



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

December 10, 2019

Nancy K. Kopp

State Treasurer

Section 5-104 of the State Government Article of the Annotated Code of Maryland provides that, “*The Treasurer shall address the Legislative Policy Committee of the General Assembly on a semi-annual basis and as necessary on issues of legislative importance, including the activities of the Board of Public Works, bond sales, and investment and procurement initiatives.*” This Report is in fulfillment of that law and covers the period since the last Report of June 3, 2019. 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 (BPW) 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 contained within this report 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, 2019 and November 30, 2019, the BPW met 11 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 BPW:

Baltimore City 21st Century Public School Construction Initiative

- Walter P. Carter Elementary/Middle School Replacement Project: Approved the request from Maryland Stadium Authority (MSA) to award Bid Package 3, for the remaining 22 trade packages for project construction. (6/19/19)
- Patterson/Claremont School Middle/High School Replacement Project: Approved a request from MSA to award a contract a construction bid package comprising 46 trade packages. (6/19/19)
- Robert W. Coleman Elementary School Renovation Project: Approved a request from MSA to award a contract for pre-construction services for the construction manager at risk. (7/03/19)
- Medfield Heights Elementary School Replacement Project: Approved a request from MSA to award a complete construction bid package comprising 43 trade packages. (7/03/19)
- Mary E. Rodman Elementary School Renovation/Addition Project: Approved a request from MSA to award a complete construction bid package comprising of 43 trade packages. (7/03/19)
- Montebello Elementary/Middle School Renovation/Addition Project: Approved a request from MSA to award a contract for architectural and design services. (11/20/19)

Personnel, Procurement, & Regulations

- Adopted amendments to existing Code of Maryland Regulations (COMAR) provisions to implement new procurement laws from the 2018 legislative session. These changes address reciprocal preferences, liquidated damages, performance and payment bonds and Minority Business Enterprises, as well as updated terminology. (6/19/19)
- Approved Department of Budget and Management's (DBM) Vehicle Purchasing Standards for use by the Executive Branch during FY 2020. (6/19/19)

- Approved a request for additional funding from BPW's Contingency Fund to cover legal fees related to State Center. The Item passed 2-1 with the Treasurer voting in opposition. (6/19/19)
- Approved a request from the State Board of Elections (SBE) to purchase an additional 5000 electronic pollbooks for the 2020 Presidential election cycle and future elections. (7/24/19)
- Approved a request to award a sole source contract to operate and maintain Self-funded e-Government Services acquired under the previous contract for Department of Information Technology (DOIT). The Item passed 2-1 with the Treasurer voting in opposition. (7/24/19)
- Approved the BPW General Counsel's recommendation to grant five individuals, who were erroneously convicted of crimes, compensation based on the number of years served and funding for financial and other appropriate counseling. (10/30/19)
 - Hubert James Williams: \$903,560 paid in four installments by July 31, 2020;
 - Walter Lomax: \$3,026,840 paid in four installments by July 31, 2021;
 - Lamar Johnson: \$953,672 paid in eight installments by July 31, 2025;
 - Jerome Lamont Johnson: \$2,322,032 paid in eight installments by July 31, 2025; and
 - Clarence Shipley: \$2,102,792 to be paid in eight installments by July 31, 2025

State Services, Facilities, & Assets

- Approved a request from the Department of Public Safety and Correctional Services (DPSCS) for the following contract awards at the Correctional Complex in Baltimore City in order to build a therapeutic detention center:
 - To demolish 16 major structures and 23 minor structures (6/19/19)
 - To provide Construction inspection and testing services (7/24/19)
- Approved a request from State Retirement Agency (SRA) to ratify a contract to provide investment audit services to perform a risk assessment of investments and individual operating audits of Private Equity investments. (8/14/19)
- Approved a request from Maryland Supplemental Retirement Plan (MSRP) to award a contract for the Plan Administrator for all four state-sponsored Supplemental Retirement Plans. (8/14/19)
- Approved a request from DPSCS to award a contract to provide telecommunication and information technology services to inmates throughout their institutions and facilities. (8/14/19)
- Approved a request from SBE to award a contract to provide an independent, automated solution to verify accuracy of the State's voting system, including conducting a Statewide audit of all ballot images tabulated in the 2020 Primary and General Elections. This

includes an option for the same services in the 2022 Primary and General Elections. (8/14/19)

- Approved a request from DBM to award a contract to provide dental plan administration and insurance for all state of Maryland employees and dependents as part of the State of Maryland Employee and Retiree Health and Welfare Benefits Program. (9/04/19)
- Approved a request from Maryland Department of Agriculture (MDA) to award a contract to replace its Salisbury Animal Health Laboratory. (9/04/19)
- Approved a grant agreement for a grant totaling \$5,000,000 to the Board of Trustees of Stevenson University to design and construct the environmental abatement and demolition of buildings on the property of the former Rosewood State Hospital, recently obtained by the University. (6/05/19)

Transportation

- Approved a dual request from the Maryland Transportation Authority (MDTA) and Maryland Department of Transportation (MDOT) to do the following:
 - Designate the I-495 and I-270 P3 Program, a public infrastructure asset, as a public/private partnership (P3); and
 - Approve the proposed competitive solicitation method for selecting a developer for each phase of the Program, resulting in multiple P3 Agreements.

The Governor moved for approval of Item 19-GM with the condition that the Transportation Relief Plan begin with “I-270 as Phase I which will delay Montgomery County beltway [I-495] portion to Phase II which will move Prince George’s County beltway [I-495] developments to last and final phase.”

The Comptroller seconded the Governor’s motion and moved to amend motion with language stating that:

- No property acquisitions related to Traffic Relief Plan may take place before BPW final approval of the P3 agreement;
- RFP soliciting P3 contractor will permit mass transit bus access on managed toll lanes without tolls;
- Ten percent (10%) of net State toll proceeds – after P3 contractor gets reimbursed for construction cost – will go to Montgomery and Prince George’s Counties for regional transit services; and
- Initial feasibility study of monorail will be performed.

The amended motion carried 2-1, with the Treasurer voting in opposition. (6/05/19)

- Approved a request from MDOT to adopt resolutions authorizing the issuance and sale of its Consolidated Transportation Bonds (CTB) in the amount of \$555,000,000 at a public sale to occur on or before December 31, 2019. (9/04/19)

TREASURY MANAGEMENT DIVISION

Banking Services Division

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

The State Treasurer's Office also procures financial products and services on behalf of the State. To that end, BSD is working with BB&T to transition the State's merchant services contract. Additionally, BSD continues to transition accounts to the new depository services contract with Wells Fargo.

BSD ensures 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, 2019, total cash receipts and disbursements exceeded \$414 billion for this fiscal year. The State's bank accounts continue to be reconciled to the State's general ledger to the penny, daily.

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

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

Another responsibility of the Department is to ensure protection of all State funds on deposit with financial institutions through monitoring of bank account and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors over 1,500 agency bank accounts at 29 financial institutions. Total posted collateral on November 30, 2019 was \$531 million (unaudited). Data results from the annual State bank account validation process

is updated in TBAIS to ensure that all accounts are properly collateralized, monitored monthly, and 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, 2019. The balance of the General Fund Investment Portfolio for November 30, 2019 was \$8,372,885,114 (unaudited) compared to \$6,627,003,079 on November 30, 2018, an increase of \$1,745,882,035.

The portfolio was earning an average of 1.78% on November 30, 2019, compared to 1.74% on November 30, 2018.

The General Fund gross interest earnings fiscal year-to-date for FY20 through November 30, 2019 were \$70,568,771 (unaudited) compared to \$57,315,022 received for the same time period in FY19. The year over year gross interest earnings increased by \$13,253,749.

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

Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
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%
2017	2,161,351	84,108,492	86,269,843	97%
2018	20,963,584	94,860,659	115,824,244	82%
2019	34,438,221	116,577,195	151,015,416	77%
YTD 11/30/19	17,078,306*	39,374,663*	56,452,969*	70%*

*Interest allocations are through 10/31/19 as November allocation has not yet been performed

The Maryland Local Government Investment Pool's (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on September 30, 2019. 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, 2019 was \$7,761,375,449 (unaudited) compared with \$6,660,119,067 a year ago on November 30, 2018, an increase of \$1,101,256,382.

The MLGIP yield was 1.76% as of November 30, 2019, compared to 2.22% on November 30, 2018. The MLGIP consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

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

DEBT MANAGEMENT DIVISION

Rating Agency Update

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

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

The State of Maryland's next meeting with all three major rating agencies is anticipated to occur in February 2020 to discuss the State's rating in advance of the 2020 First Series General Obligation Bond sale. As always, the Treasurer's Office will provide updates on the rating agency reports once we receive the State's ratings.

Overview of Maryland's Credit

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

Credit strengths:

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

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

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

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

Credit challenges:

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

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

In the State's long-term forecasts, revenues are not expected to keep up with expenditures. As Maryland's Bureau of Revenue Estimates recently reported, this is in part due to depressed revenue growth resulting from the demographic structure of the State's population, in which a growing portion of Marylanders are above prime working age, while prime-age workers themselves are participating in the labor force at lower rates than they have historically¹. Policies that attract new immigrants and prime-age workers, retain the workers we have, or encourage participation by those not currently in the workforce can offset this decline. An additional revenue challenge is that the State's taxation system is designed for a 20th century economy. The State is transitioning to a service-based economy, meaning a growing sector of the economy is not taxed; likewise, the State has not adjusted for technological change, such as taxing digital goods and subscriptions. The *South Dakota vs. Wayfair, Inc.* decision delivered some rare good news on this front, allowing the State

¹The Bureau of Revenue Estimates studied this problem at length and its report can be found here: https://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf

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

General Obligation Bonds

Since our last report to this committee, the State has conducted one General Obligation bond sale in the amount of \$550,000,000. The 2019 Second Series was sold on August 14, 2019 and closed on August 28, 2019.

- Series A Bidding Group 1 consisted of \$248,675,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received an All-In True Interest Cost (TIC) of 1.14% and included a premium of \$67,621,657.
- Series A Bidding Group 2 consisted of \$251,325,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received a TIC of 1.99% and included a premium of \$32,212,283.
- Series B consisted of \$50,000,000 in taxable new money bonds. The proceeds were used to finance loan programs and other capital projects with the potential to benefit non-governmental entities. Series B received a TIC of 1.63%.

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 June 1, 2019 through November 30, 2019 no capital equipment was leased by State agencies through the State Treasurer's Office.

On August 13, 2018, this committee authorized \$35,000,000 for equipment lease purchase financing through June 30, 2020. As of November 30, 2019, the balance is \$32,808,809.

The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for an Energy Performance Contract (EPC) and pay for the equipment over multiple years using the utility savings generated by the project.

Although there was no equipment for EPC's leased for the period of June 1, 2019 through November 30, 2019, there is a balance of \$23,775,292 still available from the original \$36,000,000 that was authorized on August 13, 2018.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$445,000,000, is planned for March of 2020. 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 (bonds refunded no more than 90 days before their call date) that meet present value savings criteria in our debt policy. The State's debt portfolio will contain several callable maturities at the time of the next sale, and the State Treasurer's Office will evaluate market conditions to determine whether issuing refunding bonds is in the State's interest.

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, the debt service has also been supported by appropriations from the General Fund, as well. The Commission on State Debt met and released its annual report on April 17, 2019. In fiscal year 2020, \$287.0 million is appropriated from the General Fund to support debt service. Assuming current property tax rates are maintained, and other assumptions remain as currently estimated, a continued General Fund subsidy is projected for fiscal years 2020 - 2024. The complete Commission on State Debt report is available on the Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>. The chart below shows the most recent forecast for the Annuity Bond Fund, which was completed October 28, 2019.

Annuity Bond Fund Forecast, FY 2019 – 2024 (\$ in thousands)

	2019 Act	2020 Est	2021 Est.	2022 Est.	2023 Est.	2024 Est.
Beginning Balance	\$158,963	\$113,483	\$52,556	\$2,000	\$2,000	\$2,000
Property Tax Collections	831,064	857,505	872,912	891,297	917,993	936,353
General Fund Appropriation	286,000	287,000	401,387	482,827	495,613	513,657
Bond Sale Premium	117,011	99,108	-	-	-	-
Federal Interest Subsidy	11,591	11,666	10,873	10,058	8,931	7,469
Transfer Tax	7,059	6,851	6,884	6,917	6,975	6,980
Other Cash Receipts	112	115	117	119	121	123
Debt Service	-1,298,318	-1,323,172	-1,342,729	-1,391,218	-1,429,633	-1,464,583
Ending Balance	\$113,483	\$52,556	\$2,000	\$2,000	\$2,000	\$2,000

Capital Debt Affordability Committee (CDAC)

General Obligation Recommendation

At its final meeting on October 17, 2019, 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 2019. A motion was made by the Secretary of the Department of Budget and Management, asking the Committee to approve a recommendation of \$1.095 billion for new general obligation authorizations to support the fiscal year 2021 capital program. The motion passed 3-2, with the Treasurer and the Comptroller voting in opposition.

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, a motion was made by the Secretary of Budget and Management asking the Committee to vote in support of increasing the authorization by roughly 1% in future fiscal years. The motion passed 3-2, with the Treasurer and Comptroller voting in opposition.

CDAC Affordability Ratios, FY 2020 – 2029 (projected)

\$1.095M Authorization Increasing by 1% Annually		
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2020	3.4%	7.4%
2021	3.3%	7.5%
2022	3.3%	7.7%
2023	3.1%	7.8%
2024	3.1%	7.5%
2025	2.9%	7.5%
2026	2.8%	7.3%
2027	2.7%	7.4%
2028	2.6%	7.3%
2029	2.4%	7.2%

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 2020 report considering 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 and considering the debt affordability guidelines, the Committee recommended a limit of \$32.0 million for new academic facilities bonds for the University System of Maryland for fiscal year 2021. 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.

The 2019 Capital Debt Affordability Report and the 2019 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 (SITF) 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, Loss Prevention and Claims

In July 2019, initial calls with cyber insurance specialists of Willis Towers Watson were held. The purpose was to gain a better understanding of cyber coverage and obtain premium quotations from carriers. A subsequent meeting with DOIT and Willis was held in Crownsville on October 3, 2019, to begin collecting underwriting information including an overview of participating agencies. Similar discussions followed with staff from Judiciary and University of Maryland System. A meeting with cyber underwriters is expected to occur in November or December of 2019.

The University of Maryland College Park (UMCP) and our Insurance Division staff met on October 28, 2019. This meeting was held in order to introduce new staff from both offices, review claims reporting practices and discuss strategies and possible risk control measures to reduce or mitigate future claims.

On November 14, 2019 the staff of Maryland Transit Administration (MTA), Willis Towers Watson, and our Insurance Division met to review the Excess Liability and Rolling Stock insurance programs. The Excess Liability program renewal contained improvements including a double aggregate limit for the \$20 million-layer, increased drop-down limits, and full tower terrorism coverage.

Global insurance markets have been impacted by claims stemming from climate related events, such as wildfires, hurricanes and flooding. Traditional coverage addresses resulting damage, plus property and boiler insurance programs protecting State assets contain "green" upgrade provisions, which should a loss occur, permit recovery beyond replacement cost to include more energy efficient or environmentally preferable products.

The Insurance Division is also engaged in preliminary discussions with brokers regarding Parametric Risk Coverage, a relatively new insurance product. Parametric Risk Coverage is a prescribed set of triggers, that when met, cause a pre-defined amount of protection to be paid out. These triggers are typically based on parameters directly related to the risk, such as hurricane wind speed or pressure, temperature, or rainfall.

Underwriting Unit

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

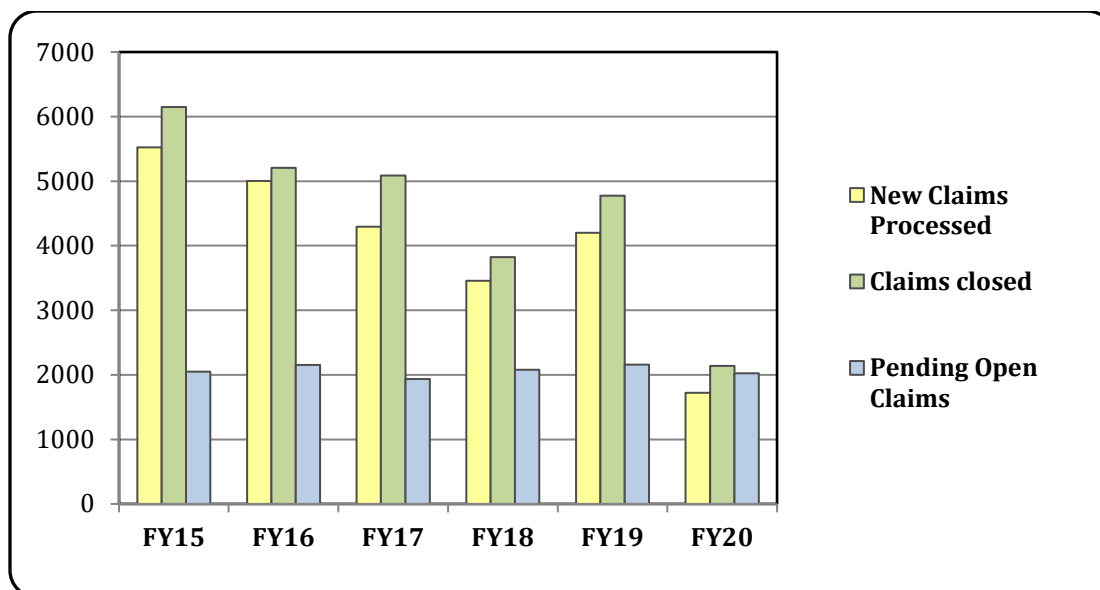
Catastrophic weather events, escalating litigation and adverse loss results are impacting global insurance markets. As a result, upward rate pressure has been persistent for most types of insurance. With the firming market, underwriting standards have also tightened. In addition to increasing premiums, insurers are imposing higher deductibles and seeking to renegotiate previously agreed upon coverage terms. Despite the difficult environment, there are positive results including:

- Blanket terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2019. Renewal pricing was down from \$248,656 to \$220,597, which is an **overall savings of \$28,059.**
- MTA's Rail Car floater policy renewed effective July 1, 2019 with a small increase in values. Renewal pricing decreased from \$501,000 to \$473,665, which is an **overall savings of \$27,335.**
- Athletic Participants basic coverage for ten (10) schools renewed effective August 1, 2019. Renewal pricing decreased from \$1,070,446 to \$1,036,879, which is an **overall savings of \$33,567.**
- Maryland Port Administration's Crane property/marine program renewed effective November 25, 2019. The carrier implemented a named windstorm deductible of \$250K this renewal compared to the previous \$100K deductible. Overall values were down 33% from the prior year. Renewal pricing decreased from \$81,365 to \$65,700, which is an **overall savings of \$15,665.**
- Allied Health professional liability coverage for various schools renewed with an effective date of September 1, 2019 including a 1% increase in enrolled students. Renewal pricing **remained flat at \$84,765.**

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 June 1, 2019 through November 30, 2019, there were 1724 new claims processed and 2137 claims closed. The chart below shows claims detail of all claims year-to-date from July 1, 2019. There are currently 2023 open pending claim files for FY 2020.



Recently Reported Major Claims

On June 4, 2019, the University of Maryland Center for Environmental Science reported a storm occurred on May 30, 2019, resulting in a power outage damaging equipment and sea water systems. Damages estimated at \$225,000.00.

On July 22, 2019, the Department of Natural Resources (DNR) reported an EF-1 tornado entered Elk Neck State Park on June 13, 2019 damaging property and trees. Damages estimated at \$600,000.00.

On August 20, 2019, UMCP reported an explosion at their energy plant on August 18, 2019. A heat recovery system generator was damaged, estimated loss is \$1,000,000.00. The claim is currently being investigated.

On September 17, 2019, the Maryland State Police (MSP) reported a claim which occurred September 7, 2019. While conducting an aerial hoist operation, a helicopter engine was damaged with an estimate of damages totaling \$1,283,316.00.

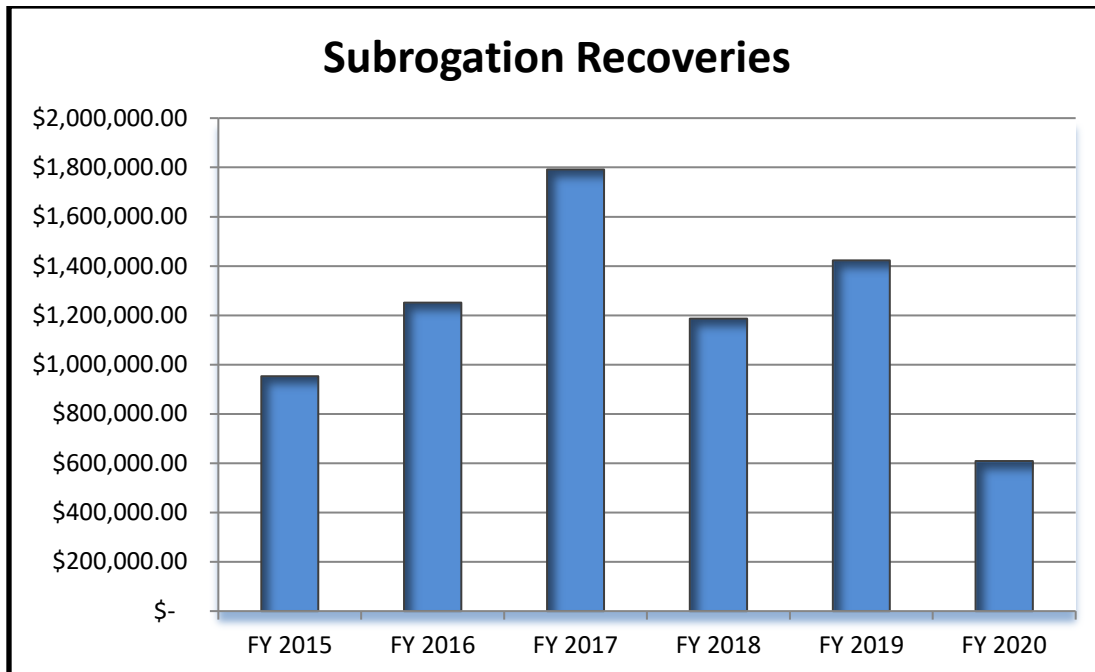
On September 23, 2019, UMCP reported a broken pipe in the Clarence Mitchell Building on September 1, 2019, flooding the basement. There is approximately \$350,000.00 in estimated damages to building and contents.

On September 23, 2019, UMCP reported a loss, which occurred on October 19, 2019. A domestic water line failed, flooding three (3) floors in the Biology-Psychology Building. Damages are estimated at \$150,000.00.

Subrogation Recoveries

In addition to adjusting claims filed under the Maryland Tort Claims Act (MTCA), the Unit is also charged with recovering the cost of damage to State automobiles and property caused by others. This subrogation recovery process helps to offset SITF liabilities and positively affects the Fund's solvency. 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 2020 total is \$608,327 as of November 30, 2019. This is a continued area of focus and is a priority within the Claims Unit.



Tort Litigation Management

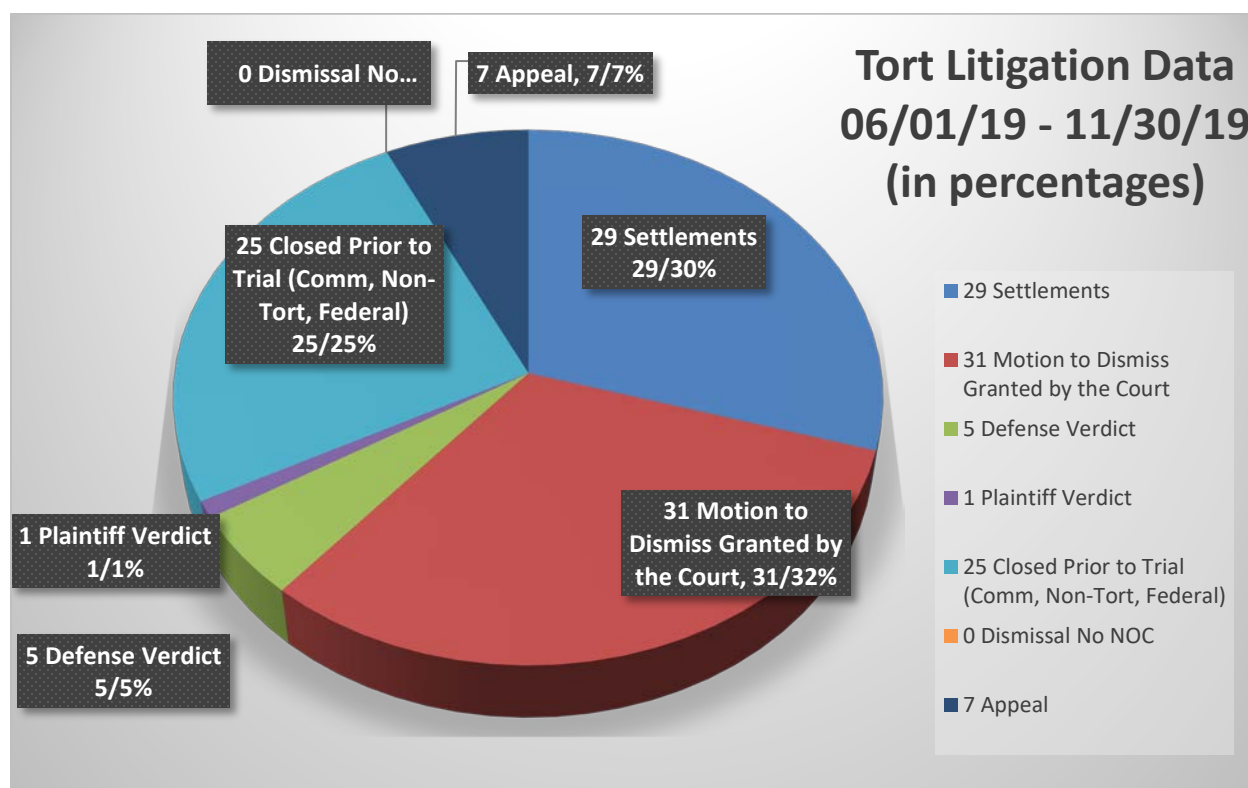
The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation. The Litigation Manager investigates, evaluates and extends settlement authority on behalf of the Treasurer to the Office of the Attorney General. In cases

valued over \$400,000, the Litigation Manager briefs the Insurance Review Committee, which includes the Chief Deputy Treasurer, the Director of the Insurance Division, and Deputy Director of the Insurance Division, the Tort Attorneys, and other stakeholders requesting settlement authority.

Settlement costs for the period of June 1, 2019 through November 30, 2019, totaled \$936,766, litigation expense costs were \$30,818, for a total of \$967,584. 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 134, as of November 30, 2019. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the SITF. The Litigation Manager also analyzes the data in order to track the litigation outcomes.

The disposition of the cases during the timeframe of June 1, 2019 through November 30, 2019, is presented in the chart below:



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

Loss Prevention Unit

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

Our Office recognizes the importance of meeting in person and working directly with representatives of state agencies and universities. During this reporting period, meetings were held with various agency representatives and insurance coordinators to learn about their operations, primary objectives, discuss historical loss trends, loss cost opportunities, prevention programs, and mitigation strategies. We have found that this effort helps to facilitate partnerships and establish and strengthen relationships. Additionally, together, we develop knowledge and gain an understanding of mutual objectives.

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 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.