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State Treasurer

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TESTIMONY OF STATE TREASURER NANCY K. KOPP

Before the

House Public Safety and Administration Subcommittee

February 20, 2019

Good afternoon, Mr. Chairman and members of the subcommittee. I am pleased to appear before you today to present the State Treasurer's Office (STO) proposed budget for 2020. 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 FY 2020 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. This has been a particularly busy year for the Department in managing the conversion of

new contracts and procurement of new contracts for banking services that were up for renewal. These contracts are listed below:

- A new Statewide Lockbox Services Request For Proposal (RFP) was issued and awarded in FY 2017. Conversion was completed in July 2018, for a total of 32 accounts among 19 agencies.
- A new Statewide Depository Services RFP was issued in FY 2018 and awarded in October 2018. With this new contract, we plan to implement greater usage of remote deposit and to modernize our depository processes to enhance overall cash management throughout the State. This is a large conversion that includes 104 accounts in over 250 agency locations throughout the state, including universities and the courts.
- In October 2018 we released an RFP for Statewide Merchant Services. There are currently 550 Merchant Identification Numbers (MID's) in use by approximately 45 State Agencies. The procurement is still in the evaluation process, but is expected to be awarded by the end of March 2019.

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 FY 2018, total cash receipts and disbursements exceeded \$344 billion. BSD monitors over 1,550 bank accounts at 26 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, 2019 was \$8,660,226,428.

On January 31, 2019, the portfolio yield was 1.93346%, compared to 1.53988% for the same date in 2018. The General Fund gross interest earnings year-to-date for FY 2019 are \$83,180,443 compared with \$64,900,597 for the same time period in FY 2018. This is an increase of \$18,279,846.

The Office continues to encourage minority business participation in the investment of State funds. However, the evolving bond market has made this task difficult. A number of MBE firms have merged, been acquired, or ceased to exist during the last few years. In FY 2018, the twenty-five MBE broker/dealers approved to handle the investment of State funds invested 37.3% of available unexpended surplus cash.

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on September 24, 2018. The Pool consists of 305 participants with a balance at January 31, 2019 of \$6,605,492,716.

Debt Management Division – The Treasurer's Office is responsible for issuing approximately \$1.0 billion in General Obligation Debt each year. The State's preferred method of issuing this debt is through a competitive bidding process. Given each sale is

approximately \$500 million we generally have a syndicate which is made up of multiple investment firms that come together to bid on our deals. As a result of the Office's continued efforts to encourage minority participation, I am happy to report that for the sales between 2013 and 2018 46.6% of the members of the syndicates were minority firms.

The **2019 First Series Bonds** are scheduled to be sold on March 26, 2019 for a total of \$490 million in tax-exempt bonds. Maryland continues to be one of twelve states with AAA ratings from all three major credit 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. In anticipation of this sale the next conference call with the rating agencies is scheduled for March 7th. Ratings for the 2019 First Series Bonds are expected to be issued by March 15th. Once ratings have been affirmed, copies of the ratings reports will be posted on our website.

The Treasurer's Office anticipates one additional offering in the summer. The exact date, amount, and structure are yet to be determined.

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.

1. The State of Maryland's blanket terrorism coverage renewed effective 10/13/2018-2019, with an overall premium **savings of \$46,888.**
2. The Maryland Transportation Authority's property insurance for toll bridges and tunnels renewed effective 12/01/2018-2019, with an overall premium **savings of \$223,036.**
3. The Maryland Transit Administration's excess liability insurance renewed effective 07/01/2018-2019, with an overall premium **savings of \$40,995.**
4. The Athletic Participants basic coverage for 10 schools renewed effective 08/01/2018-2019, with an overall premium **savings of \$63,952.**

Claims Management: Year-to-date subrogation recoveries for FY 2019 total \$968,144 as of February 15, 2019, and the Division is on target to meet the \$1 million goal. This is a continued area of focus and is a priority within the Claims Unit.

Major IT Project Update – 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 were designated end of life as of December 2018, however we were able to contract with IBM to extend maintenance until January 2020. As mentioned last year, Microsoft Dynamics Enterprise 365 (D365) was selected as the replacement solution for our legacy system, and as of this time last year we were working

with DoIT to release a Request for Proposal to secure development, implementation, and Operations and Maintenance (O&M) programming and developer services.

A contractor was selected in August 2018 to provide the programming and development team, and team members were brought on board in September to begin work on the project. The teams are broken into two groups, one for Insurance Management, and one for Finance and Operations (F&O). The Insurance team has been working closely with our Insurance Division to begin developing an online portal for citizens and agencies to file 'notice of claim' forms online and will soon begin designing the claims database system. The F&O team has been working with our accounting division and IT division to develop R*STARS interface files, bank interface files, and to set up the general ledger and accounting workflows within D365. The F&O team will soon begin working with the Banking Services Department to automate the daily bank reconciliation processes and create the statewide check register.

Budget Analysis - In addition to continued funding for our major IT project, our allowance includes funding for additional bank fees anticipated as a result of the depository conversion as there will be set up costs, new courier fees, new remote deposit and cash vault equipment purchases as well as costs to maintain both bank accounts until all accounts are fully converted to the new bank. Our allowance also includes funding for the lease/purchase costs for replacement PC's for all staff, as our existing computers are over nine years old and are running on an outdated Windows platform (Windows 7), using Office 2013, and cannot support our new D365 solution.

The conversion of our master depository banking contract has added challenges to our Major IT Project timeline as it requires STO staffing and project team members to merge both project timelines and take into consideration multiple bank account reconciliations and banking file transfers that were not part of the original scope. We included an over the target request to finance additional programming staff to assist with this challenge, which was approved by DBM and included in our Allowance.

This is a very exciting time for the agency with the modernization of our financial and insurance systems, changes in our banking contracts, changes within the debt issuance environment and investment market, and also within our insurance claims division with increasing tort and related litigation activity. I am especially grateful for the financial support provided within our allowance to help us meet these challenges while also improving our products and services to state agencies and to the citizens of Maryland.

Response to Legislative Analyst's Recommended Actions:

Recommended Actions

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

STO Response

Office concurs.