



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

**August 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 20, 2022. 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 the Board of Revenue Estimates, and Chairmanship of the Capital Debt Affordability Committee. The Treasurer 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 Maryland 529 Plans, the Maryland Teachers and State Employees’ Supplemental Retirement Plans and the Maryland Environmental Service (MES).

**There are three highlights in this report of particular note.** First, STO continues to prioritize sound management of the State’s financial portfolio. For fiscal year 2022, the State earned \$70.7 million on its investments. Of that amount, \$36.4 million was allocated to the General Fund and the remainder was allocated to the agencies. The General Fund Portfolio closed the year with assets of \$17.8 billion, an increase of \$5.5 billion from the prior year. Second, even in a changing interest rate environment, STO, the members of BPW, and the State’s financial advisors coordinated a \$1.05 billion bond sale that will generate \$169.7 million in net bond premium. Third, STO is investing time and resources into various information technology upgrades. By replacing legacy IT systems for insurance, administration, and treasury management functions, STO is ensuring that service and operations will continually improve.

The items contained within this report also detail other 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, 2022 and June 30, 2022, BPW met ten 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, BPW considered the following items, among others.

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

- Approved the Maryland Stadium Authority's request to award Bid Package 2 covering earthwork, site utilities, concrete, structural steel, and elevators for the Cross Country Elementary/Middle School renovation/addition project. (02/16/2022)

### **BPW Regulations**

- Approved the final regulations for technical changes to COMAR Title 21, State Procurement. (04/06/2022)

### **Erroneous Conviction Payments**

As required under the Walter Lomax Act (Chs. 76 and 77 of the Acts of 2021), BPW must compensate an erroneously convicted individual based on a formula. Since January 2022, BPW has approved several compensation awards for such individuals, including the two listed below.

- Approved the Office of Administrative Hearings' request to pay Mr. Bernard Webster \$806,730.48 in supplemental compensation and \$9,340.20 in attorney's fees for erroneous confinement. (02/16/2022)
- Approved the Office of the Attorney General's and several state agencies' request for additional payment of \$91,152 to Kirk Bloodsworth. This includes benefits related to financial literacy training, health and dental benefits, monetary payments for housing accommodations and attorney's fees. (04/27/2022)

## Procurement

- Approved the Department of Public Safety and Correctional Services' request to award a contract offering statewide dental services for inmates in the custody of the Department of Public Safety and Correctional Services. (01/05/2022)
- Approved the Maryland Department of Transportation's request to award a contract to provide consulting services to prepare comprehensive availability and utilization studies for Maryland minority and women-owned businesses. (01/05/2022)
- Approved a request from the State Board of Elections to award contracts for the new Electronic Pollbook System. (01/26/2022)
- Approved the Department of General Services' request to award a contract for construction management services to restore the exterior of the Maryland State House and Grounds within State Circle. This includes stabilization and restoration of the Old Treasury Building. (01/26/2022)
- Approved the State Board of Elections' request to award contracts for the State's Voter Education Campaign. (01/26/2022)
- Approved the Maryland Stadium Authority's request to award Bid Package 1 related to demolition, abatement, structural concrete, structural steel, elevators, sheeting and shoring, and select earthwork for the Department of Legislative Services replacement project. (03/23/2022)
- Approved the Department of General Services' request to award a design and construction management services contract for the new Baltimore Therapeutic Treatment Center in Baltimore City. (03/23/2022)
- Approved the Maryland Historic Trust's request to award a contract to transform the historical Jefferson Patterson Park and Museum, Patterson Center residential complex into a modern, public museum and event facility. The property is located on the Patuxent River in Southern Calvert County. (04/27/2022)
- Approved the State Board of Elections' request to award a contract to monitor, detect, alert and respond to potential cyber threats to minimize risks to digital information. (04/27/2022)
- Approved the University of Maryland Baltimore's request to award a contract for the management and operation of the Dental School Student Clinics in Baltimore. (05/11/2022)
- Approved the request from the Department of Emergency Management to award a contract to provide continued staffing for COVID-19 operations, logistics, planning, and support including Public Assistance staff for cost recovery for the American Rescue Plan Act. (06/08/2022)

- Approved the request from the Department of Labor, Division of Unemployment Insurance to award a contract to provide programming staff support for the Beacon System. This is the main IT system used to implement the Department of Labor's Division of Unemployment Insurance benefits and collect and manage Unemployment Insurance Tax. (06/08/2022)

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

- Approved up to \$3 million in grant funding to upgrade septic systems with Best Available Technology for nitrogen removal and make sewer connections using the Bay Restoration Fund during fiscal year 2022. (01/05/2022)
- Approved the Maryland Stadium Authority's request to do the following related to the Hagerstown Multi-Use Sports and Events Facility:
  - issue bonds in a principal amount not to exceed \$59,500 to partially finance acquisition, construction, and renovation costs, and related expenses and to pay financing costs; (01/05/2022)
  - acquire real property for the new Hagerstown Multi-Use Sports and Events Facility (01/26/2022 and 03/09/2022); and
  - award a design and preconstruction services contract. (03/09/2022)
- Approved the Maryland Stadium Authority's request to issue Built to Learn Act Revenue Bonds, Series 2022A in an amount not to exceed \$458.5 million, the proceeds of which will be used to partially finance the construction of public school facilities in Baltimore City, and Anne Arundel, Baltimore, Frederick, Harford, Howard, Montgomery, and Wicomico Counties. (02/16/2022)
- Approved the Maryland Department of Health's request to declare as surplus 458 +/-acres with 69 buildings known as the Crownsville Hospital Center. (03/09/2022)
- Approved the Commission on State Debt's recommendation that the State property tax rate for fiscal year 2023 be 11.2 cents per \$100 of assessed value of real property (except for public utilities) and 28 cents per \$100 of assessed value of real property of public utilities. The rate is unchanged from the prior year. (04/27/2022)
- Approved the sale of \$1.05 Billion in General Obligation Bonds. Maryland's status as a AAA state helped to ensure competitive bids, which will generate \$169.7 million in net bond premium to be used for capital projects. For more information on the sale, see the Debt Management Division summary contained in this report. (06/8/2022)
- Approved the Department of Natural Resources' request to commit \$5.3 million (\$1,630,327 in Program Open Space (POS) funding allocated to Anne Arundel County and \$3,667,923 in

POS Statewide Funding) to acquire 5.16 acres for a new waterfront park in the City of Annapolis (the Elktonia/Carr's Beach Park). (04/27/2022)

- Approved the University of Maryland College Park's request to award a contract for a new standalone building and associated site improvements to house the Central Maryland Research and Education Center Headquarters in Clarksville for the College of Agriculture and Natural Resources. (04/27/2022)

# DEBT MANAGEMENT DIVISION

## Rating Agency Update

In May 2022, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2022, First 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 the State Treasurer's website. The rating agencies also frequently issue general research reports pertaining to credit issues and challenges which are available upon request.

## 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 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.

**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 the occasional shutdowns. The State's economy has a long record of resilience and above average performance relative to the nation. 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 maintain the State's status as highly educated and wealthy are critical to its 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 high relative to peer 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. The State's pension plans are still below the ideal levels of funded status, though the rating agencies credit Maryland for its 2011 reforms. Taking steps to manage these long-term liabilities while still meeting Marylanders' need for State services is crucial.

**Aging infrastructure and deferred maintenance:** The State continues to have significant need for capital investments that will keep Maryland 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. 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.

## General Obligation Bonds

Since the last report to this committee, the State has conducted one General Obligation bond sale totaling \$1.05 billion, which is expected to produce \$169.7 million in net bond premium. The 2022 First Series was sold on June 8, 2022 and closed on June 22, 2022.

- Series A Bidding Group 1 consisted of \$335.2 million in tax-exempt new money bonds. The State received nine bids and proceeds were used to finance new projects. Bidding Group 1 received an All-In True Interest Cost (All-In TIC) of 2.33% and a net premium of \$58.9 million.
- Series A Bidding Group 2 consisted of \$261.8 million in tax-exempt new money bonds. The



State received six bids and proceeds were used to finance new projects. Bidding Group 2 received an All-In TIC of 2.83% and a net premium of \$53.3 million.

- Series A Bidding Group 3 consisted of \$303.0 million in tax-exempt new money bonds. The State received six bids and proceeds were used to finance new projects. Bidding Group 3 received an All-In TIC of 3.30% and a net premium of \$57.5 million.
- Series B consisted of \$150.0 million in taxable new money bonds. The State received eight bids and 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 3.18%.

## **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 entered into a Master Lease-Purchase Financing Agreement for capital equipment in an amount up to \$10.0 million. The master lease was approved by the Board of Public Works on April 6, 2022, and was awarded to the lowest qualified bidder, Bank of America Public Capital Corp. The first draw of \$975,300 on May 4, 2022 financed critical equipment for various State agencies.

On April 27, 2021, this committee authorized \$50.0 million for the Equipment Lease-Financing Program, of which a balance of \$45.2 million remains to fund capital projects through June 2023. This committee also authorized \$45.0 million for the Energy Lease-Financing Program, also through June 2023, which has not yet been utilized.

## **Status of the Annuity Bond Fund**

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund, which is primarily funded by the State's real property tax revenue. The debt service is also supported by appropriations from the General Fund. On April 19, 2022, the Commission on State Debt met and released its annual report. In fiscal year 2023, \$430.0 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 to be needed for fiscal years 2024-2027. The complete Commission on State Debt report is available on the Treasurer's website at:

[https://www.treasurer.state.md.us/media/161364/2022\\_comm\\_on\\_state\\_debt\\_report.pdf](https://www.treasurer.state.md.us/media/161364/2022_comm_on_state_debt_report.pdf).

**Annuity Bond Fund, Fiscal Year 2021 – 2027**  
(\$ in thousands)

	<b>2021 Act.</b>	<b>2022 Est.</b>	<b>2023 Est.</b>	<b>2024 Est.</b>	<b>2025 Est.</b>	<b>2026 Est.</b>	<b>2027 Est.</b>
<b>Beginning Balance</b>	\$207.3	\$150.3	\$96.7	\$164.7	\$2.0	\$2.0	\$2.0
Total Property Tax Collections	892.2	908.6	938.0	964.3	993.3	1,023.1	1,053.8
General Fund Appropriation	131.0	260.0	430.0	314.0	484.8	450.7	459.9
Bond Sale Premium	314.2	362.3	109.0	-	-	-	-
Federal Subsidy for ARRA Bonds	9.3	8.3	7.3	6.2	4.9	2.6	0.9
Transfer Tax	6.9	6.9	7.0	7.0	7.0	1.7	-
Other Cash Receipts	3.0	2.1	2.1	2.1	2.1	2.1	2.1
Capital Projects	(136.0)	(222.9)	-	-	-	-	-
Debt Service	<u>(1,277.6)</u>	<u>(1,379.1)</u>	<u>(1,425.5)</u>	<u>(1,456.3)</u>	<u>(1,492.1)</u>	<u>(1,480.1)</u>	<u>(1,516.6)</u>
<b>Ending Balance</b>	\$150.3	\$96.7	\$164.7	\$2.0	\$2.0	\$2.0	\$2.0

# 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 June 30, 2022, total cash receipts and disbursements exceeded \$514 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 1,754 agency bank accounts at 22 financial institutions. Total posted collateral on June 30, 2022 was \$2.0 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.

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. The Division strives to stay at the forefront of changes in banking products and services offered in the financial industry and will continue to explore new financial products and improved data delivery methods. Such advances will increase BSD's 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. STO compares the State's 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 the State of Maryland's funds.

The Treasurer's prudent investment policy and practices focus primarily to ensure protection of Maryland State Funds. The information in this report is based on the daily verification of investments as of FY 22. The balance of the General Fund Investment Portfolio for June 30, 2022 was \$17.89 billion with a yield of 1.06% compared to \$12.26 billion on June 30, 2021 with a yield of 0.29%. The portfolio increased by ~ \$5.63 billion over the year.

The portfolio earned on average of 0.49% in FY 2022, compared to 0.29% in 2021.

The General fund's gross interest earnings for fiscal year 2022 was \$70.7 million compared to \$29.5 million for the 2021 fiscal year. The year-over-year gross interest earnings more than doubled, increasing by \$34.0 million. Rates increased slowly at first in fiscal year 2022 and then more rapidly recently as the general economy recovered from the worst of the pandemic. The Federal Reserve started increasing interest rates in March of 2022. Current expectations are that the Federal Reserve will raise rates throughout the remainder of this calendar year, which should increase the overall rate of return in the portfolio.

Fiscal Year	General Fund	3 Month Treasury Bill Rate
2021	0.29%	0.06%
2022	0.47%	0.31%

The following chart tracks the percentage of 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
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	\$20,953,584.77	\$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%
2022	\$36,353,279.46	\$34,359,271.67	\$70,712,551.53	49%

\*Interest allocation are through 06/30/22

### **The Maryland Local Government Investment Pool (MLGIP)**

The Maryland Local Government Investment Pool's (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on March 28, 2022. The MLGIP has maintained the AAA rating since April 2000. The MLGIP's balance, which is the amount invested by all participants, on June 30, 2022 was \$9.67 billion, compared with \$9.72 billion on June 30, 2021, a slight decrease of ~\$55.60 million. The difference is the typical of changes within a given year.

The MLGIP yield was .1997% (actual yield last 12 months) through June 30, 2022 compared with a rate of 0.09% on June 30, 2021. The MLGIP consists of 305 participants and provides its participants with a diversified, well-managed portfolio at a reduced cost. The participants receive the bulk of their annual funds from Local Income Tax quarterly disbursements.

The MLGIP contract was put out for bid last year and PNC was retained the contract.

## **Insurance Division**

The Insurance Division is responsible for administering the State's Insurance Programs which includes both commercial insurance and self-insurance. Commercial insurance policies are procured to cover catastrophic property and liability losses and to fulfill 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 includes damage for 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).

### **Division IT Project**

The D365 project was initiated to replace STO legacy computer systems, including those used by the Insurance Division for adjusting and tracking claims against the State. Among many goals of the project were improved efficiencies and strengthened cybersecurity. For the Insurance Division, the first phase of the new system provides citizens the ability to report claims electronically, reducing mailing time and paper volume. Testing is currently in progress to permit State agencies to electronically report property, liability, and auto claims. Training for agency coordinators in the Maryland State Treasurer Electronic Portal (MSTEP) system is in progress. The Insurance claims database is scheduled to be implemented by early fall 2022.

### **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 to comply with agency contractual agreements. Underwriting Unit activities and updates for the past six months include the following:

- For the State's aviation hull and liability program renewal, insurance company underwriters, the commercial broker and representatives of Maryland State Police (MSP) Air Command, University of Maryland Eastern Shore, and State Treasurer's Office met at Martin State Airport on April 14, 2022. MSP's rotorcraft fleet of Augusta AW-139s and recent expansion of UMES flight school were discussed.

- Cyber & Network Security insurance for State Executive agencies, Legislative and Judicial branches, Universities and Colleges, was first written September 30, 2020. Since that time, nine events were reported, two of which remain open pending resolution with the commercial carriers. To date, it appears that three of those events resulted or are likely to result in substantial claim payments. Renewal activity is underway for the current program expiring September 30, 2022.
- The Unit's Annual Survey was distributed to State agencies and institutions on July 1, 2022. Among other data, the Annual Survey collects values for State owned property. With inflation impacting the cost of building materials, the adequacy of reported values will be a key consideration for underwriters of the State's commercial property insurance program.
- Conflict abroad impacted global insurance markets the past few month, most notably for insurers of ships, cargo and aircraft. Other types of insurance may face challenges, including availability and cost, as claims emerge.

## Commercial Policy Renewals

After several years of volatility driving commercial insurance rates dramatically higher, 2022 has shown modest signs of improvement. While upward rate pressure remains, increases trended to single or low double digits for most of the State's commercial program renewals this year, with a few experiencing no increase. The reserve amount is set at \$75,000.01.

January 1, 2022 – June 30, 2022

- Maryland Port Administration's Commercial Auto coverage renewed effective January 1, 2022-2023. The overall pricing was up from \$81,545.00 to \$83,702.00 This was an increase of \$2,157.00 or approximately 3% compared to expiring.
- State-owned vessel's Protection and Indemnity (P&I), which is liability coverage, renewed effective January 1, 2022-2023. The overall pricing was up from \$43,611.30 to \$48,059.63 This was an increase of \$4,448.33 or approximately 10% compared to expiring.
- Maryland Port Administration's Liability and Terrorism coverages renewed effective January 31, 2022-2023. The overall pricing was up from \$537,814.25 to \$606,613.75. This was an increase of \$68,799.50 or approximately 13% compared to expiring.
- Maryland Institute for Emergency Medical Services Systems General Liability for Leased Radio Towers renewed effective February 18, 2022-2023. The overall pricing remained the same as expiring, \$3,850.00.
- The State of Maryland Blanket Fine Art on Loan policy renewed effective March 1, 2022-2023. As values on loan to agencies and institutions steadily increased over the last year, the limit was increased from \$10.0 million to \$15.0 million. The higher policy limit resulted

in a pricing increase from \$10,424.00 to \$14,480.00. This was an increase of \$4,056.00 or approximately 39% compared to expiring.

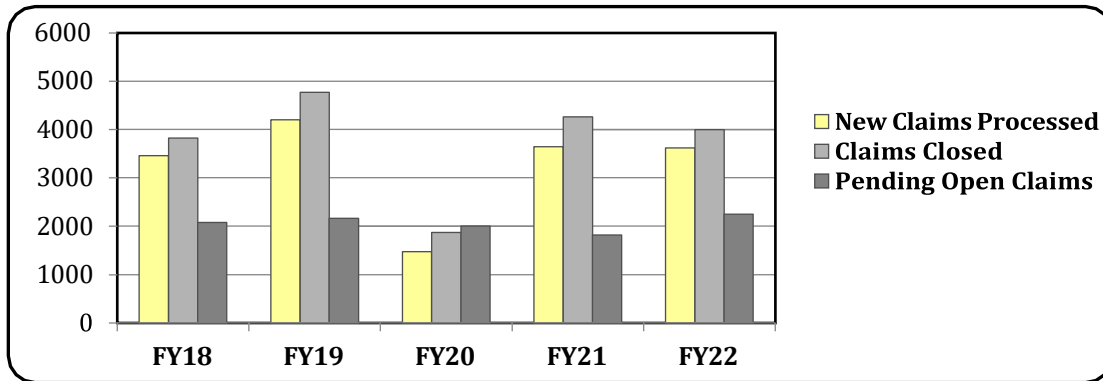
- Maryland Department of Human Services (DHS) and Maryland Department of Juvenile Services (DJS) Foster Parent Liability coverage renewed March 15, 2022-2023. The overall pricing increased from \$222,745.00 to \$252,659.00. This was an increase of \$29,914.00 or approximately 14% compared to expiring.
- State Blanket Excess Property insurance renewed effective April 1, 2022-2023. Reported property values were approximately 6% higher than expiring, predominantly for completed new construction projects. The overall pricing increased from \$10.0 million to \$11.3 million. This was an increase of \$1.3 million or approximately 13% compared to expiring.
- Maryland 529 Crime policy renewed effective April 1, 2022-2023. The overall pricing increased from \$2,077.00 to \$2,103.00. This was an increase of \$26.00, or approximately 2% compared to expiring.
- Maryland Department of Commerce Foreign Liability insurance renewed May 1, 2022- 2023. The overall pricing remained the same as expiring, \$3,500.00.
- State Aviation Liability & Hull insurance renewed effective June 30, 2022-2023. Important coverage terms were retained, such as agreed hull value for Maryland State Police Aviation Command helicopters and liability protection for leased aircraft of University of Maryland Eastern Shore Flight School. The overall pricing increased from \$1.3 million to \$1.4 million. This was an increase of \$66,786.00 or approximately 5% compared to expiring.

## 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 State-owned property arising from sudden and accidental perils, such as collision and comprehensive losses to autos, and perils such as fire, hail, lightning, and wind, for damage to State structures, equipment, and contents.

The open and closed claims are tracked to gauge activity, inventory and to identify any trends. From July 1, 2021 through June 30, 2022, there were 3,618 new claims processed and 3994 claims closed. The chart below shows claims detail of all claims by fiscal year.





## Recently Reported Major Claims

From January 1, 2022 – June 30, 2022, the Insurance Division received notice of 22 claims that present potential liability of \$75,000.00 or more. The reserve is set at the \$75,000.01 for reporting purposes and to identify any potential exposure.

On January 12, 2022, the Department of Public Safety and Correctional Services received notice of an inmate fatality claim for negligent medical treatment that occurred on February 10, 2021.

On January 26, 2022, the Maryland State Police received notice of an inmate fatality claim, while in Annapolis City Police custody, for wrongful death that occurred on June 1, 2021.

On February 1, 2022, the Department of Human Services received notice of a foster child fatality claim while in foster parent care that occurred on July 25, 2021.

On February 2, 2022, the Department of Public Safety and Correctional Services received notice of a negligent medical treatment claim that occurred on December 31, 2020.

On February 8, 2022, the Maryland Judiciary reported a fire in the Land Records Division of the Circuit Court for Talbot County, MD that occurred on December 19, 2021, resulting in fire, smoke, and water damage to the basement, first, and second floor record storage areas, offices, and the Orphans Court. Damages are estimated at \$116,000.00.

On February 15, 2022, the Maryland Department of Health received notice of failure to report abuse of a vulnerable adult that occurred on September 17, 2020.

On February 15, 2022, the Department of Housing and Community Development received notice of a resident's fatality from a previous attack that occurred on February 27, 2021.

On March 7, 2022, the Department of Juvenile Services reported a foster child found deceased in the foster parent's house on December 12, 2020.

On March 8, 2022, the University of Maryland College Park reported a fire in Baltimore Hall that occurred on February 19, 2022, resulting in water, smoke, and fire damage to first floor rooms and vestibule. Damages are estimated at \$100,000.00.

On March 9, 2022, the Department of Public Safety and Correctional Services received notice of an inmate fatality alleged due to negligent medical treatment that occurred on March 1, 2021.

On March 10, 2022, the Department of Public Safety and Correctional Services received notice of an inmate attack resulting in death that occurred on August 27, 2021.

On March 11, 2022, Towson University reported a student had been shot at a gathering on campus which occurred on September 4, 2021.

On March 25, 2022, the State Highway Administration received notice that negligent maintenance / design caused an auto accident on January 24, 2022.

On April 2, 2022, the Department of Public Safety and Correctional Services received notice of an inmate attack which occurred on April 6, 2021.

On April 6, 2022, the University of Maryland College Park reported a high-pressure steam leak in the Satellite Central Utilities Building damaging Chiller Number 4, that occurred on March 10, 2022.

On April 10, 2022, Morgan State University reported damage to the Legacy Bridge that occurred on March 31, 2022, when subcontractor K&K Adams towed a mini excavator, which hit the underside of the bridge and damaged aluminum panels. Damages are estimated at \$150,000.00. The subcontractor's commercial insurance company, Selective Insurance, has accepted liability.

On April 12, 2022, the Maryland Economic Development Corporation reported notice of a claim due to an underwater hazard which occurred on May 1, 2021. Damages are estimated at \$417,500.00.

On April 20, 2022, the University of Maryland College Park reported a high-pressure steam leak in the Wind Tunnel building that occurred on April 18, 2022, resulting in water damage to the basement, first, and second floors. Damages are estimated between \$350,000.00 to \$3 million.

On May 19, 2022, the University of Maryland Baltimore reported damage occurred on May 17, 2022, when a condenser line fitting failed in a communication closet on the fourth floor, releasing glycol. Damage to walls, ceilings, and contents on the first through fourth floors are estimated at \$325,000.00.

On May 23, 2022, the University of Maryland College Park reported finding the Van

Munching Hall basement mechanical room with two feet of water on May 8, 2022. The water damage has affected the building electrical, HVAC, elevator, and plumbing systems. Damages are estimated at \$100,000.00.

On May 24, 2022, the University of Maryland College Park reported a coupling failure in Van Munching Hall, which occurred on May 17, 2022, resulting in multiple rooms being flooded, causing damage to the walls, floors and contents. Damages are estimated at \$150,000.00.

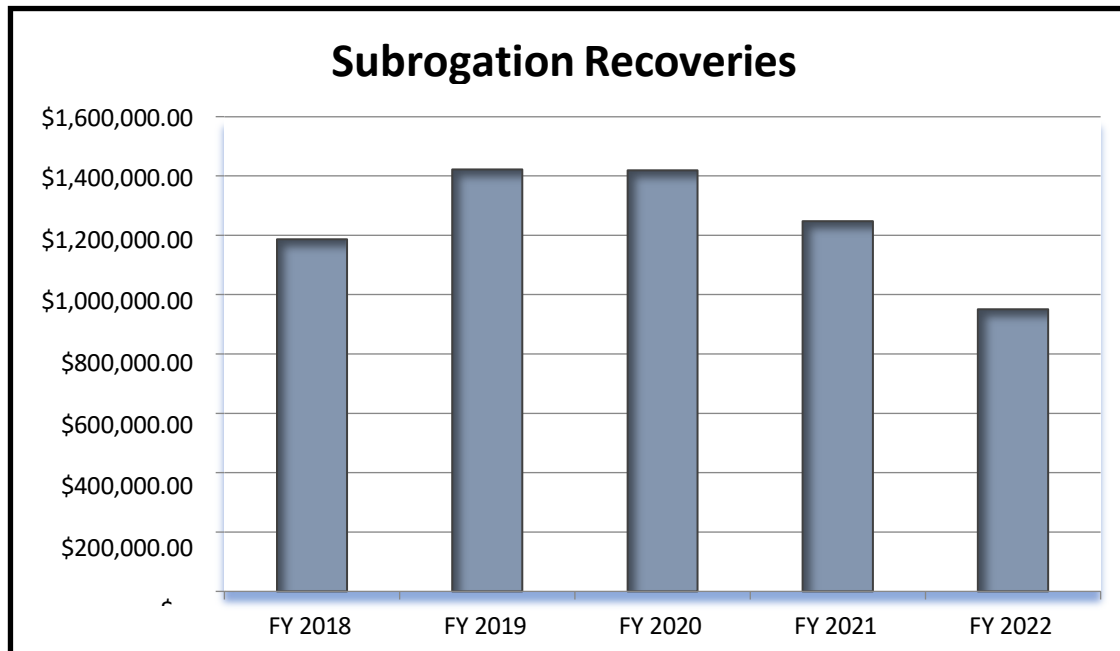
On May 24, 2022, Morgan State University reported a water heater leak in Tyler Hall, which occurred on May 20, 2022, resulting in damage to the ceiling, wall, carpet, and contents.

## **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 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 fiscal year 2022 total \$950,236.44 as of June 30, 2022. This is a continued area of focus and is a priority within the Claims Unit.

Subrogation recoveries for fiscal year 2022 were impacted by lingering effects of the COVID-19 pandemic. As a result of the crisis, beginning in early 2020, the Governor suspended debt collection activities to lessen the burden on Maryland businesses and citizens. The Central Collections Unit has since resumed full collection activities, however, delayed responses to the State's subrogation requests, supply chain challenges for auto parts or other repairs, and staffing issues in the insurance industry continue to hamper recoveries.

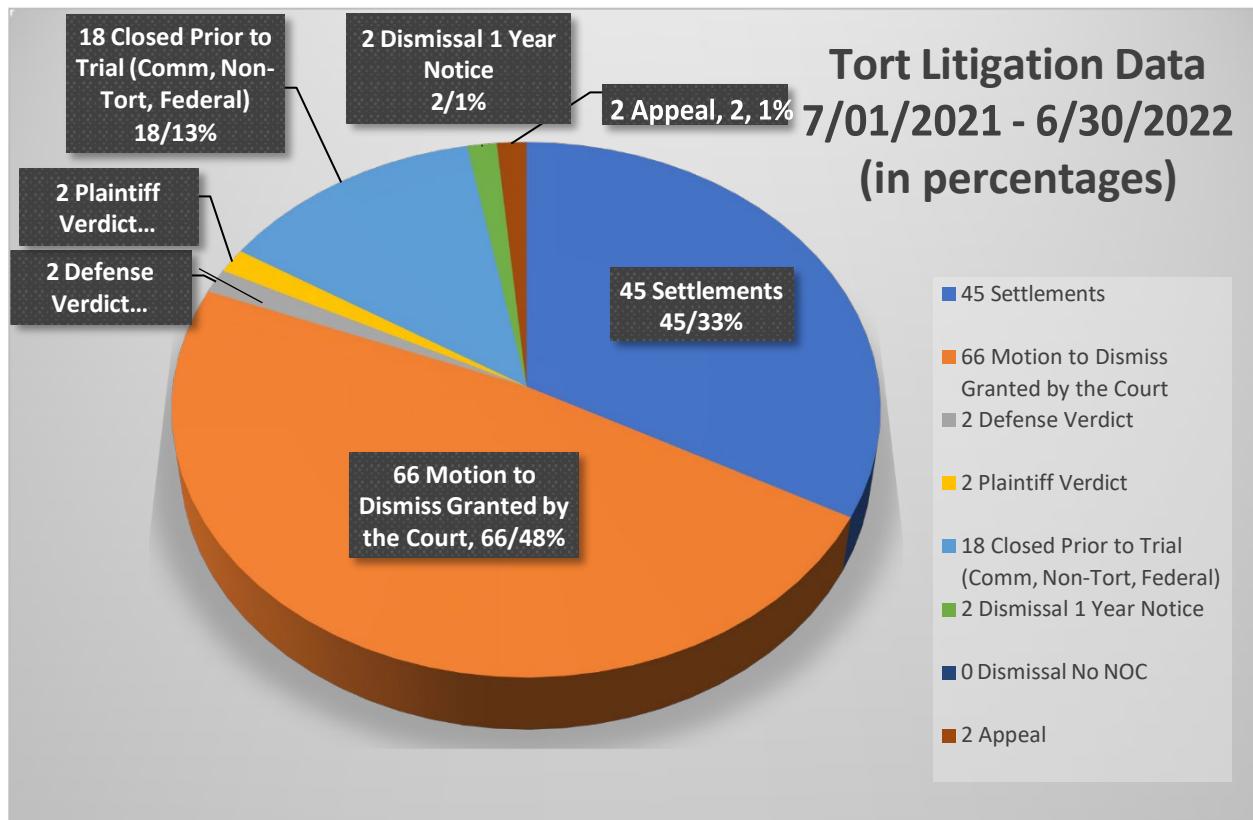


## Tort Litigation Management

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 \$400,000.00 the Casualty Claims Litigation Specialists brief the Insurance Review Committee, which includes the Chief Deputy Treasurer, the Director of the Insurance Division, the Assistant Attorney Generals who handle tort litigation, and other stakeholders requesting settlement authority.

Settlement costs for the period of July 1, 2021 through June 30, 2022 totaled \$3.1 million and, litigation expense costs were \$87,158.05. The Casualty Claims Litigation Specialists attend settlement conferences and other court-mandated activities and provide periodic updates on the status of litigation claims, as requested. The Casualty Claims Litigation Specialists provide feedback to adjusters during the discovery process and upon resolution, as required.

The Tort Unit handles a rolling docket of approximately 150 - 175 litigation claims. The litigation caseload was approximately 156 as of June 30, 2022. The Casualty Claims Litigation Specialists actively monitor trial verdicts and appeals and assess the potential impact on the State Insurance Trust Fund. The Casualty Claims Litigation Specialists also analyze data to track litigation outcomes.



The Casualty Claims Litigation Specialists will continue to monitor litigation outcomes and provide relevant data and analytical information to the Insurance 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 Insurance Division recognizes the importance of meeting in person and working directly with representatives of state agencies and universities. This effort helps to facilitate partnerships and establish and strengthen relationships.

The Loss Prevention Unit met with the following agencies from January 1, 2022 – June 30, 2022:

- Maryland Stadium Authority – Hippodrome
- Department of Public Safety and Correctional Services – Maryland Correctional Training Center

- Department of Public Safety and Correctional Services – Maryland Correctional Institution – Hagerstown

The Unit met with the following universities from January 1, 2022 – June 30, 2022:

- Salisbury University
- Baltimore City Community College
- University of Maryland College Park
- University of Maryland Baltimore County
- Towson University

The Unit conducted the following claim inspections:

- 02MD22P0053 - Department of General Services - Saratoga State Center, 2<sup>nd</sup> floor garage
- 02MD22P0064 - Judiciary - Land Records Division, Circuit Court for Talbot County, MD
- 02MD22P0078 - University of Maryland College Park – SCUB, Chiller Number 4
- 02MD22P0086 - University of Maryland College Park – Wind Tunnel Building

The Unit sent the following e-mail blast communications:

- Winter Storm Izzy – Cold Temperatures Forecast
- 2022 Hurricane Season Forecast – Are We Ready?

*The Treasurer appreciates the opportunity to provide this Report to the Legislative Policy Committee. 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 like to discuss this information further, please call the Treasurer at (410) 260-7160 or Chief Deputy Treasurer, Jonathan Martin (410) 260-7418.*