



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

**January 20, 2022**

**Dereck E. Davis**

***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 January 18, 2021. I invite and welcome further discussion with the Committee at your convenience.**

The State Treasurer’s Office (STO) 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 (BPW) and Board of Revenue Estimates and Chairmanship of the Capital Debt Affordability Committee. The Treasurer presently also serves as Vice-Chair of the Board of Trustees of the State Retirement and Pension System and is a member of the governing boards of the Board of Trustees of the Maryland 529 Plans and the Maryland Teachers’ and Employees’ Supplemental Retirement Plans.

The items contained within this report detail numerous recent achievements. STO is always available to provide additional information or answer questions regarding these and other issues.

## **BOARD OF PUBLIC WORKS**

Between January 1, 2021 and December 31, 2021, the BPW met 22 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 and the Energy-Lease and Capital-Lease financings discussed in more detail in the Debt Management Section of this Report, the following noteworthy items were considered by the BPW:

### **Baltimore City 21<sup>st</sup> Century Public School Construction Initiative**

- Approved requests from the Maryland Stadium Authority (MSA) to award contracts for:
  - Montebello Elementary/Middle School renovation/addition project:
    - Bid Package 1 covered demolition/abatement, temporary electrical, fencing, and site services packages. (01/24/2021)
    - Final Bid Package. (04/21/2021)
  - Highlandtown Elementary/Middle School full construction trade package to complete their renovation and addition project. (8/11/2021)
  - Cross Country Elementary/Middle School renovation/addition project: Bid Package 1 for demolition, abatement and site general conditions. (10/06/2021)

### **BPW Regulations**

- Approved final adoption of new regulations and amendments to Title 21, State Tidal Wetlands Licensing Procedures. (06/02/2021)
- Approved final action to adopt new regulations to COMAR Title 21, State Procurement Regulations, to implement recently enacted legislation regarding the payment of employee health care expenses for state-funded construction projects (CH 687, Acts of 2019 and CH 264, Acts of 2020). (04/07/2021)

### **Procurement**

- 95 COVID-19 related Emergency Procurement items were brought before the board.
- Approved a request from Maryland Supplemental Retirement Plans (MSRP) to award a contract to provide audit services for the Plans. The audit provides additional tests to ensure that any errors or irregularities, which fall below a standard audit scope, are detected. (03/10/2021)

- Approved a request from the Comptroller of Maryland to award a contract that will provide services for the sale of unclaimed stock certificates. (04/07/2021)
- Approved a request from the State Lottery and Gaming Control Commission to award a contract to provide a central monitor and control system for a Video Lottery Terminal (VLT) program. (04/07/2021)
- Approved a request from the Department of Budget and Management to award a contract for an Employee Assistance Program to provide grief counseling services to current State employees. (05/05/2021)
- Approved a request from the Maryland State Police (MSP) to award a contract which will provide analyses of seized drug and toxicology evidence for its Forensic Science Division. (05/05/2021)
- Approved a request from the Maryland Cannabis Commission (MCC) to award a contract to:
  - provide a financial and corporate structure investigation,
  - determine whether medical cannabis license applicants meet the qualifications for licensure, and
  - determine whether any current licensee proposed transfer of ownership or control or corporate restructuring may implicate a statutory violation. (05/19/2021)
- Approved a Wetlands License and assessed compensation to allow Chesapeake Utilities to install three 8-inch diameter natural gas pipelines using horizontal directional drilling (HDD) by drilling three 12-inch bores under State tidal wetlands in Somerset County. (01/27/2021)
- Approved a request from the University of Maryland Eastern Shore (UMES) to award a contract to construct a natural gas distribution system to allow refueling of existing boilers at fourteen building locations throughout its campus. (06/02/2021)
- Approved a request from the Maryland Environmental Service (MES) to award a contract to furnish and install a new natural gas service distribution pipeline to the Eastern Correctional Institute (ECI) and convert equipment from propane to natural gas. (8/11/2021)
- Approved a request from Department of General Services to award a Statewide contract for Computerized Maintenance Management System Software, which is designed for building management and maintenance needs. (06/16/2021)
- Approved a request of the Maryland Stadium Authority (MSA) to award a pre-construction services contract for the razing and replacement of the Department of Legislative Services Building. (07/07/2021)

- Approved a request from Jefferson Patterson Park and Museum to award a contract for a design package for the renovation and expansion of its Maryland Archaeological Conservation Lab. (07/28/2021)
- Approved a request from the Department of Labor (DOL) to procure IT services and 400 ADA-compliant tablets for inmate users within all State prisons in Maryland. This program is a joint venture with DPSCS. (07/28/2021)
- Approved a request from Maryland 529 to modify a contract to provide Maryland College Investment Plan participants with an additional investment option, which will focus on environmental, social and governance screening criteria. (9/01/2021)
- Approved a request from Maryland Department of Health (MDH) to award a contract to provide Women, Infant and Children (WIC) program services to approximately 30,000 eligible participants in Montgomery County and targeted areas of Prince George’s County. (09/15/2021)
- Approved a request from DGS to award a contract to provide Statewide Fuel Delivery and Maintenance Services. (10/06/2021)
- Approved a request from State Board of Elections to award a contract to provide ballot packet printing and mailing services. (12/01/2021)
- Approved a request from Maryland Department of the Environment (MDE) to award a contract to provide program implementation and development services to support Maryland’s participation in the Regional Greenhouse Gas Initiative and regulations for the Maryland Carbon Budget Trading Program. (12/15/2021)

### **Erroneous Conviction Payments**

- Approved the BPW General Counsel’s recommendation to grant Melvin Thomas compensation, to be paid over 7 fiscal years (ending July 31, 2026). Mr. Thomas was also awarded additional funding for financial and other appropriate counseling. (04/21/2021)
- Approved the BPW General Counsel’s recommendation to award supplemental compensation under the new “Walter Lomax Act” to the following:
  - Kirk Bloodsworth (10/06/2021)
  - Leslie Vass (10/20/2021)
  - Michael Austin (11/03/2021)

### **State Services, Facilities, & Assets**

- Approved the Maryland Food Center Authority’s request to obtain an 8.92 acre developed site to construct a 177,000 square foot refrigerator warehouse facility to expand its seafood packaging and distribution center. (01/06/2021)

- Approved a request from University of Maryland College Park (UMCP) to acquire a 233,658-acre parcel from the Aspen Institute, Inc., which is adjacent to Wye Research and Education Center. (05/19/2021)
- Approved the use of \$500,000 in general obligation bonds to purchase and collect oyster shell and plant hatchery-reared oysters for oyster reef construction in targeted sanctuaries. (07/07/2021)
- Approved a request from the Historic Annapolis Foundation to sublet the Shaw House to the Department of Legislative Services (DLS) until the new DLS building is completed. (11/03/2021)

## **Transportation**

- Approved a Letter Agreement with Southwest Airlines to temporarily relocate five gates in Terminal A to complete rehabilitation work. (01/06/2021)
- Approved a request from the Maryland Port Authority to transfer property to CSX as part of an economic development package related to the expansion of the Howard Street Tunnel. (04/21/2021)
- Approved a request by Maryland Department of Transportation (MDOT) to adopt a resolution authorizing the issuance and sale by MDOT of \$250,000,000 in Special Transportation Project Revenue Bonds by September 30, 2021. The proceeds will be used to fund the Concourse A/B Connector and Baggage handling System Replacement Project at BWI. (06/02/2021)
- Approved a request from the Maryland Vehicle Administration (MVA) to award a contract to provide digital facial image capturing and conversion for driver licenses, business licenses and identification cards. (07/07/2021)
- Approved requests from the State Highway Administration (SHA) to approve the I-495/I-270 American Legion Bridge Public Private Partnership (P3) Phase 1 South Lease Agreement between SHA and MDTA and the Phase 1 P3 Agreement and award for the predevelopment work. Treasurer Kopp voted to oppose both items. (8/11/2021)
- Approved a request by the Secretary of Transportation to adopt a resolution authorizing the issuance and sale by MDOT of up to \$300,000,000 of new money bonds to occur on or before September 30, 2021. (8/11/2021)
- Approved a request from the Maryland Aviation Administration (MAA) to lease 26.92 acres to Southwest Airlines Co. to construct an airline maintenance facility. (09/15/2021)
- Approved a request from the Maryland Transit Administration to approve the modification of the Purple Line P3 Agreement and Contract settlement agreement. (09/15/2021)

# **TREASURY MANAGEMENT DIVISION**

## **Banking Services Division**

The primary mission of the Banking Services Division (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 ensures the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to its 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 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 December 31, 2021, total cash receipts and disbursements exceeded \$226 billion this year. The State's bank accounts continue to be reconciled to the penny, to the State's general ledger.

In addition to the reconciliation duties, the Division 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 Division 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 1346 agency bank accounts at 23 financial institutions. Total posted collateral on December 31, 2021 was \$1.7 billion (unaudited). Data results from the annual State bank account validation process is updated in TBAIS to ensure that all accounts are properly collateralized, monitored monthly, and that all interest owed to the General Fund has been collected.

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 strive to stay at the forefront of changes in banking products and services offered in the financial industry. The Division 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 Division

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

The information in this report is based on the daily verification of investments as of December 31, 2021. The balance of the General Fund Investment Portfolio for December 31, 2021 was \$15,278,490,000 with a yield of .39% compared to \$8,916,614,000 on December 31, 2020 with a yield of 0.32%, The portfolio increased by ~\$7,388,765,000 over the year, The Portfolio earned an average of 0.31% in 2021, compared to 2020 when it was earning 0.73%.

The General Fund gross interest earnings for calendar year 2021 was \$30,811,527, compared to \$73,411,102 received for the 2020 calendar year. The year over year gross interest earnings declined by \$42,599,575. Rates dropped dramatically with the pandemic from 2020 to 2021 and large portions of the portfolio were called, necessitating replacing those investments with lower yielding assets; the increase in the portfolio overall could not off-set the move in rates.

Fiscal Year	General Fund	3 Month Treasury Bill Rate
2020	1.43%	1.22%
2021	0.29%	0.06%

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

Fiscal Year	Net General Fund	Allocated to State Agencies	TOTAL	% Allocated to State Agencies	10 YR Average
2012	\$23,207,534.91	\$48,647,953.56	\$71,855,488.47	68%	
2013	\$8,646,595.12	\$40,710,863.09	\$49,357,458.21	82%	
2014	\$19,232,799.33	\$52,602,770.79	\$71,835,570.12	73%	
2015	\$7,127,482.88	\$55,460,767.19	\$62,588,250.07	89%	
2016	\$15,915,627.41	\$60,075,482.99	\$75,991,110.40	79%	
2017	\$3,351,825.70	\$84,108,491.92	\$87,460,317.62	96%	
2018	\$20,963,584.77	\$94,860,659.60	\$115,824,244.37	82%	
2019	\$34,438,222.00	\$116,577,195.00	\$151,015,417.00	77%	
2020	\$35,634,539.82	\$96,214,619.04	\$131,849,158.86	73%	
2021	\$10,912,718.92	\$18,608,563.57	\$29,521,282.49	63%	78%
2022 Through 12/21*	\$10,726,337.92	\$11,177,989.33	\$21,904,327.25	51%	

\*Interest allocations are through 12/31/21.



The Maryland Local Government Investment Pool's (MLGIP) AAAm rating was reaffirmed by S&P Global Ratings on September 27, 2021. The MLGIP has maintained the AAA rating since April 2000. The MLGIP's balance, which is the amount invested by all participants, on December 31, 2021 was \$10,823,643,000, compared with \$10,314,532,000 on December 31, 2020, an increase of **\$509,111,000**.

The MLGIP yield was 0.0396% as of December 31, 2021, compared to 0.0863% on December 31, 2020. The MLGIP consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

The MLGIP management contract was rebid last year and the incumbent, PNC Bank, retained the contract.

## DEBT MANAGEMENT DIVISION

### Rating Agency Update

In August 2021, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2021, Second Series, Moody's Investors Service, S&P Global (S&P) and Fitch Ratings all reaffirmed their AAA ratings for Maryland's General Obligation debt. The rating reports from this sale are available on the Treasurer's website at <http://www.treasurer.state.md.us>.

Maryland is one of only thirteen states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P has rated the bonds AAA since 1961, Moody's Investors Service 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, Georgia, Florida, Indiana, Iowa, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia.

### Overview of Maryland's Credit

There is broad consensus about the State's credit strengths and challenges. An overview of some of those factors follows but should not be considered exhaustive. Reports issued in conjunction with the State's bond sales are available on our website. The rating agencies also frequently issue general research reports pertaining to credit issues and challenges which are available upon request. Though the COVID-19 pandemic led to significant challenges for the State, including loss of revenues, increased expenditures, and operational impacts, all three major rating agencies (Moody's, S&P, and Fitch) reaffirmed the State's AAA-stable bond rating in August 2021.

#### *Credit Strengths*

*Strong fiscal management institutions:* One of Maryland's greatest credit strengths is its fiscal management, which is supported by strong institutionalized tools. These include the Capital Debt Affordability Committee (CDAC) process, which ensures State tax-supported debt remains within affordable levels; the Board of Revenue Estimates process, which produces a consensus revenue forecast agreed upon by the different branches of government; the strong Executive budgeting system; the Board of Public Works' ability to make midyear spending adjustments; the lack of a supermajority requirement for tax increases; and rapid 15-year amortization of general obligation debt required by the Constitution, among other things.

*Track record of excellent fiscal management:* The State also has a proven track record of proactive fiscal management. Operating budgets are balanced and nearly always passed within the 90-day legislative session, the BPW has made numerous spending adjustments in response to new revenue information over the years, and adjustments such as tax increases and reforms to the pension system have been made when necessary. Maryland's "middle temperament" and tradition of proactive cooperation on fiscal matters are subjective but critically important factors in the State's credit rating.

*Stable, diversified economy:* Maryland has a broad-based, service-oriented economy anchored by the federal government, which has a positive impact on the State's economy overall despite occasional drag caused by dysfunction in the federal government. The State's economy has

a long record of resilience and above average performance relative to the nation as a whole. Maryland also tends to have lower unemployment and more high-paying jobs than the national average.

*Highly educated population and above average income:* The State's population ranks in the top echelon of the U.S. in terms of its educational attainment status and income level, creating a dynamic and reliable revenue base. Policies that help us maintain our status as a highly educated, wealthy state are critical to the State's ability to retain its AAA bond rating.

### ***Credit Challenges***

*Pensions, debt, and other long-term liabilities:* Long-term liabilities in Maryland are considered to be somewhat high relative to peer triple AAA states. The State's debt burden is considered moderate, and the Constitutional requirement to retire debt within fifteen years, though a credit positive overall, leads to higher annual debt service costs. Maryland also directly funds a large portion of school construction needs for its counties, which is unusual among states. Pensions are still below the ideal levels of funded status, and though the rating agencies credit Maryland for its 2011 reforms, they also warn against any backsliding on the reforms that could jeopardize the progress made. Taking steps to manage these long-term liabilities while still meeting Marylanders' need for State services is crucial.

*Aging infrastructure and deferred maintenance:* Despite the need to manage liabilities, the State continues to have significant need for capital investments that will keep the State economically competitive in the 21<sup>st</sup> century. Demand for capital projects such as school renovation and replacement, economic development, housing, etc. have consistently far exceeded actual spending, a trend which has accelerated over the last few years. During the Great Recession and years of slow growth that followed, maintenance on State facilities was deferred due to budgetary restraints, leading to a significant backlog that must be addressed. Though it is important to manage long-term liabilities, the State must continue to make investments in its people and infrastructure, while protecting its existing assets to avoid the need for more expensive repairs or replacements in the future.

*Revenue challenges caused by suboptimal demographic trends and taxation system:* In the State's long-term forecasts, revenues are not expected to keep up with expenditures. As Maryland's Bureau of Revenue Estimates reported, this is in part due to depressed revenue growth resulting from the demographic structure of the State's population, in which a growing portion of Marylanders are above prime working age, while prime-age workers themselves are participating in the labor force at lower rates than they have historically<sup>1</sup>. Policies that attract new immigrants and prime-age workers, retain the workers we have, or encourage participation by those not currently in the workforce can offset this decline. An additional revenue challenge is that the State's taxation system is designed for a 20<sup>th</sup> century economy. The State is transitioning to a service-based economy, meaning a growing sector of the economy is not taxed; likewise, the State has not adjusted for technological change, such as taxing digital goods and subscriptions. The *South Dakota vs. Wayfair, Inc.* decision delivered good news on this front, allowing the State to tax online sales

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<sup>1</sup>The Bureau of Revenue Estimates studied this problem at length and its report can be found here: [https://finances.marylandtaxes.gov/static\\_files/revenue/BRE\\_reports/FY\\_2018/BRE%20Report%20on%20Age%20Demographics.pdf](https://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf)

of entities with no physical footprint in Maryland. The State is already seeing significantly increased sales tax revenue from this change.

*Federal government dysfunction:* Brinksmanship at the federal level have an outsized impact on Maryland due to its reliance on the federal government. For example, shutdowns typically lead to decreases in State revenue, and an actual debt ceiling breach would directly impact the State's rating, since it is unusual for a subordinate state to be rated higher than its sovereign. Management issues at federal agencies that lead to high vacancy rates and churn also directly impact the State's bottom line.

## **COVID-19 Market Disclosure**

Given that the COVID-19 pandemic continues to the State's finances and operations, the Debt Management Division has been providing regular voluntary disclosure to the municipal bond market regarding the timeline of key State actions in response to the pandemic, as well as the status of its revenues, budget, and liquidity. The goal of this disclosure is to ensure that the State meets its legal and regulatory obligations and to ensure that it is being fully transparent with market participants. The initial disclosure may be viewed at <https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/RE1035097>. Subsequent developments are being published at <http://www.buymarylandbonds.com/covid-19.pdf> as they occur.

## **General Obligation Bonds**

Since the last report to this committee, the State has conducted two General Obligation bond sales totaling \$1.3 billion. The 2021 First Series, totaling \$475.0 million, was sold on February 24, 2021 and closed on March 10, 2021.

- Series A Bidding Group 1 consisted of \$207.5 million in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received an All-In True Interest Cost (All-In TIC) of 0.93% and included a premium of \$61.0 million.
- Series A Bidding Group 2 consisted of \$217.5 million in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received an All-In TIC of 2.03% and included a premium of \$74.5 million.
- Series B consisted of \$50.0 million in taxable new money bonds. The proceeds were used to finance loan programs and other capital projects with the potential to benefit non-governmental entities. Series B received an All-In TIC of 0.50%.

The 2021 Second Series A and Second Series B Bonds were sold on August 11, 2021 and closed on August 25, 2021. The 2021 Second Series C and Second Series D bonds were sold in a forward, negotiated sale and will close on or about March 1, 2022 and May 3, 2022, respectively. The 2021 Second Series bond sale totaled \$852.1 million.

- Series A Bidding Group 1 consisted of \$259.0 million in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received an All-In TIC of 0.78% and included a premium of \$80.7 million.
- Series A Bidding Group 2 consisted of \$281.1 million in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received an All-In TIC of 1.79% and included a premium of \$89.8 million.
- Series B consisted of \$75.0 million in taxable new money bonds. The proceeds were used to finance loan programs and other capital projects with the potential to benefit non-governmental entities. Series B received an All-In TIC of 0.61%.
- Series C consisted of \$113.8 million in tax-exempt forward refunding bonds. The proceeds will be used to refinance previously issued bonds at a lower rate, which will save the State \$21.3 million in debt service costs on a net present value basis. Series C received an All-In TIC of 0.87%.
- Series D consisted of \$123.3 million in tax-exempt forward refunding bonds. The proceeds will be used to refinance previously issued bonds at a lower rate, which will save the State \$17.8 million in debt service costs on a net present value basis. Series C received an All-In TIC of 1.04%.

## **Capital Leases**

The Debt Management Division administers two capital lease programs on behalf of State agencies. The Equipment Lease-Financing Program allows State agencies to acquire equipment and pay for those items over a three, five, or ten-year time frame. The Energy Lease-Financing Program allows State agencies to acquire equipment necessary for an Energy Performance Contract (EPC) and pay for the equipment portion of the EPC over multiple years using the utility savings generated by the project.

Since the last report to this committee, the Debt Management Division procured one lease for capital equipment totaling \$3.9 million. The lease financed critical equipment for various State agencies and was approved by the Board of Public Works on July 28, 2021. It was awarded to the lowest qualified bidder, TD Equipment Finance, Inc., which offered a weighted average interest rate of 0.63%.

On April 27, 2021, this committee authorized \$50.0 million for the Equipment Lease-Financing Program and \$45.0 million for the Energy Lease-Financing Program through June 2023. As of December 31, 2021, the balance of the Equipment Lease-Financing Program is \$46.1 million. The Debt Management Division has not yet utilized the authorization for the Energy Lease-Financing Program.

## **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. On April 19, 2021,

the Commission on State Debt met to recommend a State property tax rate sufficient to meet debt service requirements and released its annual report. Over the years, the debt service has also been supported by appropriations from the General Fund. In fiscal year 2022, \$260 million 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 appropriation is projected for fiscal years 2023 - 2026. However, as noted in the Commission's report, the actual General Fund appropriation may be significantly lower than projected. Though the State typically uses bond premium to offset current year debt service, the Commission's projections do not include bond premium in future fiscal years since premium attainment is heavily dependent on volatile, difficult to predict factors such as market conditions, coupon structure, and investor preference. If bond premium continues to be attained and the State continues to use it to offset debt service, the General Fund appropriations will be substantially reduced. Additionally, the Debt Management Division routinely reviews the State's debt portfolio for refunding opportunities, which further reduces debt service. The complete Commission on State Debt report is available on the Treasurer's website at: [http://www.treasurer.state.md.us/media/148536/2021\\_comm\\_on\\_state\\_debt\\_report.pdf](http://www.treasurer.state.md.us/media/148536/2021_comm_on_state_debt_report.pdf). The table below is an excerpt from the April 2021 report.

**Annuity Bond Fund, FY 2020 – 2026**  
(\$ in thousands)

	2020 Act.	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.
<b>Beginning Balance</b>	\$113.5	\$207.3	\$150.0	\$9.5	\$2.0	\$2.0	\$2.0
Total Property Tax Collections	860.6	890.7	914.3	941.7	970.0	999.1	1,029.0
General Fund Appropriation	287.0	131.0	260.0	325.6	474.3	477.7	449.2
Bond Sale Premium	248.5	314.2	270.0	134.0	-	-	-
Federal Subsidy for ARRA Bonds	10.4	10.9	10.1	8.9	7.5	5.5	2.6
Transfer Tax	6.9	6.9	6.9	7.0	7.0	7.0	1.7
Other Cash Receipts	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Capital Projects	-	(136.0)	(222.9)	-	-	-	-
Debt Service	(1,321.8)	(1,277.6)	(1,381.3)	(1,427.2)	(1,461.2)	(1,491.7)	(1,484.9)
<b>Ending Balance</b>	<b>\$207.3</b>	<b>\$150.0</b>	<b>\$9.5</b>	<b>\$2.0</b>	<b>\$2.0</b>	<b>\$2.0</b>	<b>\$2.0</b>

**Capital Debt Affordability Committee (CDAC)**

***General Obligation Recommendation***

At its final meeting on October 18, 2021, the Committee reviewed its assumptions on revenues, personal income, interest rates, debt issuance, debt service, and bond authorizations. The Committee believes that these variables have been estimated prudently. The personal income and revenue estimates reflected the most recent forecast by the Board of Revenue Estimates on September 30, 2021. A motion was made by the Secretary of the Department of Budget and Management, asking the Committee to approve a recommendation of \$900.0 million for new general obligation authorizations to support the fiscal year 2023 capital program. The motion passed 4-1, with Treasurer Kopp voting in opposition.

In addition to determining and recommending a prudent affordable debt authorization level for the coming year, the Committee also sets out planning assumptions for the State to use in its capital program planning process. The amounts recommended for future fiscal years is shown in the table below. The motion passed 4-1, with Treasurer Kopp voting in opposition.

<b>CDAC Affordability Ratios (projected)</b> (\$ in millions)			
Fiscal Year	Authorization	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2022	\$1,095.0	3.3%	7.0%
2023	900.0	3.2%	7.1%
2024	1,125.0	3.0%	6.9%
2025	1,135.0	2.9%	6.8%
2026	1,145.0	2.8%	6.5%
2027	1,155.0	2.7%	6.5%
2028	1,165.0	2.5%	6.4%
2029	1,175.0	2.4%	6.2%
2030	1,185.0	2.3%	6.0%
2031	1,195.0	2.2%	5.7%

The Committee recognizes that there are multiple annual authorization levels and patterns that would result in adherence to the benchmarks, depending on future levels of personal income and State revenue. The Committee's planning assumptions for future authorizations will be reviewed in preparation for the 2022 report considering updated revenue and personal income projections, and authorization levels may be adjusted to adhere to these affordability benchmarks.

#### ***Academic Facilities Bonds Recommendation***

Based on its review of the condition of State debt and considering the debt affordability guidelines, the Committee recommended a limit of \$30 million for new academic facilities bonds for the University System of Maryland for FY23. The Committee did not receive any requests for new issuances for Morgan State University, St. Mary's College of Maryland or Baltimore City Community College.

The 2021 Capital Debt Affordability Report and the 2021 meeting materials are available on the State Treasurer's website at <http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx>.

## 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, Claims, which includes Tort Litigation, and Loss Prevention. 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 year include:

- A collaborative meeting with MAA, airport liability insurer Starr Indemnity, broker Willis and Insurance Division staff was held January 29, 2021. The purpose of the meeting was to discuss Promobots, interactive robots deployed at BWI Airport.
- For the commercial property insurance program effective April 1, 2021, the flood coverage limit for State property in Special Flood Hazard Areas (SFHA) was raised from \$10,000,000 to \$15,000,000. With greater than average activity forecast for the 2021 hurricane season, the increased flood limit for high hazard zones was deemed prudent.
- The FY22 annual property survey was distributed to State agencies and higher education institutions beginning July 1, 2021. The survey gathers values for real and personal property, computers, fine arts, drones and vessels, as well as pertinent underwriting information. Reported values comprise the basis for several of the State's self-insured and commercial insurance programs.
- Commercial cyber, network security & privacy insurance, first written in 2020, renewed September 30, 2021, despite challenging market conditions. The blanket program covers Executive agencies, Legislative and Judicial branches, as well as State Universities and Colleges. Cyber coverage is intended to respond to privacy/data releases, hacking, extortion, and various other threats.



## ***Commercial Policy Renewals***

January 1, 2021 – December 31, 2021

- Maryland Port Administration's commercial auto coverage renewed effective January 1, 2021. The overall pricing was down from \$83,070 to \$81,545. This was an overall **savings of \$1,525.**
- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2021. The overall pricing was down from \$48,947 to \$43,287. This was an overall **savings of \$5,660.**
- Maryland Port Administration's liability and terrorism coverages renewed effective January 31, 2021. The overall pricing was up from \$523,783 to \$537,814. This was an overall increase of \$14,031.
- Maryland Institute for Emergency Medical Services Systems General Liability for Leased Radio Towers renewed effective February 18, 2021. The overall pricing **remained the same at \$3,850.**
- State of Maryland Blanket Fine Art on Loan renewed effective March 1, 2021. It was noted that overall values on loan have steadily decreased over the last three years, so the policy coverage limit was reduced from \$20M to \$10M. The reduction in policy limit resulted in an overall pricing decreased from \$17,475 to \$10,424. This was an overall **savings of \$7,051.**
- Maryland Department of Human Services and Maryland Department of Juvenile Services Foster Parent Liability coverage renewed March 15, 2021. The overall pricing increased from \$198,930 to \$222,745. This was an overall increase of \$23,815.
- State Blanket Excess Property insurance renewed effective April 1, 2021. Values increased by approximately 7%. Due to an extremely difficult global insurance market, the overall pricing increased from \$8,559,987 to \$10,049,641. This was increase of \$1,489,654.
- Maryland 529 Crime policy renewed effective April 1, 2021. The overall pricing increased from \$1,962 to \$2,077. This is an increase of \$115.
- Maryland Department of Commerce Foreign Liability insurance renewed May 1, 2021. **The renewal pricing remained flat at \$3,500.**
- Aviation Liability & Hull insurance renewed effective June 30, 2021. Maryland State Police reduced the values of their AW139s from \$18.5M to \$9M each, while hull and liability coverage for aircraft leased by UMES was added. This resulted in an increase

broker services fee, but overall renewal pricing decreased from \$1,499,424 to \$1,336,474. **This was a savings of \$162,950.**

- Maryland Transit Administration excess liability insurance renewed effective July 1, 2021. Renewal includes drop-down liability coverage limit \$200M. In addition, terrorism is included up to the total limit of \$500M. The bus retention remains \$10M. Renewal pricing was up from \$9,470,829 to \$10,176,591. This is an increase of \$705,762.
- Maryland Transit Administration Rail Car floater renewed effective July 1, 2021. Renewal pricing decreased from \$883,371 to \$709,779. **This is a savings of \$173,592.**
- Maryland Transit Administration Bus & Mobility Fleet Physical Damage renewed effective July 1, 2021 with total values up approximately 4%. The overall pricing increased from \$269,275 to \$323,290. This is an increase of \$54,015.
- Athletic Participants basic coverage for 10 schools was renewed effective August 1, 2021. The overall pricing was down from \$1,036,879 to \$973,193. **This is a savings of \$63,686.**
- Maryland Aviation Administration's airport liability insurance renewed effective August 15, 2021. Renewal pricing was up from \$1,130,000 to \$1,240,500. This is an increase of \$110,500.
- Allied Health professional liability coverage for various schools renewed effective September 1, 2021, with the number of enrolled students up by approximately 20%. This was in part due to adding University of Maryland Global Campus as a participating institution under this placement. Renewal pricing was up from \$100,462 to \$126,489. This is an increase of \$26,027.
- Maryland State Retirement & Pension System Fiduciary Liability insurance renewed effective September 1, 2021. The overall pricing increased from \$239,644.25 to \$251,627. This is an increase of \$11,981.75.
- Blanket Boiler & Machinery coverage for the State renewed effective September 30, 2021. The State's overall values increased by approximately 6%. Renewal pricing was up from \$585,449 to \$624,000. This is an increase of \$38,551.
- Blanket Cyber Insurance coverage for the State renewed effective September 30, 2021. The State's overall limits were cut in half from \$10M limit expiring to \$5M renewal. This reflects what the broker referred to as a "difficult" class of business globally speaking. Renewal pricing was up from \$885,360 to \$1,392,000. This is an increase of \$506,640.
- University of Maryland (in Baltimore City) and University of Baltimore Law Clinics Professional Liability insurance renewed effective October 10, 2021. The renewal coverage limits continue to be \$1M per claim/ \$1M aggregate, inclusive of defense costs

with \$1K deductible; however, coverage now includes a \$200K supplemental limit of professional liability outside of defense costs. Renewal pricing is up from \$19,229 to \$20,230. This is an increase of \$1,001.

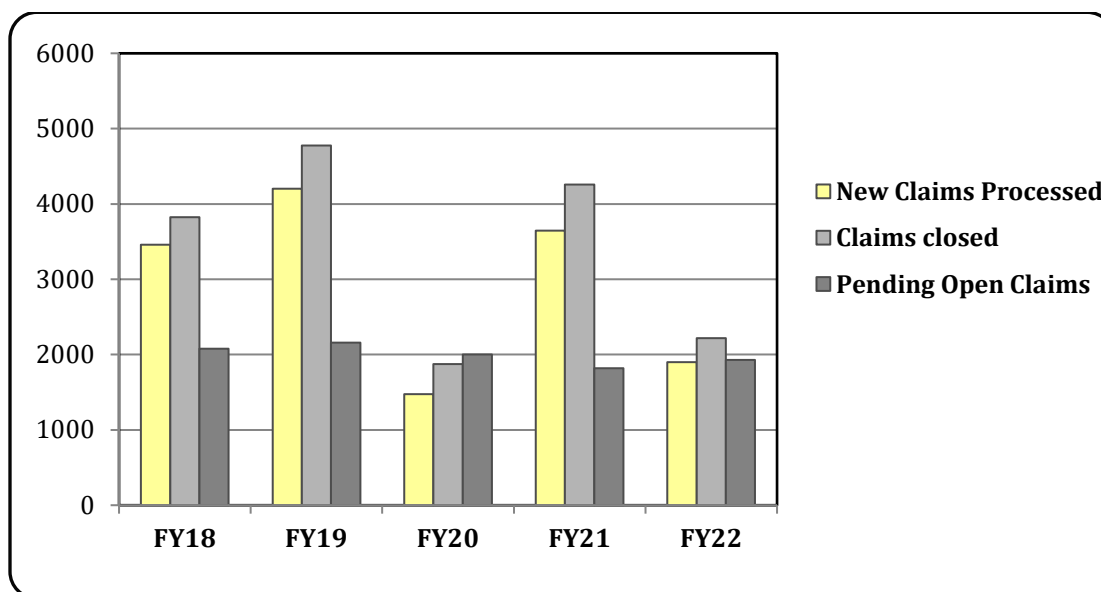
- Maryland Public Television General Liability insurance renewed effective October 11, 2021. The overall pricing increased from \$13,075 to \$14,671. This is an increase of \$1,596.
- Maryland Public Television Umbrella Liability insurance renewed effective October 11, 2021. The overall pricing increased from \$3,161 to \$3,421. This is an increase of \$260.
- Blanket terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2021. Renewal pricing was \$221,406.25. This is an increase of \$809.35.
- Maryland Transportation Authority Bridges and Tunnels liability insurance renewed October 17, 2021. New carrier replaced former lead carrier who was not able to offer renewal terms. New carrier priced higher than former and all following layers likewise increased. As a result, the overall renewal pricing was up from \$750,869 to \$960,869. This is an increase of \$210,000.
- Maryland Port Administration's Cranes property/marine program renewed effective November 25, 2021. Overall values were up 2% from prior year. Renewal pricing increased from \$68,884 to \$72,994.
- Maryland Transportation Authority Crime insurance renewed effective December 1, 2021. The overall pricing increased from \$6,953 to \$7,194. This is an increase of \$241.
- Maryland Transportation Authority Bridges and Tunnels property program renewed December 1, 2021. Renewal pricing was up from \$3,752,467 to \$3,780,900. This is an increase of \$28,433, or less than 1% compared to the expiring term.
- Maryland Fire and Rescue Institute professional and general liability policy renewed December 5, 2021. Renewal pricing increased from \$54,134 to \$61,957.
- Maryland Community Development Administration/ Fannie Mae crime insurance renewed effective December 31, 2021. Social Engineering coverage along with Computer Fraud & Funds Transfer coverages were added to the renewal. The overall pricing increased from \$2,707 to \$3,540. This is an increase of \$833.

## **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 January 1, 2021 through December 31, 2021, there were 3611 new claims processed and 4229 claims closed. The chart below shows claims detail of all claims by fiscal year. There are currently 2048 open pending claim files for FY22.



***Major Claims Reported Under Investigation - January 1, 2021 – December 31, 2021***

- On March 29, 2021, the University of Maryland College Park reported flooding to several offices in the J.M. Patterson Building that occurred on March 17, 2021. Damages are estimated at \$120,000.00.
- On April 7, 2021, the University of Maryland Baltimore reported a cybersecurity breach that occurred on March 29, 2021. Damages are estimated at \$250,000.00.
- On June 30, 2021, the University of Maryland College Park reported flooding in Prince Frederick Hall that occurred on May 28, 2021, resulting in water damage to the hallway and offices.
- On July 8, 2021, the University of Maryland Global Campus reported flooding that occurred June 14, 2021, resulting in water damage in the third-floor men’s room down to the basement. Damages are estimated at \$250,000.00.
- On July 16, 2021, the Maryland Stadium Authority reported wind damage to the north side M&T Stadium bank sign that occurred on June 16, 2021. Damages are estimated at \$330,000.00.

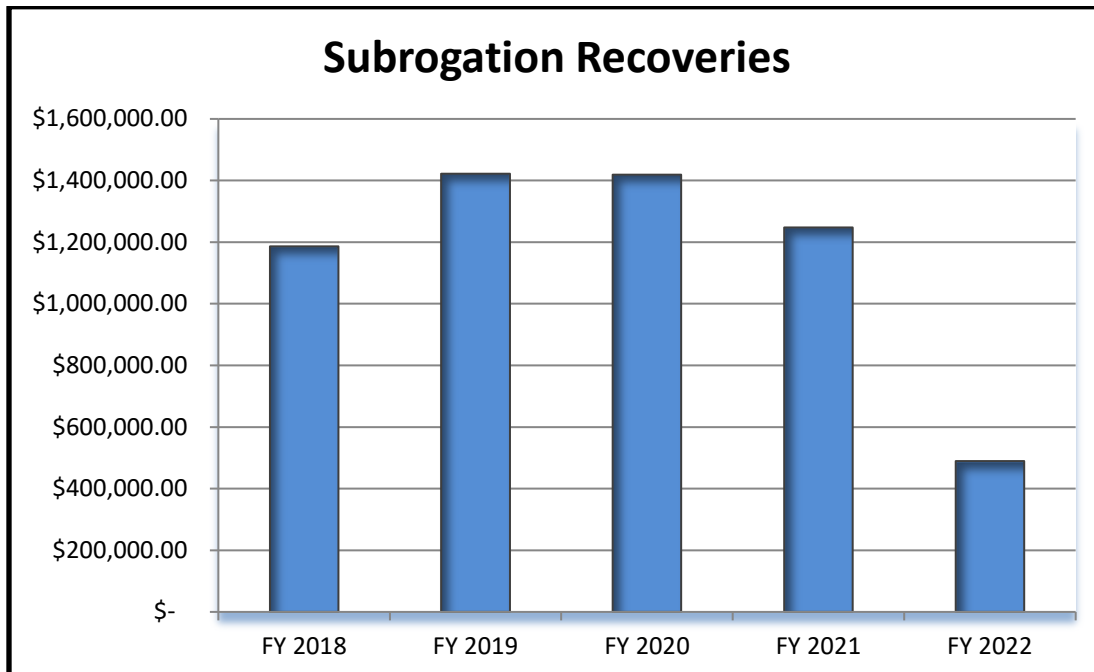
- On August 3, 2021, Morgan State University reported ceiling panels had fallen on July 23, 2021 in the Gilliam Concert Hall located in the Murphy Fine Arts Center. Damages are estimated at \$3,000,000.00.
- On August 16, 2021, the University of Maryland College Park reported an electrical outage in the John S. Toll Physics building that occurred on July 12, 2021. Damages are estimated at \$500,000.00.
- On September 3, 2021, the University of Maryland College Park reported flooding at; Turner Hall, Chemical and Nuclear Engineering, McKeldin Library, Chemistry and Bioscience Research buildings, resulting in water damage, that occurred on August 9, 2021. Damages are estimated at \$250,000.00.
- On September 9, 2021, the Maryland Court of Appeals reported flooding in storage room B and hallways that occurred on September 4, 2021. Damages are estimated at \$275,000.00.
- On October 21, 2021, the University of Maryland College Park reported a high-pressure steam leak in Marie Mount Hall that occurred on September 13, 2021, resulting in moisture damage to basement mechanical equipment. Damages are estimated at \$150,000.00.
- On December 6, 2021, the Maryland Department of Health reported a cyber security breach that occurred on December 5, 2021. The claim was assigned to the commercial insurance carrier. The Department of Health is investigating the scope of the breach. Damages are being determined but are likely to exceed the \$2,500,000.00 policy deductible.
- On December 17, 2021, the University of Maryland College Park reported a dual temperature pipe/filling failed in St. Mary's Hall flooding apartments on the ground and first floors, basement and stairwell, that occurred on December 12, 2021. Damages are estimated at \$175,000.00.
- On December 21, 2021, Salisbury University reported a fire in the basement electrical room of Blackwell Hall resulting in fire damage to the switchgear, and smoke damage to the basement storage rooms that occurred on December 20, 2021.

### ***Subrogation Recoveries***

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 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. Subrogation recoveries for FY22 total \$489,298.48 as of December 31, 2021.

Subrogation recoveries in FY22 have continued to be impacted by the COVID-19 pandemic. Beginning early in 2020 and as a result of the COVID-19 crisis, the Governor suspended debt collection activities in order to lessen the burden to Maryland businesses and citizens. The

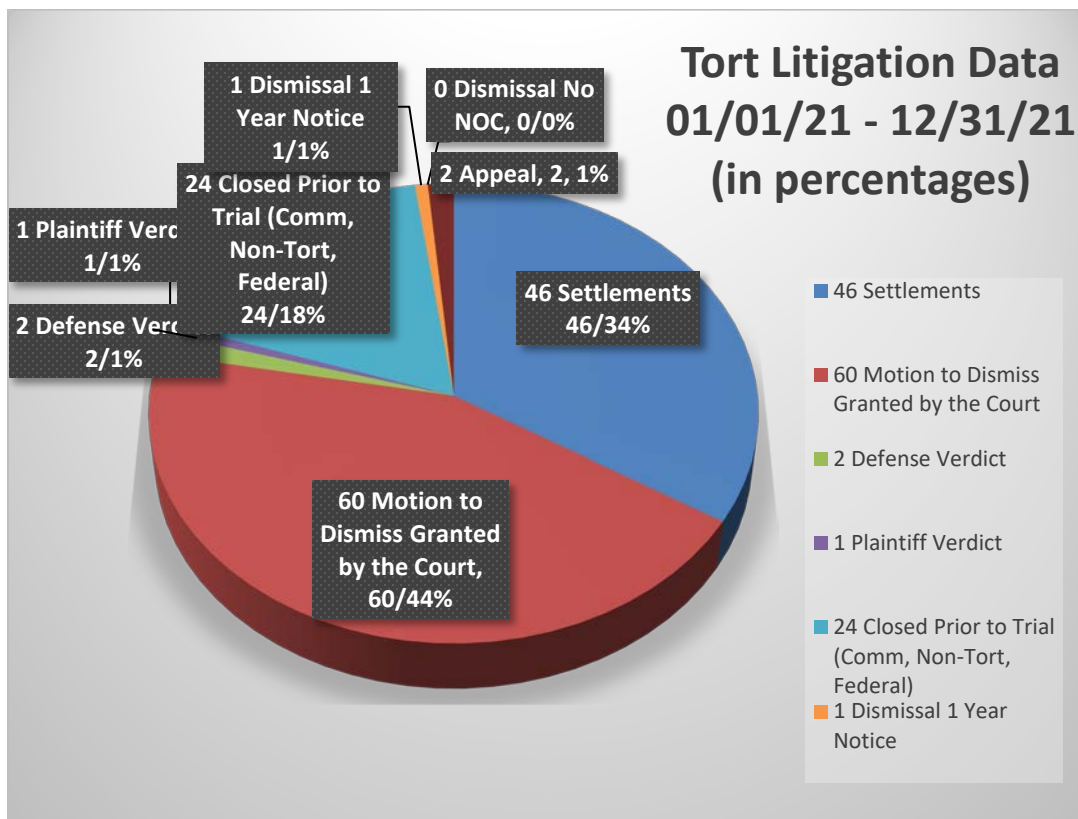
claims unit was unable to submit outstanding damages to the Central Collection Unit (CCU) and individual(s) responsible for damage to State property, though subrogation recoveries from individuals' insurance carriers were able to be processed. CCU has since resumed full collection activities, thus subrogation recovery efforts through CCU and against individuals have resumed.



### **Tort Litigation Management**

The Casualty Claims Litigation Specialists work closely with the Office of the Attorney General to proactively resolve cases in litigation. The Casualty Claims Litigation Specialists investigate, evaluate, and extend settlement authority on behalf of the Treasurer to the Office of the Attorney General. In cases valued over \$400,000, the Casualty Claims Litigation Specialists brief the Insurance Review Committee, which includes the Chief Deputy Treasurer, the Director of the Insurance Division, the Tort Attorneys, and other stakeholders requesting settlement authority.

The Tort Unit handles a rolling docket of approximately 150-175 litigation claims. As of December 31, 2021, the litigation caseload was approximately 161. Settlement and litigation expense costs for the period of January 1, 2021 through December 31, 2021 were \$3,048,326.53 and \$91,959.95, respectively, for a total of \$3,140,286.48. Casualty Claims Litigation Specialists provide feedback to adjusters during the discovery process and upon resolution, attend settlement conferences and other court-mandated activities, provide periodic updates on the status of litigation claims, actively monitor trial verdicts and appeals, and assess the potential impact on the State Insurance Trust Fund.



*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](http://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 Jonathan Martin at (410) 260-7390.*