

**Maryland General Assembly
Joint Committee on Management of Public Funds**

2010 Membership Roster

**Senator Verna Jones-Rodwell, Presiding Chair
Delegate Henry B. Heller, Co-chair**

Senators

Ulysses Currie

Jennie M. Forehand

Larry E. Haines

Delegates

D. Page Elmore

Carolyn J. B. Howard

Murray D. Levy

Committee Staff

Jaclyn Hartman

Erik Timme

December 17, 2010

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Committee on the Management of Public Funds is pleased to present this report on the activities of the committee during the 2010 interim. One sad note during the interim was the passing of committee member D. Page Elmore. Delegate Elmore had been an esteemed member of the committee since 2007.

During the 2010 interim, the committee met two times. As outlined below, the committee was briefed on several topics, including the issuance of State debt, the activities of the Comptroller's and Treasurer's offices, and audits of local governments.

September 22, 2010 Meeting – State Treasurer's Office

- **Successful Issuance of Bonds in July 2010:** The State Treasurer's Office (STO) reported that the July 2010 issuance of 2010 Second Series bonds was a success. The State maintained its AAA bond rating from all three rating agencies. The issuance included \$143.3 million in tax-exempt general obligation (GO) bonds sold through retail sales, \$221.7 million in tax-exempt GO bonds sold competitively, \$75.0 million of taxable Build America Bonds (BAB) sold competitively, and \$45.2 million of taxable Qualified School Construction Bonds (QSCB) sold competitively. The combined True Interest Cost (TIC) of the GO bonds and BABS was 2.08%, the lowest TIC in more than 20 years.
- **Retail Sales Remain Strong:** Initially, \$200 million was offered as part of the retail sales; however, sales tapered off early so the retail sales offering was reduced to \$143.3 million. The remaining \$56.7 million was later added to the competitive sale. Maryland's AAA rating continues to attract strong interest not only from Maryland residents, but also nationwide.
- **Build America Bonds Provide Savings:** Once again, the State's bond issuance included the sale of BABs. BABs are authorized by the federal American Recovery and Reinvestment Act of 2009 (ARRA) and provide a 35% subsidy of interest from the U.S. Treasury to the State. The federal authorization to issue these bonds expires at the end of 2010. The TIC of

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee
December 17, 2010
Page 2

the July 2010 issuance was 2.74%, and maturities ranged from 2022 to 2025. Issuing BABs instead of tax-exempt bonds resulted in \$2.8 million in present value savings.

- **Maryland Realizes Savings from QSCBs:** At the July sale, the State also sold \$45.2 million of taxable, direct subsidy QSCBs. QSCBs were also authorized by ARRA and each state received a certain allocation for allowed issuances. This \$45.2 million issuance completes Maryland's allocation. The TIC for QSCBs was 0.4% and the bonds have a bullet maturity in 2025 with annual sinking fund payments. The sale of QSCBs resulted in \$21.7 million in present value savings compared to tax-exempt bonds.
- **Capital Debt Affordability Committee (CDAC) Recommends \$925 Million Debt Limit for Fiscal 2012:** CDAC recommended a debt limit of \$925 million for fiscal 2012. Similar to last year, given the State's uncertain fiscal condition, CDAC plans to revisit this debt authorization level in December when updated revenue estimates are available. This level of debt will keep State debt within the affordability criteria established by CDAC. In accordance with legislation sponsored by this committee, CDAC will submit its final report to the Governor and the General Assembly by the revised date of October 1 annually (previously September 10).
- **Conclusions and Recommendations:** The committee commends STO for all of its hard work, especially in light of the many new types of bonds and issuances (retail sales, BABs, QSCBs, and other ARRA bonds) that STO must evaluate. The committee is also pleased that the State continues to maintain its AAA bond rating, despite the difficult fiscal times.

November 17, 2010 Meeting – Update on the Activities of the Comptroller's Office and the State Treasurer's Office and Briefing from the Office of Legislative Audits on the Annual Review of Local Government Audits

The Comptroller's Office

- **Modernized Integrated Tax System (MITS) Has Nearly Paid for Itself in Only Two Years:** In the two years since its approval by the Board of Public Works, MITS has netted nearly \$65 million in back taxes, nearly recapturing its \$87 million cost to implement. Following the four-year phase-in period, the tax system is expected to generate \$80 to \$100 million per year in perpetuity. Other improvements in tax collections have also been realized through the federal vendor offset program and the crack down on tax-avoidance strategies, such as the creation of Delaware holding companies by Maryland business firms.

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee
December 17, 2010
Page 3

- **E-filing Use Remains Strong:** Over 1.7 million tax returns for tax year 2009 were filed electronically, comprising a majority of all tax returns filed electronically and marking an all-time high for the number of electronic submissions. Each electronic submission saves the State \$1.60.
- **Unclaimed Property Continues to be a Priority:** In fiscal 2010, the Comptroller's Office helped to satisfy 49,000 claims and returned nearly \$48 million in unclaimed property to its rightful owners. Returning unclaimed property to its owners remains a priority of the Comptroller, and Maryland remains one of the most active states in tracking down owners of unclaimed property.
- **Taxpayer Bill of Rights:** In 2010, the Comptroller released the Maryland Taxpayer's Bill of Rights and Consumer Guide, a publication to help residents navigate the taxpaying process, including tips on selecting a tax preparer.
- **Local Income Tax Reserve Fund Being Closely Monitored:** During the 2010 legislative session, the General Assembly transferred \$350 million from the local income tax reserve to the State's general fund to help address the budget shortfall. The fund is a revolving fund used to make and receive payments from taxpayers for local income tax obligations. Since the transfer of money, the Comptroller's Office has closely monitored the fund to ensure that an adequate balance is maintained to make all payments as necessary. To date, all payments have been made as scheduled.
- **Department of Public Safety and Correctional Services Audits:** In a recent audits of State correctional facilities, the Legislative Auditor reported that certain facilities did not reconcile cash balances with the corresponding balance on the State's accounting records. Also, certain fund transfers circumvented the Comptroller's approval process. Consequently, there was a lack of assurance that all recorded transactions were authorized and accurately posted.
- **Conclusions and Recommendations:** The committee commends the Comptroller's Office on its initiatives to improve tax payment enforcement, further automate the tax payment process, promote electronic submission of tax returns, and return unclaimed property to its rightful owner. Additionally, the committee urges the Comptroller's Office to ensure all accounts are regularly reconciled and all proper financial controls are being followed. The committee notes the important role the Comptroller's Office plays in State tax collections. The committee will continue to monitor the activities of the Comptroller's Office.

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee
December 17, 2010
Page 4

State Treasurer's Office

- **Upcoming Bond Sales:** Looking ahead to 2011, STO is planning two bond sales of approximately \$485 million and \$495 million. Given the expiration of the authorization to issue BABs at the end of 2010, it is expected that 2011 bond issuances will be tax-exempt bonds.
- **Financing of Video Lottery Terminals:** Legislation authorizing the use of video lottery terminals (VLT) in Maryland also established a financing mechanism through STO. STO stated that it expects to issue a lease-purchase agreement for the acquisition of VLTs to be structured and sold as Certificates of Participation (COP). The issuance of COPs will be staggered to coincide with the acquisition of VLTs based on the opening schedule for each VLT location. The first COPs issuance is expected in January 2011.
- **Health Insurance and Pension Costs for Employees and Retirees Remain a Concern:** Since September, the Public Employees' and Retirees' Benefit Sustainability Commission, which was created during the 2010 interim, has been meeting to address the growing cost of employee and retiree benefits. The commission is expected to make recommendations to the General Assembly prior to the 2011 legislative session and it is expected that the discussion of employee and retiree benefits will be taken up by the General Assembly during that session.
- **Conclusions and Recommendations:** The committee will continue to monitor future bond issuances, the activities of the Treasurer's Office, the financing of video lottery terminals, and the recommendations of the Public Employees' and Retirees' Benefit Sustainability Commission. The State is facing a \$1.6 billion shortfall in fiscal 2012 and the condition of the State's debt, the expected slots revenue, and employee and retiree benefits will all have an important role to play in reducing that shortfall. In the State's current budget problems, it is important that the long-term effects of the budget decisions be kept in mind by all decision makers as well.

Office of Legislative Audits

- **Review of Local Government Audit Reports:** The Office of Legislative Audits (OLA) presented information on the desk reviews of local government audits for fiscal 2009. Out of 192 local government audit reports, 46 contained some type of noncompliance with generally accepted accounting principles and auditing standards. The number of local governments with areas of noncompliance has decreased from the fiscal 2008 report

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee
December 17, 2010
Page 5

and has decreased significantly over the last several years. The most significant and frequent problem areas for the local governments were stated by OLA to include: failing to file an audit report or filing late, failing to present the audit or financial statements in accordance with generally accepted auditing and accounting principles, lacking adequate disclosures, and the issuance of qualified or adverse opinions by an auditor. In addition, the review disclosed 11 local governments in noncompliance with State law (local governments with unsecured cash deposits) and 9 local governments with potential financial problems (6 with general fund deficit balances and 3 with unfavorable trends or ratios).

- **Conclusions and Recommendations:** The committee commends OLA for its thorough review of local government audit reports. The committee continues to request that OLA promptly notify legislators of all unfavorable financial trends or audit report deficiencies affecting local governments within their jurisdictions.

Committee Sponsored Legislation

The committee was not asked to sponsor any legislation for the 2011 session.

Respectfully submitted,

Senator Verna Jones-Rodwell
Presiding Chair

Delegate Henry B. Heller
Co-chair

VLJ:HBH/JDH

