Maryland STATE TREASURER

Investing for Maryland's future.

STATE TREASURER'S OFFICE

UPDATE ON OFFICE ACTIVITIES
AND
LEGISLATIVE INITIATIVES

FOR THE

JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS

October 17, 2018

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State Treasurer

STATE TREASURER'S OFFICE MAJOR INFORMATION TECHNOLOGY INITIATIVE

The Office has begun the implementation of Microsoft Dynamics 365 as the new financial and insurance claims management Enterprise Resource Planning (ERP) solution to replace our legacy IBM system which has been in use since 1984. Our new system will bring many enhanced services to the citizens of Maryland and statewide agency stakeholders.

The most noticeable enhancement for the citizens of Maryland will be in the Insurance Claims Management module. With this new solution, citizens will have the opportunity to file claims online and monitor claims progress until they are settled. Currently, if a citizen wishes to file a claim against the State for damages covered by the Maryland Tort Claims Act, they must mail in or fax a notice of claim. This new solution will provide an online portal for citizens to log in, provide notice of the claim along with supporting documentation and follow it throughout the settlement process.

Improvements to both the insurance module and the financial module will be of benefit to State agencies. Currently, agencies that need to file a claim for damages covered by the Maryland Tort Claims Act, must also mail in or fax a notice of claim. Agencies will have the same advantage as citizens with this new system to allow them to utilize our online portal to submit a claim request and supporting documentation and to follow it throughout the claims settlement process.

Through the ERP process, claims will be routed electronically to the Treasurer's Finance Department once settlement has been approved by Insurance and will generate a disbursement transaction that needs approval and validation by the accounting staff. Because the payee information will flow electronically, this will eliminate the need for accounting staff to manually key in the disbursement information, resulting in quicker processing and fewer errors. We anticipate the time for our citizens to receive payment once their claim has been settled will be reduced to several days as opposed to several weeks.

The process for agencies to submit requests to have checks reissued will be automated through the new financial systems module as well. Currently, agencies must submit the request in writing along with supporting documentation to request a check reissue via the mail or fax. With the new solution, agencies will log into our online portal to submit requests. This information will then flow through processing within the Treasurer's Banking Services Department down to the Finance Department for the check to be reissued. Processing time will improve as well as error rates by reducing the need to rekey information manually for paper documents.

TREASURY MANAGEMENT DIVISION

Banking Services Division

The Banking Services Division (BSD) continues to ensure the accurate and timely recordation of funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Division 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 September 30, 2018, total cash receipts and disbursements exceeded $57 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.

Another responsibility of the Division 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 27 financial institutions.

Investment Division

The Treasurer's prudent investment policy and practices focus primarily on safety of principal to ensure protection of Maryland State Funds. On September 30, 2018 the par value of the General Fund investment portfolio was $7,472,264,447, and the portfolio was earning an average of 1.70%. Year-to-date General Fund gross interest earnings received for FY19 are $30,836,513.

The Office continues to encourage minority business participation in the investment of State funds. Twenty five MBE broker/dealers are on the Office's approved list for FY19.

The Maryland Local Government Investment Pool's (MLGIP) AAAm rating was reaffirmed by S&P Global Ratings on March 26, 2018. The MLGIP has maintained the AAAm rating since April 2000. The MLGIP's balance on September 30, 2018 was $7,085,018,820 and the yield was 2.07%.

The MLGIP currently consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

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.

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 include the following:

- Athletic Participants basic coverage for 10 schools was renewed effective 08/01/2018. The overall pricing **decreased by $63,952** or approximately 6%, with no change in coverage terms and conditions.
- Maryland Transit Administration Excess Liability insurance renewed effective 07/01/2018. The overall pricing **decreased by $40,995**.
- Maryland Port Administration's liability and terrorism coverage renewed effective January 31, 2018. Estimated revenues were slightly down, which resulted in an overall premium **savings of $23,492**.
- State of Maryland blanket boiler and machinery coverage renewed effective 09/30/2018. The incumbent carrier CNA, declined to offer renewal terms due to increase in overall loss ratio, primarily from water losses at University facilities. However, the state was able to successful obtain a policy with Travelers Insurance Company, with like terms and conditions. In the final pricing, Travelers Insurance Company offered a $539,221 premium, which was a **savings of $20,779** or approximately 3.5%.

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 Claims Unit continually tracks open and closed claims in order to gauge activity, inventory and to identify any trends. In fiscal year 2018, there were 4307 total claims opened. So far in fiscal year 2019, 761 claims have been received.

- Claim payments, settlements, judgements and expenses for FY18 totaled $11,045,969.

- The Maryland Tort Claims Act cap increased to $400,000 effective October 1, 2015. There has not been a substantial increase in the overall settlement of claim payments or litigation payments administered, to date. This is due in large part to ongoing coordination in establishing adequate claim values between the Insurance Division and the Office of the Attorney General.

Insurance Carrier Meeting:

Our Office met with our Insurance broker, AON, to discuss the State's property risk control program. There were discussions about 2017 property inspections and recommendations, and follow ups conducted with agencies.

Boiler & Machinery Inspections:

Purpose: Over the past few years there has been a steady increase in premiums and difficulty obtaining coverage for our Boiler & Machinery policies, specifically for our Universities. There are a couple of reasons for these challenges. 1) a lack of carriers willing to write the coverage; and 2) claims severity. During our last renewal, we had great difficulty securing a policy. Additionally, we had to increase our deductible for University water losses, and had to endure a nearly 30% premium increase in order to renew our Boiler & Machinery policy.

Meetings:

We met with our Insurance carrier, CNA, to review the violation summary and recommendation reports for our boilers statewide. As a result of the meeting the Office:

- Reviewed 164 open violations throughout the State; and
- is working on an action plan with State agencies to identify and resolve open boiler violations.

We had discussions with CNA regarding an STO Loss Control Action Plan to address open boiler violations. We advised of the following:

- Violations are being categorized by agency.
- Individually engaging with each agencies risk management and facilities personnel to correct violation issues and achieve closure.
- Identified all historical violations and prioritized by age and severity of violation.
- Attended agency and CNA boiler inspections and re-inspections.
- Provided agencies monthly and quarterly reports and updates.

We also discussed University of Maryland College Park's 28 boiler violations, and strategies to address those violations.

Our Office met again with CNA and reviewed each of the 28 open violations. We discussed the status of each violation and actions being taken to resolve issues.

We recently met with University of Maryland College Park and confirmed that 28 of the 30 open boiler violations are closed.

Currently there are only 57 open boiler & machinery violations throughout the State. STO Loss Control is continuously working with the various State agencies to identify and resolve open boiler violations.

In being proactive and addressing these issues we hope to enhance the availability of carriers willing to write this insurance and over time to lower our premiums.

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, S&P's Global Ratings and Fitch Ratings 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's Global Ratings has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other 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.

General Obligation Bonds

The 2018 Second Series was sold on August 1, 2018 and totaled $510,000,000. The sale closed on August 15, 2018 and was conducted in two groups:

Group 1: $275,295,000 million in Tax-Exempt Bonds sold in a competitive sale primarily to institutions
Group 2: $234,705,000 million in Tax-Exempt Bonds sold in a competitive sale primarily to institutions.

The Group 1 bonds provided $275,295,000 million, at a True Interest Cost (TIC) of 2.33%, and the Group 2 bonds provided $234,705,000, at a TIC of 3.12%, both to finance investments in capital projects critical to our State. In addition, the State received a premium of $81,974,367 to offset FY19 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. Over the last year, $5,603,839 in capital equipment was leased by State agencies through the State Treasurer's Office.

The Treasurer's Office also finances Energy Performance Leases in cooperation with the Department of General Services, providing funding for energy conservation improvements at State facilities. Over the last year, $17,474,989 in energy leases have been financed through the State Treasurer's Office.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately $510 million, is planned for February or March 2019. 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. At this time, the State's portfolio of callable bonds does not have sufficient current refunding potential. The 2017 Tax Cut Jobs Act (TCJA) cuts eliminated tax exemption for advance refunding bonds and the Qualified Zone Academy Bond Program.

Status of the Annuity Bond Fund

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund, and the primary source of revenue for this Fund is the State's real property tax receipts. Over the years, however, the debt service has also been supported on occasion by appropriations from the General Fund, as well. The Commission on State Debt met and released its annual report on April 16, 2018. In FY19, $289.0 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 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, FY 2017 – 2023 ($ thousands)

	2017 Act	2018 Est	2019 Est	2020 Est.	2021 Est.	2022 Est.	2023 Est.
Beginning Balance	**$202,278**	**$162,100**	**$162,245**	**$5,189**	**$2,000**	**$2,000**	**$2,000**
Total Property Tax Collections	773,128	801,891	832.694	862,880	880,982	899,193	917,591
General Fund Appropriation	259,395	259,649	289,000	446,770	453,637	483,442	502,434
Bond Sale Premium	91,198	152,148	0	0	0	0	0
Federal Subsidy for ARRA Bonds	11,539	11,539	10,855	9,854	9,374	8,324	5,143
Transfer Tax	6,575	6,735	7,059	6,851	6,884	6,917	6,917
Other Cash Receipts	8,714	3,106	3,106	3,106	3,106	3,106	3,106
Debt Service	(1,190,728)	(1,234,923)	(1,299,770)	(1,332,650)	(1,353,983)	(1,400,982)	(1,435,190)
Ending Balance	**$162,100**	**$162,245**	**$5,189**	**$2,000**	**$2,000**	**$2,000**	**$2,000**

Capital Debt Affordability Committee (CDAC)

General Obligation Recommendation – FY2020

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. A motion was made by the Secretary of the Department of Budget and Management, asking the Committee to approve a recommendation of $995 million for new general obligation authorizations to support the FY20 capital program. The motion passed 4-1, with the Treasurer voting against.

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 maintaining the authorization at $995 million in future fiscal years. The motion passed 4-1, with the Treasurer voting against.

CDAC Affordability Ratios, FY 2019 – 2028 (projected)

$995M Annual Authorization		
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
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 revenue and personal income projections, and authorization levels may be adjusted to adhere to these affordability benchmarks.

Academic Facilities Bonds Recommendation

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommended a limit of $34.0 million for new academic facilities bonds for the University System of Maryland for FY20. 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 meeting materials are available on the State Treasurer’s website at: http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx

LEGISLATIVE INITIATIVE

State Treasurer's Office
2019 Legislative Proposal

Amendments to State Finance and Procurement §8-112

EXPLANATION:

This bill permits the Capital Debt Affordability Committee (CDAC) to submit on or before October 20 of each year to the Governor and the General Assembly, estimates of the total amount of new State debt that prudently may be authorized for the next fiscal year.

JUSTIFICATION:

Under current law, CDAC is required to submit to the Governor and the General Assembly on or before October 1 of each year, an estimate of the total amount of new State debt that prudently may be authorized for the next fiscal year. The current report deadline of October 1st, presents significate challenges for all State agencies that participate in the process.

The CDAC works very closely with the Board of Revenue Estimates (BRE), which is charged with the responsibility for estimating State revenues that are incorporated in the CDAC report. Pursuant to Section 6-104 (2) of the State Finance and Procurement Article, the BRE has until the end of September to finish its official estimates. As such, the timing of the BRE's approval of the revenue estimates leaves little time for the debt affordability analysis to be completed.

After consultation with the Comptroller's Office, the Department of Legislative Services and the Department of Budget and Management, it was agreed that it would be beneficial if the BRE has additional time to spend on the estimates and the CDAC staff had additional time to work on the affordability analysis. Therefore, the Treasurer on behalf of CDAC is recommending moving the statutory due date for the CDAC estimate to no later than October 20 of each year. This change is supported by the Comptroller's Office, the Department of Budget and Management and the Department of Legislative Services.