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TESTIMONY OF STATE TREASURER NANCY K. KOPP
Fiscal Year 2022 Operating Budget
Response to Department of Legislative Services Analysis

House Public Safety and Administration Subcommittee
Delegate Keith E. Haynes, Chair
February 1, 2021

Senate Education, Business and Administration Subcommittee
Senator Craig J. Zucker, Chair
February 1, 2021

Good afternoon, Chairmen and members of the subcommittees. I am pleased to appear before you today to present the State Treasurer's Office (STO) proposed budget for 2022. 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.

Before addressing our fiscal year 2022 budget, I would like to take this opportunity to highlight some of the achievements carried out by our dedicated staff within the Office over this past year while also supporting the State and its citizens through this extraordinary pandemic.

COVID-19 - As with all state agencies, COVID-19 presented us with many unexpected challenges over the year. In support of the Governor's executive order mandating telework, the Office identified mission critical staff for onsite work either full time, or part time on a rotational basis while all others worked entirely from home. Our management team worked quickly to provide the staff with the tools necessary to work from home, which included modifying processes to ensure continuity of operations, developing a plan to rotate essential staff onsite and putting measures in place to promote a safe work environment for those that worked onsite. As our staff navigated through remote work adjustments and related business process changes, their level of commitment remained steady and consistent. Our Office was able to continue to print checks, reconcile the State's bank accounts, invest funds, and manage daily cash flow needs that were critical in helping the State to serve the citizens of Maryland through this difficult time.

While the Office was able to maintain the status quo during these past few months, our vacancy rate has been affected by the pandemic, as some of our employees retired during this past year and others have indicated their intent to retire within the next few months due to stress and/or health concerns related to COVID-19.

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

Banking Services Department (BSD) - The primary mission of the Banking Services Department (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. During the fiscal year, the BSD continued conversion efforts on the Statewide Master Depository Contract and the Statewide Merchant Services Contract; released an RFP for statewide armored courier services; and assisted agencies with other banking procurement needs.

In addition, BSD is responsible for the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to its R*STARS accounting system. The Department must account for the receipt of all warranted deposits and the disbursement of all warranted payments. As of December 31, 2020, total cash receipts and disbursements exceeded \$259 billion this fiscal year. BSD monitors 1,431 bank accounts at 25 financial institutions. The State's bank accounts continue to be reconciled to the State's general ledger daily, to the penny.

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 balance of the General Fund Investment Portfolio for December 31, 2020 was \$8,916,614,125 (unaudited) compared to \$9,494,119,250 on December 31, 2019, a decrease of \$577,505,125.

The portfolio was earning an average of 0.319% on December 31, 2020, compared to 1.745% on December 31, 2019. The General Fund gross interest earnings fiscal year-to-date for FY21 through December 31, 2020 were \$13,892,142 (unaudited) compared to

\$82,789,223 received for the same time period in FY20. The year over year gross interest earnings decreased by \$68,897,081.

The Maryland Local Government Investment Pool's (MLGIP) AAAM rating was reaffirmed by S&P Global Ratings on April 27, 2020. The Pool consists of 305 participants with a balance at December 31, 2020 of \$10,314,532,071.

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.

Calendar Year 2020 Bond Sales

The 2020 Second Series was sold on July 22, 2020 and closed on August 5, 2020. The sale consisted of \$540 million in tax-exempt new money bonds, \$115.8 million in tax-exempt refunding bonds, and \$355.6 million in taxable refunding bonds.

Calendar Year 2021 Bond Sales

The 2021 First Series General Obligation Bonds are scheduled to be sold on February 24, 2021. They are expected to total \$425 million in tax-exempt new money, as well as a taxable component of up to \$50 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.

The next rating agency calls are scheduled for February 8th. Copies of the rating agency reports will be posted on our website once available.

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 worked diligently to maintain and improve coverage in response to recent events while achieving competitive premiums for some of the State's largest risks.

Catastrophic weather events, escalating litigation, and adverse loss results are impacting global insurance markets. Additionally, the pandemic continues to have an enormous impact on the insurance market. Uncertain liability implications worldwide, new exclusions, more restrictive terms and conditions, and rising costs of litigation due to the large number of suits have all been factors in increases. The recent results of commercial insurance purchases below are reflective of these conditions.

- New policy for Cyber, Network Security & Privacy insurance, effective September 30, 2020. The blanket commercial program extends coverage to agencies of the Executive, Legislative and Judicial branches, as well as State Universities and Colleges. The cyber program is comprised of two policies, each providing annual aggregate limits of \$10 million, with self-insured retentions consistent with other

state commercial insurance programs. The cyber insurance is intended to respond to privacy/data releases, hacking, and extortion, among other threats.

- Maryland Transit Administration Excess Liability annual insurance policy renewed effective July 1, 2020. Renewal pricing was up from \$4,681,890 to \$9,470,829. Due to recent catastrophic losses and a decrease in carriers willing to write the coverage, the premium increased by \$4,788,939, and deductibles increased from \$7.5 million to \$10 million.
- Maryland Transit Administration Rail Car floater renewed effective July 1, 2020. Due to recent market changes, which include both sizeable losses and limited brokers willing to write transportation coverage, renewal pricing increased from \$473,665 to \$883,371. This is an increase of \$409,706.
- Maryland Aviation Administration's Airport Liability insurance renewed effective August 15, 2020. Due to current market conditions which reflect recent large losses and a decrease in carriers willing to write transportation coverage, pricing was significantly affected on this placement. The premium increased from \$379,500 to \$1,130,000.

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 damage to State-owned property arising from sudden and accidental perils such as collision and comprehensive losses to autos, fire, hail, lightning, and wind, all of which may cause damage to State structures, equipment, and contents.

Claims Activity: From July 1, 2020 through December 31, 2020 (FY21), there were 1,502 new claims processed and 1,578 claims closed. There are currently 1,980 open pending claim files for FY21. Some of the recently reported major claims are listed below:

- The University of Maryland College Park reported a chiller failure in the Plant Sciences building that occurred on May 12, 2020 and resulted in damage to equipment. Damages are estimated at \$150,000.
- The Maryland Aviation Administration reported storm damage to the roof of Hangar 2 at Martin State Airport. Damage is estimated at \$500,000.
- The University of Maryland College Park reported heavy rains which flooded the Capitol One Field at Maryland Stadium on September 10, 2020. Damages are estimated at \$700,000.
- Morgan State University reported a fire in the Earl Richardson Library that occurred on May 21, 2020, resulting in fire and water damage to a hydraulic pump and 4th floor elevator lobby. Damages are estimated at \$225,000.

Subrogation Recoveries: The Claims Unit continues to proactively pursue debts owed to the State from the negligence of others. As of December 31, 2020, the year-to-date subrogation recoveries for FY2020 totaled \$437,818. This is a continued area of focus and is a priority within the Claims Unit, however as a result of the COVID-19 crisis, the Governor suspended debt collection activities in order to lessen the burden to Maryland businesses and citizens. Therefore, the Claims Unit was unable to submit outstanding damages to the Central Collection Unit (CCU) or to individuals responsible for damage to State property, leaving only subrogation recoveries processed from individuals' insurance carriers. CCU has since resumed full collection activities, thus subrogation recovery efforts through CCU or against individuals have recently resumed.

Response to DLS Updates

- **Statewide Depository Banking Services Conversion:**

As outlined in the analysis, conversion of statewide depository bank accounts was severely impacted by the COVID-19 pandemic and the implementation of mandatory telework across the state. At this point, all agencies have been set up with new remote deposit capabilities and have been successfully converted. While all agencies have been converted, there are a few ancillary accounts with unique services that are still in transition. We are currently operating on a temporary contract for armored courier services through the depository bank for state agencies that have cash deposits and are not physically located near a branch, and are in the process of procuring our own contract for these services.

Response to Legislative Analyst's Recommended Actions:

Recommended Actions

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

STO Response

Office concurs.