
Part VI
State Treasurer's Report

Department of Legislative Services
Annapolis, Maryland

June 2018



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

May 24, 2018

Nancy K. Kopp

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 December 12, 2017. I invite and welcome further discussion with the Committee at your convenience.

The State Treasurer’s 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 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 is the Chair 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 set forth below detail a number of our recent achievements. We are always available to provide greater information or answer questions regarding these and other issues.

BOARD OF PUBLIC WORKS

Between December 1, 2017 and May 16, 2018, the Board of Public Works (“BPW”) met 12 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.

During this timeframe, in addition to the State General Obligation Bond authorizations, including Qualified Zone Academy Bond authorizations, the Energy-Lease financings, and the Capital-Lease financings discussed in more detail in the Debt Management Section of this Report, the following items, worthy of note, were considered by the Board of Public Works:

Public School Construction

- Approved the preliminary State Public School Construction Capital Improvement Program for FY19 in the amount of \$210 million (75% of the preliminary school construction allocation), as well as \$11.901 million in additional funds from the statewide contingency reserves for Baltimore City Public Schools. (01/24/18)
- Nonpublic Aging Schools Program for FY18: Approved \$3.5 million of allocations to fund projects in 181 schools located in 17 counties. (03/28/18)

Baltimore City 21st Century Public School Construction Initiative

- Arlington Elementary/Middle School: Renovation and Addition: Approved a request of the Maryland Stadium Authority (MSA) to modify the construction manager contract to include the construction bid package. (05/02/18)
- Fairmount-Harford High School: Renovation and Addition: Approved a request of MSA to modify the construction manager contract to include a comprehensive design/build package. (05/02/18)
- Govans Elementary School: Replacement: Approved a request of MSA to award:
 - The architectural and engineering design services contract; and
 - The construction manager contract. (03/28/18)
- Mary E. Rodman Elementary School: Renovation and Addition: Approved a request of MSA to award:
 - The architectural and engineering design services contract; and
 - The construction manager contract. (01/24/18)
- Medfield Heights Elementary School: Replacement: Approved a request of MSA to award:
 - The architectural and engineering design services contract; and
 - The construction manager contract. (03/28/18)

- Walter P. Carter Elementary/Middle School: Replacement: Approved a request of MSA to award:
 - The architectural and engineering design services contract; and
 - The construction manager contract. (01/24/18)

Personnel, Procurement, & Regulations

- Approved, for final adoption, amendments to existing COMAR provisions that establish the Public School Construction Program’s State cost share percentage for each subdivision for FY19 at a level that holds nine counties harmless by setting their cost share percentage at the FY18 level rather than reducing the percentage to the amount determined applying the regulatory formula. The cost share percentage is the percentage of eligible costs of approved public school construction projects that the State may fund. (01/24/18)
- Approved submitting to the AELR Committee, and publishing for comment in the *Maryland Register*, amendments to existing COMAR provisions to require protests of architectural or engineering services procurements to be directed to the jurisdiction of the Maryland State Board of Contract Appeals in the same manner as protests of procurement contracts in general, consistent with legislation enacted during the 2017 Session (Chapters 588/589 of the Laws of 2017). (03/28/18)

State Services, Facilities, & Assets

- Received a report from the Maryland State Department of Education of an emergency procurement of an independent audit of the Prince George’s County Public School System’s graduation rates. (12/06/17)
- Approved a request of the Department of Commerce to award a contract: (1) to initiate, manage, and promote the Maryland Defense Technology and Commercialization Center based in Northeastern Maryland; (2) to initiate a plan to make the economy in Northeastern Maryland less reliant on defense spending; and (3) to develop an innovative commercialization plan for the entrepreneurial community across this region. (01/24/18)
- Approved a request of the Maryland Food Center Authority to lease 5.488 acres of undeveloped land in Jessup to BTS Biogas, LLC for 10 years with two 10-year renewal options. The tenant plans to construct an operational biogas plant capable of processing food production waste into electricity, natural gas, and organic fertilizer. (02/07/18)
- Approved a request of the University of Maryland, College Park (UMCP) to convey three properties now, and conditionally convey seven properties in the future, to a newly created business entity, Terrapin Development Company, LLC (TDC). Through this conveyance, UMCP is making its first real property investment in TDC, a two-member limited liability company comprising UMCP and the University of Maryland College Park Foundation, Inc. TDC will support UMCP’s ongoing “Greater College Park” efforts to connect the University’s academic mission with the surrounding community by focusing on economic development in the area. (03/28/18)

- Approved a request of the Maryland Institute for Emergency Medical Services Systems (MIEMSS) to award a contract to upgrade the statewide Emergency Medical Service (EMS) communications network. (05/16/18)

Transportation

- Approved a request of the Maryland Department of Transportation (MDOT) to award a master contract for renewable energy development to six qualified contractors to design, construct, commission, finance, operate, and maintain renewable energy facilities at MDOT locations throughout the State. (02/07/18)
- Approved a request of MDOT for approval to award a master contract for strategic business process development services to support the efforts of the Department to align its Transportation Business Units (TBUs) with the vision and mission of MDOT. (04/18/18)
- Approved a request of the Maryland Transportation Authority to award two separate contracts (tolling system & services and customer service center services) to replace the State's current toll collection system with the Third Generation Electronic Toll Collection system. (02/21/18)
- Approved a request of the Motor Vehicle Administration (MVA) to award a contract to provide Customer Connect, an integrated enterprise system that will modernize MVA's information technology infrastructure that supports customer services. (04/04/18)
- Adopted resolutions authorizing the issuance and sale by MDOT of its Consolidated Transportation Bonds, Series 2018 in an amount not to exceed \$150 million. (03/07/18)

I-495/I-270 Congestion Relief Project

- Approved, on a 2-0 vote with the Treasurer abstaining, a request of the State Highway Administration (SHA) to enter into a new five-year tenant lease in Baltimore City to provide office space for approximately 100 full-time employees, many of whom will be contract workers. The space is adjacent to SHA's current headquarters and will be used to support the I-495/I-270 congestion relief public-private partnership initiative. (01/24/18)

State Property Tax Rate

- Set the State Real Property Tax Rate for FY19 based upon the recommendation of the Commission on State Debt. The rate remained unchanged at 11.2 cents per \$100 of the full assessed value of real property other than that of public utilities and 28.0 cents per \$100 of the full assessed value of real property of public utilities. (04/18/18)

TREASURY MANAGEMENT DIVISION

Banking Services Department

The primary mission of the Banking Services Department (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 continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's 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 April 30, 2018, total cash receipts and disbursements exceeded \$276 billion. The State's bank accounts continue to be reconciled to the State's general ledger to the penny, daily.

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 over 1,500 agency bank accounts at 28 financial institutions.

Total posted collateral on April 30, 2018 was \$580+ million (unaudited). The updated reports for all State bank accounts will be sent out at the beginning of July, with anticipated responses due before July 31, 2018. That information will be used to update the TBAIS system which is used to ensure all accounts are collateralized properly and monitored monthly. The results of the survey will be updated in TBAIS to ensure collection of all interest owed to the General Fund.

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 continually 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 Department

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 April 30, 2018. The par value of the General Fund investment portfolio for April 30, 2018 was \$7,742,298,656 as compared to April 30, 2017 at \$6,358,917,159. The General Fund Investment Portfolio increased by \$1,383,381,497.

On April 30, 2018, the portfolio was earning an average of 1.621%, compared to 1.675% on April 30, 2017. The Federal Open Market Committee (FOMC), on June 15, 2017, December 14, 2017, and March 22, 2018 increased rates 0.25%. The current FOMC target Federal Funds rate ranges between 1.50 – 1.75%. Rates are expected to continue to increase in 2018.

The General Fund gross interest earnings received year-to-date for FY18 are \$91,531,617 compared to \$65,167,578 received for the same time period in FY17. From FY17 to FY18, the gross interest earnings increased by \$26,364,039.

The following chart tracks the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio:

Total Interest Earned				
Percentage of Total Interest Earned Allocated to State Agencies				
Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
2008	155,170,184	207,179,098	362,349,282	57%
2009	102,768,740	142,619,087	245,387,827	58%
2010	44,190,425	87,921,654	132,112,079	67%
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%
YTD				
4/30/2018	25,957,012*	65,574,604*	91,531,617	72%*

*Interest allocation to State agencies for the month of April has not yet been completed and is not included in year to date figures above.

The Office continues to encourage minority business participation in the investment of State funds. The evolving bond market has made this task more difficult. A number of MBE firms have merged, been acquired, or ceased to exist during the last few years. The STO has been diligent in the pursuit of qualified MBE broker/dealer firms. Twenty five MBE broker/dealers are on the Office's approved list for FY18 and have purchased investments of \$202,549,000 out of \$627,549,000 (32%) so far this fiscal year. This compares to FY17, when the Office had twenty-seven approved MBE broker/dealers who purchased \$1,273,095,000 out of \$4,082,388,000 (31%) by this same time last year.

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, which is the amount invested by all participants, on April 30, 2018 is \$4,716,318,387 compared with \$3,835,804,426 on April 30, 2017. This is an increase of \$880,513,961 due to participants' higher available cash balances and lack of safe alternative investments. The MLGIP yield is 1.74% as of April 30, 2018, compared to 0.80% last

year. 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 maintain safety of principal, to provide sufficient funds to meet cash flow needs, and to achieve a return on investment. The State Treasurer's Office compares our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are implemented and followed. The Maryland State Treasurer's Office Investment Division actively works to seek improved ways to protect Maryland State Funds.

DEBT MANAGEMENT DIVISION

Ratings

In conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2018, First 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 February of 2018. Maryland is one of only eleven 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 ten states that hold AAA ratings from all three rating agencies are Delaware, Georgia, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

Meetings with Rating Agencies

The Treasurer's Office has provided the rating agencies with regular updates on the financial condition of the State. The next conference call with the rating agencies is expected prior to the sale of the 2018 Second Series General Obligation Bonds in July 2018.

Ratings Reports

Generally there is consensus among the rating agencies in evaluating the State's credit strengths and weaknesses. All three major rating agencies cite Maryland's debt policies, fiscal management and strong, stable economy as credit positives and the State's debt burden and pension funding as concerns.

Financial Management

All three rating agencies point to the State's history of strong, sound financial management as a credit strength with Moody's saying the State has a "history of proactive initiative in response to economic cycles." All three commend the Board of Revenue Estimates' binding, consensus-based revenue forecast and the Board of Public Works' ability to adjust spending mid-year when necessary, with S&P Global Ratings mentioning the State has a "long history of... frequent and timely budget adjustments to align revenues and expenditures and long-term financial planning." Fitch Ratings notes that its rating reflects Maryland's "exceptionally strong" financial resilience and its unlimited ability to increase revenues, as well as its strong reserve levels. Moody's likewise highlights the State's liquidity, which it states is "bolstered by unfettered access to the State's short-term investment pool," which totaled \$8.5 billion as of January 31, 2018.

Debt Policies and Debt Burden

In the case of all three rating agencies, the State's Capital Debt Affordability Committee process and constitutionally imposed fifteen-year amortization of debt are considered credit

strengths and help to offset concerns the rating agencies have regarding the State's debt burden, which S&P Global Ratings calls "moderate." Fitch notes that "centralized debt planning and issuance" managed by the State Treasurer's Office is an additional credit strength. Moody's states that the fifteen-year amortization requirement "quickly replenishes the State's debt capacity and helps restrain growth in outstanding balance." S&P echoes this assessment, noting our "well-developed debt management practices with a moderate debt burden for most measures and rapid amortization."

Economy

In assigning its 'AAA' long-term rating and stable outlook, S&P Global Ratings said: "The rating reflects what we view as the state's "broad and diverse economy," and "strong wealth and income levels." S&P's further states: "The stable outlook reflects Maryland's continued focus on structural budget alignment and maintenance of minimum state reserves." Fitch observed that Maryland's economy "has long benefited from proximity to the nation's capital" and notes that the State's "economy is wealthy, diverse and service-oriented", with Baltimore's trade and port activity also factoring in as a significant part of its economic base. Moody's also noted "Maryland's highly-educated workforce...will continue to support steady economic growth".

Each rating agency cites ties to the federal government as both a benefit and a risk to Maryland's economy, with Moody's calling the large federal presence in Maryland a "mixed blessing." S&P Global Ratings notes the State's economy "continues to post slow growth due to federal budget uncertainty and sequestration" while also stating that the government sector and federal research agencies are economic strengths. Fitch writes that despite the "drag posed by federal sequestration," the federal government continues to be an "important anchor... supporting the State's solid economic performance."

Pension and other liabilities

Fitch Ratings calls pensions a "significant burden," but notes that the state has taken multiple steps to reduce their burden and improve sustainability over time. Moody's indicated it considers the State's retirement system its "most significant credit challenge," but goes on to recognize that "the state has taken a number of steps to manage its pension burden," which demonstrates its "proactive management approach." S&P indicates "failure to demonstrate a consistent commitment to fully funding pensions could also pressure [Maryland's] rating."

The State Treasurer's Office provides information about the State's ratings reports for each bond sale to all members of the General Assembly. Current reports are also available on the Treasurer's website at www.treasurer.state.md.us.

General Obligation Bonds

Since our last report to this committee, the State has conducted one General Obligation bond sale consisting of two separate series. Both series were sold on March 7, 2018 and closed on March 21, 2018.

- The 2018 General Obligation Bonds, First Series A consisted of \$475,000,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Series A received a True Interest Cost (TIC) of 2.83% and included a premium of \$ 69,973,234 to offset debt service costs.
- The 2018 General Obligation Bonds, First Series B consisted of \$50,000,000 in taxable new money bonds. The proceeds were used to finance new projects. Series B received a TIC of 2.58%.

Closed Financing – Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (QZAB) totaling \$4.823 million were issued on December 15, 2017. The bonds earn federal tax credits at the rate of 4.01% per annum for JP Morgan Chase Bank, N.A. until maturity on December 15, 2032.

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. From December 1, 2017 through April 30, 2018, \$2,160,248.91 in capital equipment was leased by State agencies through the State Treasurer’s Office.

- An Equipment lease award was approved by the Board of Public Works on January 3, 2018. The lease in the amount of \$802,594.16 was awarded to US Bancorp Government Leasing and Finance, Inc. with a weighted average interest rate of 2.412%. This lease closed on January 17, 2018 and provided capital equipment including computers, lab equipment and production equipment for Department of Public Safety and Corrections, Department of the Environment, Department of Health, Maryland Public Television and St. Mary’s College of Maryland.
- A second Equipment lease award was approved by the Board of Public Works on April 4, 2018. The lease in the amount of \$1,357,654.75 was awarded to Banc of America Public Capital Corp. with a weighted average interest rate of 2.753%. This lease closed on April 18, 2018 and provided capital equipment including computers, voting equipment and network equipment to the Department of the Environment, the State Board of Elections and the Office of the Public Defender.

On September 2, 2016, this committee authorized \$35,000,000 for equipment lease purchase financing through June 30, 2018. As of April 30, 2018, \$30,899,219 of that authorization is still available.

The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for Energy Performance Contracts (EPCs) and pay for the equipment over multiple years using the utility savings generated by the project. From December 1, 2017 through April 30, 2018, \$5,250,281 in equipment for EPCs was leased by State agencies through the State Treasurer’s Office.

- On March 7, 2018, the Board of Public Works approved an Energy Performance Contract Lease-Purchase Financing award in the amount of \$5,250,281. This financing contract was awarded to TD Equipment Finance, Inc. with a fixed interest rate of 2.930%. This lease closed on March 22, 2018 and included the installation of a heat energy storage system for trains as well as lighting upgrades at train stations, train tunnels and bus maintenance facilities for the Maryland Transit Authority.

On September 2, 2016, this committee authorized \$80,000,000 for energy lease purchase financing through June 30, 2018. As of April 30, 2018, \$60,607,824 of that authorization is still available.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$510,000,000, is planned for August 2018. The State Treasurer’s Office will consider whether a retail component will be offered in light of market conditions.

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 occasionally been supported 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, \$289,000,000 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 FY19 - FY23. 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, FY17 – FY23 (\$ millions)

	2017	2018	2019	2020	2021	2022	2023
	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance (\$1,000,000s)	\$ 202.3	\$ 162.1	\$ 162.2	\$ 5.2	\$ 2.0	\$ 2.0	\$ 2.0
Total Property Tax Collections	\$ 773.1	\$ 801.9	\$ 832.7	\$ 862.9	\$ 881.0	\$ 899.2	\$ 917.6
General Fund Appropriation	\$ 259.4	\$ 259.6	\$ 289.0	\$ 446.8	\$ 453.6	\$ 483.4	\$ 502.4
Bond Sale Premium	\$ 91.2	\$ 152.1	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds	\$ 11.5	\$ 11.5	\$ 10.9	\$ 9.9	\$ 9.4	\$ 8.3	\$ 5.1
Transfer Tax	\$ 6.6	\$ 6.7	\$ 7.1	\$ 6.9	\$ 6.9	\$ 6.9	\$ 6.9
Other Cash Receipts	\$ 8.7	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1
Debt Service	\$ (1,190.7)	\$ (1,234.9)	\$ (1,299.8)	\$ (1,332.6)	\$ (1,354.0)	\$ (1,401.0)	\$ (1,435.2)
Ending Balance	\$ 162.1	\$ 162.2	\$ 5.2	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0

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, 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 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 include the following:

- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2018. The total number of vessels decreased by approximately 3%. The incumbent carrier offered renewal at a flat premium rate, which would have resulted in savings of just over \$4,500. The broker also obtained a quote from an alternative market at a significant rate decrease of approximately 25%. Out of an abundance of caution, we asked the broker to provide background information on the alternative carrier and were pleased to find positive feedback with reference to their stability and expertise in the marketplace as well as their competitive edge with this type of insurance, particularly in matters of overseeing marine claims. **The alternative carrier was able to provide coverage identical to expiring program at an overall premium savings of \$14,699.**
- Maryland Port Administration's liability and terrorism coverage renewed effective January 31, 2018. Estimated revenues were slightly down and overall rate was down by approximately 11%. **This resulted in overall premium savings of \$23,492.**
- The Fine Art on Loan policy covering fine art owned by others renewed effective March 1, 2018. We increased the limit due to overall increase of maximum annual values

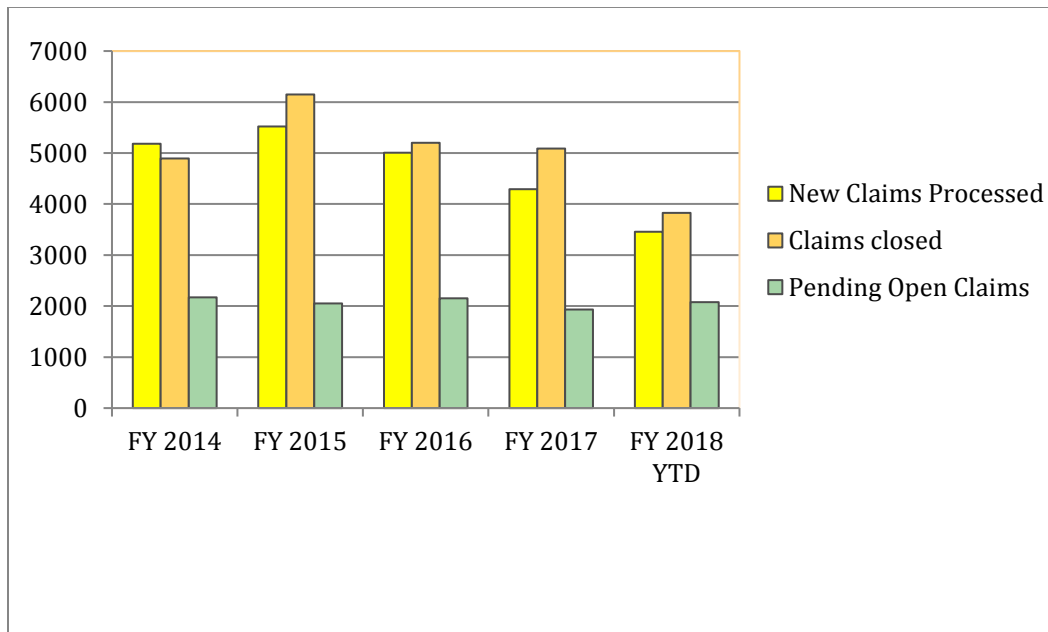
borrowed, compared to the previous year. The policy limit was increased from \$16M to \$20M and this resulted in an overall premium increase of \$2,371.

- Foster Parent liability for Department of Human Resources and Department of Juvenile Services renewed effective March 15, 2018. The number of foster placements were up slightly. In addition, the broker advised of an overall net rate increase of 1% for this class of business. The overall increase in cost for this placement was \$12,372.
- State Blanket Excess Property insurance renewed effective April 1, 2018. The overall property values increased by 6.1%. By restructuring some layers of coverage with various additional markets, while maintaining primary lead carrier Lexington within the first layer of coverage, we were able to maintain benefits associated with the lead carrier’s engineering services. In spite of the overall hardening of market associated with increase in catastrophic losses, **we were able to achieve overall premium savings of \$8,575.**

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 open and closed claims are tracked to gauge activity, inventory and to identify any trends. From December 1, 2017 through April 30, 2018, there were 1929 new claims processed and 1889 claims closed. The chart below shows claims detail of all claims year-to-date from July 1, 2017. There are currently 2076 open pending claim files for FY 2018.

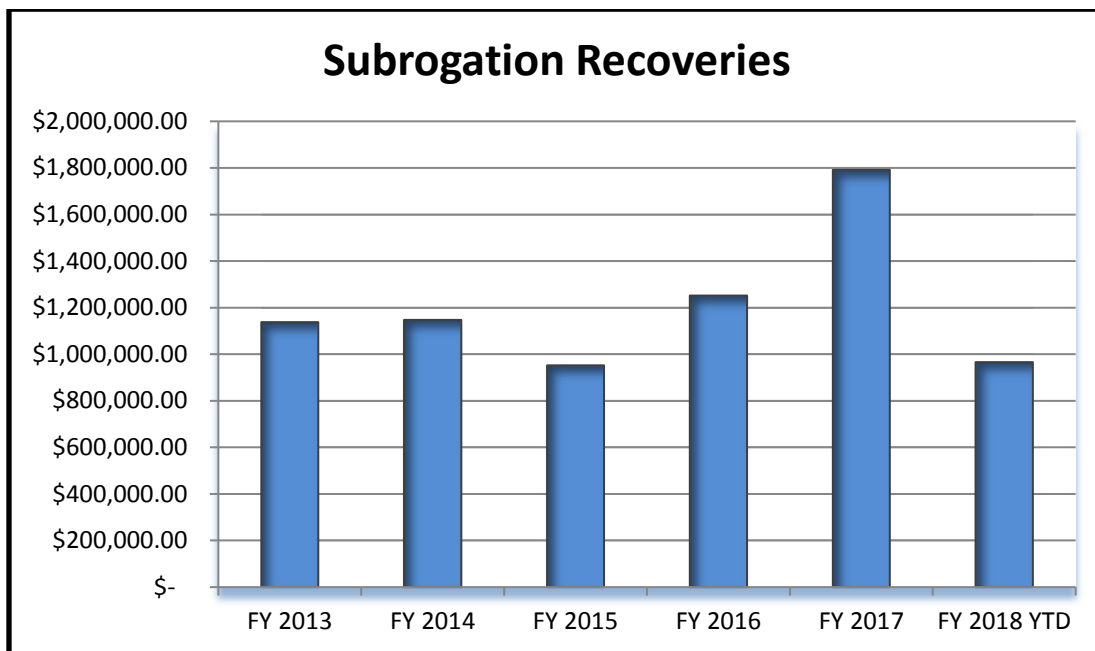


In December of 2017, the Office received a severe property damage claim from Frostburg State University which occurred on December 4, 2017. Fire consumed one of the pole storage buildings on the university property. The total anticipated loss is in the amount of \$182,375. The agency estimates new building completion by June 30, 2018.

On March 2, 2018 a severe property damage loss occurred at Department of Public and Correctional Services, Central Maryland Correctional Facility. The roof of a portable (modular trailer) classroom building lifted up from the building’s vertical structure during a high wind storm. The total estimated loss amount is \$184,889.

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 FY18 total is \$965,626 as of April 30, 2018. This is a continued area of focus and is a priority within the Claims Unit.



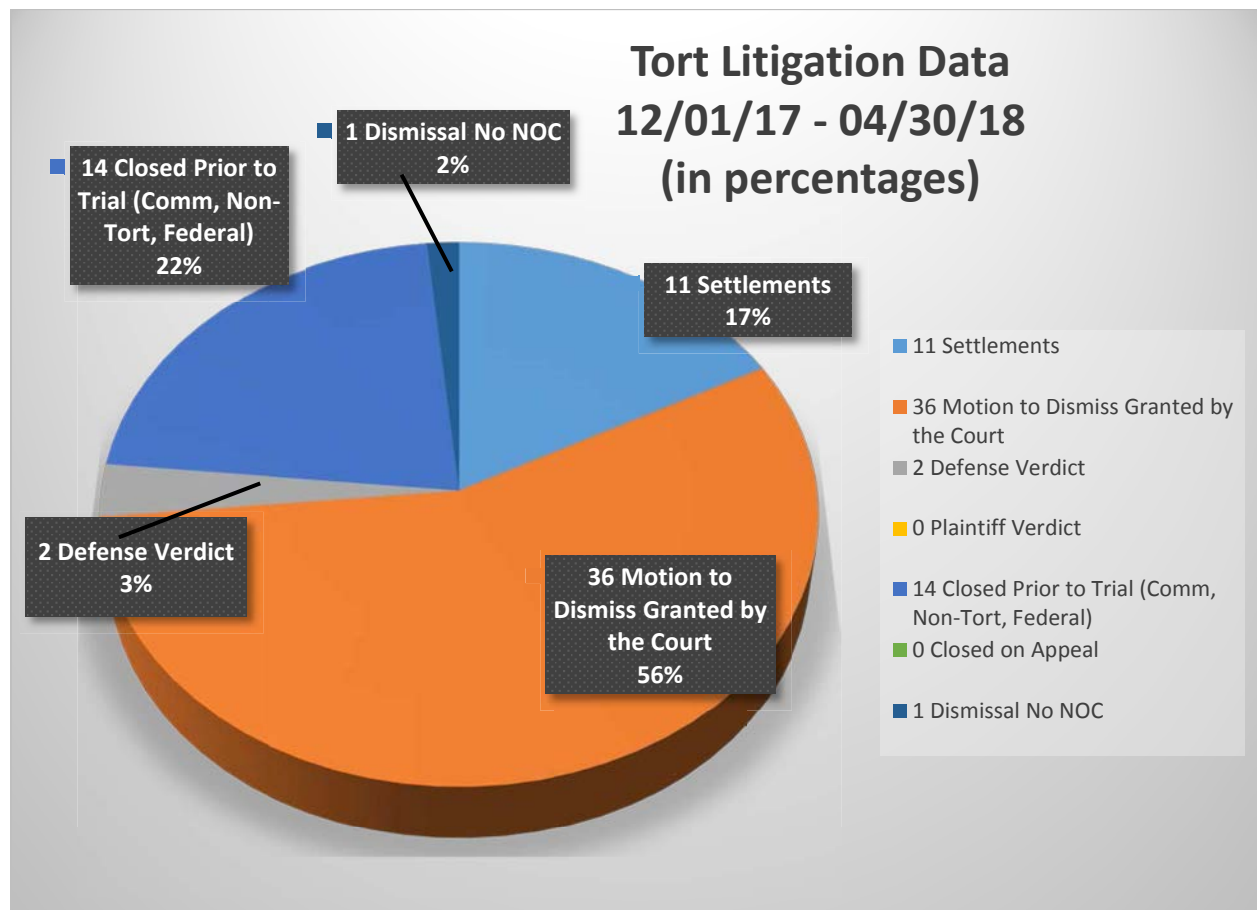
Tort Litigation Management

The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation. The Litigation Manager investigates, evaluates and extends settlement authority on behalf of the Treasurer to the Office of the Attorney General. In cases valued over \$400,000, the Litigation Manager briefs the Insurance Review Committee which includes the Chief Deputy Treasurer, the Director of the Insurance Division, Deputy Director of the Insurance Division, the Tort Attorneys, and other stakeholders requesting settlement authority.

Settlement costs for the period of December 1, 2017 through April 30, 2018, totaled \$318,065; litigation expense costs were \$33,452; for a total of \$351,517. The Litigation Manager attends settlement conferences and other court mandated activities and provides periodic updates on the status of litigation claims, as requested. The Litigation Manager provides feedback to adjusters during the discovery process and upon resolution as required.

The Tort Unit handles a rolling docket of approximately 100 - 135 litigation claims. The current litigation caseload is approximately 128, as of April 30, 2018. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the State Insurance Trust Fund. The Litigation Manager also analyzes the data in order to track the litigation outcomes.

The disposition of the cases during the timeframe of December 1, 2017 – April 30, 2018, is presented in the chart below:



The Litigation Manager will continue 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 determine future risk prevention activities.

Loss Prevention Unit

The goal of the Loss Prevention Unit is to help State agencies develop specific action plans and safety practices to mitigate or eliminate the most frequent or severe sources of preventable losses.

The opportunity to facilitate learning is identified by meeting in person and working directly with representatives of state agencies and universities to establish and strengthen relationships, develop knowledge and gain an understanding of mutual objectives.

Meetings were scheduled with the various agency representatives and insurance coordinators to learn about their operations, primary objectives, discuss historical loss trends, loss cost opportunities, prevention programs, mitigation strategies and lessons learned.

State Agency Meetings:

In December, 2017 our Office met with the Maryland Port Administration, our insurance carrier, AIG and the tenant regarding property safety recommendations identified during the September 22, 2017 property inspection for the 2500 building at Point Breeze Business Park. A recommendation was made to the agency to move idle wooden pallets stored inside the warehouse to outside of the building to decrease fire risk. On December 18, 2017, our office held a meeting confirming that the recommendations had been completed.

On December 27, 2017, our Office met with the Department of Public Safety & Correctional Services regarding Baltimore Central Booking, to follow up on the status of the property recommendations in our property inspection. A recommendation was made to develop a program for monthly sprinkler value inspections, replacing all missing ceiling tiles in the ground floor I.T. storage room and for all fire pump test results to be investigated and forwarded to the insurance carrier.

On January 5, 2018, our Office met with the Department of General Services regarding the status of the property safety recommendations identified in our property inspection for State Office Building #1. There was a discussion about plans being put into place to address all of the open recommendations.

On January 31, 2018 we met with the University of Maryland College Park to discuss:

- Claims occurring during cold weather, reporting claims timely, property contents values, boiler & machinery policy, policy coverage, loss history and \$1M water deductible for educational institutions.
- The boiler & machinery report identifying 28 open violations; 25 were “historical” violations originating in 2015 & 2016, while 3 were from 2017.
- Actions being taken to prevent future losses.

We met with the Maryland Aviation Administration who requested landside claims training for their personnel who respond to claims incidents and accidents. This included their Airport

Management Officers, airport operations, gate agents, police, offices of general and facilities maintenance, custodial services and tenants and ground transport.

- Discussions were held to finalize training which included the training presentation materials, training agenda, logistics, attendees and presenters
- The insurance carrier provided landside claim examples from other airports to discuss during training sessions.

Insurance Carrier Meetings:

In December, 2017 our Office met with our Insurance broker, AON. We discussed the State of Maryland 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:

In December, 2017 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.

In January, 2018 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, some of which are the oldest in the State, and strategies to address those violations.

In February, 2018 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.

In April, 2018 we met with University of Maryland College Park and confirmed that 28 of the 30 open boiler violations are closed.

As of April 30, 2018, 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.

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.