



Nancy K. Kopp
State Treasurer

Bernadette T. Benik
Chief Deputy Treasurer

TESTIMONY OF STATE TREASURER NANCY K. KOPP
Before the

Senate Education, Business and Administration Subcommittee
February 28, 2020

House Public Safety and Administration Subcommittee
March 2, 2020

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 2021. As usual, my sincere thanks to the Department of Legislative Services, and a particular thanks to Samuel Quist for his 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 2021 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 was another busy year for the Department in overseeing the conversion of two major banking services contracts that were awarded to new providers. These contracts are managed by STO on behalf of state agencies and are listed below:

Statewide Master Depository Contract

With conversion expected to be completed March 30, 2020. (Please see ‘Response to Updates’ section below for further details)

Statewide Merchant Services Contract

The contract was awarded to Branch Banking & Trust (BB&T). Bank of America Merchant Services (BAMS) served as the incumbent provider for over 20 years, so again this proved to be a significant conversion effort. There are 58 agencies, with 438 existing merchant accounts to be converted. All accounts are expected to convert by September 2020.

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 2019, total cash receipts and disbursements exceeded \$553 billion. BSD monitors over 1,500 bank accounts at 29 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 book value of the General Fund investment portfolio for January 31, 2020 was \$9,917,087,112.

The portfolio was earning an average of 1.718% on January 31, 2020, compared to 1.767% for the same date in 2019. The General Fund gross interest earnings year-to-date for fiscal year 2020 are \$96,293,131 compared with \$83,180,443 for the same time period in fiscal year 2019. This is an increase of \$13,112,688.

The Office continues to encourage minority business participation in the investment of State funds. However, the evolving bond market has made this task difficult. Several MBE firms have merged, been acquired, or ceased to exist during the last few years. The diligence of the STO has resulted in twenty four MBE broker/dealers on the Office’s approved list for FY20.

The Maryland Local Government Investment Pool’s (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on September 30, 2019. The Pool consists of 305 participants with a balance at January 31, 2020 of \$7,582,307,298.

Debt Management Division - Maryland is one of thirteen 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.

A conference call with the rating agencies was held on February 12th prior to the March sale of the 2020 First Series Bonds. Ratings were issued on February 24th, and all three rating agencies reaffirmed the State's AAA bond rating. Copies of these reports have been posted on our website.

Calendar Year 2020 Bond Sales

The 2020 First Series Bonds are scheduled to be sold on March 4, 2020. They are expected to total \$495 million in tax-exempt bonds, \$50 million in taxable bonds, and up to \$255 million in refunding bonds. The refunding bonds are projected to generate over \$20 million in net present value savings for the State. The Treasurer's Office anticipates one additional offering in the summer or fall; 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.

Catastrophic weather events, escalating litigation, and adverse loss results are impacting global insurance markets. Despite the difficult environment, there are positive results including:

- Maryland Transit Administration's Rail Car floater renewed effective July 1, 2019. Renewal pricing decreased from \$501,000 to \$473,665, which is an **overall savings of \$27,335.**
- Athletic Participants basic coverage for ten (10) schools renewed effective August 1, 2019. Renewal pricing decreased from \$1,070,446 to \$1,036,879, which is an **overall savings of \$33,567.**
- Blanket terrorism coverage for State property including bridges and tunnels renewed effective October 13, 2019. Renewal pricing was down from \$248,656 to \$220,597, which is an **overall savings of \$28,059.**
- Maryland Port Administration's Cranes property/marine program renewed effective November 25, 2019. Renewal pricing decreased from \$81,365 to \$65,700, which is an **overall savings of \$15,665.**

Claims Unit - The Claims Unit continues to proactively pursue debts owed to the State from the negligence of others. The Office recovered over \$1,422,613.22 from parties responsible for damaging State-owned property in FY 2019. As of February 25, 2020, the

year-to-date subrogation recoveries for FY2020 total \$987,953.06. This is a continued area of focus and is a priority within the Claims Unit.

Response to DLS Updates

- **Statewide Depository Banking Services Conversion:**

As outlined in the analysis, enhancements are being employed as we convert agencies to the new contract, including greater usage of remote deposit capture for check deposits and implementation of a new solution to allow for small cash deposits to be done securely through the US Postal Service, eliminating the dependency on local branches.

Part of the delay in the conversion process was a result of the significant amount of customization that had been done over 20+ years by the incumbent bank related to our BAI and NACHA file formats necessary for the complex reconciliations that are carried out by the Banking Services Department on a daily basis. While the new bank promised to deliver the services requested in the RFP, there was a clear misunderstanding in the complexity of the work done by our agency and the level of customization needed in formatting our files to ensure we received the files in the required format that provided custom reporting functionality as well. After escalating our concerns with upper management within the bank, we were able to resolve the issues and obtain the required reports and file formats to move forward with implementation. In addition, as a result of these delays the bank agreed to reimburse the Office for costs incurred to hire temporary employee services to assist our staff.

This is a large conversion that includes 104 accounts in over 250 agency locations throughout the state, including universities and the courts. Full statewide agency conversions will be completed by the end of March.

- **Report on alternative Financial Investment Bonds ‘Sukuk Bonds’:**

This report was completed and submitted, and our office stands available to assist in studying this issue further should the General Assembly choose to do so. (Appendix 1)

- **Audit Findings:**

The Office concurred with all findings and has implemented processes and procedures to ensure we have properly addressed these findings. (Appendix 2)

- **Financial Systems Modernization (FSM) Major IT Project:**

We appreciate the continued support we’ve received for our Financial Systems Modernization project to replace our core financial and insurance claims systems currently in use. We have faced several significant challenges with this project as outlined in the analysis that have impacted our budget and schedules. These challenges were primarily the result of project staffing issues and the banking

depository conversion. Overall, we are very pleased with the D365 solution and with the custom development to date in our insurance and accounting modules. We expect to roll these two modules out over the next couple months as we begin the development process for the banking check register and reconciliation modules to be in production by the end of the fiscal year. (Appendix 3)

This has been a tremendous year for the Office and our staff. With managing the banking conversion projects and the major IT project, there is not an employee within the agency that has not been impacted in some way. While it has been challenging, we are all looking forward to the enhancements and improved efficiencies that will impact our work internally, as well as for our constituents and partner agencies that will result from these projects, and we are grateful for the continued support.

Response to Legislative Analyst's Recommended Actions:

Recommended Actions

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

STO Response

Office concurs.