



**TREASURER'S REPORT TO
LEGISLATIVE POLICY
COMMITTEE
JUNE 2023
Dereck E. Davis
State Treasurer**

EXECUTIVE SUMMARY

As required under § 5-104 of the State Government Article, the Treasurer must provide updates on issues of legislative importance to the Legislative Policy Committee. To satisfy this requirement, the report that follows covers important issues and updates for the State Treasurer's Office (STO) from December 2023 through June 2023.

As the only statewide Constitutional officer elected by the General Assembly, the State Treasurer oversees the investment of billions of dollars, serves on the Board of Public Works (BPW), the Board of Revenue Estimates, and more than 20 other boards and commissions, and chairs the Capital Debt Affordability Committee and the Board of Trustees of the State Retirement and Pension System. The broad reach of the position encompasses all this financial and procurement work, necessitating updates to the Committee.

Treasurer Davis was reelected as the 24th Maryland State Treasurer on February 21, 2023. During this past year, he strove to achieve the priorities he has outlined in his reelection speech: preserving Maryland's AAA bond rating; supporting minority businesses; encouraging financial literacy; and modernizing our office's policies and practices.

Some highlights to point out in this report, First, STO was reaffirmed in February 2023 the states AAA ratings for Maryland's General Obligation debt. Second, STO continues to prioritize sound management of the State's financial portfolio. To close out the fiscal year 2023, the State's gross interest earned \$613.04 million on its investments year to date as compared with \$70.7 million for the full prior fiscal year.

STO continues to invest 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 improve and be modernized.

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, 2023, and June 30, 2023, BPW met 11 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 21st Century Public School Construction Initiative

Approved the Maryland Stadium Authority's request to award a pre-construction services contract for the Frederick Douglass High School construction project. (2301 Gwynn Falls Parkway) (04/19/2023)

BPW Regulations

Approved the recommendation that BPW propose new regulations and amendments to Title 21 of the State Finance and Procurement regulation to implement recently enacted legislation as well as update procurement requirements in accordance with prior legislative changes. These include regulations impacting minority and small businesses, decrease in the BPW approval threshold to cybersecurity contracts, and expedited procurements. (03/15/2023)

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 July 2022, BPW has approved the following Office of Administrative Hearings' request to compensate the following erroneously convicted individuals; and
- Mr. David Anthony Veney: \$714,676.50 in supplemental compensation and \$8,470.54 in attorney's fees. In addition, \$89,000 in a housing stipend as well as education, healthcare, job training, and financial literacy benefits. (05/17/2023)

Procurement

- Approved the Maryland Department of the Environment's request to award \$25,000,000 in PayGo funding to the Susquehanna River Basin Commission toward "Pay for Success" contracting. This work will go towards projects to reduce nitrogen by addressing nutrient loads upstream in Cecil and Harford County and in portions of the watershed in Pennsylvania. This financing approach was highlighted in the "Conservation Financing Act of 2022. (01/04/2023)
- Approved the Maryland Department of Health's request to award a contract for a Community Resource Network to provide COVID-19 testing, treatment and vaccinations during surges. (01/25/2023)

- Approved the Maryland State Police (MSP)'s request to award a contract to provide scheduled and unscheduled maintenance and repair services on MSP's Aviation Command fleet of ten AW139 helicopters. (01/15/2023)
- Approved the State Board of Election's request to award a contract to purchase 9,000 election pollbooks and related software to be used during the 2024 election cycle. (01/25/2023)
- Approved the Department of Natural Resources' request to award a contract using PayGo funds to conduct surveys of submerged areas of the State to map oyster habitats, and plant hatchery-reared oysters on oyster reefs in the Eastern Bay sanctuaries of the Chesapeake Bay. (02/15/2023)
- Approved the State Board of Election's request to award a contract to provide temporary staffing services for a variety of election-specific jobs up to and during the 2024 election cycle. (04/05/2023)
- Approved the Public Service Commission's request for approval to award a contract for a study of the capacity of each utility's gas and electric distribution systems in order to serve customers under a managed transition to a highly electrified building sector. This is a requirement under the Climate Solutions Now Act of 2022. (04/19/2023)
- Approved the BPW Procurement Advisor's recommendation to approve:
 1. BPW directing DGS to initiate and conduct a new procurement for the Statewide Fuel Supply and Maintenance Services, with the new procurement solicitation published within 90 days of BPW's approval of this recommendation.
 2. BPW proposing amendments to COMAR Title 21, State Procurement Regulations, to revise MBE policies to make it clear that:
 - a. State-recommended-awardee subcontractor agreements with MBE's must be established prior to any state contract award with MBE subcontractor participation;
 - b. Those MBE subcontract agreements must include all necessary terms, including pricing, required for MBEs to perform their proposed work and for the state-recommended-awardee to pay the MBEs for their work during the contract term; and
 - c. State procuring agencies must review those MBE subcontract agreements and confirm that the MBE subcontract agreements include all necessary terms prior to any state contract award with MBE subcontractor participation. (05/03/2023)
- Approved the Maryland Department of Veterans Affairs' request to award a contract for the design of the new Sykesville Veterans Home. (06/07/2023)
- Approved the Maryland Department of Labor's request to award a contract to develop and administer all computer-based GED testing in Maryland. Approximately 18,000 tests are administered each year. (06/07/2023)
- Approved the SBE's request to award a contract for logistical and transportation project management services for the Statewide voting system equipment. (06/07/2023)
- Approved the University of Maryland Global Campus' request to award a contract to provide outbound

call center services for University Admissions. (06/21/2023)

- Approved the Maryland State Department of Education's request to award a contract for a commercial distributor to receive, issue, deliver, and store USDA-donated food to be allocated to designated locations in Eastern and Western Maryland. (06/21/2023)
- Approved the Maryland Department of Commerce's request to award a contract to provide mitigation/remediation and scanning training services to selected small businesses. The Agency was previously awarded a grant from the U.S. Small Business Administration (SBA) to launch a pilot project aimed at assisting small businesses in Maryland with targeted cybersecurity training and knowledge. (06/21/2023)
- Approved the Department of Budget and Management's request to award a contract for a technology platform and associated professional services to conduct the upcoming Pharmacy Benefit Management (PBM) reverse auction. In 2021, the General Assembly passed HB 1150 the State Health and Welfare Program – Maryland Competitive Pharmacy Benefits Manager Marketplace Act. The law requires that DBM conduct a reverse auction for the new Prescription Drug Benefit contract. (06/21/2023)

State Services, Facilities, & Assets

- Approved the Maryland Stadium Authority (MSA)'s request for a new lease agreement related to the football stadium at Camden Yards Sports Complex between the MSA and the Baltimore Raven's Limited Partnership. (01/04/2023)
- Approved the MSA's request to issue Series 2023 revenue bonds in a principal aggregate amount not to exceed \$450 million. In addition, authorize those bonds to be used for things such as capital improvement projects at the Football Stadium, fund a contingency reserve and make deposits into an emergency repair fund and capital works fund required under the new lease. (05/17/2023)
- Approved the MSA's request to sign an MOU between MSA and Prince George's County as the initial first step toward MSA issuing bonds to develop and construct facilities in the Prince George's County Blue Line Corridor. (01/25/2023)
- Approved the Maryland Department of the Environment's request to award new funding up to \$25,000,000 in loans and grants to the Washington Suburban Sanitary Commission (WSSC) for the design and construction of bio-energy facilities at the WSSC Piscataway Wastewater Treatment Plant (WWTP) in Prince George's County to receive and process sludge from the other WSSC WWTPs. (xx/xx/2023)
- Approved the University of Maryland College Park's request to demolish the Old Leonardtown complex in order to build new affordable graduate student housing. (05/03/2023)

Transportation

- Approved the Maryland Transit Authority's request to award a contract to remove and replace the north- and south-bound platforms at MARC's Laurel Station. (03/01/2023)
- Approved the Maryland Port Administration's request to award a contract for the demolition and

reconstruction of Pier 4 at Fairfield Marine Terminal where automobiles and light trucks are loaded and unloaded. (06/21/2023)

Wetlands

- Ratified an Emergency Wetlands License to free up and refloat the M/V Ever Forward cargo ship. In addition, approved \$676,200 to the Department of Natural Resources for the enhancement/seeding of oyster bars to mitigate for 624,485 sf of impacts to a Natural Oyster Bar and open water habitat. (01/04/2023)

DEBT MANAGEMENT DIVISION

Rating Agency Update

In February 2023, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2023, 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 13 states to hold the coveted AAA rating, the highest possible rating for credit. 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.

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 pensions 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.

General Obligation Bonds

Since the last report to this committee, the State has conducted one General Obligation bond sale in the amount of \$400,000,000. The 2023 First Series was sold on March 15, 2023, and closed on March 29, 2023.

- Series A Bidding Group 1 consisted of \$165,865,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 1 received an All-In True Interest Cost (TIC) of 2.36% and included a premium of \$30,677,428.
- Series A Bidding Group 2 consisted of \$184,135,000 in tax-exempt new money bonds. The proceeds were used to finance new projects. Bidding Group 2 received an All-In TIC of 3.23% and included a premium of \$35,027,485.
- Series B consisted of \$50,000,000 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 4.09%

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 3, 5, or 10-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.

On April 27, 2021, this committee authorized \$50.0 million for the Equipment Lease- Financing Program, of which approximately \$39.1 million remained to fund capital projects through June 2023. This committee also authorized \$45.0 million for the Energy Lease-Financing Program, for the same time period, which was not utilized.

The Debt Management Division has a Master Lease-Purchase Financing Agreement for capital equipment in an amount up to \$10.0 with Banc of America Public Capital Corp, which was approved by the Board of Public Works on April 6, 2022. Since the last report to this committee, two draws, totaling over \$3.5 million have financed critical equipment for various State agencies.

In anticipation and response to a survey of future needs for capital and energy projects the Treasurer's office completed, this committee authorized \$18.0 million for the Equipment Lease-Financing Program and \$20.0 million for the Energy Lease-Financing Program through June 30, 2025.

Upcoming Financing Plans

The State’s next General Obligation bond sale is tentatively scheduled for Spring of 2024. The Debt Management Division is still examining the rate of spending on authorized capital projects and will size a potential tax-exempt new money bond accordingly, as well as a potential taxable component. Additionally, the division is monitoring interest rates and may refund certain outstanding bonds if they meet the criteria in the State’s debt policy.

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 18, 2023, the Commission on State Debt met and released its annual report. In fiscal year 2024, \$433.1 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 2025-2028. The complete Commission on State Debt report is available on the Treasurer’s website at: https://www.treasurer.state.md.us/media/174473/2023_cosd_report_executed.pdf

Annuity Bond Fund, Fiscal Year 2022 – 2028

(\$ in thousands)

	2022 Act.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.
Beginning Balance	\$184.4	\$85.3	\$103.2	\$111.3	\$2.0	\$2.0	\$2.0
Total Property Tax Collections	919.2	985.4	1,013.4	1,043.8	1,069.9	1,096.6	1,118.6
General Fund Appropriation	260.0	430.0	433.1	347.1	381.5	386.8	348.9
Bond Sale Premium	115.8	57.8	0.0	0.0	0.0	0.0	0.0
Federal Subsidy for ARRA Bonds	7.9	7.3	6.2	4.9	2.6	0.9	0.2
Transfer Tax	6.9	7.0	7.0	7.0	1.7	0.0	0.0
Other Cash Receipts	(29.9)	2.1	2.1	2.1	2.1	2.1	2.1
Capital Projects	0.0	(259.8)	0.0	0.0	0.0	0.0	0.0
Deficiency Appropriation	0.0	219.0	0.0	0.0	0.0	0.0	0.0
Debt Service	<u>(1,379.1)</u>	<u>(1,430.9)</u>	<u>(1,453.6)</u>	<u>(1,514.3)</u>	<u>(1,457.7)</u>	<u>(1,486.4)</u>	<u>(1,469.8)</u>
Ending Balance*	<u>\$85.3</u>	<u>\$103.2</u>	<u>\$111.3</u>	<u>\$2.0</u>	<u>\$2.0</u>	<u>\$2.0</u>	<u>\$2.0</u>

*Ending Balance may not add due to rounding.

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, 2023, total cash receipts and disbursements exceeded \$1.0 trillion this fiscal 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 1,461 agency bank accounts at 22 financial institutions. Total posted collateral on June 30, 2023, was \$1.3 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 Treasurer’s prudent investment policy and practices focus primarily on safety of principal to ensure protection of Maryland State Funds. The information in this report is based on the daily verification of investments as of fiscal year 2023. The balance of the General Fund Investment Portfolio for June 30, 2023, was \$21,071B. That compared to on June 30, 2022, of \$17.886B with a yield of 4.08 % VS 1.06% at end of fiscal 2022. The balance in the portfolio increased by \$3B over the year.

The portfolio earned on average Interest Return of 3.07% in aggregate fiscal year 2023, with interest rates ranging from a low of 1.368% in July of 2022 to 4.083% at the end of the fiscal year. The Total Return on the fund for fiscal year 2023 was approximately 4.40% made up of interest returns of 4% and amortized accruals of .40% compared to 1.06% in 2022.

The General Fund gross interest earnings for fiscal year 2023 was \$613.04 million compared to \$70.7 million received for the fiscal year 2022. The year over year gross earnings (interest + amortization) increased by \$542.34 million. The size of the portfolio grew with both additional public and private revenues benefitting from rates that generally rose during most of fiscal year 2023 as the Federal Reserve continued to move short end rates higher to fight higher inflation. Federal Funds moved from 1 ½% in July of 2022 to between 5% - 5 ¼% currently. The market is currently pricing in an additional hike of rates on July 27th, 2023, the next Federal Open Market Committee (FOMC) meeting date. The only major pause in rates moving higher throughout the year was in March of this year as a flight to quality saw short rates move lower as several smaller “regional” type of banks ran into some liquidity issues.

Fiscal Year	General Fund	3 Month Treasury Bill Rate
2022	1.07%	0.54% average
2023	4.40%	4.36% average

The following chart tracks the 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
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%	
2022	\$36,353,279.46	\$34,359,271.67	\$70,712,551.13	49%	
2023	\$251,709,238.64	\$361,330,338.03	\$613,039,576.67	59%	75%

*Interest allocation are through 06/30/23.

The Maryland Local Government Investment Pool’s (MLGIP) AAA rating was reaffirmed by S&P Global Ratings in 2023. MLGIP has maintained the AAA rating since April 2000. The MLGIP’s balance, which is the amount invested by all participants, on June 30, 2023, the portfolio was \$9,561,634,818 compared

with \$9,666,453,000, a year ago, on June 30, 2022, a slight decrease of \$105 million. The difference is just the typical movement of money in and out. The participants receive the bulk of their annual funds from Local Income Tax quarterly disbursements.

The MLGIP yield was 3.803% (actual yield last 12 months) through June 30th, 2023. That compared with a rate of 0.997% on June 30th, 2022. The MLGIP consists of 305 different accounts with 275 distinct account participants and provides its participants with a diversified, well-managed portfolio at a reduced cost.

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

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.

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 four units: Underwriting, Claims, which includes Tort Litigation, Loss Prevention and Worker's Compensation. The division's goal is to provide statewide risk management through loss protection (Underwriting), loss control (Loss Prevention), TPA contract administration (Worker's Compensation) loss restoration and liability protection (Claims and Tort Litigation).

Division IT Project

The D365 project was initiated to replace 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 cyber security. The first phase for the Insurance Division was, the citizen portal for on-line claim reporting, which was completed in fiscal year 2022.

The second phase of the project, the Claims Management System (CMS), went live October 31, 2022. New claims are entered into CMS as received; existing claims are expected to migrate from the legacy I-5 system to CMS in 2023.

The third phase of the project has been initiated, which includes integration between CMS and other divisions of the Treasurer's Office.

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 events the past six months include:

Commercial property insurance markets remain volatile, impacted by catastrophic natural events and the rising cost of replacement building materials. While 2021 was one of the highest claims years for the industry, due in part from damage during Hurricane Ian and the California wildfires, 2022 delivered worse results for commercial insurers.

Winter Storm Elliott in December 2022, which produced freezing, wind, flooding, snow, and power outages, was declared a catastrophic loss for several states including Maryland, Colorado, Connecticut, Georgia, Massachusetts, Virginia and New York. Damage to State of Maryland owned property from the

storm is estimated to be \$18 million dollars. Adverse commercial market conditions plus the State's pending claims resulted in a significant rate increase for renewal of the commercial property program effective April 1, 2023.

On January 18, 2023, a meeting with Maryland Aviation Administration, Starr Indemnity claims and underwriting representatives, broker WTW and Insurance Division staff was held at BWI Airport. Discussions included a review of open liability claims and loss prevention services available to MAA from the insurance company.

Insurance division staff met with the Maryland Transportation Authority, Chubb Insurance Company underwriter and broker WTW on February 22, 2023, to review the bridges & tunnels property program. MDTA's financial condition, major structure valuations, maintenance plans and insurance program options were discussed.

On March 1, 2023, a meeting was held with the Maryland Ports Administration, representatives of National Union, the new carrier for the ports liability program, Insurance Division staff and broker Aon to gain a better understanding of MPA's operations, including the agency's outside legal counsel and surveyor relationships.

A meeting was held at Maryland Institute for Emergency Management Systems Services offices on May 8, 2023, to learn about the agency and discuss claim reporting procedures under the State's commercial and self-insured programs. MIEMSS operates EMRC/SYSCOM 24/7/365 connecting emergency medical providers to hospitals and resources, including dispatch of Maryland State Police Air Command helicopters for rescue and transport. MSPAC's helicopters are among State aircraft covered by the commercial aviation hull and liability insurance program.

On May 18, 2023, Maryland Transit Administration, broker WTW and Insurance Division staff conducted a virtual meeting with Underwriters in London and Bermuda to review operations of Bus, MARC, Metro and Light Rail Divisions. The meeting was instrumental in negotiating renewal terms for MTA's excess liability insurance program effective July 1, 2023.

Commercial Insurance Program Renewals

January 1, 2023 – June 30, 2023

- Maryland Port Administration's auto policy renewed effective January 1, 2023-2024. The overall pricing increased from \$83,702 to \$92,240. This was an increase of approximately 10.2%.
- Blanket vessel protection & indemnity (P&I) liability policy for State owned vessels renewed effective January 1, 2023-2024. The overall pricing increased from \$48,060 to \$52,659 This was an increase of \$4,599 or about 9.57% compared to expiring cost.
- The resident fund bond for MDH Willow Brook Square renewed effective January 1, 2023-2024. The overall pricing remained the same, \$350.
- University of Maryland, Global Campus's tuition bond for the State of Washington renewed effective January 1, 2023-2024. The overall pricing remained the same as last year, \$625.

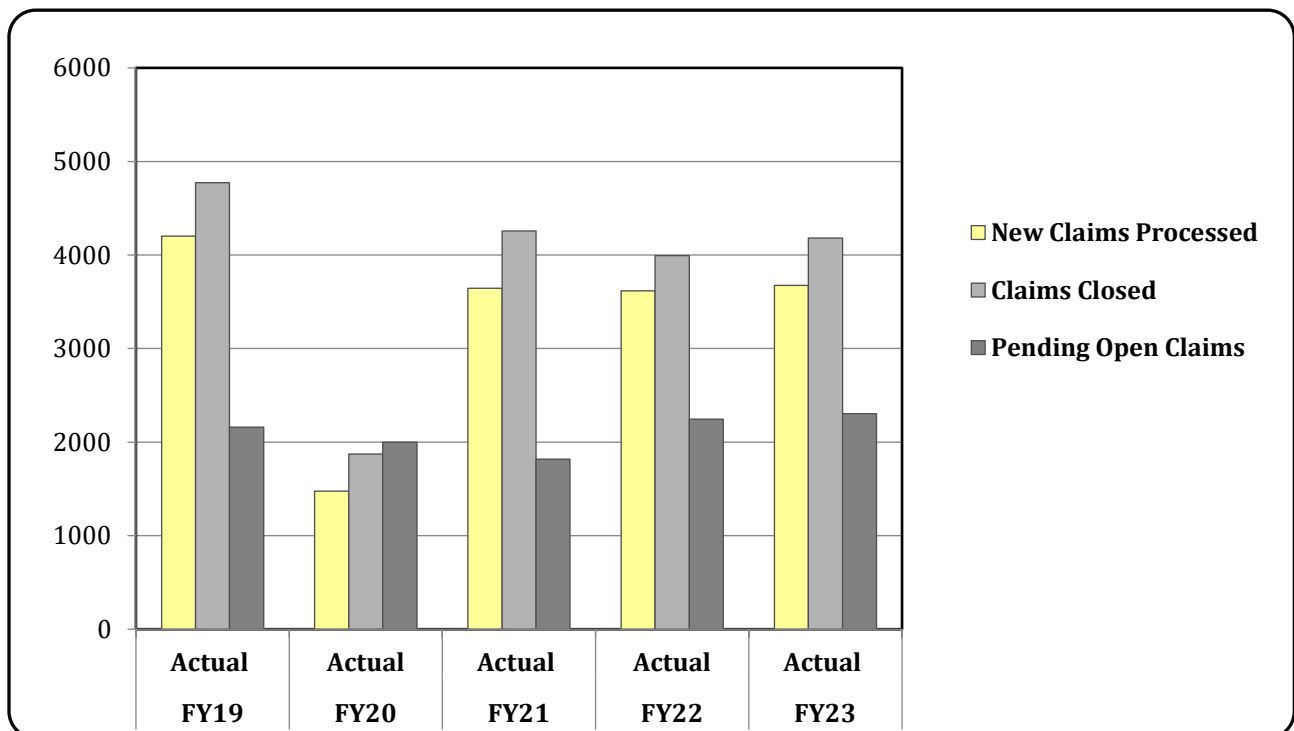
- The University of Maryland, College Park's customs bond renewed effective January 3, 2023-2024. The overall pricing remained the same as last year, \$400.
- The bond required by Statute for the Comptroller, Brooke Lierman, was written effective January 16, 2023-2027. The total cost for the four-year term was \$3,411.
- Maryland Port Administration's liability and terrorism coverages renewed effective January 31, 2023-2024. The State changed primary liability carriers from Ascot to National Union (AIG), as the new carrier offered a more competitive premium. Overall pricing was down from \$607,891 to \$598,530. This was a decrease of \$9,361 or approximately -1.5% compared to expiring cost.
- The \$1M bond for Dereck E. Davis as Treasurer renewed effective February 1, 2023-2027. The total cost for the four-year term was \$6,466.
- The \$25k bond for Treasurer Dereck E. Davis as Custodian of Unemployment Insurance Fund renewed effective February 1, 2023-2027. The total cost for the four-year term was \$590.
- Maryland Institute for Emergency Medical Services Systems' general liability policy for radio towers and transmission equipment renewed effective February 18, 2023-2024. The overall pricing was up from \$3,850 to \$3,950. This was an increase of \$100, or approximately 2.6% compared to expiring cost.
- A new bond was placed for Maryland Insurance Administration Acting Deputy Commissioner Tammy Longan effective 2/28/2023-2/28/2025. The overall pricing for this bond is \$2,075.
- Maryland Department of Housing & Community Development's crime policy renewed effective March 1, 2023-2024. The overall pricing was down from \$19,413 to \$19,250. This was a decrease of \$163, or approximately -0.8% compared to expiring cost.
- Blanket fine art on loan policy renewed effective March 1, 2023-2024. Overall pricing increased from \$14,480 to \$18,394. This was an increase of \$3,914, or approximately 27% compared to expiring cost.
- University of Maryland, Global Campus's tuition bond for the State of Colorado renewed effective March 1, 2023-2024. The overall pricing remained the same as expiring, \$930.
- Maryland Transit Administration's crime policy renewed effective March 10, 2023-2024. The overall pricing was up from \$15,962 to \$17,749. This was an increase of \$1,787, or approximately 11.2% compared to expiring cost.
- Maryland Department of Agriculture's special event policy for the Boston Seafood Festival was issued effective March 12, 2023 – March 15, 2023. The overall pricing remained the same as last year, \$676.
- Maryland DHS and Maryland DJS foster parent general liability coverage renewed March 15, 2023-2024. The overall pricing increased from \$252,659 to \$290,615. This was an increase of \$37,956, or approximately 15% compared to expiring cost.

- Blanket excess property policy renewed effective April 1, 2023-2024. The overall pricing was up from \$11,335,504 to \$17,961,804. This was an overall increase of \$6,626,300, or approximately 58.9% compared to expiring cost.
- Maryland 529 crime policy renewed effective April 1, 2023-2024. The overall pricing remained the same as last year, \$2,103.
- Maryland Department of Commerce foreign liability policy renewed effective May 1, 2023-2024. The overall pricing remained the same as last year, \$3,500.
- Blanket aviation hull & liability for State owned and leased aircraft renewed effective June 30, 2023-2024. Overall pricing increased from \$1,403,260 to \$1,476,411. This was an increase of \$73,151, or approximately 5.2%.

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, 2022, through June 30, 2023, there were 3,674 new claims processed and 4,182 claims closed. The chart below shows claims detail of all claims by fiscal year. There are currently 2,303 open pending claim files for fiscal year 2023.



Recently Reported Major Claims - From January 1, 2023, through June 30, 2023, 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.

Tort/Auto/O&E

On January 4, 2022, claim alleges the State was negligent for an inmate assault leading to blindness and other injuries at Baltimore City Central Booking and Maryland Reception Diagnostic and Classification Center.

On March 26, 2022, a claim alleging Department of Public Safety & Correctional Services permitted an inmate to be sexually assaulted by another inmate at Patuxent Institution.

On May 28, 2022, a claim alleging Department of Public Safety & Correctional Services permitted an inmate to be assaulted by cellmate.

On June 16, 2022, a claim alleges State Highway Administration failed to properly place work zone markers which led to a fatal motorcycle accident.

On October 8, 2022, a claim alleges Department of Public Safety & Correctional Services was negligent for the death of a hearing disabled inmate, caused by the cellmate, while being held at Baltimore City Central Booking.

On November 13, 2022, a claim alleges Department of Public Safety and Correctional Services permitted an inmate be assaulted by Correctional Officers at Patuxent Institution.

On November 18, 2022, a claim alleges Department of Public Safety and Correctional Services permitted an inmate be assaulted by other inmates when being held at Metropolitan Transition Center Quad

On December 20, 2022, a claim alleges Maryland Department of Health permitted a resident be assaulted by another resident at Clifton T. Perkins Hospital Center.

On January 25, 2023, a claim alleges Department of Public Safety & Correctional Services was medically negligent which caused the fatality of an inmate at Maryland Reception Diagnostic and Classification Center.

On March 6, 2023, a claim alleges Maryland State Police negligently caused a fatal motor vehicle accident on Route 13 Southbound, Fruitland MD.

Property/Boiler

On October 17, 2022, St. Mary's College of Maryland's contractor ignited insulation when brazing pipes, causing fire damage to several floors of newly renovated Calvert Hall. Estimated loss was increased to \$2,000,000, subrogation anticipated.

December 21-25, 2022 - CAT 2273 - Combined loss estimate: \$18,500,000, commercial deductible \$2,500,000:

- University of Maryland, Baltimore County
- University of Maryland, Baltimore
- Coppin State University
- Office of Public Defender
- Department of General Services
- Morgan State University
- University of Maryland, College Park
- Baltimore City Community College
- MDH Spring Grove Hospital

Note: Some individual claims fall below \$75,000, however, all are considered one event under the April 1, 2022-23 commercial property insurance program.

On January 8, 2023, University of Maryland, College Park, a heating line union failed causing flooding. Estimated loss \$75,000.

On January 28, 2023, Maryland Department of Health, Spring Grove Hospital sustained water damage when a pipe broke in the Administration building. Estimated loss \$250,000.

On February 10, 2023, and February 12, 2023, Frostburg State University had damage in the Brownsville Residence Hall when a hot water line burst two days apart. Estimated loss \$1,100,000.

On February 19, 2023, University of Maryland, Baltimore, a cooling line valve broke, causing a glycol leak which damaged IT and other equipment. Estimated loss \$187,500.

On March 30, 2023, University of Maryland, College Park, a toilet piston assembly failed causing flooding in bathroom 2123 and rooms on same floor of Johnson-Whittle Hall. Estimated loss \$100,000.00.

On April 27, 2023, University of Maryland, Baltimore, a broken pipe caused flooding in HSF III, lower-level room L143. Estimated loss \$100,000.00.

On June 1, 2023, University of Maryland, College Park, scientific equipment was damaged while moving to another building. Estimated loss \$250,000.00.

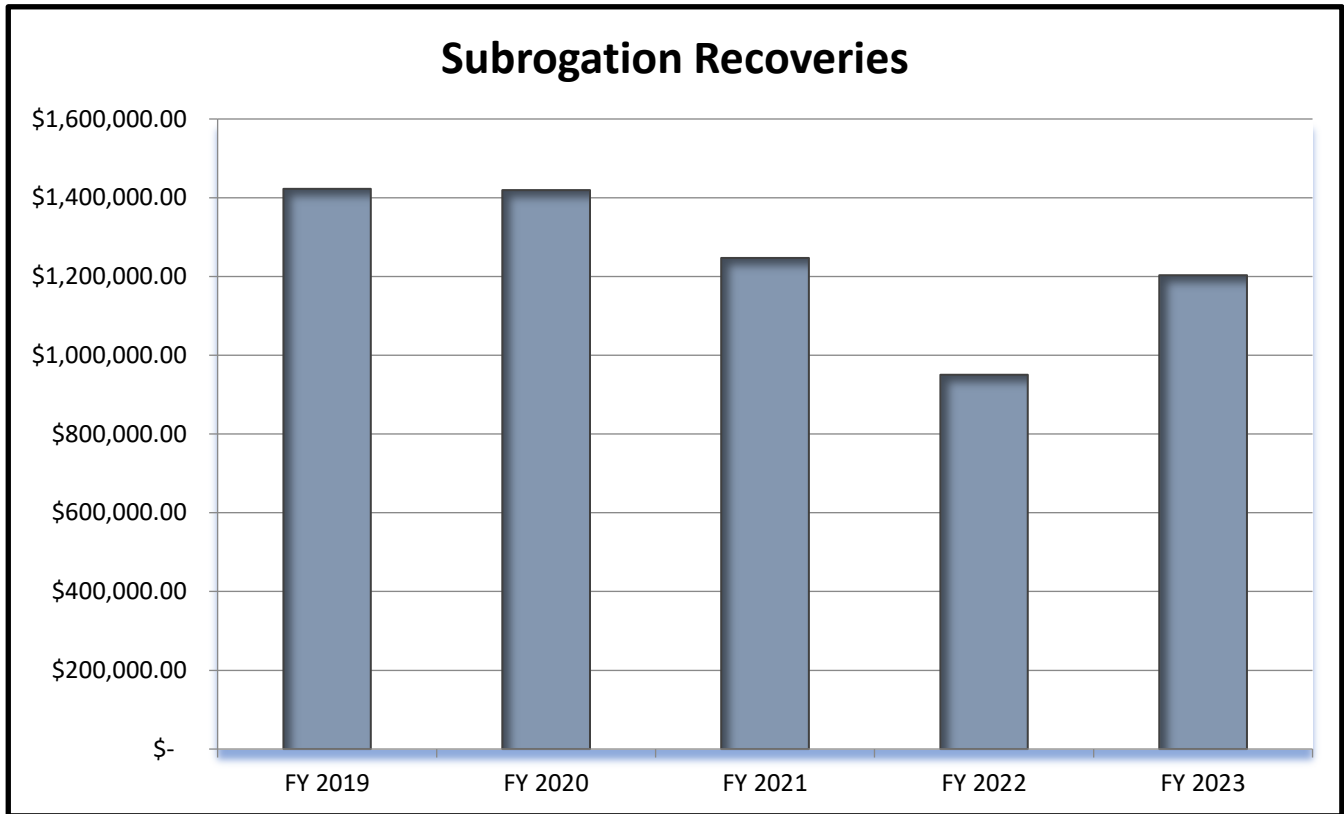
Subrogation Recoveries

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 2023 total \$1,203,430.58 as of June 30, 2023. This is a continued area of focus and is a priority within the Claims Unit.

Subrogation recoveries for fiscal year 2023 are still being impacted by lingering effects of the COVID-19 pandemic. As a result of the crisis, 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.

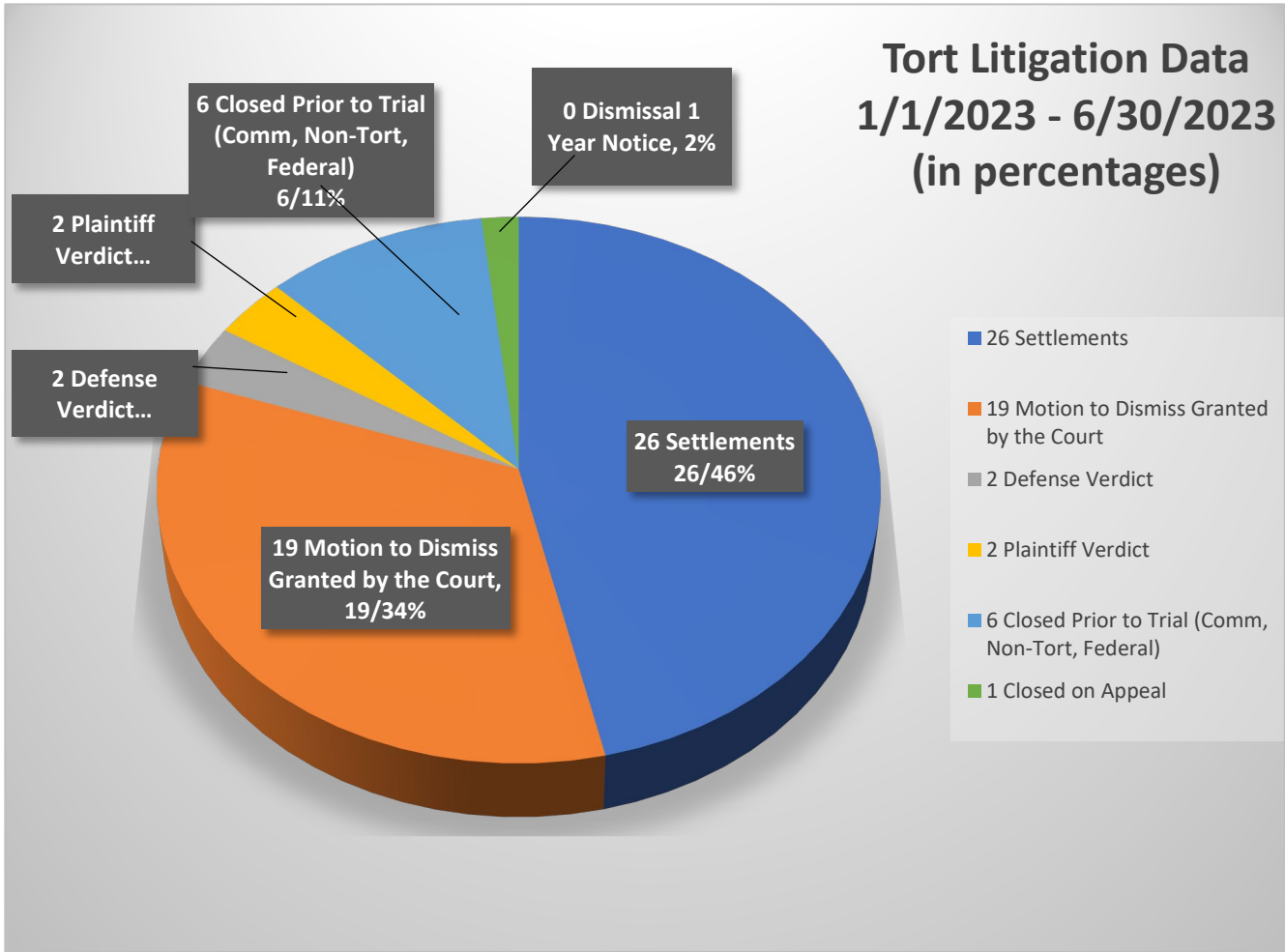


Tort Litigation Management

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, 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.

Settlement costs for the period of January 1, 2023, through June 30, 2023, totaled \$2,411,888.41, litigation expense costs were \$104,258.78, for a total of \$2,516,147.19. 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 current litigation caseload is approximately 136, as of June 30, 2023. 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

The primary goal of the unit is to assist in the preservation of State-owned assets, including buildings, computers, machinery, and specialized equipment. Agency wide communications for weather threats, proactive site pre-inspections and monitoring compliance with carrier recommendations are tools utilized to accomplish this objective.

In addition to providing coverage for catastrophic claims, the boiler insurance company, Travelers, conducts about 900 boiler inspections each year as required by Maryland Department of Labor. Jurisdictional violations are reported to the agency by Travelers and compliance is mandatory for certification. Another service Travelers offers is infrared scanning of electrical equipment to detect potential hotspots. On February 15, 2023, thermographic testing was conducted at Clifton T. Perkins Hospital and based on the inspector’s report, no deficiencies were found in the equipment tested.

Property Inspections and Recommendations

Each year, the commercial property insurance company, AIG, inspects 10 locations, typically those with higher values. The purpose is to assist in the identification of hazards that may lead to loss and to provide recommendations to mitigate such losses.

Several agencies completed recommendations developed by AIG during the prior cycle of inspections. Western Maryland Hospital and University of Maryland, Global Campus replaced elastomeric fire pump couplings in the first quarter of 2023, Salisbury University is in the process of replacing their coupling. Elastomeric couplings contain plastic parts, which may fail without notice leaving sprinkler systems inoperable. Acceptable replacement couplings contain metal parts.

Inspections for the current cycle are being coordinated with AIG and are expected to begin July 2023. Planned inspection sites include Maryland State Police Headquarters, State House, Miller Senate Building, Oriole Park at Camden Yards, Bowie State University, Deers Head Hospital, Coppin State University, Frostburg State University, University of Baltimore, among others.

Communications

On February 3, 2023, a communication on Winter Weather Events was sent to universities and agencies impacted by CAT 2273 plus those experiencing similar property damage claims in the past. Recommendations included maintaining heat in buildings during winter breaks, closing windows during periods of unoccupancy, conducting daily facility inspections and installing backup generators.

On April 12, 2023, training with airport liability carrier, Starr, Maryland Aviation Administration (MAA) and State Treasurer's Office (STO) staff was held to review incident reporting obligations under FAA Safety Management Systems (SMS) requirements, among other topics.