

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

**2012 Membership Roster**

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THE MARYLAND GENERAL ASSEMBLY  
ANNAPOLIS, MARYLAND 21401-1991

**Joint Committee on the Management of Public Funds**

December 21, 2012

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 its activities undertaken during the 2012 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met two times and was briefed on several relevant topics, including the activities of the Treasurer's and Comptroller's offices, audits of local governments, economic development and small business financing opportunities in Maryland, and public banking.

**November 8, 2012 Meeting**

**State Treasurer's Office – Update of Activities**

State Treasurer Nancy Kopp, Chief Deputy Treasurer Bernadette Benik, and Director of Debt Management Amber Teitt provided an update on the activities of the Treasurer's Office.

Treasurer Kopp reported that in July 2012 all three rating agencies affirmed the State's AAA bond rating. Maryland remains one of only eight states in the nation with AAA ratings from all three rating agencies. However, Moody's has assigned a negative outlook to Maryland's general obligation bonds because of Maryland's economic sensitivity to federal employment and spending. All three rating agencies cite Maryland's economy and fiscal management as a credit positive, but the State's unfunded pension liability continues to be a concern, although each agency recognizes the State's recent reform efforts. Treasurer Kopp stated that if Maryland passes legislation during the 2013 session to phase out the corridor funding methodology, the rating agencies will see it as a step in the right direction.

Treasurer Kopp commented on the recent Governmental Accounting Standards Board (GASB) changes that will affect the State Retirement and Pension System beginning in fiscal 2014. The new GASB standards will create accounting results that are separate from funding results, which will mean that two different sets of numbers will be reported. Although the State's funding calculations will not be impacted, the two sets of numbers and the difference between the sets of numbers will likely lead to confusion and concern. Consequently, education of state officials, legislators, and the general public on this issue will be important.

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Treasurer Kopp introduced Amber Teitt as the new Director of Debt Management as of March 2012, and Ms. Teitt reported that the State had two successful bond sales in March and August of 2012. Institutional bonds did extremely well, but in view of the fact that retail bonds did not do well, the State is not planning to include retail bonds in the next bond sale. The Capital Debt Affordability Committee (CDAC) recommended a total of \$1.075 billion of new general obligation bond authorizations for the fiscal 2014 capital program. This is a \$150 million increase over fiscal 2013. The affordability analysis presented at the CDAC meetings indicates that the general obligation bond authorizations will continue to be affordable and within debt guidelines. Debt outstanding peaks at 3.46% of personal income in fiscal 2014, and is at 2.94% in fiscal 2022. Debt service increases annually to 7.62% of revenues in fiscal 2018 but declines to 7.15% in fiscal 2022.

**Conclusions and Recommendations:** The joint committee commends the State Treasurer's Office for all of its hard work. The joint committee is pleased that the State continues to maintain its AAA bond rating, despite the difficult fiscal times. The joint committee will continue to monitor the activities of the State Treasurer's Office.

### **Comptroller's Office – Update of Activities**

Comptroller Peter Franchot, Deputy Comptroller Linda Tanton, and Director of Legislative Affairs John Gontrum provided an update on the activities of the Comptroller's Office. The Comptroller's Office had several initiatives this year, including taxpayer services, tax fairness, and fiscal responsibility.

Accomplishments in taxpayer services include outreach efforts that have led to record numbers of electronically filed returns. In 2008, over 1.5 million returns were filed electronically, which was the first time that the office received more electronic returns than paper returns. The Comptroller reported that the office is on another record-setting pace as electronic filing is up over 13% compared to the same time last year. Each electronically filed return saves the State \$1.60. Also, the Comptroller's Office introduced B-file online filing service for Maryland businesses. Along with the flagship I-file program for individual tax payers, Marylanders can file, free of charge, electronically on the Comptroller's website.

Accomplishments in tax fairness include implementation of a state-of-the-art data warehouse program. After the program is fully implemented over the next four years, it is expected to bring in nearly \$100 million annually in delinquent taxes that previously were uncollectible. After just the first year of implementation, the data warehouse program has already identified and recaptured over \$70 million in delinquent taxes. Using this data warehouse technology, the Comptroller's Office was able to identify 1,666 Marylanders who owed back child support in the Unclaimed Property files and sent \$670,000 to the children and families who were owed the money. Also, in the last two years, the Comptroller's Office has recaptured more than \$356.5 million in delinquent individual income taxes, and \$473.2 million in delinquent corporate taxes for the State. Additionally, the Comptroller's Office has entered

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into a unique partnership with the U.S. Department of Treasury that yielded \$21 million for the State by allowing Maryland to intercept federal vendor payments to satisfy State income tax liabilities. Additionally, the Comptroller's Office kept nearly 185,000 packs of untaxed cigarettes and more than \$360,000 worth of illegal wine, distilled liquor, and beer off Maryland streets.

Accomplishments in fiscal responsibility include looking for effectiveness and efficiency within the Comptroller's Office. In fiscal 2012, the Comptroller's Office returned \$2.3 million to the State through savings generated in the office. The Comptroller's motto is *"better public service for less money."*

Comptroller Franchot announced that Linda Tanton will be retiring as Deputy Comptroller at the end of 2012, and David Roose, the current Director of the Bureau of Revenue Estimates, will be replacing Ms. Tanton as Deputy Comptroller.

The joint committee suggested that the Comptroller's Office seek to provide more timely reporting of detailed federal tax revenue data in order to more accurately support the analysis and impact of legislative initiatives.

**Conclusions and Recommendations:** The joint committee commends the Comptroller's Office on its initiatives to improve taxpayer services, tax fairness, and fiscal responsibility. The joint committee will continue to monitor the activities of the Comptroller's Office.

### **Office of Legislative Audits – Review of Local Government Audit Reports**

Robert Garman, Assistant Director of Quality Assurance in the Office of Legislative Audits (OLA), presented information on the desk reviews of local government audits for fiscal 2011. Out of 187 local government audit reports, 73 contained some type of noncompliance with generally accepted accounting principles and auditing standards. The number of local governments with areas of noncompliance increased compared to the previous year, but this was primarily due to areas of noncompliance related to the implementation of a new accounting principle in fiscal 2011.

OLA's report summarized the most significant and frequent problem areas for the local governments. These problem areas include: failing to file an audit report; 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, OLA's review disclosed areas of noncompliance with State law for 16 local governments (local governments with unsecured cash deposits) and potential financial problems for three local governments (unreserved general fund deficit balances).

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On a positive note, Mr. Garman reported that the Town of Fairmount Heights in Prince George's County, which had been experiencing serious financial problems and had not filed its last two audit reports (fiscal 2010 and 2011), had recently made great improvements. The town has recently filed its fiscal 2011 audit report; it no longer has an ongoing concern, and it no longer has a general fund deficit.

OLA reported that a letter describing the areas of noncompliance with the audit guidelines was sent to each local government and its independent auditor. For areas of noncompliance with State laws and potential financial problems, OLA requests that the local governments provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses to those. Additionally, as requested by the committee, when letters were sent to local governments regarding noncompliance with State laws and potential financial problems, copies of the letters were also to be sent to joint committee members and to the appropriate members of the Maryland General Assembly.

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

## **December 13, 2012 Meeting**

### **Economic Development and Small Business Financing Programs**

The joint committee invited representatives from five State organizations which are responsible for the investment of State public funds to brief its members on economic development and small business financing programs in Maryland.

#### **Maryland Small Business Development Financing Authority**

Stanley Tucker, the Executive Director of the Maryland Small Business Development Financing Authority (MSBDFA) briefed the committee about MSBDFA and its financial programs. MSBDFA was originally created in 1978 to promote the viability and expansion of businesses owned by economically or socially disadvantaged entrepreneurs. MSBDFA was later expanded to include any small business that does not meet the credit criteria of financial institutions and are unable to obtain adequate financial assistance on reasonable terms.

MSBDFA has four programs that provide lines of credit, long-term loans, loan guarantees, letters of credit, contract surety bonds, subordinated debt, and equity financing. The fiscal 2012 value of the MSBDFA portfolio was \$24.7 million. During fiscal 2012, eight companies graduated from MSBDFA's financing programs, which means the companies can be strong candidates to receive loans through traditional financial institutions.

MSBDFA received a \$2.5 million appropriation for fiscal 2012, which funded 39 transactions and helped to create 99 jobs and retain 328 jobs for Maryland residents. One of the joint committee members raised a concern about the cost effectiveness of \$2.5 million financing only 39 small business loan transactions. In response, the MSBDFA Executive Director stated that according to an economic impact analysis by Towson University, during 2000 through 2009, MSBDFA generated revenues that were more than eight times greater than the total operating cost of the programs during the same period. When loan losses were added to the operating costs, the revenues were more than six times greater than the costs.

Several committee members expressed concern about the geographic distribution of the MSBDFA transactions in fiscal 2012. For example, 37% of the transactions were in Prince George's County and 22% in Baltimore City, compared to 6% in more populous Montgomery County and 7% in Anne Arundel County. This resulted in a discussion about the need for an expanded marketing campaign because many businesses are not aware of the assistance available through MSBDFA. Several joint committee members expressed interest in having MSBDFA representatives come and speak in their jurisdictions as well as improve outreach to Spanish-speaking minority firms.

### **Department of Business and Economic Development**

Greg Cole, the Director of Finance Programs for the Department of Business and Economic Development (DBED) briefed the committee about the financing- and incentive-based solutions for economic development projects available through DBED. DBED's Investment Financing Group provides emerging high-technology businesses with access to early stage capital through several programs, such as the Challenge Investment Program (CIP) and the Enterprise Investment Program (EIP). Additionally, DBED oversees MSBDFA. DBED also oversees the Maryland Industrial Development Financing Authority (MIDFA), which provides a State guarantee to private-sector loans. Projects must be located in a priority funding area. The MIDFA fund balance is \$39 million, and the statutory leverage ratio is 5 to 1. Since its inception in 1965, 865 loans have been completed for a total of \$2.4 billion in bonds.

DBED's largest aid program is the Maryland Economic Development Assistance Authority and Fund (MEDAAF). MEDAAF provides assistance to strategic economic development initiatives, local economic development opportunities, regional or local revolving loan funds, and special purpose loans. MEDAAF also provides direct assistance to local jurisdictions through the county economic development offices. To receive MEDAAF funds, projects must be in a priority funding area.

The Economic Development Opportunities Program Fund (Sunny Day Fund) supports extraordinary economic development opportunities resulting in significant high-wage employment and high capital investment by a prominent company. Recently, \$8 million was paid as an incentive from the Sunny Day Fund to retain a prominent business in Maryland.

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The presentation generated interest in finding ways to inform more companies about the programs offered through DBED. The joint committee members asked to be informed when DBED will be meeting with businesses in their jurisdictions and suggested greater outreach to members of the legislature.

### **Maryland Agricultural and Resource-Based Industry Development Corporation**

Steve McHenry, the Executive Director of the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) briefed the joint committee about the role of MARBIDCO as it focuses on enhancing the sustainability and profitability of the State's agricultural- and resource-based industries. MARBIDCO helps bolster rural economies, provide locally produced food and fiber products, and preserve working farm and forest land.

Since MARBIDCO became operational in Spring 2007, it has provided financing to 210 farm and rural business projects located in 22 counties. MARBIDCO's investment in rural business lending has also leveraged over \$26 million in private commercial loan capital and has helped to create or retain approximately 1,689 jobs.

### **Department of Housing and Community Development**

Carol Gilbert, Assistant Secretary with the Department of Housing and Community Development (DHCD), briefed the committee on DHCD housing and community financing programs. The two main missions of DHCD are to finance housing opportunities and to revitalize communities. Ms. Gilbert manages the Division of Neighborhood Revitalization, which consists of State level programs, such as Neighborhood BusinessWorks, and federal programs, such as the Community Development Block Grants. Annually, \$35 million is invested through DHCD's State and federal programs for community development.

Since 1997, Neighborhood BusinessWorks has financed \$58 million in loans to 303 small businesses, which leveraged \$204 million and created or sustained 5,932 jobs. Neighborhood BusinessWorks has a direct lending program that provides gap financing to new or expanding small businesses and nonprofit organizations in designated sustainable communities throughout the State. Neighborhood BusinessWorks also has a linked deposit program that provides more affordable capital to minority business enterprises by reducing the interest rate on loans from participating banks (Bank Annapolis, The Columbia Bank, and Industrial Bank). Borrowers receive a reduced rate that is 2% below market, loans are underwritten and approved by the financial institution, and the State Treasurer's Office deposits matching funds in the amount of the loan at the lending institution.

### **Department of Labor, Licensing, and Regulation**

Mark Kaufman, the Commissioner of Financial Regulation in the Department of Labor, Licensing, and Regulation (DLLR) briefed the committee on the role of DLLR in regulating

financial institutions in Maryland. DLLR regulates 64 depository institutions, such as banks and credit unions, and also regulates approximately 10,000 nondepository companies, such as mortgage lenders and debt collection agencies. DLLR's role with the nondepository companies includes licensing, examination, complaint response, and enforcement. Recent foreclosure reform legislation has significantly enhanced DLLR's ability to assist homeowners who are facing foreclosure.

In response to member questions, the commissioner clarified that a bank can be chartered and regulated as a national bank or as a State bank. The State chartered banks in Maryland are regulated by the Office of the Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation (FDIC). Institutions must be examined every 12-18 months depending on the bank's size and condition. Nationally, there are 1,862 national banks and 5,393 state chartered banks. A typical Maryland State chartered bank has an average of \$500 million in assets and is well capitalized and profitable. Despite accounting for 60% less in total loans, smaller banks (with assets below \$500 million) account for 40% more business lending than large banks (with assets above \$1 trillion). Credit for small businesses remains tight due partly to a tightening of credit standards in the wake of the financial crisis, and banking recovery is slower for smaller institutions. In the last several years, six banks in Maryland have failed, but as a whole, Maryland banks are healthy.

When asked to comment about the concept of a public bank, Mr. Kaufman said that a public bank has the same capital needs as a private bank. Typically, a 10% capital outlay would be necessary (\$50 million in capital for a \$500 million bank).

**Conclusions and Recommendations:** The joint committee is pleased to have the opportunity to review and monitor the various State institutions through which the State offers numerous economic development and small business programs; however, additional efforts must be made to inform the public about these opportunities. Specifically, efforts must be made to increase the geographical distribution of recipients of these programs. The joint committee will continue to monitor the organizations responsible for financial investment of public funds and their impact on economic development activities in the State.

### **Public Banking**

The joint committee invited The Public Banking Institute (PBI) to provide an overview of the concept of public banking as a tool for the management of public funds and the status of various public banking initiatives currently being considered by states, counties, cities, and municipalities in the United States. The joint committee heard a presentation about public banking from three representatives of PBI: Mike Krauss, Director of the Board and Chair of the Pennsylvania Project; Frank Nuessle, Director of Research; and Walt McRee, Senior Advisor.

A public bank is a financial institution owned by a government entity, such as a city, state, or a nation. In the United States, North Dakota is the only state with a public bank. The Bank of North Dakota (BND) was established in 1919, and all of North Dakota's state revenues are deposited in BND. Over the last 10 years, \$30 million in annual revenue has been generated by BND, which is more revenue than the oil industry has generated. In the last 10 years, there have been no bank failures in North Dakota, and the banking industry in North Dakota supports BND. North Dakota has a population of only 670,000, but BND has \$2.9 billion in its loan portfolio. BND returned 17% in equity during the last year.

A public bank can free the credit potential of public revenues and harness these revenues to create sustainable and affordable credit. This credit supports state and municipal budgets by providing a new source of nontax revenue and by increasing revenue collection from the expanding economic activity that it underwrites, which are activities that private banks do not fund.

Public banks are partnership banks that work with the local community banks to facilitate lending in the local community. A public bank can lower the cost of debt for financing public works projects because it can offer much lower interest rates than large commercial banks. A state could also fund state projects through the public bank by backing the loans with state revenues deposited in the public bank and the state would not have to pay interest to a commercial entity. For example, the total project cost of the Bay Bridge in San Francisco was \$12 billion because the interest paid to a large commercial bank was \$6 billion. The project costs could have been cut in half if a publicly owned state or county bank had financed the project.

Currently, 20 states are considering state-level legislation regarding public banking. While some states are considering task forces to study public banking, legislation has been introduced to create a public bank in Arizona, Montana, and Maine. Additionally, several cities such as San Francisco, Oakland, Tucson, and Philadelphia are beginning to discuss public banking initiatives. In Pennsylvania, a bank can be capitalized with \$8 million, but Maryland's rules are likely different.

Before creating a public bank, serious consideration should be given to the bank's mission and how the bank should be capitalized. The bank needs Tier 1 capital, which means money that is clear, secure, and liquid. BND was capitalized with \$100 million in today's dollars. A state could use its rainy day fund to capitalize a public bank. Once a public bank is capitalized, the bank is self-sustaining because it functions as a for-profit entity.

The presenters stated that generally community banks support public banks because a public bank can help a smaller community bank have greater access to capital and thus compete with the bigger commercial banks. Smaller banks that are in danger of failing due to restricted access to capital would find that a public bank would be a resource for them. There has been no

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public banking work done in Maryland. Joint committee members wondered how the Maryland community banks would feel about a public bank and considered the possibility of conducting a survey of Maryland community banks.

Mark Kaufman with DLLR was asked about the banks that failed in Maryland. He said that of the six banks that failed in the last few years in Maryland, three were State chartered and three were federally chartered. These banks had a high concentration of construction development loans and real estate lending.

**Conclusions and Recommendations:** The joint committee is interested in learning more about the concept of public banking and will continue to gather more information on this topic.

### **Committee Sponsored Legislation**

The joint committee was not asked to sponsor any legislation by either the State Treasurer's Office or the Office of the Comptroller for the 2013 legislative session.

Respectfully submitted,

Senator Verna Jones-Rodwell  
Senate Chair

Delegate Ana Sol Gutierrez  
House Chair (Presiding)

VLJ:ASG/DKT/mpc

cc: Mr. Karl S. Aro  
Ms. Lynne B. Porter  
Mr. Warren G. Deschenaux