



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

January 18, 2021

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State Treasurer

Section 5-104 of the State Government Article of the Annotated Code of Maryland provides that, “*The Treasurer shall address the Legislative Policy Committee of the General Assembly on a semi-annual basis and as necessary on issues of legislative importance, including the activities of the Board of Public Works, bond sales, and investment and procurement initiatives.*” This Report is in fulfillment of that law and covers the period since the last Report of June 15, 2020. I invite and welcome further discussion with the Committee at your convenience.

The State Treasurer’s Office (STO) 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 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 numerous recent achievements. STO is always available to provide additional information or answer questions regarding these and other issues.

BOARD OF PUBLIC WORKS

Between June 1, 2020 and December 31, 2020, the Board of Public Works (BPW) met 13 times to consider State procurements, expenditures of capital appropriations, the acquisition, use and transfer of State assets, issuances of licenses to dredge and fill wetlands, and the acquisition of land and easements in support of Program Open Space, the Conservation Reserve Enhancement Program, the Rural Legacy Program, and the Agricultural Land Preservation Program. State General Obligation Bond authorizations and Energy-Lease and Capital-Lease financings, which are also approved by the BPW, are discussed in more detail in the Debt Management Section of this Report.

The Board reviews and approves items with wide-ranging impacts, including those related to climate, community developments, and other capital grants affecting all regions of the State. The following items, worthy of note, but not an exhaustive list, were considered by the BPW:

Baltimore City 21st Century Public School Construction Initiative – Maryland Stadium Authority

- Calverton Elementary/Middle School replacement project: Approved the request to award the third construction bid package. (07/22/2020)
- Robert W. Coleman renovation/addition project: Approved the request to award the second construction bid package. (07/22/2020)
- Northwood Elementary School replacement project: Approved the request to award the first construction bid package. (07/22/2020)
- Montebello Elementary/Middle School renovation project: Approved the request to award pre-construction services. (08/12/2020)
- Govans Elementary School replacement project: Approved the request to award the second construction bid package. (09/23/2020)
- Northwood Elementary replacement project: Approved the request to award the second construction bid package. (12/16/2020)

Personnel, Procurement, & Regulations

- Approved the Department of Human Services' request to award a contract to provide statewide child placement agency services for 2,089 clients into residential independent living programs and treatment foster care services. (06/03/2020)
- Approved the Department of Human Services' request to award a contract for monitoring services of the Department's mental health compliance provisions resulting from the Settlement Agreement in Duvall v. Hogan et al. In the Agreement, approved by BPW in 2015, both parties agreed that the Department's compliance with the substantive provisions

would require assessment by three mutually agreed upon monitors, including one for the mental health provisions. (06/03/2020)

- Approved the Department of Juvenile Services' (DJS) request to award 16 contracts for licensed contractors to provide residential and non-residential treatment services mandated by Juvenile Courts. (06/17/2020)
- Approved the Maryland Environmental Service's request to award a contract to provide permitting and compliance support for the conversion of two existing buildings at Eastern Correctional Institution to natural gas. (07/01/2020)
- Approved the Historic St. Mary's Commission's request to award a contract to replace the Maryland Dove, a seventeenth century sailing ship replica in Historic St. Mary's City. (09/02/2020)
- Approved the Department of Public Safety and Correctional Services' (DPSCS) request to award a contract to improve the statewide status of the 911 telephone emergency system in all counties and Baltimore City. This contract is a result of the passage of the 2019 Carl Henn's Law which required establishing minimum standards for records security and retention, training, cyber security, and the interoperability and interconnection of 911 service systems in surrounding states and the District of Columbia. (09/02/2020)
- Approved the Department of Labor's request to award a contract for a program manager to modernize critical applications within the Division of Unemployment Insurance. Maryland received federal funds to proceed with the modernization effort. (09/02/2020)
- Approved the Maryland 529's request to award a contract for forensic accounting services. In December 2019, the Maryland Office of Legislative Audits recommended a forensic audit be conducted to further review its findings. (09/02/2020)
- Approved the DPSCS' request to award a contract to implement, operate and maintain an Electronic Patient Health Record System to replace an existing legacy system and better meet the needs of the Department, medical providers, and resident offenders. (10/21/2020)
- Approved the Maryland State Police's request to modify a forensic biology casework sample analysis contract to implement a streamlined testing approach for sexual assault kit processing and to minimize casework backlogs. (11/4/2020)
- Approved the Department of Budget and Management's request to modify the existing pharmacy benefits contract to extend the contract through December 31, 2021 as required by recent legislative changes. (11/18/2020)

State Services, Facilities, & Assets

- Approved the Maryland Stadium Authority's request to consent to the Mayor and City Council of Baltimore City's acceptance of a price of \$2,000 per unit for the sale of Stadium Place to Gilchrist Hospice Care, Inc. (06/03/2020)

- Approved the Maryland State Library Agency’s request to grant \$7,300,000 to four county public library systems. (06/17/2020)
- Approved the Maryland Historical Trust’s request to award \$600,000 in general obligation bonds for ten projects. (06/17/2020)
- Approved a recommendation from the Board’s General Counsel to grant Eric Simmons and Kenneth McPherson, who were erroneously convicted of crimes and incarcerated, compensation based on the number of years served and funding for financial and other counseling. Each will be paid a total of \$1,973,465 over 7 fiscal years ending July 31, 2025. (06/17/2020)
- Approved additional funding to cover \$500,000 in operating deficiencies for the following:
 - Historic St. Mary’s City Commission: \$150,000 to offset earned revenue from tours and visitors;
 - Canal Place Preservation and Development Authority: \$40,000 to offset rent forbearance for tenants; and
 - Maryland Public Broadcasting Commission: \$310,000 to offset fundraising shortfall to prevent layoffs. (06/17/2020)
- Approved the Maryland Stadium Authority’s request to issue a third series of bonds not to exceed \$754,310,000 in the following ways:
 - \$220,245,000 to finance, design, replace, renovate, equip and furnish the 2020 projects;
 - \$50,000,000 to finance, design, replace, renovate, equip and furnish Northwood Elementary School; and
 - Up to \$484,065,000 to advance refund certain maturities from the 2016 Program Bonds and Series 2018A Program Bonds. (07/01/2020)
- Approved reductions of \$413,176,573 from the FY21 budget, with the Treasurer voting in opposition:
 - \$394,915,718: General Funds;
 - \$6,608,343: Special Funds; and
 - \$3,397,041: Reimbursable Funds (07/01/2020)
- Accepted a determination regarding employment as a result of the new minimum wage increase law. No action was taken. (09/23/2020)
- Approved the expenditure of \$4,383,908 of general obligation bond proceeds to the Oyster Recovery Partnership to rehabilitate oyster habitat. (8/12/2020)
- Morgan State University (MSU)
 - Approved a development agreement with MCB Northwood, LLC to construct the MSU Public Safety Building at the Northwood Shopping Center. (08/12/2020)
 - Approval of MSU to borrow \$69.75 million from the HBCU Financing Federal Program, to be spent in the following manner:

- Series A 2020-7: \$32 million for the design and construction of the Dining Facilities and a portion of the Student Housing for the new Thurgood Marshall Housing Project;
 - Series A 2020-5: \$21.25 million to refund all 2012 Auxiliary and Academic Facilities Revenue Bonds currently outstanding, resulting in an expected \$2.6 million savings; and
 - Series A 2020-6: \$16.5 million to refinance the unadvanced portion of the \$25 million HBCU Loan (of which \$8.4 is outstanding) to complete the Public Safety Building at Northwood Commons. (10/21/2020)
- Approval of a Ground Lease with the Maryland Economic Development Corporation to facilitate the financing of the Thurgood Marshall Housing and Dining Services Project. (10/21/2020)
- Approval of the Maryland Military Department's request for a new 10 +/- acre 50-year ground lease to the United States Marine Corps Reserves at Camp Fretard in order to construct and operate a Marine Corps Reserve Center. (10/21/2020)
- Approval of the Maryland Department of the Environment's request for a loan up to \$85,001,527 for the design and construction of bio-energy facilities at the existing site of the Washington Suburban Sanitary Commission's Piscataway wastewater treatment plant in Prince George's County. The anticipated project outcomes are production of Class A Biosolids for beneficial uses, recovery of renewable energy from biomass, and reduction in energy, chemical, and sludge disposal costs. (11/04/2020)
- Approval of the Department of Natural Resources' request to transfer 67-71 Prince George Street (known as the Burtis House and pier) to the City of Annapolis. (11/04/2020)

Transportation

- Approval of a request from the Maryland Transit Administration (MTA) to award a contract to provide professional staff, supervision, and training to operate and maintain MTA's Americans with Disabilities Act certification process for the Paratransit Program. (08/12/2020)
- Approval of a request from the Maryland Department of Transportation (MDOT) to adopt a resolution authorizing the issuance and sale of its Consolidated Transportation Bonds, Series 2020 issuance in an amount not to exceed \$300,000,000. (09/02/2020)
- Approval of the Maryland Port Administration's request to award the following contracts for the study and demonstration of the feasibility of using dredged material from Cox Creek Containment Facility to develop:
 - Bricks and pavers manufactured by the contractor (9/23/2020);
 - Concrete traffic barriers and shoreline protection structures (11/18/2020); and
 - Reengineered soil for growing sod. (12/16/2020)

Wetlands

- Approval of a wetlands license for horizontal drilling under the South Prong of the Wicomico River, related to the Eastern Shore Natural Pipeline project in Somerset County. (12/02/2020)

In addition to the regularly scheduled items, the Board heard and accepted the following emergency procurements related to the COVID-19 pandemic:

Department of Human Services

- IT: Lenovo laptops for foster children to assist with e-learning, telehealth, and virtual visitation

Department of Information Technology

- IT: VPN – PulseSecure upgrades and licenses

Maryland Department of Commerce

- Services: DocuSign

Maryland Department of Health

- Commodities – Test kits, personal protective equipment, ventilators, and medical tents
- Services – Contract Tracing, testing, surge staffing plans, in-home testing, COVID-19 media campaigns, credentialing, staffing, policy advising, building and leasing additional hospital and morgue capacity, supply chain consulting, design and construction, electrical work, facilities maintenance, housekeeping, medical waste, architectural and engineering assessment of existing facilities, and medical planning.

Maryland Department of Labor

- Services: Pandemic unemployment assistance system, Unemployment Insurance virtual call center, employment assistance
- Commodities: Additional Unemployment Insurance Division laptops

Maryland Department of Public Safety and Correctional Services

- IT: Technology for telemedicine and inmate telecommunications
- Services: Isolation fencing, construction
- Commodities: Personal protective equipment

Maryland Department of Transportation

- Commodities: Sanitation wipes
- Services: Counseling

Maryland Universities

- Morgan State University – Classroom audio visual technology

State Board of Elections

- Services: Public relations support, media campaigns
- Commodities: Personal protective equipment, voting boxes, ballot printing and mailing

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 ensures the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to its 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 December 31, 2020, total cash receipts and disbursements exceeded \$259 billion this fiscal year. The State's bank accounts continue to be reconciled to the State's general ledger daily, to the penny.

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 1431 agency bank accounts at 25 financial institutions. Total posted collateral on December 31, 2020 was \$1.2 billion (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 that all interest owed to the General Fund has been collected.

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 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 December 31, 2020. The balance of the General Fund Investment Portfolio for December 31, 2020 was \$8,916,614,125 (unaudited) compared to \$9,494,119,250 on December 31, 2019, a decrease of \$577,505,125.

The portfolio was earning an average of 0.319% on December 31, 2020, compared to 1.745% on December 31, 2019.

The General Fund gross interest earnings fiscal year-to-date for FY21 through December 31, 2020 were \$13,892,142 (unaudited) compared to \$82,789,223 received for the same time period in FY20. The year over year gross interest earnings decreased by \$68,897,081.

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
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%
2020	35,634,540	96,214,619	131,849,159	73%
YTD 2021	4,024,294*	9,908,447*	13,932,741*	72%*

*Interest allocations are through 12/31/2020

The Maryland Local Government Investment Pool’s (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on April 27, 2020. The MLGIP has maintained the AAAM rating since April 2000. The MLGIP’s balance, which is the amount invested by all participants, on December 31, 2020 was \$10,314,532,071 (unaudited) compared with \$7,966,476,712 a year ago on December 31, 2019, an increase of \$2,348,055,359.

The MLGIP yield was 0.0863% as of December 31, 2020, compared to 1.679% on December 31, 2019. 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 Office compares current cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are implemented and followed, and actively seeks improved ways to protect Maryland State Funds.

DEBT MANAGEMENT DIVISION

Rating Agency Update

In July 2020, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2020, 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 <http://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 scheduled to occur in February 2021 to discuss the State's rating in advance of the 2021 First Series General Obligation Bond sale. As per usual, the Treasurer's Office will provide updates on the rating agency reports once the State's ratings are received.

Overview of Maryland's Credit

There is broad consensus about the State's credit strengths and challenges. An overview of some of those factors follows but should not be considered exhaustive. 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.

Impact of COVID-19 Pandemic

Though the COVID-19 pandemic has led to significant challenges for the State, including loss of revenues, increased expenditures, and operational impacts, all three major rating agencies (Moody's, S&P, and Fitch) reaffirmed the State's AAA-stable bond rating in July 2020.

In their reports, each rating agency noted the impact of the virus but expressed confidence that Maryland can manage the impact with its usual balanced approach towards navigating economic downturns, which has traditionally included a mix of budget reductions, revenue enhancements, and one-time actions to bridge gaps between revenues and expenditures. Each rating agency also highlighted the State's reserve funds, built up over the last decade, its strong liquidity, and its history of proactively addressing fiscal challenges.

However, the rating agencies also note that the State's recovery will be challenging and partially dependent on how the situation with the virus unfolds over the next several months, as well as the federal government's fiscal response (or lack thereof).

Credit Strengths

Strong fiscal management institutions: 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 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 Board of Public Works' ability to make midyear spending adjustments; the lack of a supermajority requirement for tax increases; and rapid 15-year amortization of general obligation debt required by the Constitution, among other things.

Track record of excellent fiscal management: 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.

Stable, diversified economy: 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.

Highly educated population and above average income: 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

Pensions, debt, and other long-term liabilities: 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 Maryland for its 2011 reforms, they also warn against any backsliding on the reforms that could jeopardize the progress made. Taking steps to manage these long-term liabilities while still meeting Marylanders' need for State services is crucial.

Aging infrastructure and deferred maintenance: 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.

Revenue challenges caused by suboptimal demographic trends and taxation system: 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 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.

Federal government dysfunction: Brinksmanship at the federal level, such as forcing a government shutdown or threatening a debt ceiling breach in an attempt to coerce unrelated policy concessions, have an outsized impact on Maryland due to its reliance on the federal government. Shutdowns typically lead to decreases in State revenue; an actual debt ceiling breach would directly impact the State's rating, since it is unusual for a subordinate state to be rated higher than its sovereign. Management issues at federal agencies that lead to high vacancy rates and churn also directly impact the State's bottom line.

COVID-19 Market Disclosure

Given that the COVID-19 pandemic is having an ongoing impact on the State's finances and operations, the Division of Debt Management has been providing regular voluntary disclosure to the municipal bond market regarding the timeline of key actions the State took in response to the pandemic, as well as the status of its revenues, budget, and liquidity. The goal of this disclosure is to ensure that the State meets its legal and regulatory obligations and to ensure that it is being fully transparent with market participants. The initial disclosure may be viewed at <https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/RE1035097>. Subsequent developments are being published at <http://www.buymarylandbonds.com/covid-19.pdf> as they occur.

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

General Obligation Bonds

Since the last report to this committee, the State has conducted one General Obligation bond sale in the amount of \$1.011 billion. The 2020 Second Series was sold on July 22, 2020 and closed on August 5, 2020.

- Series A Bidding Group 1 consisted of \$290.1 million 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 0.56% and included a premium of \$85.5 million.
- Series A Bidding Group 2 consisted of \$249.9 million in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received an All-In TIC of 1.75% and included a premium of \$95.4 million.
- Series B consisted of \$115.8 million in tax-exempt refunding bonds. The proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$10.5 million in debt service costs on a net present value basis. Series B received an All-In TIC of 0.58%.
- Series C consisted of \$355.6 million in taxable refunding bonds. The proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$48.8 million in debt service costs on a net present value basis. Series C received an All-In TIC of 0.76%.

Capital Leases

The Debt Management Division administers two capital lease programs on behalf of State agencies. The Equipment Lease-Financing Program allows State agencies to acquire equipment and pay for those items over a three, five, or ten-year time frame. The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for an Energy Performance Contract (EPC) and pay for the equipment portion of the EPC over multiple years using the utility savings generated by the project.

On June 8, 2020, this committee authorized \$20.0 million for the Equipment Lease-Financing Program and \$35.0 million for the Energy Lease-Financing Program through June 2021. The Debt Management Division has not yet utilized this authorization but expects to finance at least \$1.1 million in capital equipment for State agencies during the first or second quarter of calendar year 2021.

Upcoming Financing Plans

The State's next General Obligation bond sale is scheduled for February 24, 2021. The Debt Management Division expects the sale to include up to \$425 million in tax-exempt new money, as well as a taxable component of up to \$50 million. Additionally, the Division is monitoring interest rates and may refund certain outstanding bonds if they meet the criteria in the State's debt policy.

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. On April 16, 2020,

the Commission on State Debt met to recommend a State property tax rate sufficient to meet debt service requirements and released its annual report. Over the years, the debt service has also been supported by appropriations from the General Fund. In fiscal year 2021, \$131 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 appropriation is projected for fiscal years 2022 - 2025. However, as noted in the Commission's report, the actual General Fund appropriation may be significantly lower than projected. Though the State typically uses bond premium to offset current year debt service, the Commission's projections do not include bond premium in future fiscal years since premium attainment is heavily dependent on volatile, difficult to predict factors such as market conditions, coupon structure, and investor preference. If bond premium continues to be attained and the State continues to use it to offset debt service, the General Fund appropriations will be substantially reduced. Additionally, Debt Management routinely reviews the State's debt portfolio for refunding opportunities, which further reduces debt service. The complete Commission on State Debt report is available on the Treasurer's website at:

https://www.treasurer.state.md.us/media/131744/2020_comm_on_state_debt_report.pdf. The table below is an excerpt from the April 2020 report.

Annuity Bond Fund, FY 2019 – 2025 (\$ in thousands)

	2019 Act.	2020 Est.	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.
Beginning Balance	\$ 159.0	\$ 113.5	\$ 266.5	\$ 11.8	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 828.5	\$ 855.8	\$ 885.3	\$ 903.0	\$ 921.1	\$ 948.7	\$ 977.1
General Fund Appropriation	\$ 286.0	\$ 287.0	\$ 131.0	\$ 454.5	\$ 493.0	\$ 502.4	\$ 507.4
Bond Sale Premium	\$ 117.0	\$ 248.4	\$ 109.0	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds	\$ 11.6	\$ 11.7	\$ 10.9	\$ 10.1	\$ 8.9	\$ 7.5	\$ 5.5
Transfer Tax	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9	\$ 7.0	\$ 7.0	\$ 7.0
Other Cash Receipts	\$ 2.6	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2
Interfund Transfers	\$ -	\$ 62.0	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Projects	\$ -	\$ -	\$ (62.0)	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ (1,298.3)	\$ (1,321.8)	\$ (1,338.8)	\$ (1,387.5)	\$ (1,433.2)	\$ (1,468.7)	\$ (1,500.1)
Ending Balance	\$ 113.5	\$ 266.5	\$ 11.8	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0

Capital Debt Affordability Committee (CDAC)

General Obligation Recommendation

At its final meeting on October 19, 2020, 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 reflected the most recent forecast by the Board of Revenue Estimates in September 2020. 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 2022 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 \$10 million in future fiscal years. The motion passed 3-2, with the Treasurer and Comptroller voting in opposition.

CDAC Affordability Ratios, FY 2021 – 2030 (projected)

\$1.095M Authorization Increasing by \$10M Annually		
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2021	3.4%	7.4%
2022	3.4%	7.7%
2023	3.2%	7.7%
2024	3.1%	7.3%
2025	3.0%	7.1%
2026	2.8%	6.9%
2027	2.7%	7.0%
2028	2.6%	6.9%
2029	2.4%	6.8%
2030	2.3%	6.8%

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 2021 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 \$30 million for new academic facilities bonds for the University System of Maryland for FY22. 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 2020 Capital Debt Affordability Report and the 2020 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, Claims, which includes Tort Litigation, and Loss Prevention. 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 are listed below.

- Effective September 1, 2020, fiduciary liability insurance was placed on behalf of the Maryland State Retirement and Pension System. Fiduciary liability coverage is intended to protect System Fiduciaries, Trustees, and Employees, and the Plan Sponsor, from claims brought by current or former participants, their heirs and families.
- Cyber, Network Security & Privacy insurance became effective September 30, 2020. The blanket commercial program extends coverage to agencies of the Executive, Legislative and Judicial branches, State Universities and Colleges. The cyber program is comprised of two policies, each providing annual aggregate limits of \$10 million, with self-insured retentions consistent with other state commercial insurance programs. The cyber insurance is intended to respond to privacy/data releases, hacking, and extortion, among other threats. Benefits of the program also include 24/7 access to insurance companies' panel of breach response experts.
- The annual property survey for FY21 is in progress throughout State agencies. The survey gathers values for real and personal property, computers, drones and vessels, in addition to pertinent underwriting information. The reported values comprise the basis for the State's self-insured and commercial insurance programs.

Global insurance remains volatile in domestic and foreign markets. Many carriers are not willing to write transportation risks including rail, bus, bridges and tunnels, aviation and ports.

There have been an overwhelming number of various losses worldwide with adverse results; increases in claims, litigation and plaintiff verdicts. In addition, carriers under prior policies have declined to renew, have exited the market, or are unwilling to underwrite these types of risks.

Catastrophic natural weather events, including hurricanes, hailstorms and wildfires, contributed to poor results for commercial property insurers. Consequently, there have been and will be changes in availability, structure, and cost of commercial insurance for State owned property. Higher rates for property insurance, including flood coverage, increased deductibles for hail and windstorm damages, and reductions in capacity make this a challenging time in the insurance industry.

Additionally, the pandemic continues to have an enormous impact on the insurance market. Uncertain liability implications worldwide, new exclusions, more restrictive terms and conditions, and rising costs of litigation due to the large number of suits have all been factors in increases.

The recent results of commercial insurance purchases below are reflective of these conditions.

Commercial Policy Renewals

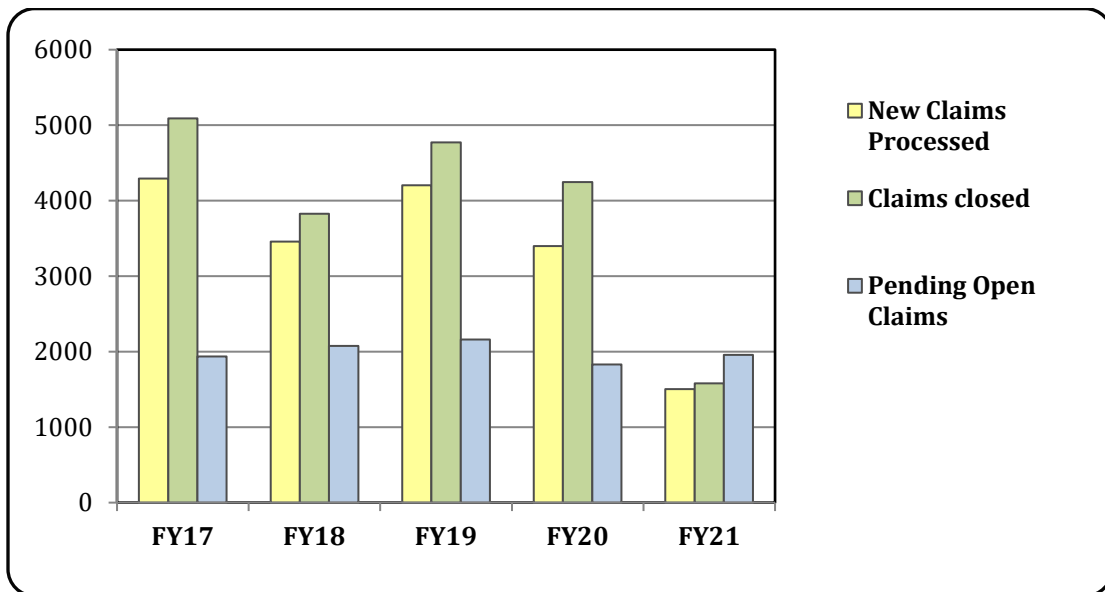
- Maryland Transit Administration Excess Liability annual insurance policy renewed effective July 1, 2020. Renewal pricing was up from \$4,681,890 to \$9,470,829. Due to recent catastrophic losses and a decrease in carriers willing to write the coverage, the premium increased by \$4,788,939, and deductibles increased from \$7.5 million to \$10 million.
- Maryland Transit Administration Rail Car floater renewed effective July 1, 2020. Due to recent market changes, which include both sizeable losses and limited brokers willing to write transportation coverage, renewal pricing increased from \$473,665 to \$883,371. This is an increase of \$409,706.
- Athletic Participants annual basic coverage for 10 schools was renewed effective August 1, 2020. Renewal pricing remained flat at \$1,036,879.
- Maryland Aviation Administration's Airport Liability insurance renewed effective August 15, 2020. Due to current market conditions which reflect recent large losses and a decrease in carriers willing to write transportation coverage, pricing was significantly affected on this placement. The premium increased from \$379,500 to \$1,130,000.
- Blanket Boiler & Machinery coverage for the State renewed effective September 30, 2020. The State's overall values increased by approximately 5% and the renewal pricing only increased \$21,210, from \$564,239 to \$585,449.
- Blanket Terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2020. Renewal pricing remained the same \$220,596.

- Maryland Transportation Authority Bridges and Tunnels Liability insurance renewed October 17, 2020. This placement proved to be significantly difficult because carriers withdrew from this line of business and others reduced capacity. Renewal pricing was up from \$505,933 to \$750,869, an increase of \$244,936.
- Maryland Port Administration’s Cranes Property/Marine program renewed effective November 25, 2020. Renewal pricing increased from \$63,700 to \$68,884.
- Maryland Transportation Authority Bridges and Tunnels Property program renewed December 1, 2020. Renewal pricing was up from \$3,299,447 to \$3,752,467, an increase of \$453,020.

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, fire, hail, lightning, and wind, all of which may cause damage to State structures, equipment, and contents.

Open and closed claims are tracked to gauge activity, inventory and to identify any trends. From July 1, 2020 through December 31, 2020 (FY21), there were 1502 new claims processed and 1578 claims closed. The chart below shows claims detail of all claims from July 1, 2020 to December 31, 2020. There are currently 1980 open pending claim files for FY21.



Recently Reported Major Claims

On June 3, 2020, Morgan State University reported a fire in the Earl Richardson Library that occurred on May 21, 2020, resulting in fire and water damage to a hydraulic pump and 4th floor elevator lobby. Damages are estimated at \$225,000. The claim is still being investigated.

On June 10, 2020, the University of Maryland College Park reported a chiller failure in the Plant Sciences building that occurred on May 12, 2020 and resulted in damage to equipment. Damages are estimated at \$150,000. The cause of the failure is still under investigation.

On July 8, 2020, the Maryland Aviation Administration reported storm damage to the roof of Hangar 2 at Martin State Airport. The damage occurred on July 6, 2020 and resulted in building and contents damage in Hangars 1, 2 and 3. Damage is estimated at \$500,000.

On July 15, 2020, the University of Maryland College Park reported a break-in at the Toll Physics building which occurred on June 8, 2020. This break-in resulted in damage to the building and equipment. Damage is estimated at \$150,000. The claim is currently being investigated.

On September 11, 2020, the Department of Juvenile Services reported windstorm damage to the Charles Hickey School gymnasium roof. The incident occurred on September 3, 2020 and resulted in damage to the building and contents. Damages are estimated at 100,000.

On October 7, 2020, the University of Maryland College Park reported heavy rains which flooded the Capitol One Field at Maryland Stadium on September 10, 2020. The flooding damaged the artificial turf and underlying structure. Damages are estimated at \$700,000. The claim is currently being investigated.

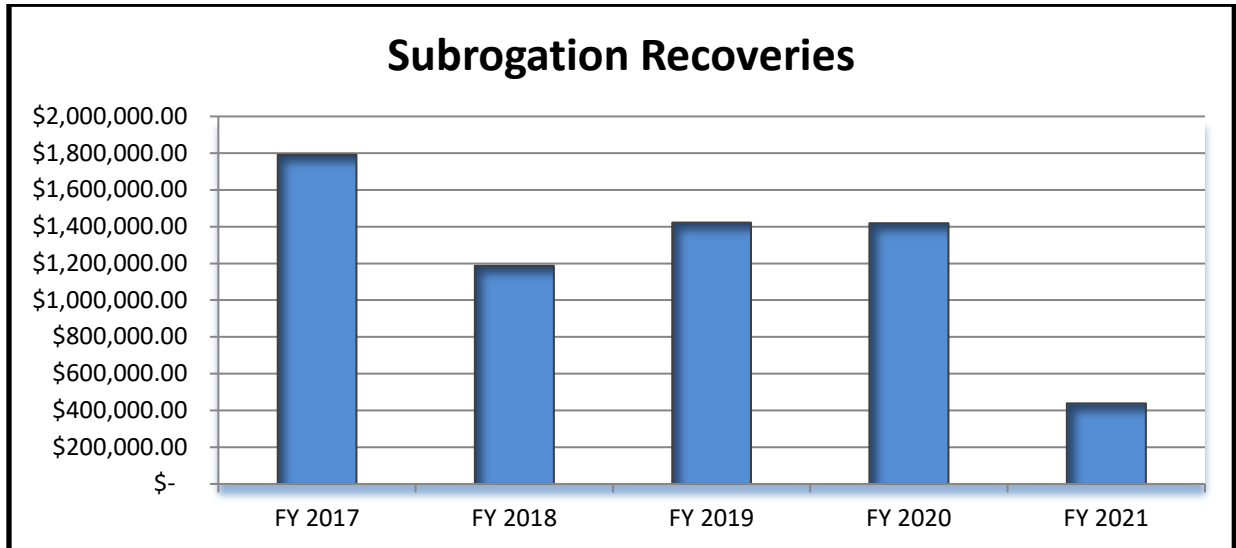
On October 26, 2020, the Maryland Department of Health reported a fire at the Rosewood Center, Building M, extensively damaging the vacant building. The fire occurred on October 25, 2020 and damages are estimated at \$100,000. The claim is currently being investigated.

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 FY21 total \$437,818 as of December 31, 2020. This is a continued area of focus and is a priority within the Claims Unit. However, subrogation recoveries in FY21 have been impacted by the COVID-19 pandemic. Beginning early in 2020 and as a result of the COVID-19 crisis, the Governor suspended debt collection activities in order to lessen the burden to Maryland businesses and citizens. Therefore, the claims unit was unable to submit outstanding damages to the Central Collection Unit (CCU) and/or to individuals responsible for damage to State property, leaving only subrogation recoveries processed from

individuals' insurance carriers. CCU has since resumed full collection activities, thus subrogation recovery efforts through CCU and/or against individuals have recently resumed.

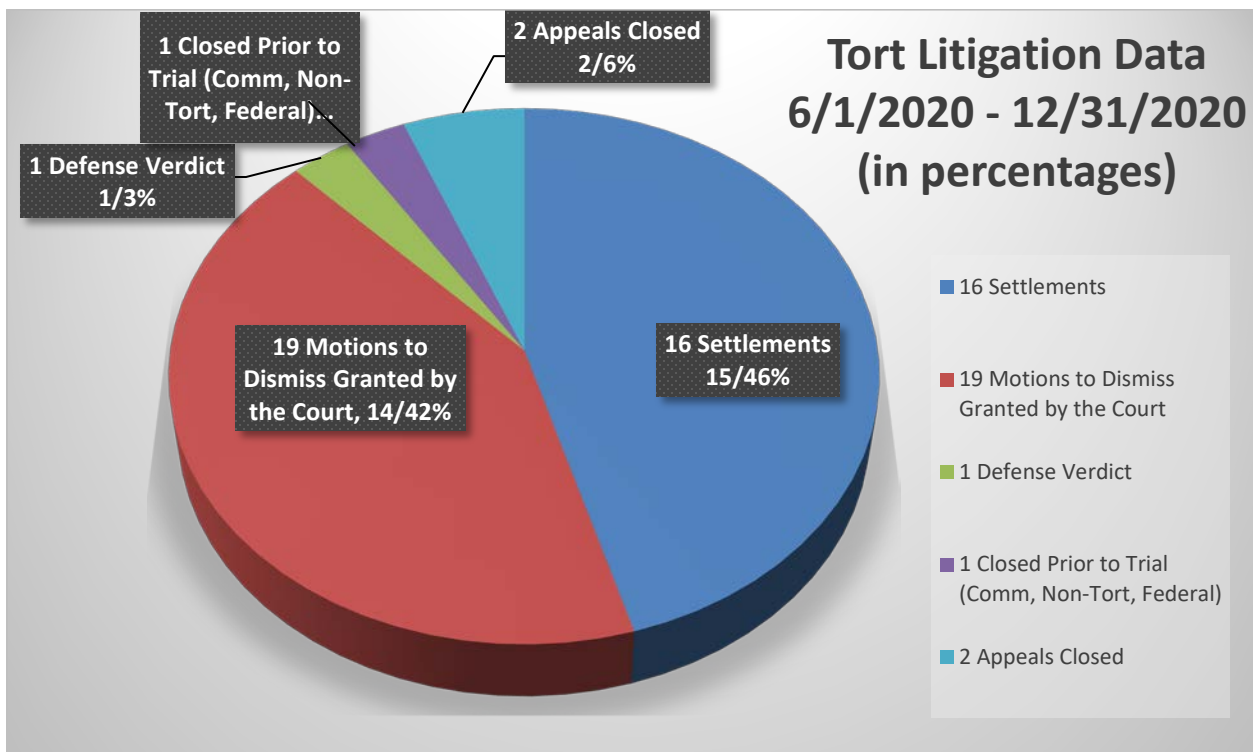


Tort Litigation Management

The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation and investigates, evaluates and extends settlement authority on behalf of the Treasurer to the Office of the Attorney General. The Litigation Manager attends settlement conferences and other court-mandated activities, actively monitors trial verdicts and appeals, and provides feedback to adjusters and periodic updates on the status of litigation claims, as required. The Litigation Manager continues 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 assess potential impacts on the State Insurance Trust Fund and determine future risk prevention activities.

Settlement costs for the period of June 1, 2020 through December 31, 2020 totaled \$1,207,022; related litigation expense costs were \$8,273 for a total of 1,215,295. In cases valued over \$400,000, the Insurance Review Committee, which includes the Chief Deputy Treasurer, the Director and Deputy Director of the Insurance Division, the Tort Attorneys, and other stakeholders requesting settlement authority, is also briefed by the Litigation Manager.

The Tort Unit handles a rolling docket of approximately 125 - 175 litigation claims. The litigation caseload is approximately 173, as of December 31, 2020. The disposition of cases during the timeframe of June 1, 2020 through December 31, 2020, which was impacted by pandemic-related Court closures, is presented in the chart below:



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.