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TESTIMONY OF STATE TREASURER NANCY K. KOPP

Before the

House Public Safety and Administration Subcommittee

February 22, 2018

Good afternoon, Mr. Chairman and members of the committee. I am pleased to appear before you today to present the State Treasurer's Office (STO) proposed budget for 2019. As usual, my sincere thanks to the Department of Legislative Services, and a particular thanks to Sierra Boney for her excellent work and analysis of this budget. We appreciate the critique and agree with the recommendation.

The State Treasurer's Office is tasked with carrying out several constitutional and statutory responsibilities on behalf of the State, including:

- Safeguarding and investment of excess cash balances;
- Timely recordation and reconciliation of State funds;
- Issuance of statewide debt to finance capital projects;
- Procurement of all banking and financial services, insurance and insurance services; and
- Statewide insurance management to provide risk assessment and mitigation through loss protection, loss control and loss restoration.

I would like to take the opportunity to highlight some of the achievements carried out by the talented and dedicated staff within the Office over this past year before addressing our fiscal year 2019 budget.

Treasury Management Division – The Treasury Management Division includes the Banking Services Department and the Investment Department together under one division.

Banking Services Department (BSD) - BSD is directly responsible for managing the banking needs for all agencies of the State.

As part of this, the Department procures financial products and services statewide. A new Statewide Lockbox Services RFP was issued and awarded in fiscal year 2017.

There are 23 state agencies participating in this contract with a total of 49 lockbox accounts to be converted. The Department has worked closely with these state agencies and the vendor throughout the entire conversion process and is expected to be completed by the end of the fiscal year.

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. For fiscal year 2017, total cash receipts and disbursements exceeded \$440 billion. BSD monitors over 1,550 agency bank accounts at 23 financial institutions.

Investment Department – The State's conservative investment policy and practices have protected the investment portfolio through these volatile and unprecedented economic times and has resulted in a modest but continuous return on the portfolio. The par value of the General Fund investment portfolio for January 31, 2018 was \$8,468,249,989.21.

On January 31, 2018, the portfolio was earning an average of 1.538%, compared to 1.374% for the same date in 2017. The General Fund gross interest earnings received year-to-date for fiscal year 2018 are \$61,382,116 compared with \$40,626,871 received for the same time period in fiscal year 2017. This is an increase of \$20,755,245.

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on September 25, 2017. The Pool consists of 305 participants with a balance at January 31, 2018 of \$4,856,424,390.28.

Debt Management Division - Maryland continues to be one of now eleven states with AAA ratings from all three rating agencies. S&P has rated the bonds AAA since 1961, Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993.

A conference call with the rating agencies was held on February 14th prior to the March sale of the 2018 First Series General Obligation Bonds, and ratings are expected to be issued by February 23rd. Once ratings have been affirmed, copies of the ratings reports will be posted on our website.

Calendar Year 2018 Bond Sales

2018 First Series General Obligation Bonds: The next general obligation financing is scheduled for March 7, 2018 and is expected to total \$475 million in tax-exempt bonds and \$50 million in taxable bonds.

Calendar Year 2017 Bond Sales

The 2017 First Series were sold on March 8, 2017 and totaled \$1,140,685,000

Series A: \$575,000,000 in tax-exempt new money bonds

Series B: \$100,000,000 in taxable bonds

Series C: \$465,685,000 in tax-exempt refunding bonds

All series were sold on a competitive basis primarily to institutions. Series A bond proceeds were used to finance capital projects. The sale had a True Interest Cost (TIC) of 2.84% and included a premium of \$91,186,871 million to offset debt service costs. Series B proceeds were used to finance capital projects deemed to have private activity that made them ineligible for tax-exempt financing. Series B received a TIC of 2.04%. Series C proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$24,251,272 in debt service costs on a net present value basis. Series C received a TIC of 1.72%.

The 2017 Second Series were sold on August 16, 2017 and totaled \$1,335,340,000

Series A: \$550,000,000 in tax-exempt new money bonds

Series B: \$785,340,000 in tax-exempt refunding bond

All series were sold on a competitive basis primarily to institutions. Series A proceeds were used to finance new projects. Series A received a True Interest Cost (TIC) of 2.29% and included a premium of \$93,874,850 to offset debt service costs. Series B proceeds were used to refinance previously issued bonds at a lower rate, which saved the State \$75,832,051 in debt service costs on a net present value basis. Series B received a TIC of 1.66%.

Qualified Zone Academy Bonds (QZAB) of 2017 were sold on December 6, 2017 and totaled \$4,832,000. These were tax credit bonds bearing no interest. QZAB proceeds are used to fund capital improvements and repairs at existing schools in which at least 35% of the students are eligible for free or reduced-price lunch.

Insurance Division

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 agencies' contractual agreements. The Underwriting Unit has been very successful in improving coverage and in achieving competitive premiums for some of the State's largest risks as outlined below.

- The State of Maryland owned aircraft liability and hull coverage renewed effective 6/30/2017-2018 with an overall premium **savings of \$243,467.**
- The Maryland Transit Administration's rail car floater coverage renewed effective 07/01/2017-2018 with an overall premium **savings of \$105,553.**
- The Maryland Transit Administration's excess liability coverage renewed effective 07/01/2017-2018, with an overall premium **savings of \$94,746.**

Proposed Budget – We appreciate the continued support we’ve received for our Financial Systems Modernization project to replace our core financial systems currently in use. These systems will no longer be supported after December 2018, and we have made significant strides during the fiscal year to identify a replacement solution that meets the capacity and capabilities necessary for continued operations.

In fiscal year 2017, we hired a project manager through the Request for Resume' process to lead the Office in this process. After significant review of our business requirements and solutions available to meet our budgetary and customization requirements, we have selected Microsoft Enterprise 365 as the replacement solution for our legacy system. To date, we have purchased the enterprise software licenses, which include the applications and the cloud infrastructure as well as the associated software development tools. We have refined our business specifications and are in the process of finalizing the cloud infrastructure subscription services. We are currently working with DoIT to release a Request for Proposal to secure development, implementation, and Operations and Maintenance (O&M) programming and developer services.

We are confident that this new solution will enhance our current operations through automation of manual processes, improved cash flow management and bank reconciliation processes, and implementation of a modernized insurance claims management solution that will provide enhanced web capabilities for our constituents and interface with our accounting system. Our goal is to develop a scalable platform that can meet the needs of our office as well as the needs of other state agencies on many levels such as banking interface functionality, general ledger, check management, accounts payable and receivables, workflow management and customer relationship management.

In addition to continued funding for our major IT project, our allowance reflects a \$997,181 decrease in Reimbursable Funds for costs associated with estimated premiums for commercial insurance policies to cover catastrophic property and liability losses and other obligations derived from State contracts, statutes and regulations. Also, in order to meet our general fund target, our allowance for bank fees is \$148,418 lower than our fiscal year 2018 appropriation. We are in the process of reviewing several banking contracts that are up for renewal and depending on the outcome of these procurements and renewals, we may need to request additional funding through a deficiency request if needed.

Response to Legislative Analyst’s Recommended Actions:

Recommended Actions

- 1) *Concur with Governor’s allowance.*

STO Response

Office concurs.