



STATE TREASURER'S OFFICE

UPDATE ON OFFICE ACTIVITIES
AND
LEGISLATIVE INITIATIVES

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 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 first phase of the project replaced existing i5 processes by creating efficiencies through automation and systems integrations, enhancing security, and improving the accessibility and customer experience for citizens and state agencies doing business with the Office. After extensive analysis of our business needs, the size of our agency and our budget constraints, we selected the Microsoft (MS) Dynamics 365 (D365) Finance & Operations (F&O) and Customer Relationship Management (CRM) solutions. These systems will serve as our primary accounting interface software, our banking check register, which manages all state disbursements and deposits, and our insurance claims management solution to process claims on behalf of the State Insurance Trust Fund (SITF).

Significant progress was made during the past fiscal year regarding the conversion of our legacy financial and insurance systems. Our Maryland State Treasurer Electronic Portal (MSTEP) was implemented for citizens in December 2019 and the Finance & Operations module went live on June 30, 2020. In order to achieve this implementation, our IT division replaced all STO employee computers, installed the latest Windows 10 operating systems, migrated Outlook and MS Office tools to Office 365, released MS Teams, and introduced a STO Intranet in SharePoint. The MSTEP portal for use by state agencies is scheduled to be put into operation with our next release.

Prior to rolling out MSTEP for citizens, any citizen who wished to file a claim against the State for damages covered by the Maryland Tort Claims Act (MTCA) had to mail or fax a Notice of Claim (NOC) form. With the implementation of MSTEP, NOC forms are filed securely online. All forms are timestamped and logged in upon receipt to ensure claims are filed within the statute of limitations requirements. The data is captured in the D365 Customer Relationship Management system and then routed to MS SharePoint, which was also implemented as part of our wider document management solution. Citizens have been successfully filing their claims online since the release of MSTEP NOC in December 2019. We were fortunate to have rolled this portal out prior to the implementation of mandatory telework due to the COVID-19 pandemic, as it has provided our adjusters the ability to receive and process claims electronically offsite. While we still receive some NOC forms and supporting documentation via mail and fax, the electronic system has greatly reduced the number of paper notices and therefore has saved time, as the processing of paper is much more cumbersome.

Additionally, 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 that have never been presented for payment by the payees. These two separate funds are referred to as the UP (unpresented) and the UD (undelivered) check funds, or collectively, UPUD. Our new UPUD search application also went live on MSTEP in December 2019 and provides a searchable database for the public to easily find and retrieve information regarding checks that may be held in these funds.

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, 2020, total cash receipts and disbursements exceeded \$149 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 over 1,500 agency bank accounts at 26 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, 2020 the par value of the General Fund investment portfolio was \$9,921,760,089 and the portfolio has earned an average of .342% so far this fiscal year. Year-to-date General Fund gross interest earnings for FY21 through September 30, 2020 were \$7,018,126.

The Office continues to encourage minority business participation in the investment of State funds. Nineteen minority broker/dealers are currently on the Office's approved list for FY21.

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 on September 30, 2020 was \$10,414,794,291 with an effective annual yield of .125%. 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 received proposals for cyber, privacy and network security insurance covering agencies of the Executive, Legislative, Judicial branches and State Universities and Colleges. The cyber program is intended to respond to privacy/data releases, hacking and extortion, among other threats.
- 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 Fiduciaries, Trustees and Employees of the System, and the Plan Sponsor from claims brought by current or former participants, their heirs and families.
- Maryland Port Administration's Cranes property/marine program renewed for one-year effective November 25, 2019. Renewal pricing decreased from \$81,365 to \$65,700, which is an **overall savings of \$15,665**.
- Maryland Port Administration's liability and terrorism coverages renewed effective January 31, 2020 for one year. The overall pricing was down from \$523,867 to \$523,783.
- Maryland Department of Human Services and Maryland Department of Juvenile Services Foster Parent Liability annual coverage renewed March 15, 2020. The overall pricing decreased from \$271,288 to \$198,930. This is an **overall savings of \$72,358**.

- Maryland Department of Commerce Foreign Liability insurance renewed May 1, 2020. The overall pricing decreased from \$7,500 to \$3,500. This is a **savings of \$4,000.**

Loss Prevention

Over the past few years, Boiler & Machinery premiums have risen and obtaining coverage has become more difficult, especially for State Universities. 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; and
- Providing agencies with monthly and quarterly reports

During our July 15, 2020 meeting with the Boiler & Machinery insurance company, Travelers, we reviewed the violation summary and recommendations for our boilers statewide. As a result of the meeting, the Office reviewed 48 open violations throughout the State and have had regular follow-up with State agencies to identify and resolve open boiler 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. 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 those issues. Reports are shared with the agencies to implement recommendations identified by the carrier.

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 FY20, there were 3646 total claims opened and 4408 total claims closed with claim

payments, settlements, judgements and expenses for FY20 totaling \$10,014,811. To date, in FY21, 1,924 claims have been received.

Finally, subrogation continues to be an area of focus and priority within the Claims Unit. In FY20, subrogation recoveries totaled \$1,419,166. To date in FY21, subrogation recoveries have totaled \$183,462.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2020, 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 2020. 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 2020 Second Series was sold on July 22, 2020 and closed on August 5, 2020. It totaled \$1,011,390,000:

Series A Group 1:	\$290,080,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions
Series A Group 2:	\$249,920,000 in Tax-Exempt Bonds sold in a competitive sale primarily to institutions.
Series B:	\$115,770,000 in Tax-Exempt Current Refunding Bonds
Series C:	\$355,620,000 in Taxable Advance Refunding Bonds

The Series A Group 1 bonds provided \$290,080,000, at an all-in true interest cost (TIC) of 0.558%, and the Series A Group 2 bonds provided \$249,920,000, at a TIC of 1.746%. Both group sales were used to finance investments in capital projects critical to our State. The Series B and Series C bonds saved Maryland residents \$61.2 million in debt service costs for the current fiscal year. Additionally, the State received premium in the amount of \$179,761,922 that may be used to pay for State projects 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, \$4,561,702 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 \$535 million, is planned for March 2021. 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 FY21, \$131 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 16, 2020. Of note is the increase in the amount of debt service projected to be paid with General Funds in fiscal years 2022-2024 compared to fiscal years 2019-2021. 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 2020 report.

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	\$266,453	\$11,841	\$2,000	\$2,000
Property Tax Collections	828,543	855,771	885,309	903,016	921,076	948,671
General Fund Appropriation	286,000	287,000	131,000	454,539	493,047	502,422
Bond Sale Premium	117,011	248,358	109,000	-	-	-
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	2,632	3,150	3,150	3,150	3,150	3,150
Transfer from Dedicated Purpose Account	0	62,000		0	0	0
Capital Projects	0	0	-62,000	0	0	0
Debt Service	-1,298,318	-1,321,827	-1,338,829	-1,387,521	-1,433,179	-1,468,692
Ending Balance	\$113,483	\$266,453	\$11,841	\$2,000	\$2,000	\$2,000

Bond Premiums

A recent change in guidance from the State's bond counsel, Ballard Spahr, on allowable uses of bond premium will have a potentially significant impact on the State's operating budget. Whereas in the past Ballard Spahr's guidance allowed the State to use most or all of the bond premium attained during General Obligation bond sales to offset the State's debt service, the new guidance restricts the State to applying an amount equal to three years of interest payments to debt service. For comparison, three years of interest payments for the 2020 2nd Series bonds totaled about \$67.2 million.

However, the State will still be able to use the bond premium for other purposes. The guidance still allows the State to apply the bond premium to either new or existing projects. It also

allows the State to use the premium to resize its bonds, so that it issues less debt overall while generating the same amount of bond proceeds. This will have the impact of lowering the State's debt outstanding and debt service.

The State will need to make some statutory and operational changes in order to comply with the updated guidance. The State Treasurer's Office (STO) is working with the Department of Legislative Services, Department of Budget and Management, and the Comptroller's Office to effectuate these changes. Of particular note for this committee, STO will be requesting that the General Assembly approve legislation altering the State Finance and Procurement Article, Section 8-132, to allow bond premium to be applied to uses other than debt service.

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 will meet three times throughout the month of October. At its first meeting on October 8, 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 will review the tax-supported debt of various State agencies and the State's higher education institutions. At the concluding meeting on October 19, the Committee will vote on its recommendation for the level of State debt that may be prudently authorized for FY22. Additionally, at that final meeting, the Committee will set planning assumptions for the State to use in its capital program planning process.

Based on its review of the condition of State debt and considering the debt affordability guidelines, the Committee will also review and recommend an authorization for new academic facilities bonds for fiscal year 2022.

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>.

LEGISLATIVE INITIATIVE

State Treasurer's Office 2021 Legislative Proposal

Amendments to State Government §12-107

EXPLANATION:

This bill permits denial of claim letters under the Maryland Tort Claims Act to be sent by electronic mail provided the claimant or the legal representative or counsel for the claimant has authorized receipt of notice by electronic mail.

JUSTIFICATION:

The purpose of this bill is to eliminate a source of needless expense. The Maryland Tort Claims Act creates a pre-litigation process for persons with tort claims against the State of Maryland, in order to resolve claims without the expenses of litigation. The Tort Claims Act requires a claimant to submit a notice of claim letter to the State Treasurer's Office (STO). STO settles some claims; under current law those that are not settled cannot go to litigation until STO sends a denial letter by certified mail, or six months has passed from the receipt of the notice of claim letter.

Certified mail, return receipt requested, currently costs \$3.66 per letter over and above regular postage and the price can reasonably be expected to rise substantially, given the financial condition of the US Postal Service. There are also additional labor costs for STO associated with processing certified mail; these average around \$5.95 per letter. Furthermore, a substantial number of denial letters are not signed for and must be sent again, resulting in additional postage costs. STO sends an average of approximately 1,857 denial letters per year and roughly 50 of those denial letters per year must be sent again. The total annual cost of the MTCA certified mail requirement is approximately \$17,846 per year. A substantial portion of claims are denied by letter, and in many of these cases no receipt is ever confirmed; in the effort to confirm receipt, notices are often sent repeatedly.

The certified mail requirement leads to substantial expenses for the State and does little to increase the likelihood that denial letters are read and received. The requirement to use certified mail is statutory and this bill would permit electronic mail to serve as the means for sending a denial letter provided the claimant or the claimant's legal representative or counsel has authorized notice by electronic mail.

STO has recently implemented an electronic portal for the filing of notice of claims and the authorization to receive notices by email could be incorporated into the portal submission process. Doing so could substantially decrease the costs and expenses related to the sending of denial letters under the Maryland Tort Claims Act without diminishing the likelihood that a notice is received.