STATE TREASURER'S OFFICE

UPDATE ON OFFICE ACTIVITIES
FOR THE

JOINT COMMITTEE ON THE MANAGEMENT
OF PUBLIC FUNDS

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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 i5 legacy IBM system, which has been in use since 1984. The existing system had an end of life as of December 31, 2018. Because of this, there are no more software upgrades and there is limited support for hardware maintenance. We were able to negotiate an extended maintenance agreement with IBM for the hardware until January 31, 2020. Because IBM is no longer making parts however, the maintenance support only covers parts that are available in the secondary market. In addition to replacing existing processes done in the i5, our new system will bring many enhanced services to the citizens of Maryland and statewide agency stakeholders.

There will be two significant enhancements that will improve the way that the citizens of Maryland can conduct business with our Office. These enhancements will be accessed through our new online portal and will provide citizens with an automated process to file claims against the state and a new service to allow citizens to search for checks in the Undeliverable (UD) and Unpresented (UP) funds.

Currently, if a citizen wishes to file a claim against the State for damages covered by the Maryland Tort Claims Act, they must mail or fax a notice of claim. This new solution will provide an online portal for citizens to log in, provide notice of the claim, attach supporting documentation and give them the opportunity to follow their claim throughout the settlement process.

As outlined in Section 7-229 and Section 7-230 of the State Finance and Procurement Article, Annotated Code of Maryland, the State Treasurer is responsible for maintaining checks issued by State agencies that have been returned to the State as undeliverable or have never been presented for payment by the payees. These two separate funds are referred to as the UP and the UD Check Funds. The new system will provide a searchable database for citizens and companies to easily retrieve information regarding checks that may be held in these funds.

Improvements to both the insurance module and the financial module will also 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 or fax a notice of claim. These agencies will have the ability to utilize our online portal to submit a claim request with supporting documentation and subsequently follow the claim through the settlement process.

Through the ERP process, once settlement has been approved by the Insurance Division, claims will be routed electronically to the Treasurer's Accounting Division which will generate a disbursement transaction requiring validation and approval by the accounting staff. Because the payee information will flow electronically, this will eliminate the need for accounting staff to manually key the disbursement information, resulting in quicker processing time and fewer errors. Once the claim has been settled, we anticipate our citizens receiving payment in several days as opposed to the several weeks that it currently takes.

The process for agencies to submit requests to have checks reissued out of the UD or UP funds will be automated through the new online portal as well, via secure login. Currently, agencies must submit a check reissue request via mail or fax. With this new online system, once requests are submitted through the portal, they will flow through the Treasurer's Banking Services Division down to the Accounting Division for the check to be reissued through our new financial system module. Processing time and error rates will improve 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 October 31, 2019, total cash receipts and disbursements exceeded $340 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. This is accomplished through monitoring of bank accounts and collateral balances. Utilizing the Treasurer's Bank Account Information System (TBAIS), BSD monitors over 1,500 agency bank accounts at 29 financial institutions.

The BSD is coordinating efforts with State agencies to transition services with two new Providers. On October 1, 2018, a new Statewide Depository Banking Services contract was executed with Wells Fargo Bank. The contract term is five years with two additional two-year renewal options.

Additionally, a new Statewide Merchant Services contract was executed on May 23, 2019 with Branch, Banking & Trust Merchant Services (BB&T). The term of this contract is five years with three additional two-year renewal options. BB&T is a terrific option for the State as they offer Web based gateway solutions, interactive voice response solutions (IVR) and convenience fee processing, in addition to merchant card processing.

Investment Division

The Treasurer's prudent investment policy and practices focus primarily on safety of principal to ensure protection of Maryland State Funds. On October 31, 2019 the par value of the General Fund investment portfolio was $10,516,927,563 and the portfolio was earning an average of 1.824%. Year-to-date General Fund gross interest earnings received for FY20 are $56,586,470.

The Office continues to encourage minority business participation in the investment of State funds. Twenty-four MBE broker/dealers are on the Office's approved list for FY20.

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 on October 31, 2019 was $6,720,487,358 and the yield was 2.321%.

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. Among the several exposures covered by commercial policies are State-owned toll bridges, tunnels and roads, the Baltimore Washington Thurgood Marshall Airport, the Port of Baltimore, Maryland Transit Administration liability, assorted professional liability exposures, and student athlete accident insurance The State self-insures a significant portion of its exposures and maintains the State Insurance Trust Fund to pay claims and the costs associated with handling those claims. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act.

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

Underwriting 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:

- The Insurance Division is engaged in cyber insurance discussions, including first party, network extortion and third-party liability coverage, to gauge the feasibility of purchasing on a blanket/State-wide basis to cover potential catastrophic losses.

- Global insurance markets have been impacted by rising costs of claims stemming from climate related events, such as wildfires, hurricanes and flooding. While traditional coverage may address resultant losses, premiums are rising for most types of insurance. The Insurance Division is engaged in preliminary discussions with brokers regarding new insurance coverages that deal with risks related to climate change, as they become available.

- Maryland Port Administration's liability and terrorism coverages were renewed effective 1/31/2019. Renewal pricing decreased from $525,848 to $523,867, for an **overall savings of $1,981.**

- Maryland Transit Administration Rail Car floater renewed effective 7/1/19 with a small increase in values. Renewal pricing decreased from $501,000 to $470,065 for a **savings of $30,935.**

- Athletic Participants basic coverage for 10 schools was renewed effective 08/01/2019. Renewal pricing decreased from $1,070,446 to $1,036,879. This was a **savings of $33,567.**

- Allied Health professional liability coverage for various schools renewed effective 09/01/2019 with a 1% increase of enrolled students. Renewal pricing **remained flat at $84,765.**

- Blanket terrorism coverage for State property including bridges and tunnels renewed effective 10/13/2019. Renewal pricing was down from $248,656 to $220,596. This was an overall **decrease of $28,060**.

- Department of Commerce's International Liability coverage, which responds to liability claims filed outside the United States, renewed effective 5/1/2019. **Premium has remained flat, since 2017**.

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 other risks 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 2019, there were 4646 total claims opened. So far in fiscal year 2020, 1387 claims have been received.

- Claim payments, settlements, judgements and expenses for FY19 totaled $12,739,616.
- Subrogation recoveries for FY19 totaled $1,422,613.22.
- Subrogation recoveries for FY20 to date total $509,546.66.

Insurance Carrier Meeting:

Our Office met with our Insurance broker, AON, to discuss the State's property risk control program. There were discussions about 2019 property inspections and recommendations, and follow ups conducted with agencies.

Boiler & Machinery Inspections:

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 frequency of water losses. Travelers agreed to provide coverage with a water damage deductible of $1,000,000 for all State Universities and $250,000 for all other agencies. The coverage for "all other perils" remains with a $250,000 deductible for all locations.

We have had discussions with Insurance broker, Travelers regarding the State Treasurer's Office (STO) Loss Control Action Plan to address open boiler violations. Our discussions included the following:

- Violations are being categorized by agency.
- Our office is individually engaging with each agency risk management and facilities personnel to correct violation issues and achieve closure.
- We have identified all historical violations and prioritized by age and severity of violation.
- Our staff has attended agency and Travelers boiler inspections and re-inspections.
- The STO has provided agencies with monthly and quarterly reports and updates.

During our meeting with Travelers, we reviewed the violation summary and recommendation reports for our boilers statewide. As a result of the meeting the Office:

- Reviewed 113 open violations throughout the State; and
- is working on action plans with State agencies to identify and resolve open boiler violations.

We have since addressed University of Maryland College Park's 28 boiler violations, and all violations have been closed. In being proactive and addressing these issues, we hope to enhance the availability of carriers willing to write this insurance and eventually earn lower premiums.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2019, 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 2019. 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'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 twelve states that hold AAA ratings from all three rating agencies are Delaware, Florida, Georgia, Indiana, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

General Obligation Bonds

The 2019 Second Series was sold on August 14, 2019 and closed on August 28, 2019. It totaled $550,000,000:

Series A Group 1:	$248,675,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions
Series A Group 2:	$251,325,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions.
Series B:	$50,000,000 in Taxable Bonds sold in a competitive sale primarily to institutions

The Series A Group 1 bonds provided $248,675,000, at a True Interest Cost (TIC) of 1.14%, and the Series A Group 2 bonds provided $251,325,000, at a TIC of 1.99%, both to finance investments in capital projects critical to our State. The Series B bonds provided $50 million, at a TIC of 1.63%, to finance loan programs and other capital projects with the potential to benefit non-governmental entities. In addition, the State received premium in the amount of $99,833,941.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately $445.0 million, is planned for March 2020. The State Treasurer's Office will consider whether a retail component will be offered, dependent upon 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, which is funded primarily by State real property tax receipts. Any bond sale premium attained by the State, net of issuance costs, is also typically deposited into the fund. If available revenues in the Annuity Bond Fund are insufficient to cover all debt service on General Obligation bonds, the remaining debt service is typically paid with General Funds. In fiscal year 2020, $287 million is appropriated from the General Fund to support debt service.

The chart below shows the most recent forecast for the Annuity Bond Fund, which was completed October 28, 2019. Of note is the increase in the amount of debt service projected to be paid with General Funds in fiscal years 2021-2024 compared to fiscal year 2020. The primary cause of the increase is that no bond premiums are projected in the out years because they are volatile and difficult to accurately predict. However, the State has earned tens of millions of dollars per year in bond premium since 2009, which has had the effect of offsetting the amount of General Funds that are actually needed to pay debt service. In the State's most recent bond sale, held on August 1, 2019, premium totaling $99.1 million was attained and deposited to the Annuity Bond Fund.

The Commission on State Debt meets each April and issues a report containing the most recent projections for the Annuity Bond Fund. These reports can be viewed at http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx.

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 – Fiscal Year 2021

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 million 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 against.

In addition to determining and recommending a prudent affordable debt authorization level for the coming year, the Committee also sets 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 1% in future fiscal years. The motion passed 3-2, with the Treasurer and Comptroller voting against.

CDAC Affordability Ratios, Fiscal Year 2020 – 2029 (projected)

$1.095M Authorization Increasing by 1% Annually		
Fiscal Year	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2020	3.41%	7.37%
2021	3.34%	7.49%
2022	3.26%	7.66%
2023	3.14%	7.77%
2024	3.07%	7.54%
2025	2.94%	7.48%
2026	2.83%	7.27%
2027	2.70%	7.38%
2028	2.57%	7.26%
2029	2.44%	7.17%

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 and therefore made no recommendations for these institutions.

The 2019 meeting materials are available on the State Treasurer's website at: http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx