



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

**January 2024**

**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 July 2023 through December 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.

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

## **BOARD OF PUBLIC WORKS**

Between July 1, 2023, and December 31, 2023, BPW met twelve 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.

### **BPW Regulations**

- Approved proposing new regulations and amendments to COMAR Title 21, State Procurement Regulations. These proposed regulations are being done to:
  1. Change the definition of a “small procurement” by raising the threshold related to several categories under this section (2023 Legislation); and
  2. Revise regulation related to prior legislative or regulatory changes, including defining what American-Manufactured goods and services are as required by a 2013 law, language related to DoIT’s non-visual access clause, small business requirements and Intergovernmental Cooperative Purchasing. (11/29/2023)
- Approved publishing a model policy concerning the inclusion and use of liquidated damages provisions in procurement contracts, as required by Chapter 206 (Laws of Maryland 2023). (12/13/2023)

### **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. Between July and December 2023, BPW has approved the following Office of Administrative Hearings’ request to compensate the following erroneously convicted individuals:

- Mr. John Norman Huffington: \$2,899,537.50 in supplemental compensation. In addition, \$83,000 in housing costs. (07/05/2023)
- Mr. Demetrius Smith: \$340,802.50 in supplemental compensation. In addition, \$83,000 in housing costs. (07/05/2023)

## **Maryland Stadium Authority**

- Approved a request to issue two or more series of bonds not to exceed \$120 million (Series 2023). The proceeds of these bonds will finance capital projects at the following Maryland minor league baseball stadiums:
  - Frederick County – Harry Grove Stadium;
  - Charles County – Regency Furniture Stadium;
  - Harford County – Leidos Field;
  - Prince George’s County – Prince George’s County Stadium;
  - Washington County – Hagerstown Stadium; and
  - Wicomico County – Arthur Perdue Stadium.(10/04/2023)
- Approved a request to award three bid packages for a construction services contract for renovation projects at M&T Bank Stadium. (10/04/2023, 11/08/2023, 12/13/2023)
- Approved a request to award a design-build contract for the Arthur Perdue Stadium Improvements project in Salisbury. (10/04/2023)
- Approved a request to award a design-build contract for the Prince George’s Stadium Improvement project in Bowie, (10/04/2023)
- Approved a request to award a design-build contract for the Wayne K. Curry Civic Plaza. (10/04/2023)
- Approved a request to approve a term extension and amendments to the Lease Agreement between the Maryland Stadium Authority and the Baltimore Orioles Limited Partnership. (December 18, 2023)

## **Procurement**

- Approved a request from MES to award a contract to convert the Eastern Correctional Institute’s HVAC system from propane to natural gas. (07/19/2023)
- Approved a request from the State Lottery and Gaming Control Agency to award a contract for a CPA firm to provide auditing accounting and management services related to Lottery drawings, an annual review of multistate lotteries and audits of the Agency’s IT division. (7/19/2023)
- Approved a request from DBM to award a contract to evaluate the State’s current job classification and compensation program for State employees and provide recommendations for improvements. (7/19/2023)
- Approved request from the new Department of Service and Civic Innovation to award a contract to provide an electronic platform to support participant recruitment, the overall management and development and development of the participants while they are in service and post-service to connect them to career opportunities. (07/19/2023)

- Approved a request from the Maryland Department of Health to award a five-year contract to provide live telephone web, text, and other technology-based tobacco use cessation services. (08/23/2023)
- Approved a request from the Governor's Office of Crime Prevention, Youth and Victim Services to award a contract to manage and track sexual assault evidence kits for the State. (08/23/2023)
- Approved a request from the State Board of Elections to award a contract to provide an independent automated solution to verify accuracy of the State's voting system. (09/06/2023)
- Approved a request from the State Board of Elections to award a contract to provide an indefinite quantity of printed provisional ballot applications and delivery to 24 Local Boards of Elections and the State Board of Elections. (9/20/2023)

## **Property Acquisitions and Dispositions**

- Approved a request from University of Maryland College Park to acquire 3 parcels totaling 22.23 acres, including a 5-story, 107,264 square foot office building. Property is located in the easternmost portion north of the University's Discovery District. (07/05/2023)

## **State Personnel**

- Approved a request from the DPSCS and the OAG to pay a \$13,023,474.09 to resolve a federal investigation related to some correctional officer personnel and overtime pay. (07/05/2023)
- Approved a request to create six positions for the new Maryland Thoroughbred Racetrack Operating Authority Administration. (07/19/2023)
- Approved a request from the Office of the Attorney General to:
  - Convert 5 contractual positions to 4 permanent positions to support investigating allegations related to the sexual abuse of minors by clergy and others affiliated with the Archdioceses of Washington DC and the Diocese of Wilmington in Delaware as well as any potential new allegations related to the Archdiocese of Baltimore. (08/02/2023); and
  - Create four new positions in order to implement a new law giving the Independent Investigations Division authority to prosecute police-involved fatalities and serious injuries likely to result in death. (08/02/2023)
- Approved a request from the Public Service Commission to create a Procurement Officer Training regular position because of the significant increased workload and requirements for state procurements. (08/02/2023)

- Approved a request from the Maryland Department of Planning to create a Planner Lead/advanced position. Funding for this position is available as part of a \$500,000 Appalachian Regional Initiative for Stronger Economies (ARISE) federal grant award from the Appalachian Regional Commission (ARC). (08/02/2023)
- Approved a request from the Governor's Office of Crime Prevention, Youth and Victim Services to convert 1.5 contractual positions to one permanent position to oversee claims processing for victim services through the Criminal Injury Compensation Fund. (08/23/2023)
- Approved a request from the Department of Commerce to create three positions to oversee the Cannabis Business Assistance Loan Grant Fund (CBAF), which was created in 2022. (08/23/2023)
- Approved a request from the Maryland Department of Labor to approve 24 new pins to begin implementation of the Family and Medical Leave Insurance (FAMLI) program. (09/06/2023)
- Approved request from MDH to approve converting 180 contractual positions to 144 regular positions to address current healthcare worker shortages. (10/25/2023)
- Approved a request from DNR to approve eight new positions within the Wildlife and Heritage Service in order to implement Chapter 543 of 2023, establishing a Wildlife Conservation, Education and Outreach program. (12/13/2023)

## **Transportation**

- Approved a request from the Maryland Transit Authority to modify the Purple Line P3 Contract by increasing the contract amount, extend the contract and provide contractual relieve to the Concessionaire for project delays. (07/05/2023)
- Approved a request from the Maryland Transit Authority to award contracts to provide transit corridor planning and project development mainly for:
  - The Red Line Project
  - Central Regional Transit Plan Corridors; and
  - Southern Maryland Rapid Transit. (09/06/2023)
- Approved a request for a new 30-year lease with Amtrak at the following Maryland locations.
  - Perryville Edgewood and Glen L. Martin for MARC commuter rail service and parking; and
  - Baltimore Pennsylvania Station, New Carrollton Station and BWI Thurgood Marshall Airport Station. (09/06/2023)
- Approved a request from the Motor Vehicle Administration to modify a contract for the

management and operations of vehicle emissions inspection stations. The modification implemented the final VEIP regulations and increased the contract authority.  
(09/06/2023)

# DEBT MANAGEMENT DIVISION

## Rating Agency Update

In May of 2023, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2023, First Series, Fitch Ratings, Moody's Investor Service and S&P Global 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>. In November of 2023 Moody's Investors Service reaffirmed the Aaa - stable rating for Maryland, following the November 10<sup>th</sup> revision of the U.S. federal government's outlook to negative from stable.

The State intends to meet with the rating agencies in May of 2024 as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2024, First Series.

Maryland is one of only 15 states to hold the coveted triple-A rating, the highest possible rating for credit, by all three major rating agencies. S&P Global 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 not conducted a General Obligation bond sale.

## **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- or five-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 August 2, 2023, and was awarded to the lowest qualified bidder, Bank of America Public Capital Corp. The first draw of nearly \$3.5 million on December 20, 2023, financed critical

equipment for various State agencies.

On May 19, 2023, this committee authorized \$18.0 million of aggregate capital equipment for the Equipment Lease-Financing Program, of which a balance of approximately \$14.5 million remains to fund capital projects through June 2025. This committee also authorized \$20.0 million for the Energy Lease-Financing Program, also through June 2025, which has not yet been utilized.

## Upcoming Financing Plans

The State's next General Obligation bond sale is scheduled for June 5, 2024. The Debt Management Division expects the sale to include approximately \$1.0 billion in tax-exempt new money, as well as a taxable component of approximately \$150.0 million. Additionally, the division is monitoring interest rates and may refund certain outstanding bonds if they meet the criteria in the State's debt policy.

## Capital Debt Affordability Committee (CDAC)

At its final meeting on October 16, 2023, 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 28, 2023. After discussion, the Committee approved \$1.75 billion as the recommended maximum amount of general obligation bonds to be authorized for the fiscal year 2025 capital program. The vote was 4-0.

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.

<b>CDAC Affordability Ratios (projected)</b>			
(\$ in millions)			
Fiscal Year	Proposed Authorization	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2024	\$1,219.0	2.9%	6.3%
2025	\$1,750.0	2.9%	6.4%
2026	\$1,750.0	2.8%	6.1%
2027	\$1,750.0	2.8%	6.1%

2028	\$1,750.0	2.8%	6.2%
2029	\$1,750.0	2.8%	6.2%
2030	\$1,805.0	2.7%	6.2%
2031	\$1,860.0	2.8%	6.2%
2032	\$1,915.0	2.8%	6.1%
2033	\$1,970.0	2.8%	6.1%

## 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, which contributed \$430.0 million in fiscal 2023. 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 2024-2029.

### Annuity Bond Fund, Fiscal Year 2023 – 2029 (\$ in Millions)

	2023 Act.	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.
<b>Beginning Balance</b>	\$83.3	\$110.3	\$103.4	\$2.0	\$2.0	\$2.0	\$2.0
Total Property Tax Collections	943.6	985.4	1,018.4	1,048.3	1,074.5	1,101.3	1,123.3
General Fund Appropriation	430.0	425.1	371.9	411.3	459.2	499.9	549.7
Bond Sale Premium	65.0	-	-	-	-	-	-
Federal Subsidy for ARRA Bonds	6.4	6.2	4.9	2.6	0.9	0.2	-
Transfer Tax	7.00	7.00	7.00	1.7	-	-	-
Other Cash Receipts	5.9	2.1	2.1	2.1	2.1	2.1	2.1
Debt Service	<u>(1,430.9)</u>	<u>(1,432.7)</u>	<u>(1,505.7)</u>	<u>(1,465.9)</u>	<u>(1,536.6)</u>	<u>(1,603.6)</u>	<u>(1,675.1)</u>
<b>Ending Balance</b>	<u>\$110.30</u>	<u>\$103.40</u>	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$2.00</u>

# 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, 2023, total cash receipts and disbursements exceeded \$485.0 billion 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 1,429 agency bank accounts at 21 financial institutions. Total posted collateral on December 31, 2023, was \$874.8 million (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 on safety of principal to ensure protection of Maryland State Funds. The information in this report is based on the daily verification of investments for fiscal year 2024 year to date. The balance of the General Fund Investment Portfolio for December 31, 2023, was \$20.139 billion with a yield of 4.38% compared to \$20.771 billion on June 30, 2023, with a yield of 4.71%. The portfolio decreased by ~ \$632 million over the past six months.

The portfolio earned on average of 4.38% in fiscal year to date 2024, compared to 4.71% for the full year in fiscal year 2023.

The General Fund's gross interest earnings for the six months for the fiscal year to date 2024 was \$457.655 million compared to \$613.040 million for the full 2023 fiscal year. Given current interest rates and the generally similar size of the portfolio year over year the potential gain for the full fiscal year 2024 could approach ~ \$850 million. On average ~ 60% has been allocated by Statute to Agencies in the state on a prorated basis based on their account balances. Should the markets stay steady, and the fund not change size dramatically year over year interest would grow by a potential ~ \$275 million.

The Federal Reserve stopped raising interest rates late summer and have been on hold since. Currently the Federal Reserve's general forecast is for three interest rate cuts in the second half of 2024 (fiscal year 2025). The markets have more aggressively priced as many as six cuts in interest rates starting in March of this year (fiscal year 2024). The Federal Reserve may not cut rates and / or may have to raise them depending on the trajectory of inflation and the economy in general. That increases the difficulty of forecasting potential returns for the second half of fiscal year 2024.

As can be seen in the brief chart below, the General Fund has underperformed the average return on the three-Month T Bill rate for the first six months of fiscal year 2024. The reason for this was the divergence in fixed income, bond prices on longer term older securities and the newer shorter securities that were purchased for the portfolio. As rates rose through the first half of fiscal year 2024, peaking on October 18, bond prices dropped and older securities that were in the portfolio going back to fiscal years 2018 – 2021 that had low coupons hurt both the interest rate return and the capital value of the portfolio. Active diversification into securities with higher returns that still maintained safety and liquidity helped to offset some of the negative returns. In addition, a shift to shorter maturities aided returns. It will take time for these securities to mature and get replaced with higher return more current coupon securities. For a more accurate comparison, the longer historical securities yield on average 1.98% while the securities purchased since are approximately 5.59%.

Fiscal Year	General Fund	3 Mon Treasury Bill Rate
2021	0.29%	0.06%
2022	0.49%	0.36%
2023	4.70%	4.36%
2024	4.38%	5.43%

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

\*Interest allocation are through 12/31/23

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	\$20,963,584.77	\$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%
2024*	\$457,655,102.71	\$268,649,230.80	\$457,655,102.71	59%

\* Through 12/31/2023

## The Maryland Local Government Investment Pool (MLGIP)

The Maryland Local Government Investment Pool's (MLGIP) AAA 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 December 31, 2023, the portfolio was \$11,821,218 billion compared with \$9,561,635 billion at the end of fiscal year 2023 on June 30, 2023, an increase of \$2,259,583 billion. The participants receive the bulk of their annual funds from Local Income Tax quarterly disbursements. As a side note the MLGIP portfolio reached a record high during the holidays of just over ~ \$12 billion before declining modestly into year end.

The average MLGIP yield for fiscal year to date 2024 (7/1/23-12/31/23) was 5.50%, for full year 2023 it was 5.16% that compared within a couple basis points of 3-month Treasury Bills. For full year 2023 three-month T-bills return 5.187%. So far in fiscal year 2024 three-month T-bills have returned 5.43%. The MLGIP consists of 305 accounts and 275 separate 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 has retained the contract.

Fiscal Year	Fund Balance as of June 30	Number of of Participants	Actual Yield Previous 12 Months	\$ Inc (Dec) Assets Assets Previous year
2013	2,848,875,911	301	0.12%	14.86%
2014	3,127,026,184	302	0.05%	9.76%
2015	3,424,585,598	302	0.05%	9.52%
2016	3,779,521,886	303	0.22%	10.36%
2017	3,727,516,877	305	0.56%	-1.38%
2018	5,251,410,838	305	1.34%	29.02%
2019	6,050,482,835	305	2.27%	15.22%
2020	8,924,858,860	305	1.49%	47.51%
2021	9,722,107,828	305	0.09%	11.19%
2022	9,666,453,434	305	0.27%	-0.57%
2023	9,561,634,818	275	0.27%	-1.65%
2024**	11,821,218,433	275*	5.50%	23.63%

\* Distinct Accounts - Some Memebers hold multiple accounts

\*\* Through 12/31/2023

## **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 Workers' Compensation. The division's goal is to provide statewide risk management through loss protection (Underwriting), loss control (Loss Prevention), loss restoration and liability protection (Claims and Tort Litigation) and Workers' Compensation.

### **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 online 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 will migrate from the legacy I-5 system to CMS.

The third phase of the D365 project now includes integration between CMS and other divisions of the Treasurer's Office.

Additional phases will include enhancements to the CMS, launch agency portal and developing reports.

### **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 six months include:

- The Annual Insurance Survey was distributed to State agencies in July 2023. The Surveys collect underwriting information for commercial insurance renewals, including the excess property, boiler, and watercraft liability (P&I) programs; and are the basis of agency premium allocations for commercial and self-insured programs of the State.
- Commercial underwriters seek building appraisals to confirm adequacy of insured property values. Aon, broker for the State's commercial property program, arranged for two buildings insured for historic reproduction cost to be appraised without charge. The appraiser met with staff of University of Maryland, Baltimore at Davidge Hall and Department of General Services staff at the State House in August 2023. Completed appraisals were shared with the respective agencies, both of which reflected higher building reproduction costs than prior estimated values.
- On November 8, 2023, brokers from WTW Hunt Valley, London and Bermuda met with Maryland Transit Administration and Insurance Division staff in Baltimore. The agenda included results of the July 1, 2023, renewal for MTA's commercial excess liability, rolling stock and bus physical damage coverage, global market conditions for transportation risks and expectations for 2024. Underwriting pressure to increase the self-insured retention applicable to bus liability is anticipated, currently the SIR is \$10,000,000.

## **Commercial Insurance Program Renewals**

Commercial property insurance markets remain volatile, particularly for public sector and entities with exposure to catastrophic perils like flood, hail and windstorm. Widespread damage from convective storms and natural weather events, and the increased cost of building materials for repairs, combined to produce unfavorable claim results for property insurers and reinsurers. In a recent report, Swiss Re noted 2023 is the fourth consecutive year with global insured property losses over \$100 billion.

July 1, 2023 – December 31, 2023

- Maryland Transit Administration's excess liability program renewed effective July 1, 2023-2024. Excess Limits remained as expiring, \$500M for MARC and \$202.5M for other MTA operations. Self-insured retentions also remained as expiring, \$5M rail and \$10M for bus. The overall pricing increased from \$10,786,668 to \$11,327,679.09. This was an increase of \$541,011.09, or approximately 5% more than the expiring cost.
- Maryland Transit Administration's rolling stock floater renewed effective July 1, 2023-2024. Renewal coverage remained with Chubb. The overall pricing decreased from \$985,100 to \$974,058. This was a decrease of \$11,042, about -1.1% less than the expiring cost.

- Maryland Transit Administration's bus fleet physical damage program renewed effective July 1, 2023-2024. The overall pricing increased from \$336,154 to \$356,232. This was an increase of \$20,078, or approximately 6% more than the expiring cost.
- Department of Agriculture's farmers markets general liability policy renewed effective July 1, 2023-2024. The overall pricing decreased from \$4,402 to \$4,171. This was a decrease of \$231, or about -5.2% less than the expiring cost.
- Department of Human Services and Juvenile Services volunteer accident & excess liability program for foster grandparents renewed effective July 1, 2023-2024. The pricing remained the same as expiring, \$534.60.
- Maryland State Retirement & Pension System crime policy renewed effective July 1, 2023-2026. This policy was transitioned from a one-year term to a three-year term. The overall pricing for three years was \$10,513. The annual cost decreased from \$4,064 to \$3,504.33. This was a decrease of \$559.67, or approximately -13.8% less than the expiring cost.
- Maryland Judiciary crime policy renewed effective July 1, 2023-2026 on a three-year term, same as expiring. The overall pricing increased from \$10,841 to \$11,917. This was an increase of \$1,076, or approximately 10% more than the expiring cost.
- Student Athletic Participants Accident basic program covering ten Universities and Colleges renewed effective August 1, 2023-2024. The overall pricing increased from \$1,030,749 to \$1,193,974. This was an increase of \$163,225, or approximately 15.8% more than the expiring cost.
- Baltimore City Community College's Athletic Participants Accident catastrophic program renewed effective August 1, 2023-2024. Overall pricing remained the same as expiring, \$4,967.
- St. Mary's College of Maryland's Athletic Participants Accident catastrophic program renewed effective August 1, 2023-2024. Overall pricing is the same as expiring, \$800.
- Maryland Aviation Administration's airport liability insurance renewed effective August 15, 2023-2024. The overall pricing increased from \$1,273,800 to \$1,311,159. This was an increase of \$37,359 or about 2.9% more than the expiring cost.
- Allied Health professional liability policy covering thirteen participating institutions renewed effective September 1, 2023-2024. The overall pricing increased from

\$126,375 to \$136,816. This was an increase of \$10,441, or approximately 8.3% more than the expiring cost.

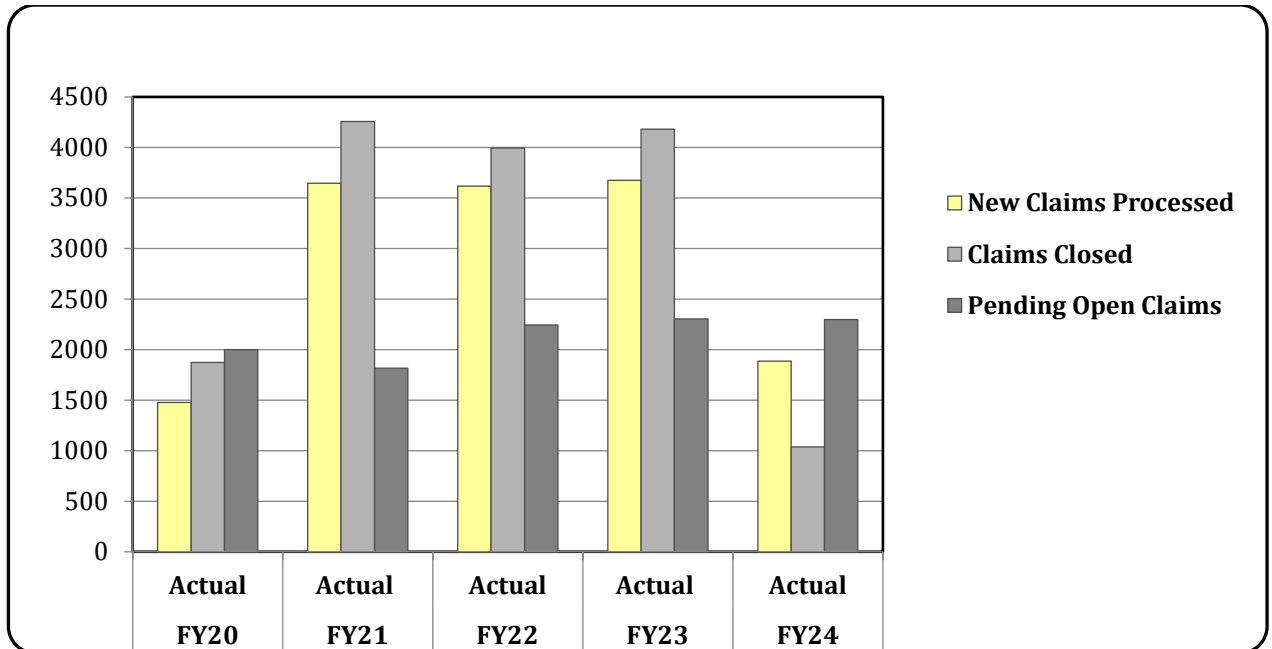
- Maryland State Retirement & Pension System fiduciary liability policy renewed effective September 1, 2023-2024. The overall pricing increased from \$262,210.90 to \$268,531.50. This was an increase of \$6,320.60, about 2.4% more than the expiring cost.
- Blanket Cyber, Network Security & Privacy policies renewed effective September 30, 2023-2024. The overall pricing increased from \$2,442,000 to \$2,497,000. This was an increase of \$55,000, or approximately 2.3% more than the expiring cost.
- Blanket Boiler & Machinery policy renewed September 30, 2023-2024. The overall pricing increased from \$658,309 to \$710,738. This was an increase of \$52,429 or about 8% more than the expiring cost.
- University of Maryland, Baltimore and University of Baltimore Professional Liability coverage for law clinics renewed effective October 10, 2023-2024. The overall pricing decreased from \$22,790 to \$22,053. This was a decrease of \$737, approximately -3.2% less than the expiring term.
- Maryland Public Television general liability, umbrella, and Errors & Omissions (E&O) policies renewed effective October 11, 2023-2024 for general liability and Umbrella, and October 11, 2023-2026 for E&O. Errors & Omissions coverage moved to a new carrier, Axis, on a three year-term. The overall pricing increased from \$32,530 to \$33,235. This was an increase of \$705, or approximately 2% more than the expiring term.
- Blanket Terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2023-2024. The overall pricing increased from \$226,625 to \$271,268.88. This was an increase of \$44,611.88, or 19.7% more than the expiring term.
- Maryland Transportation Authority Bridges and Tunnels liability insurance renewed effective October 17, 2023-2024. Coverage renewed with General Star, providing continuity after recent transitions in the lead carrier. Total cost increased from \$1,287,067 to \$1,464,560. This was an increase of \$177,493, or approximately 13.8% more than the expiring term.
- The bond for Legislative Auditor Gregory A. Hook renewed effective November 7, 2023-2024. Total cost remained the same as expiring: \$850.

- Maryland Port Administration's Cranes property/marine program renewed effective November 25, 2023-2024. There was a 2.4% increase in insured values over expiring. The overall pricing rose from \$89,181 to \$103,342. This was an increase of \$14,161 or approximately 15.9% more than the expiring term.
- The Maryland Transportation Authority crime policy renewed effective December 1, 2023-2024. The overall pricing remained the same as expiring: \$7,305.
- Maryland Transportation Authority Bridges and Tunnels property program renewed effective December 1, 2023-2024. Values for major structures increased 83.5% over last year due to new valuation methodology. Due to higher values, the deductible increased to \$50M. Total cost for renewal increased from \$4,675,710 to \$6,596,966. This was an increase of \$1,921,256, or 41.1% more than the expiring term.
- Maryland Fire and Rescue Institute professional and general liability policy renewed effective December 5, 2023-2024. Renewal pricing increased from \$86,732 to \$118,817. This was increase of \$32,085 or approximately 37% more than the expiring term.
- Deer's Head Center resident trust fund bond renewed effective December 18, 2023-2024. Total cost remained the same as expiring: \$740.
- Western Maryland Center resident trust fund bond renewed effective December 18, 2023-2024. Total cost remained the same as expiring: \$740.
- Department of Housing & Community Development's Fannie Mae crime bond did not renew for the 2023-2024 term, as the program was discontinued.

## **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, an 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, 2023, through December 31, 2023, there were 1,885 new claims processed and 1,039 claims closed. The chart below shows claims detail of all claims by fiscal year. There are currently 2,296 open pending claim files for fiscal year 2024.



**Recently Reported Major Claims** - From July 1, 2023 – December 31, 2023, the Insurance Division received notice of 23 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.

Effective July 1, 2022, any claim with a date of loss that arises from intentional tortious acts or omissions, or a violation of a constitutional right committed by a law enforcement officer, the following limits on liability shall apply:

- The combined award for both economic and noneconomic damages may not exceed a total of \$890,000 for all claims arising out of the same incident or occurrence, regardless of the number of claimants or beneficiaries who share in the award; and
- In a wrongful death action in which there are two or more claimants or beneficiaries, an award for noneconomic damages may not exceed 150% of the limitation established under item 1. regardless of the number of claimants or beneficiaries who share in the award.

Effective October 1, 2023, any claim that arises out of sexual abuse, as defined in § 5-117 of the Courts Article, the legislation amends SG § 12-104 by increasing the MTCA cap from \$400,000 to \$890,000 for a single claimant for injuries arising from an incident or occurrence.

### **Tort/Auto/O&E**

On February 1, 2015, claim alleges an inmate was sexually assaulted by a correctional officer while in custody with the Department of Public Safety and Correctional Services. The claim is related to recent statute change. The officer was sentenced to Federal Prison.

On July 1, 2015, claim alleges an inmate was sexually assaulted by a correctional officer while in custody with the Department of Public Safety and Correctional Services. The claim is related to recent statute change. The officer was sentenced to Federal Prison.

On June 14, 2019, claim alleges the Department of Public Safety & Correctional Services was negligent for an assault and failing to provide medical treatment to an inmate. There is video of the inmate being dropped on their head, hitting the cement floor at Central Booking, Baltimore City.

On September 7, 2020, claim alleges the stairs at a State Highway Administration scenic lookout were built incorrectly causing a citizen to fall and injure themselves.

On September 9, 2020, claim alleges the Department of Public Safety & Correctional Services was negligent for the injuries to an inmate from an auto accident. The inmate's wheelchair was not secure during transport, it flipped over when an accident occurred.

On August 21, 2022, a patron at a Department of Natural Resource's Park was injured when they tripped and fell on an old grill post protruding from the ground.

On October 18, 2022, fatality claim against the Department of Public Safety and Correctional Services for negligent medical care while in their custody.

On October 30, 2022, fatality claim against the Department of Public Safety and Correctional Services for negligent medical care while in their custody.

October 1, 2023 (date of statute change as incident date), a total of 10 previous juveniles filed sexual assault claims for incidents that occurred in the past at Cheltenham Youth Detention Facility.

October 1, 2023 (date of statute change as incident date), a total of 11 previous juveniles filed sexual assault claims for incidents that occurred in the past at Charles H. Hickey School.

October 1, 2023 (date of statute change as incident date), a total of 6 previous juveniles filed sexual assault claims for incidents that occurred in the past at Baltimore City Juvenile Justice Center.

October 1, 2023 (date of statute change as incident date), a total of 8 previous juveniles filed sexual assault claims for incidents that occurred in the past at Victor Cullen Institute.

October 1, 2023 (date of statute change as incident date), a total of 5 previous juveniles filed sexual assault claims for incidents that occurred in the past at Montrose School.

October 1, 2023 (date of statute change as incident date), a total of 10 previous juveniles filed sexual assault claims for incidents that occurred in the past at Waxter Children's Center.

October 1, 2023 (date of statute change as incident date), claim alleges that an inmate was sexually assaulted while in custody with the Department of Public Safety and Correctional Services. The officer was sentenced to Federal Prison.

October 1, 2023 (date of statute change as incident date), a total of 25 previous juveniles filed sexual assault claims for incidents that occurred in the past at Cheltenham Youth Detention Center.

October 1, 2023 (date of statute change as incident date), a total of 5 previous juveniles filed sexual assault claims for incidents that occurred in the past at Baltimore City Juvenile Justice Center.

October 1, 2023 (date of statute change as incident date), 1 previous juvenile filed a sexual assault claim for an incident that occurred in the past at Cheltenham Youth Detention Center.

October 1, 2023 (date of statute change as incident date), a total of 20 previous juveniles filed sexual assault claims for incidents that occurred in the past at Waxter Children's Center.

## **Property/Boiler**

On July 30, 2023, the University of Maryland, Baltimore sustained flood damage from an obstruction in the waste line in the women's bathroom at Howard Hall. Estimated loss \$89,000.

On August 10, 2023, the University of Maryland, Baltimore sustained damage from an underground utility fire. Estimated loss \$75,000.

On September 18, 2023, a vehicle crashed into a brick wall with signage at University of Salisbury. Estimated loss \$115,500.

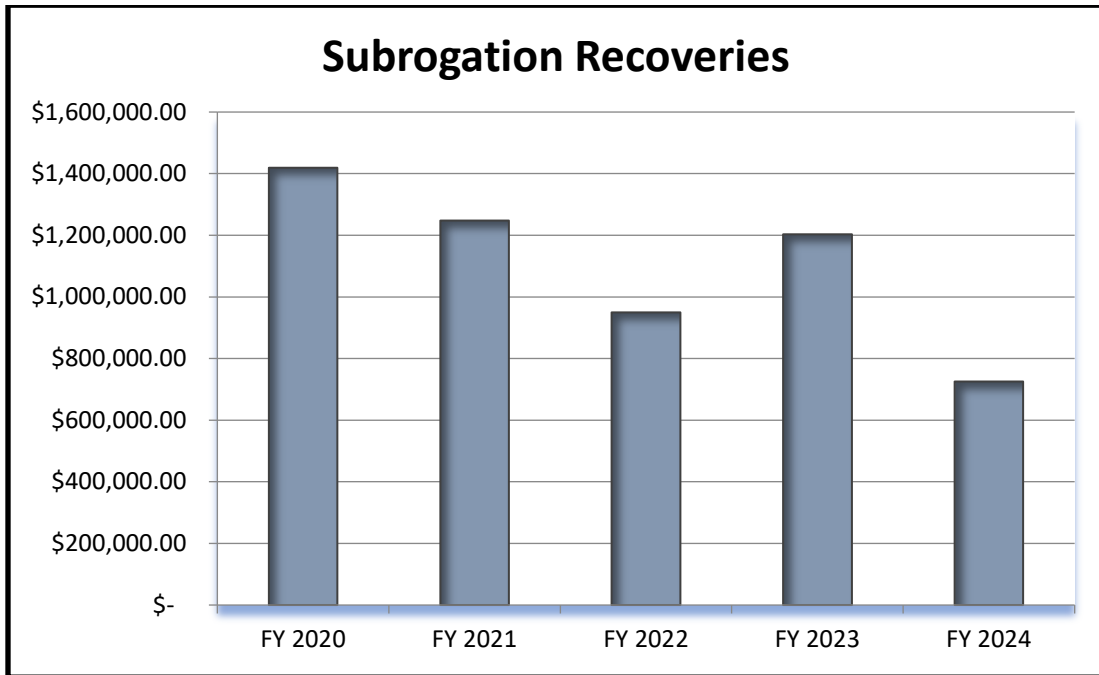
On November 2, 2023, a broken check valve on the chiller in the mechanical room at the Maryland State Police caused the chiller to fail. Estimated loss \$96,523.20.

## **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 2024 total \$725,144.58 as of December 31, 2023. This is a continued area of focus and is a priority within the Claims Unit.

Subrogation recoveries for fiscal year 2024 are still impacted by lingering effects of the COVID-19 pandemic. We are still experiencing delayed responses to the State’s subrogation requests, supply chain challenges for auto parts, or 1<sup>st</sup> party property losses and staffing issues in the insurance industry continue to hamper recoveries.



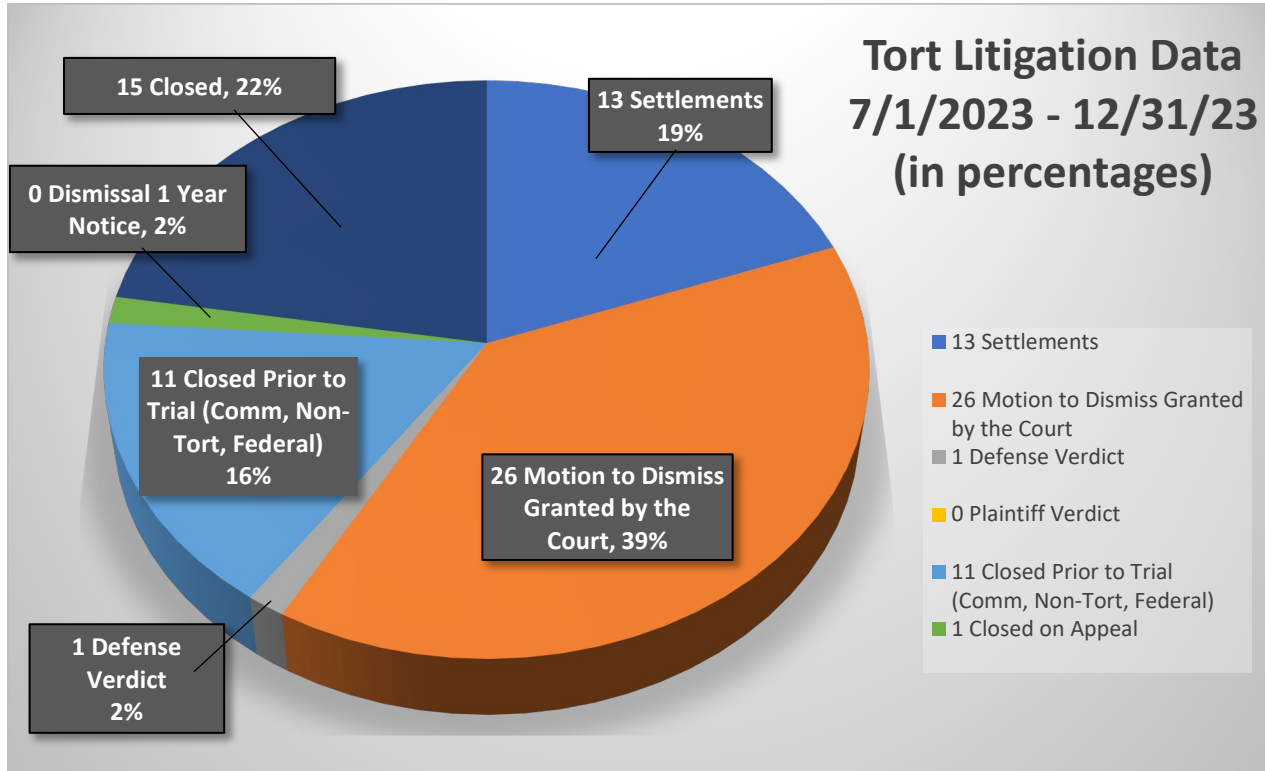
### Tort Litigation Management

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 July 1, 2023, through December 31, 2023, totaled \$531,324.45, litigation expense costs were \$122,156.75, for a total of \$653,481.20. 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 159, as of December 31, 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 assets, including buildings, computers 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.

State law requires boilers and pressure vessels be certified annually or biennially depending on type of equipment. Travelers, the boiler and machinery carrier for the State’s program, conducts over 1,000 inspections of State-owned objects each year as part of policyholder services. Quarterly meetings with Travelers, the commercial insurance broker and loss prevention staff are held to review outstanding jurisdictional violations and track

compliance of impacted agencies.

Thermographic or infrared testing of electrical equipment can detect hot spots which may cause a fire. Travelers provides up to ten hours of testing services each year at no additional cost. Most recently, Clifton T. Perkins Hospital conducted thermographic scans and Bowie State University was scheduled for testing on December 20, 2023.

## **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 could lead to loss and provide recommendations to mitigate such losses.

Inspections involve a physical survey of the site and visual examination of buildings and their operating systems. A report is generated by the insurer's representative describing general conditions and observations of any potential issues. Inspection reports are shared with each agency to review the recommendations and discuss intended actions. For the recent cycle, locations inspected were:

- Bowie State University
- Coppin State University
- Frostburg University
- University of Baltimore
- Maryland State Police Headquarters and Forensics Lab
- Miller and James Senate Office Buildings
- Maryland State House
- Maryland State Highway Hanover Operations Center
- Deer's Head Hospital
- Maryland Stadium Authority – Orioles Park

As compliance with recommendations may help avoid future losses, this is a benefit to the State Insurance Trust Fund and a positive characteristic for commercial property insurance company underwriters.

## **Workers' Compensation**

The State Treasurer's Office is the administrator of the contract between the Board of Public Works and Injured Workers' Insurance Fund (IWIF), the third-party administrator (TPA) for the State's self-insured workers' compensation program. The Workers' Compensation Program Manager is responsible for oversight of the TPA contract, monitoring claims activity and trends, and ensuring accurate accounting of the fund balance. Oversight includes defining and communicating expectations, developing action plans and assuring adherence to the agreement. The Program Manager also evaluates services, effectiveness of current benefits and overall program costs. The Program Manager is a resource for state agencies, assisting in improving processes, developing

return to work programs, facilitating communications and acting as liaison between IWIF and the agencies.

In the past six months, an updated Memorandum of Understanding (MOU) with IWIF has been drafted and is in process of review. Additionally, the SERMA Executive Order has been completed for signature.

Since July 1, 2023, there have been 36 agency visits completed (in-person and virtual) introducing the Workers' Compensation Program Manager and discussing the relationship with IWIF and Loss Prevention. For the fiscal year 2024, we will be monitoring trends of the top 12 agencies, along with costs for each of the respective agencies.