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STATE TREASURER'S OFFICE

UPDATE ON OFFICE ACTIVITIES

FOR THE

JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS

October 20, 2021

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State Treasurer

STATE TREASURER'S OFFICE
MAJOR INFORMATION TECHNOLOGY INITIATIVE

The State Treasurer's Office (STO) began a financial and insurance systems modernization project in FY17 with a goal of replacing our legacy IBM i5/AS400 system. The project has experienced a positive trajectory in implementing (a) Microsoft's Dynamics 365 (D365) Finance & Operations (F&O) module for the agency's accounting system, (b) the customization of the D365 Customer Relationship Management (CRM) module to support a citizen and agency portal for insurance claims, (c) the customization of the D365 CRM module to process claims on behalf of the State Insurance Trust Fund (SITF), (d) Microsoft's Azure cloud services to redevelop the agency's batch treasury processing services, and (e) the redevelopment of over 100 data file transfer programs that are used to transfer data between Treasury applications and banks and agencies. The Covid pandemic, however, had unanticipated impacts on the project significantly delaying the project by disrupting daily implementation work due to (a) loss of implementation development staff, (b) loss of agency subject matter experts due to retirements and separations, and (c) changes in project leadership as a result of changes in the IT unit's management and the change of the I.T. project manager.

The agency's internal D365 financial accounting system was rolled out and is operating effectively with the accounting unit experiencing work related efficiencies and work quality improvements.

The development of the insurance module and MSTEP portal, which supports processing of claims against the State for damages covered by the Maryland Tort Claims Act (MTCA), continued throughout the pandemic. The new MSTEP citizen Notice of Claims (NOC) portal, which was rolled out just prior to the pandemic, allows citizens to file NOC forms online. Planned rollouts were put on hold due to limited project staff to verify designs and testing. The delayed insurance module and portal rollouts are now rescheduled to occur over the next six months adjusting its timeline to accommodate year end fiscal close. Staff has been added to facilitate the completion of this part of the implementation.

The new Treasury banking module, which replaces the i5 legacy system for processing financial transactions from banks, agencies, and the Comptroller's systems, has faced the most delays due to agency subject matter staffing and project developer issues. Implementation work has continued, throughout the pandemic but at a significantly reduced pace. At present, a rollout of some functionality is planned over the next two months. Project developer and agency subject matter expert staffing mitigations are in progress to put the project on course to complete the implementation by 4th quarter 2022.

Covid related staffing issues delayed the project's overall schedule. At present, the challenges of staffing are being mitigated by (a) adding project development staff, (b) addressing the need for additional subject matter experts, and (c) the addition of a new agency IT Director and project manager. The project's budget and timeline are being re-baselined for DoIT's review to further mitigate the impact of the pandemic on the project. While the project has been slowed due to a variety of unforeseen issues, the implementation has continued and is now accelerating back to its originally planned trajectory.

TREASURY MANAGEMENT DIVISION

Banking Services Division

The Banking Services Division (BSD) ensures 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 cash reconciliation is performed which allows BSD to proactively resolve agency banking issues. The overall processes and controls developed by BSD continue to result in an accurate and well documented reconciliation of the State's cash accounts.

As of September 30, 2021, total cash receipts and disbursements exceeded $108 billion for the current fiscal year. The State's bank accounts continue to be reconciled to the State's general ledger each day to the penny.

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 approximately 1,400 agency bank accounts at 23 financial institutions.

The Division has made significant progress on its major conversion projects. All State agencies are now live with Wells Fargo, the State's new Depository Banking Services provider. BSD continues to coordinate efforts with a handful of State agencies to complete transition of their more complex activities. In addition, the majority of State agencies have successfully transitioned their Merchant Services over to the new contract with Truist, formerly Branch, Banking & Trust (BB&T) Merchant Services.

Investment Division

The Office's prudent investment policy and practices focus primarily on safety of principal to ensure protection of Maryland State Funds. On September 30, 2021 the par value of the General Fund investment portfolio was $13,799,619,979, and the portfolio has earned an average of .275% so far this fiscal year. Year-to-date General Fund gross interest earnings for FY22 through September 30, 2021 were $9,234,911.

The Office continues to encourage minority business participation in the investment of State funds. Twenty-one minority broker/dealers are currently on the Office's approved list for FY22.

The Maryland Local Government Investment Pool's (MLGIP) AAAm rating was reaffirmed by S&P Global Ratings on March 29, 2021. The MLGIP has maintained the AAAm rating since April 2000. The MLGIP's balance on September 30, 2021 was $10,237,413,434 with an effective annual yield of .037%. 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:

- For the commercial property program effective April 1, 2021, the flood coverage limit for State property in Special Flood Hazard Areas (SFHA) was raised from $10,000,000 on the expiring policy to $15,000,000. With greater than average activity forecast for the 2021 hurricane season, the increased flood limit for high hazard zones was deemed prudent.

- Commercial cyber, network security & privacy insurance coverage, first written in 2020, was renewed effective September 30, 2021 despite challenging market conditions. The blanket program covers Executive agencies, Legislative and Judicial branches, and State Universities and Colleges. Cyber coverage is intended to respond to privacy/data releases, hacking and extortion, among other threats.

- Blanket terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2020. **Renewal pricing remained the same at $220,596.**

- Maryland Port Administration's commercial auto coverage renewed effective January 1, 2021. The overall pricing was down from $83,070 to $81,545. **This was an overall savings of $1,525.**

- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2021. The overall pricing was down from $48,947 to $43,287. **This was an overall savings of $5,660.**

- Maryland Port Administration's liability and terrorism coverages renewed effective January 31, 2021. The overall pricing was up approximately 3%.

- Aviation Liability & Hull insurance renewed effective June 30, 2021. Maryland State Police reduced the values of their AW139 helicopters from $18.5M to $9M each. We also added hull and liability coverage for aircraft that are leased by UMES. This resulted in an increased broker services fee, but overall renewal pricing decreased from $1,499,424 to $1,336,474, **with a savings of $162,950.**

- Maryland Transit Administration Rail Car floater renewed effective July 1, 2021. Renewal pricing decreased from $883,371 to $709,779. **This is a savings of $173,592.**

- Athletic Participants basic coverage for 10 schools was renewed effective August 1, 2021. The overall pricing was down from $1,036,879 to $973,193. **This is a savings of $63,686.**

Loss Prevention

Over the past few years, Boiler & Machinery premiums have risen and obtaining coverage has become more difficult, especially for Educational Institutions. There are several reasons for these challenges, including fewer carriers in the market willing to offer coverage and frequency of water damage claims at State institutions.

We continue to have quarterly discussions with the broker and insurance company regarding the State Treasurer's Office Loss Control Action Plan to address boiler violations. Our activities include the following:

- Categorizing violations by agency.
- Engaging with agency risk management and facilities personnel to correct violations and achieve compliance.
- Identifying historical violations and prioritizing by age and severity of violation.
- Providing agencies with monthly and quarterly reports.

During our July 21, 2021, meeting with the Boiler & Machinery carrier, Travelers, we reviewed the violation summary and recommendations for our boilers statewide. As a result of the meeting, the Office reviewed 103 open violations throughout the State and have had regular follow-up with State agencies to identify and resolve open boiler violations. Travelers is currently assigning additional engineers to address outstanding violations.

Property Inspections and Recommendations

Each year, the property insurance carrier, AIG, inspects ten State owned locations. The purpose of the inspections is to assist in the identification of hazards and exposures that could lead to loss or damage to assets and to provide recommendations to mitigate such losses.

The inspections involve a walk-through survey of the property site and visual examination of accessible areas with attention to the physical structure of its operating systems. This includes examinations of alarm systems, as an example. A report is generated by the carrier describing general property conditions with photographs of the site and observations made during the survey. The report identifies any issues discovered and recommendations for risk improvement to address any deficiencies. The reports are shared with the agencies to implement any recommendations identified by the carrier. Our office then works with the agency on a quarterly basis to confirm the recommendations are completed. The outcome is then forwarded to the carrier. This is an essential role when renewing the property coverage.

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 including collision and comprehensive loss to autos, and sudden and accidental perils such as fire, hail, lightning and wind, causing damage to State structures, equipment, and contents.

The Claims Unit continually tracks claims to gauge activity and inventory, and to identify trends. In FY21, there were 3325 total claims opened and 3352 total claims closed with claim payments, settlements, judgements and expenses for FY21 totaling $17,468,642.63. To date, in FY22, 1,008 claims have been received.

Finally, subrogation continues to be an area of focus and priority within the Claims Unit. In FY21, subrogation recoveries totaled $1,247,360.65. To date in FY22, subrogation recoveries have totaled $253,842.66.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2021, 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 August of 2021. Maryland is one of only 13 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 2021 Second Series A and Second Series B Bonds were sold on August 11, 2021 and closed on August 25, 2021. The 2021 Second Series C and Second Series D bonds were sold in a forward, negotiated sale and will close on or about March 1, 2022 and May 3, 2022, respectively. The 2021 Second Series bond sale totaled $852,125,000:

Series A Group 1:	$258,950,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions
Series A Group 2:	$281,050,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions.
Series B:	$75,000,000 in Taxable Bonds sold in a competitive sale primarily to institutions.
Series C:	$113,840,000 in Tax-Exempt Forward Refunding Bonds sold in a negotiated sale.
Series D:	$123,285,000 in Tax-Exempt Forward Refunding Bonds sold in a negotiated sale.

The Series A Group 1 bonds had an all-in true interest cost (TIC) of 0.777%, the Series A Group 2 bonds had an all-in TIC of 1.789% and the Series B bonds had an all-in TIC of 0.609%. These group sales were used to finance investments in capital projects critical to our State. The Series C and Series D bonds will save Maryland residents $41.4 million in debt service costs. Additionally, the State received premium in the amount of $212,344,724 that may be used to pay for State projects, cost of bond issuance, and interest on certain bonds.

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, $3,868,628 in capital equipment was leased by State agencies through the State Treasurer's Office.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately $550 million, is planned for March 2022. Additionally, the Office monitors interest rates throughout the year to gauge refunding opportunities that meet the criteria in the State's debt policy. If prudent refunding opportunities exist at the time of the next sale, the State Treasurer's Office will aggressively pursue them.

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 FY22, $260 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 April 19, 2021. Of note is the increase in the amount of debt service projected to be paid with General Funds in FY24-FY25 compared to FY20-FY23. 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 offset the amount of General Funds that are needed to pay debt service.

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. The chart below is an excerpt from the April 2021 report.

Annuity Bond Fund Forecast, FY20 – FY25 ($ in thousands)

	2020 Act	2021 Est	2022 Est.	2023 Est.	2024 Est.	2025 Est.
Beginning Balance	$113,483	$207,349	$149,962	$9,542	$2,000	$2,000
Property Tax Collections	860,551	890,748	914,278	941,707	969,958	999,056
General Fund Appropriation	287,000	131,000	260,000	325,587	474,281	477,675
Bond Sale Premium	248,476	314,224	270,000	134,000	-	-
Federal Interest Subsidy	10,385	10,873	10,058	8,931	7,469	5,518
Transfer Tax	6,851	6,884	6,917	6,975	6,980	6,986
Other Cash Receipts	2,429	2,500	2,500	2,500	2,500	2,500
Capital Projects	0	-136,000	-222,850	0	0	0
Debt Service	-1,321,827	-1,277,616	-1,381,322	-1,427,241	-1,461,188	-1,491,735
Ending Balance	$207,349	$149,962	$9,542	$2,000	$2,000	$2,000

Capital Debt Affordability Committee (CDAC)

The Capital Debt Affordability Committee (CDAC) meets annually to review State tax-supported debt and make a recommendation to the Governor and General Assembly on the level of State debt that may be prudently authorized in the upcoming fiscal year. CDAC meets three times throughout the month of October. At its first meeting on October 4, the Committee reviewed the current status of its affordability benchmarks, the prior year's legislative actions regarding debt, the State's revenue and assessable base estimates and the Governor's proposed capital program. At its second meeting on October 14, the Committee reviewed the tax-supported debt of various State agencies and the State's higher education institutions. At the concluding meeting on October 18, the Committee voted 4-1 to recommend $900 million as the level of State debt that may be prudently authorized for FY23, and that the State should use $1.125 billion, $1.135 billion, $1.145 billion, and $1.155 billion in authorizations for FY24 through FY27, respectively, as its planning assumptions. The Committee also unanimously recommended $30 million as the level of Academic Facilities Bonds to be authorized for FY23.

Once the full report is finalized, it will be available on the State Treasurer's website at: http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx.