bookstore as a part of the Northwood Commons project. (06/20/18)
- Approved a request of MSU to enter into a 99-year ground lease of space at the Northwood Shopping Center that will be used as the site of a newly-constructed Public Safety Building for the University. The Public Safety Building is a part of the Northwood Commons project. (08/22/18)
- Approved a request of MSU to borrow \$25 million through the federal Historical Black Colleges and Universities Capital Financing Program to pay for:
  - Design and construction of the Public Safety Building at Northwood Commons (approximately \$15 million);
  - Critical deferred maintenance projects around campus (approximately \$7.85 million); and
  - Escrow requirements and closing costs (approximately \$2.15 million). (10/31/18)
- Approved a request of the Maryland Stadium Authority to award a construction manager contract for the Fair Hill Natural Resources Management Area (NRMA) Equine Improvements project. (11/14/18)
- Approved a request of the Department of Natural Resources to transfer naming rights for improvements at the Fair Hill NRMA to the Fair Hill Foundation, in connection with the

proposed *Concours Complete International 5 (CCI5)* Three-Day Equine Event to be held at Fair Hill. Naming rights will be sold to raise money to defray a portion of the costs of the capital improvements required for this event. (11/14/18)

- Approved a request of the University System of Maryland, Hagerstown (USMH) to revise a lease previously approved by the Board of Public Works to remove space intended for STEM laboratories. The revised lease will continue to provide space for the University of Maryland Eastern Shore to offer its Bachelor of Science degree in Hospitality and Tourism Management at USMH. (11/14/18)

### **Transportation**

- Approved a request of the Maryland Aviation Administration (MAA) for approval to conduct an Expedited Procurement to construct five new gates on Concourse A at BWI Thurgood Marshall Airport. This five-gate expansion is the first step towards consolidating Southwest Airlines' operations and renovating and expanding the A/B Connector and replacing the baggage handling system. (07/19/18)
- Approved a request of the Maryland Transportation Authority (MDTA) to award three contracts to provide comprehensive construction management and inspection services at the New Governor Harry W. Nice/Senator Thomas "Mac" Middleton Memorial Bridge. (10/31/18)
- Adopted resolutions authorizing the issuance and sale by the Maryland Department of Transportation of its Consolidated Transportation Bonds, Series 2018 Second Issue in an amount not to exceed \$675,000,000. (08/22/18)

### **Natural Resources**

- Approved a request of MPA to approve an agreement with the U.S. Army Corps of Engineers for the design of the Mid-Chesapeake Bay Island Ecosystem Restoration Project in Dorchester County and the sharing of costs of the project between the Army Corps of Engineers and the State of Maryland. The Mid-Bay Project is part of MPA's long-term strategy of providing viable alternatives for the management of dredged material that meets MPA's needs while maximizing the beneficial use of the dredged material and consists of restoring James Island (2,072 acres) and Barren Island (72 acres), while also protecting approximately 1,325 acres of potential submerged aquatic vegetation adjacent to Barren Island. (11/14/18)

### **Wetlands**

- Approved a modification of Tradepoint Atlantic's (TPA) current State tidal wetlands license for a two-phase dredging project that will improve the navigable access to the Sparrows Point Terminal. TPA proposes to expand the dredging project by increasing the number of obtained offshore sediment borings from 6 to 100 and expanding the area for maintenance dredging from 9.3 acres to 131.3 acres. (10/17/18)

# TREASURY MANAGEMENT DIVISION

## Banking Services Division

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

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R\*STARS accounting system. The Department must account for the receipt of all warranted deposits and the disbursement of all warranted payments. To meet these responsibilities, a comprehensive daily cash reconciliation is performed which allows BSD to proactively resolve agency banking issues. Even as the volume of transactions has increased, the processes and controls developed by BSD continue to result in a timely, accurate, and well documented reconciliation of the State's cash accounts.

As of November 30, 2018, total cash receipts and disbursements exceeded \$169 billion so far this fiscal year. The State's bank accounts continue to be reconciled to the State's general ledger to the penny, daily.

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

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

Another responsibility of the Department is to ensure protection of all State funds on deposit with financial institutions through monitoring of bank account and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors nearly 1,500 agency bank accounts at 26 financial institutions.

Total posted collateral on November 30, 2018 was \$650+ million (unaudited). The updated validation Account Survey reports for all State bank accounts were sent out in early July. The returned information is used to update the TBAIS system which is then used to ensure all accounts are collateralized properly and monitored monthly. The results of the survey are also used to ensure collection of all interest owed to the General Fund.

The BSD continues to serve as the State's authority for the development, control and maintenance of statewide policies and procedures for banking products and services. We

continually strive to stay at the forefront of changes in banking products and services offered in the financial industry. The Department will continue to explore new financial products and improved data delivery methods that will increase its capabilities to provide efficient and cost-saving banking and financial services to all State agencies.

### Investment Division

The Treasurer’s prudent investment policy and practices focus primarily on safety of principal to ensure protection of Maryland State Funds. The information in this report is based on the daily verification of investments as of November 30, 2018. The balance of the General Fund investment portfolio for November 30, 2018 was \$6,627,003,079 as compared to \$6,586,715,317 on November 30, 2017. The General Fund Investment Portfolio increased by \$40,287,762.

The portfolio was earning an average of 1.736% on November 30, 2018, compared to 1.475% on November 30, 2017.

The General Fund gross interest earnings fiscal year-to-date for FY19 were \$57,293,640 compared to \$45,412,057 received for the same time period in FY18. The year over year gross interest earnings increased by \$11,881,583.

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

<b>Fiscal Year</b>	<b>Net General Fund</b>	<b>Allocated to State Agencies</b>	<b>Total</b>	<b>% of Total Allocated to State Agencies</b>
<b>2009</b>	102,768,740	142,619,087	245,387,827	58%
<b>2010</b>	44,190,425	87,921,654	132,112,079	67%
<b>2011</b>	53,178,733	87,900,159	141,078,892	62%
<b>2012</b>	23,207,535	48,647,954	71,855,489	68%
<b>2013</b>	8,646,595	40,710,863	49,357,458	83%
<b>2014</b>	19,133,149	52,602,770	71,735,919	73%
<b>2015</b>	7,064,094	55,460,767	62,524,861	88%
<b>2016</b>	15,241,045	60,075,483	75,316,528	80%
<b>2017</b>	2,161,351	84,108,492	86,269,843	97%
<b>2018</b>	20,963,584	94,860,659	115,824,244	82%
<b>YTD 11/30/18*</b>	0	0	57,293,640	0

\* Interest allocation to State agencies for the month of November has not yet been completed and therefore not included on this chart.

The Maryland Local Government Investment Pool’s (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on September 24, 2018. The MLGIP has maintained the AAAM

rating since April 2000. The MLGIP's balance, which is the amount invested by all participants, on November 30, 2018 was \$6,660,119,067 compared with \$5,139,806,613 a year ago on November 30, 2017. This is an increase of \$1,520,312,454. The MLGIP yield was 2.2246% as of November 30, 2018, compared to 1.1028% November 30, 2017. The MLGIP consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

The objectives of the Maryland State Treasurer's Investment Policy are to maintain safety of principal, provide sufficient funds to meet cash flow needs and to achieve a return on investment. The STO compares our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are implemented and followed. The Maryland State Treasurer's Office Investment Division actively works to seek improved ways to protect Maryland State Funds.



## **DEBT MANAGEMENT DIVISION**

### **Ratings**

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2018, Second Series, Moody's Investors Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch) all affirmed their AAA ratings for Maryland's General Obligation debt in July of 2018. Maryland is one of only twelve states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch has rated the bonds AAA since 1993. The other eleven states that hold AAA ratings from all three rating agencies are Delaware, Florida, Georgia, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

### **Meetings with Rating Agencies**

The Treasurer's Office has provided the rating agencies with regular updates on the financial condition of the State. The next conference call with the rating agencies is expected prior to the sale of the 2019 First Series General Obligation Bonds in March 2019.

### **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 moderate debt burden and pension funding as concerns.

### **Financial Management**

All three rating agencies point to the State's history of strong, sound financial management as a credit strength with Moody's stating the "proactive financial management enables it to make midcourse corrections and weather economic cycles." All three commend the Board of Revenue Estimates' binding, consensus-based revenue forecast and the Board of Public Works' ability to adjust spending mid-year when necessary, with S&P mentioning the State has a "long history of... frequent and timely budget adjustments to align revenues and expenditures and long-term financial planning." Fitch notes that its rating reflects Maryland's "exceptionally strong" financial resilience and its unlimited ability to increase revenues, as well as its strong reserve levels.

### **Debt Policies and Debt Burden**

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

## **Economy**

In assigning its ‘AAA’ long-term rating and stable outlook, S&P states the rating reflects what is viewed as the state’s “broad and diverse economy,” and “reflects Maryland’s continued focus on structural budget alignment and maintenance of minimum state reserve levels.” Fitch observed that Maryland’s economy “has long benefited from proximity to the nation’s capital” and notes that the State’s “service-oriented economy” “is likely to grow ahead of, or in line with, national economic growth”.

Each rating agency cites ties to the federal government as both a benefit and a risk to Maryland’s economy, with Moody’s calling the large federal presence in Maryland a “mixed blessing.” S&P notes the State’s economy “continues to post slow growth due to federal budget uncertainty and sequestration” while also stating that the government sector and federal research agencies are economic strengths. Fitch writes that despite the “drag posed by federal sequestration,” the federal government continues to be an “important anchor... supporting the State’s solid economic performance.”

## **Pension and other liabilities**

Fitch calls the State’s pensions a “moderate burden,” while Moody’s indicates it “will continue to be a challenge.” S&P stated that “failure to demonstrate a consistent commitment to fully funding its pensions could also pressure [Maryland’s] rating.”

The State Treasurer’s Office provides information about the State’s ratings reports for each bond sale to all members of the General Assembly. Current reports are also available on the Treasurer’s website at [www.treasurer.state.md.us](http://www.treasurer.state.md.us).

## **General Obligation Bonds**

Since our last report to this committee, the State has conducted one General Obligation bond sale consisting of two separate groups. Both groups were sold on August 1, 2018 and closed on August 15, 2018.

- The 2018 General Obligation Bonds, Second Series Bidding Group 1 consisted of \$275,295,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received a True Interest Cost (TIC) of 2.33% and included a premium of \$45,601,948 to offset debt service costs.
- The 2018 General Obligation Bonds, Second Series Bidding Group 2 consisted of \$234,705,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received a TIC of 3.12% and included a premium of \$36,372,420 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. From May 1, 2018 through November

30, 2018, \$3,443,590 in capital equipment was leased by State agencies through the State Treasurer's Office.

- An Equipment lease award was approved by the Board of Public Works on June 20, 2018. The lease in the amount of \$3,443,590 was awarded to TD Equipment Finance, Inc. with a weighted average interest rate of 2.795%. This lease closed on June 29, 2018 and provided capital equipment including computers, voting equipment and production equipment for State Board of Elections, Department of Public Safety and Corrections, Maryland Department of Health and Maryland Public Television.

On August 13, 2018, this committee authorized \$35,000,000 for equipment lease purchase financing beginning July 1, 2018 through June 30, 2020. No new equipment leases have been entered into since July 1, 2018, so the entire balance of that authorization is still available.

The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for Energy Performance Contracts (EPCs) and pay for the equipment over multiple years using the utility savings generated by the project. From May 1, 2018 through November 30, 2018, \$12,224,708.35 in equipment for EPCs was leased by a State agency through the State Treasurer's Office.

- On September 5, 2018, the Board of Public Works approved an Energy Performance Contract Lease-Purchase Financing award in the amount of \$12,224,708.35. This financing contract was awarded to TD Equipment Finance, Inc. with a fixed interest rate of 3.140%. This lease closed on September 19, 2018 and included lighting upgrades, the installation of low flow water fixtures and new HVAC system controls.

On August 13, 2018, this committee authorized \$36,000,000 for energy lease purchase financing beginning July 1, 2018 through June 30, 2020. As of November 30, 2018, \$23,775,291.65 of that authorization is still available.

## **Upcoming Financing Plans**

The next General Obligation tax-exempt financing, projected to total approximately \$510,000,000, is planned for March of 2019. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions.

## **Status of the Annuity Bond Fund**

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund. The primary source of revenue for this Fund is the State's real property tax receipts. However, over the years, the debt service has also been supported by appropriations from the General Fund. According to the latest Commission on State Debt report, \$289,000,000 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 fiscal years 2019-2022. The complete Commission on State Debt report is available on the Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>

## Annuity Bond Fund Forecast, FY18 – FY24 (\$ millions)

	2018	2019	2020	2021	2022	2023	2024
	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
<b>Beginning Balance (\$1,000,000s)</b>	\$ 162.1	\$ 159.0	\$ 53.8	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 800.8	\$ 836.8	\$ 853.6	\$ 870.6	\$ 888.0	\$ 905.8	\$ 923.9
General Fund Appropriation	\$ 259.6	\$ 286.0	\$ 387.7	\$ 412.7	\$ 432.4	\$ 455.2	\$ 463.6
Bond Sale Premium	\$ 150.7	\$ 25.1	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds	\$ 11.5	\$ 12.4	\$ 11.6	\$ 10.9	\$ 10.1	\$ 8.9	\$ 7.5
Transfer Tax	\$ 6.7	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9	\$ 7.0	\$ 7.0
Other Cash Receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ (1,234.9)	\$ (1,275.7)	\$ (1,314.7)	\$ (1,304.3)	\$ (1,340.6)	\$ (1,380.1)	\$ (1,405.1)
<b>Ending Balance</b>	\$ 159.0	\$ 53.8	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0

## Capital Debt Affordability Committee (CDAC)

### General Obligation Recommendation

At its final meeting on September 26, 2018, 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 2018. At this meeting, the Secretary of the Department of Budget and Management made a motion to recommend an authorization of \$995 million.

The Committee thus approved a total of \$995 million for new general obligation authorizations by the 2019 General Assembly to support the fiscal year 2020 capital program. The vote was 4-1, with the Treasurer voting against the proposed amount.

In addition to determining and recommending a prudent affordable authorization level for the coming year, the Committee also develops 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. The Secretary of Budget and Management then made a motion to maintain the authorization at \$995 million in future fiscal years. The vote was 4-1, with the Treasurer voting against the proposal.

### CDAC Affordability Ratios, FY 2019 – 2028 (projected)

<b><u>\$995m Annual Authorization</u></b>		
<b>Fiscal Year</b>	<b>Debt Outstanding to Personal Income</b>	<b>Debt Service to Revenues</b>
2019	3.49%	7.56%
2020	3.45%	7.38%
2021	3.39%	7.33%
2022	3.32%	7.44%
2023	3.21%	7.56%
2024	3.13%	7.32%
2025	2.94%	7.23%
2026	2.83%	6.96%
2027	2.73%	7.07%
2028	2.64%	6.86%

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 2019 report in light of updated revenues. In addition 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 \$34 million for new academic facilities bonds for the University System of Maryland for fiscal year 2020. 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 2018 Capital Debt Affordability Report and the 2018 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 and liability protection (Claims and Tort Litigation).

### Underwriting Unit

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

- Maryland Transit Administration's excess liability insurance renewed effective 07/01/2018-2019. The overall pricing was down from \$4,678,219 to \$4,637,224 which is **an overall savings of \$40,995.**
- Maryland Transit Administration's rail car floater renewed effective 07/01/2018-2019. The incumbent carrier offered the best pricing, terms and conditions. Even though overall values were up by 4.9%, the overall pricing was down from \$521,000 to \$501,000 which is **an overall savings of \$20,000.**
- Maryland Transit Administration's bus fleet physical damage policy renewed effective 07/01/2018-2019 with values up approximately 3%. The incumbent carrier offered an overall rate reduction of approximately 9%. The overall pricing was down from \$231,625 to \$222,727 which is **an overall savings of \$8,898.**
- Athletic Participants basic coverage for 10 schools was renewed effective 08/01/2018-2019 with number of students down by approximately 2%. The coverage terms and conditions are comparable with the expiring policy. The overall rates were down by approximately 6%, which resulted in **overall pricing decrease of \$63,952.**
- State of Maryland, blanket boiler and machinery coverage renewed effective 09/30/2018-2019 with renewal values up 6.5%. Travelers Insurance Company offered the best terms

and conditions along with 9.6% reduction in overall rates. The Travelers Insurance Company maintained deductibles as previously established with the exception of water damage for State universities. State universities deductibles were raised to \$1,000,000 since the recent overall losses have been related to extensive water damage from broken pipes and/or failure of HVAC systems at the Universities. Deductibles remain at 10% or a minimum of \$250,000 for all other facilities. In the final pricing, Travelers Insurance Company offered pricing at \$539,221 which is **a savings of \$20,779.**

- State of Maryland, blanket terrorism coverage renewed effective 10/13/2018-2019. This coverage is related to the State blanket excess property and includes bridges and tunnels. In addition to coverages mentioned, we were able to effectively enhance our coverage to include Malicious Acts insurance at \$5,000,000 limit, and realized **overall savings of \$46,888.**
- Maryland Port Administration's crane coverage renewed effective 11/25/2018-2019. Even though total insured values of the cranes increased by 2%, the insurance company agreed to reduce the overall premium rates, so that the renewal pricing was not affected. **Renewal premium remains at \$81,365.00.**

## Claims Unit

The Insurance Division's Claims Unit investigates and resolves claims filed 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.

The open and closed claims are tracked to gauge activity, inventory and to identify any trends. From May 1, 2018 through November 30, 2018, there were 2584 new claims processed and 2842 claims closed. There are currently 2179 open pending claim files for FY 2019.

## Recently Reported Major Claims

On July 16, 2018, the University of Maryland Baltimore Health and Sciences Facility III reported a claim which occurred June 16, 2018. HVAC unexpectedly shut down, causing damage to lab contents during the scheduled electrical switchgear cleaning. Claim is currently being investigated. To date, no payments have been issued.

On July 23, 2018, University of College Park reported a fatality which occurred on August 3, 2017 arising from a construction worker falling while erecting a steel frame at the Iribe Computer Science Building construction site elevator shaft. Currently a liability analysis is being completed. To date, no payments have been issued.

On August 31, 2018, the Office received a claim for a fatality involving a University of Maryland, College Park football player. The incident occurred on May 29, 2018. The claim is currently being investigated. No claim payments have been issued to date.

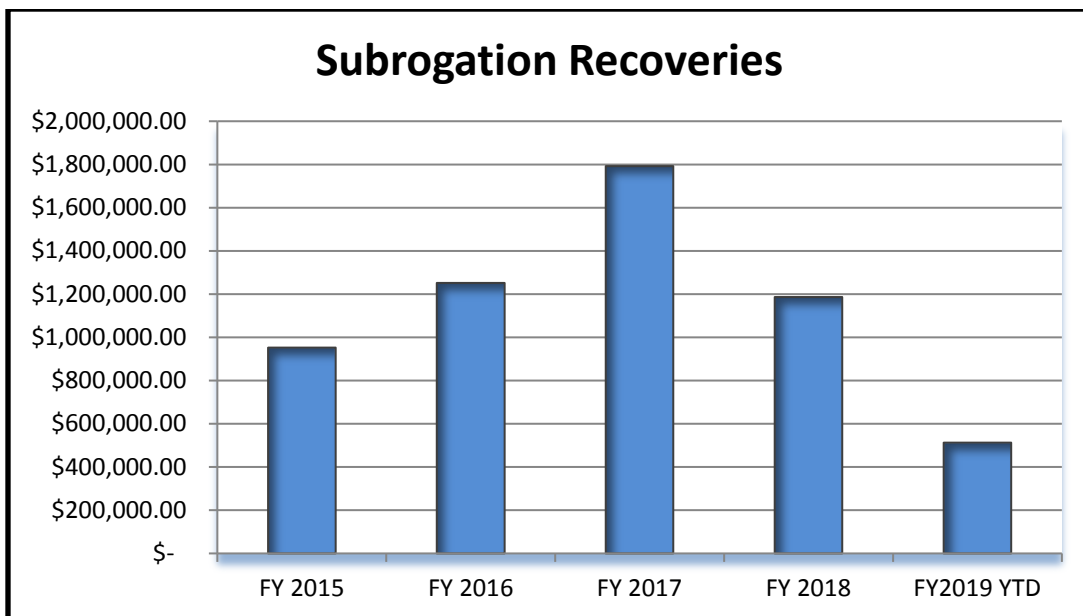
- There are also 6 other claims filed by 6 additional individuals, claiming a toxic environment perpetrated by University of Maryland, College Park Officials, within the football coaching staff.

On October 21, 2018, University of Maryland Baltimore County reported a failed water pipe coupling in the Central Plant Pit Area causing damage to pipes, associated equipment and property. Damages currently estimated at \$500,000 no payments have been issued to date.

### Subrogation Recoveries

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 FY19 total is \$529,405 as of November 30, 2018. 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 \$400,000, the Litigation Manager briefs the Insurance Review Committee which includes the Chief Deputy Treasurer, the Director of the Insurance Division, Deputy Director of the Insurance Division, the Tort Attorneys, and other stakeholders requesting settlement authority.

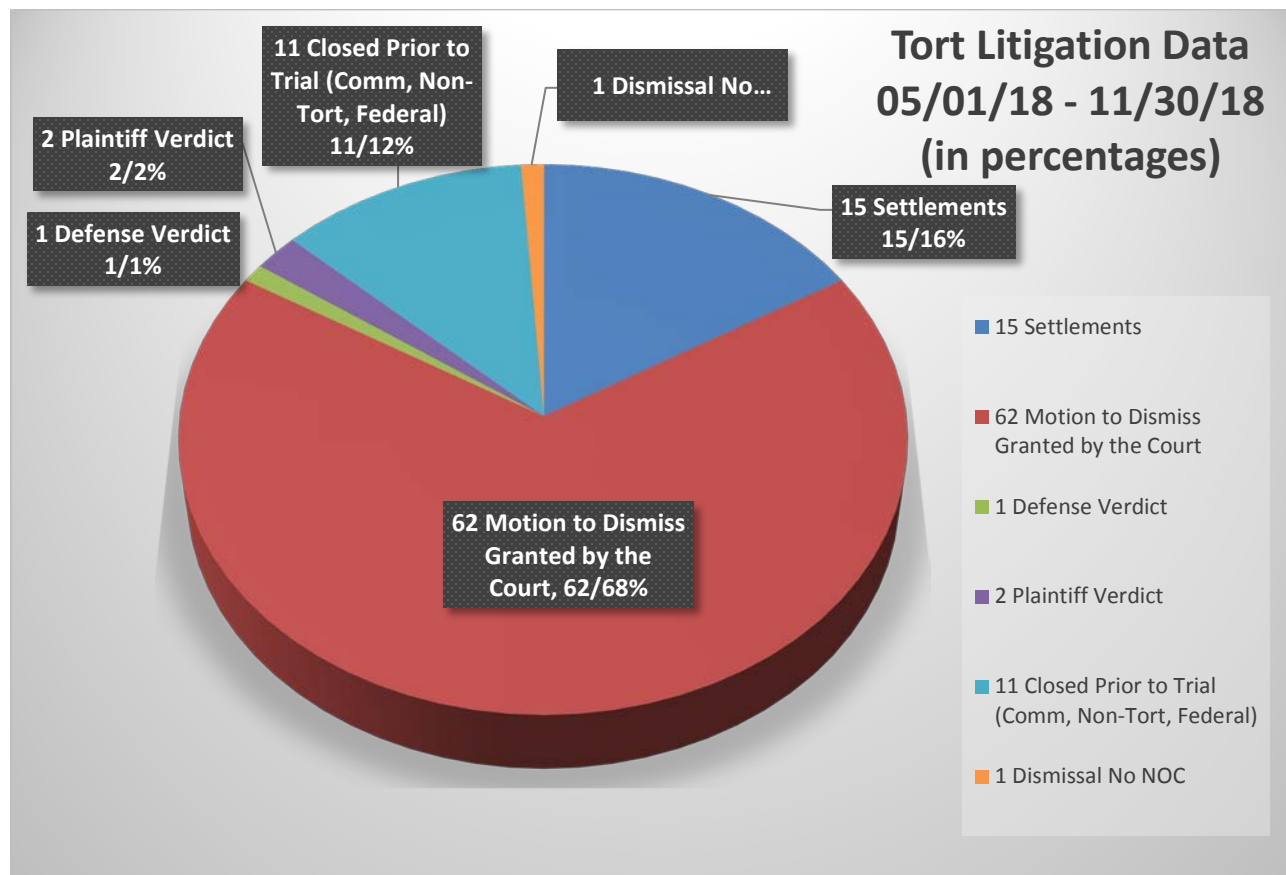
Settlement costs for the period of May 1, 2018 through November 30, 2018, totaled \$2,172,706; litigation expense costs were \$51,610; for a total of \$2,224,316. The Litigation



Manager attends settlement conferences and other court mandated activities and provides periodic updates on the status of litigation claims, as requested. The Litigation Manager provides feedback to adjusters during the discovery process and upon resolution, as required.

The Tort Unit handles a rolling docket of approximately 100 - 135 litigation claims. The current litigation caseload is approximately 143, as of November 30, 2018. 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 May 1, 2018 through November 30, 2018, is presented in the chart below:



The Litigation Manager will continue to monitor litigation outcomes and provide relevant data and analytical information to the Insurance Director, Deputy Director, Loss Prevention, Underwriting, and Claims units, which will be used to determine future risk prevention activities.

### Loss Prevention Unit

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

Our Office recognizes the importance of meeting in person and working directly with representatives of state agencies and universities. This effort helps to facilitate partnerships and

establish and strengthen relationships. Additionally, together, we develop knowledge and gain an understanding of mutual objectives.

Meetings were scheduled with the various agency representatives and insurance coordinators to learn about their operations and primary objectives, discuss historical loss trends, loss costs, prevention programs and mitigation strategies.

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