

MARYLAND STATE TREASURER
Dereck E. Davis

Testimony of the Maryland State Treasurer's Office

E20B – State Treasurer's Office Operating Budget | Fiscal Year 2024

House Appropriations Committee

February 9, 2023

After careful review, the State Treasurer's Office (STO) respectfully requests that the Committee concur with the Department of Legislative Services' recommendation to concur with the Governor's allowance for the proposed operating budget for fiscal year 2024.

STO carries out several constitutional and statutory responsibilities on behalf of the State, including:

- procuring all banking, financial, and insurance services;
- issuing statewide debt to finance capital projects;
- managing the State's self-insurance program;
- investing and safeguarding excess cash balances from all State funds; and
- reconciling State funds and accounts on a daily basis.

In January 2022, STO reflected a 35% vacancy rate, meaning that more than one in three seats in the agency sat unoccupied. Since taking office, Treasurer Davis has prioritized hiring quality staff and reducing the vacancy rate. With the legislature's help, key investments in STO facilitated reclassification of some salaries and implementation of a telework program. These improvements have helped the State to compete with private sector banks and insurance companies for hard-to-fill positions.

As noted in the analysis, STO continues to undertake efforts to modernize information technology and other internal processes. These updates have made the State's Insurance Program more efficient and customer-friendly and will make similar upgrades to STO's treasury management functions over time.

Challenges persist for the State to better manage risk from real and personal property claims due to inadequate building maintenance. To this end, STO is taking the following steps:

- working with insurance carriers to identify potential areas of concern and communicating those issues back to the agencies for remediation;
- providing thermographic testing of electrical equipment to identify hot spots, as electrical fires are a common cause of loss for the insurance industry; and
- conducting physical inspections of State facilities each year.

Recognizing the importance of proactively partnering with State agencies, STO is evaluating the Loss Prevention Unit to augment staffing and offer additional training to agencies throughout the year. Going forward, training will focus on the impact of claims to the State, examining higher premiums, increased deductibles, and reductions in coverage.

For the foregoing reasons, STO concurs with DLS' recommendation to concur with the Governor's allowance. The attached 2023 update to the Legislative Policy Committee provides additional context on STO's priorities and operations. Please contact Jonathan Martin, Chief Deputy Treasurer (jmartin@treasurer.state.md.us), with any questions.



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

January 2023

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 2022 through December 2022.

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 of this financial and procurement work, necessitating updates to the Committee.

There are two highlights in this report of particular note. First, STO continues to prioritize sound management of the State's financial portfolio. For fiscal year 2023, the State has earned \$284 million on its investments year to date as compared with \$70.7 million for the full prior fiscal year. The General Fund Portfolio closed the calendar year with assets of \$19.996 billion, an increase of \$2.221 billion over the most recent six months. Second, STO continues to invest time and resources into various information technology upgrades. By replacing legacy IT systems for insurance, administration, and treasury management functions, STO is ensuring that service and operations will improve and be modernized.

The items contained within this report also detail other 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, 2022, and December 31, 2022, BPW met 10 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.

Baltimore City 21st Century Public School Construction Initiative

- Approved the Maryland Stadium Authority's (MSA) request for approval of the MSA issuing a fourth series of 21st Century School Construction revenue bonds (2022 Program Bonds) not to exceed \$305,900,000. (07/06/2022)
- Approved the MSA's request to award an Architectural/Engineering design services contract for the Commodore John Rodgers Elementary/Middle School replacement project at 100 North Chester Street. (09/14/2022)

BPW Regulations

- Approved the Baltimore City Community College (BCCC)'s Procurement Policies and Procedures manual and the restoration of the Maryland State Board of Contract Appeals' authority over BCCC contract claims. (07/06/2022)

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. Since July 2022, BPW has approved the following Office of Administrative Hearings' request to compensate the following erroneously convicted individuals:

- Mr. Rodney Brown: \$984,890.37 in supplemental compensation and \$61,974 in attorney's fees. In addition, \$83,000 in a housing stipend as well as other benefits such as healthcare, job training, and financial education. (08/10/2022)
- Mr. Paul Madison: \$2,370,034.08 in compensation and \$68,000 in lawyers' fees. In addition, \$83,000 in a housing stipend as well as other benefits such as healthcare, job training, and financial education. (10/26/2022)

- Mr. David Morris: \$1,466,936.68 in compensation and \$27,625 in legal fees. In addition, \$83,000 in a housing stipend as well as other benefits such as healthcare, job training, and financial education. (11/16/2022)

Procurement

- Approved the Maryland Department of Health’s (MDH) request to award a contract to maintain MDH’s COVID-19 website and maintain contact tracing and testing initiatives. This will continue the emergency contract that began in March 2020 at the start of the COVID-19 pandemic. (07/27/2022)
- Accepted the State Board of Elections’ emergency procurement report for a contract to print and ship 162,400 Voter Registration Applications for use and distribution by the State Board of Elections and local boards of elections. (08/10/2022)
- Approved the MDH’s request to award a contract to establish a community network of urgent care sites, ambulatory care sites, community providers and pharmacies to provide access to COVID-19 testing, treatment, and vaccination (10/26/2022)
- Approved the State Lottery and Gaming Control Agency’s request to award a contract for a Random Number Generator (RNG) System used to conduct lottery drawings. This contract will replace the current system of using ball-style drawing machines for five of its draw games (Pick 3, Pick 4, Pick 5, MultiMatch and Bonus Match 5). (11/16/2022)
- Approved the Maryland State Retirement Plan’s request to award a contract to provide investment advisor services for the Defined Compensation Plans. (12/07/2022)

State Services, Facilities, & Assets

- Approved the Maryland Port Administration’s request to enter into a 50-year Project Partnership Agreement between the Department of the Army, and the State of Maryland for construction of the Mid-Chesapeake Bay Island Ecosystem Restoration Project. Maryland’s Dredged Material Management Act of requires MDOT MPA to provide a rolling long-term plan for ensuring adequate dredged material placement capacity that prioritizes innovative and beneficial use as management solutions. (07/06/2022)
- Approved the Department of General Services’ request to transfer 458.98 +/- acres with 69 buildings and minor structures from the Crownsville Hospital Center from the State of Maryland to the use of the Maryland Department of Health to Anne Arundel County for \$1.00 in “as is” condition. (07/06/2022)
- Approved a request to increase the salaries of the Registers of Wills of the 24 subdivisions to no more than a maximum of \$146,500 annually, as passed by the 2022 General Assembly (Chapter 427 of the Laws of Maryland). (07/27/2022)

- Approved the Department of Natural Resources’ request to award \$40,000 in general obligation bond proceeds for the Marylanders Grow Oysters Program in Maryland Sanctuaries 2022-2023 to the Oyster Recovery Partnership, a 501(c) (3) organization. The funding will be used to produce and deliver hatchery spat on shell to program participants throughout the Chesapeake Bay. (07/27/2022)
- Approved the Maryland Department of the Environment’s request of \$65,000,000 in new loan funding from the Water Quality State Revolving Loan Fund for stormwater improvements in Prince George’s County. (08/10/2022)
- Approved Morgan State University’s (MSU) request to enter into a Ground Lease with the new Maryland College of Osteopathic Medicine, to be located on MSU’s campus (08/10/2022)
- Approved the Department of Natural Resources’ request to approve the 2023 Rural Legacy Program Grants \$27,100,477 allocation to 26 Maryland Rural Legacy Areas. (10/26/2022)
- Approved Towson University’s request to purchase .624 acres, including a 27,416 square foot building for \$8,600,000. (10/26/2022)
- Approved the Department of General Services’ request for new building leases for State Agencies in Downtown Baltimore City:
 - Department of Planning (10/26/2022)
 - Department of Aging (10/26/2022)
 - Office of the Comptroller (10/26/2022)
 - Department of Health (11/16/2022)
 - Department of Budget and Management (11/16/2022)
 - Department of Labor (12/21/2022)
 - Department of Information Technology (12/21/2022)
- Approved the fiscal year 2023 \$500,000 operating grant to the Baltimore City Department of Planning for the creation of a redevelopment plan for State Center. (12/21/2022)
- Approved a request from the University of Maryland Global Campus to convey a 232,038 square foot building at 1616 McCormick Drive, a 63,500 square foot building at 1601 McCormick Drive and a 6.8-acre vacant parcel at 1440 McCormick Drive to the Maryland-National Capital Park and Planning Commission for Prince George’s County for \$75 million. (12/21/2022)

Wetlands

- Approved the Board of Public Works’ Wetlands’ Administrator’s recommendation to grant a Tidal Wetlands license for the purpose of rehabilitation the eastbound Chesapeake Bay Bridge (10/10/2022)

DEBT MANAGEMENT DIVISION

Rating Agency Update

In May 2022, as part of the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2022, First Series, Moody's Investors Service, S&P Global (S&P) and Fitch Ratings 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>.

Maryland is one of only 14 states to hold the coveted AAA rating, the highest possible rating for credit. S&P 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.

Aging infrastructure and deferred maintenance: The State continues to have significant need for capital investments that will keep Maryland economically competitive in the 21st century. Demand for capital projects such as school renovation and replacement, economic development, housing, etc. have consistently far exceeded actual spending, a trend which has accelerated over the last few years. During the Great Recession and years of slow growth that followed, maintenance of State facilities was deferred due to budgetary restraints, leading to a significant backlog that must be addressed. The State must continue to make investments in its people and infrastructure, while protecting its existing assets to avoid the need for more expensive repairs or replacements in the future.

General Obligation Bonds

Since the last report to this committee, the State has not conducted a General Obligation bond.

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 3, 5, or 10-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 April 6, 2022, and was awarded

to the lowest qualified bidder, Bank of America Public Capital Corp. The first draw of \$975,300 on May 4, 2022 financed critical equipment for various State agencies.

On April 27, 2021, this committee authorized \$50 million for the Equipment Lease-Financing Program, of which a balance of \$45.2 million remains to fund capital projects through June 2023. This committee also authorized \$45 million for the Energy Lease-Financing Program, also through June 2023, which has not yet been utilized.

Upcoming Financing Plans

The State’s next General Obligation bond sale is scheduled for March 15, 2023. The Debt Management Division expects the sale to include approximately \$450 million in tax-exempt new money, as well as a taxable component of approximately \$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.

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. On April 19, 2022, the Commission on State Debt met and released its annual report. In fiscal year 2023, \$430 million is appropriated from the General Fund to support debt service. 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 2024-2027. The complete Commission on State Debt report is available on the Treasurer’s website at:

https://www.treasurer.state.md.us/media/161364/2022_comm_on_state_debt_report.pdf.

Annuity Bond Fund, Fiscal Year 2021 – 2027 (\$ in thousands)

	2021 Act.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.
Beginning Balance	\$207.3	\$150.3	\$96.7	\$164.7	\$2.0	\$2.0	\$2.0
Total Property Tax Collections	892.2	908.6	938.0	964.3	993.3	1,023.1	1,053.8
General Fund Appropriation	131.0	260.0	430.0	314.0	484.8	450.7	459.9
Bond Sale Premium	314.2	362.3	109.0	-	-	-	-
Federal Subsidy for ARRA Bonds	9.3	8.3	7.3	6.2	4.9	2.6	0.9
Transfer Tax	6.9	6.9	7.0	7.0	7.0	1.7	-
Other Cash Receipts	3.0	2.1	2.1	2.1	2.1	2.1	2.1
Capital Projects	(136.0)	(222.9)	-	-	-	-	-
Debt Service	<u>(1,277.6)</u>	<u>(1,379.1)</u>	<u>(1,425.5)</u>	<u>(1,456.3)</u>	<u>(1,492.1)</u>	<u>(1,480.1)</u>	<u>(1,516.6)</u>
Ending Balance	\$150.3	\$96.7	\$164.7	\$2.0	\$2.0	\$2.0	\$2.0

Capital Debt Affordability Committee (CDAC)

At its final meeting on October 19, 2022, 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 29, 2022. After discussion, the Committee approved \$600 million as the recommended maximum amount of general obligation bonds to be authorized for the fiscal year 2024 capital program. The motion passed 3-2, with the Treasurer and public member voting in opposition.

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.

CDAC Affordability Ratios (projected)			
(\$ in millions)			
Fiscal Year	Authorization	4% Debt Outstanding to Personal Income	8% Debt Outstanding to Revenues
2023	\$1,165.0	3.3%	6.5%
2024	\$600.0	3.1%	6.2%
2025	\$600.0	2.9%	6.3%
2026	\$1,145.0	2.8%	5.9%
2027	\$1,155.0	2.7%	5.9%
2028	\$1,165.0	2.6%	5.8%
2029	\$1,175.0	2.5%	5.7%
2030	\$1,185.0	2.4%	5.7%
2031	\$1,195.0	2.4%	5.5%
2032	\$1,205.0	2.4%	5.5%

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, 2022, total cash receipts and disbursements exceeded \$486 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 1,416 agency bank accounts at 22 financial institutions. Total posted collateral on December 31, 2022 was \$1 billion (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 2023 year to date. The balance of the General Fund Investment Portfolio for December 31, 2022 was \$19,996B with a yield of 2.44% compared to \$17,775B on June 30, 2022 with a yield of 0.49%, The portfolio increased by ~ \$2.221B over past six months.

The portfolio earned on average of 2.61% in fiscal year to date 2023, compared to 0.49% for the full year in fiscal year 2022.

The General Fund's gross interest earnings for the six months for the fiscal year to date 2023 was \$219.013 million compared to \$70.7 million for the full 2022 fiscal year. The year-over-year gross interest earnings more than tripled to date, increasing by \$148.3 million fiscal year to date. The Federal Reserve raised rates rapidly in the past six months with over 475 bps of hikes. Rates increased slowly at first in fiscal year 2022 and then the pace picked up dramatically in the second half of 2022 (the 1st half of our fiscal year 2023). The Federal Reserve is trying to combat the highest inflation in over 4 decades. The 1st rate hike was in March of 2022. Current expectations are that the Federal Reserve will raise rates approximately another 75 to 100 bps in 2023 and take the Federal Funds rate ultimately to between 5%- 5 ¼%. Currently most estimates are for the Fed to be finishing their rate hiking cycle right around the end of the State's fiscal year in June of 2023.

As can be seen in the brief chart below, the General Fund has underperformed the average return on the 3 Month T Bill rate for the 1st 6 months of fiscal year 2023. The reason for this was the dramatic movement in fixed income prices. The Return on US Treasury Securities for 2022 was – 11%, the bulk of that fall took place in the 2nd half of 2022 during the 1st half of the State's fiscal year 2023. As rates have risen, bond prices have dropped and older securities that were in the portfolio going back to fiscal years 2018 – 2021 that had low coupons have hurt returns so far this year. For a more accurate comparison, the full year return on 3 Mon TBills was 2.04% and the return on the General Fund was 2.61%.

Fiscal Year	General Fund	3 Month Treasury Bill Rate
2021	0.29%	0.06%
2022	0.47%	0.31%
YTD 2023*	2.61%	3.38%

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 06/30/22

Fiscal Year	Net General Fund	Allocated to State Agencies	TOTAL	% Allocated to State Agencies
2012	\$23,207,534.91	\$48,647,953.56	\$71,855,488.47	68%
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 YTD	\$83,191,132.05	\$135,821,810.97	\$219,012,943.02	62%

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 30, 2022, the portfolio was **\$10,153,638,000**, compared with **\$9,666,453,000** at the end of fiscal year 2022 on June 30, 2022, an increase of **\$487 million**. The participants receive the bulk of their annual funds from Local Income Tax quarterly disbursements.

The average MLGIP yield for fiscal year to date 2023 was 2.81%,hat compared with a rate of 0.27% on June 30th, 2022. 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.

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 three units: Underwriting, Claims, which includes Tort Litigation, and Loss Prevention. The division's goal is to provide statewide risk management through loss protection (Underwriting), loss control (Loss Prevention), and loss restoration and liability protection (Claims and Tort Litigation).

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 on-line 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 in first quarter 2023. Additional phases of the IT project will follow, including integration between CMS and other divisions of the Treasurer's Office.

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:

- Cyber, Network Security and Privacy Liability coverage renewed effective September 30, 2022. There are two policies: one with AXA XL for State Executive agencies, Legislative and Judicial branches and a second policy with Beazley Lloyds for University System of Maryland and its members, Morgan State University, Baltimore City Community College, and St. Mary's College. Due to market conditions and past claims, self-insured retentions increased under both policies this year.

- The Maryland Transit Administration, broker WTW, and Insurance Division staff met on October 21, 2022 to review the commercial excess liability and rail rolling stock physical damage programs. The excess liability program is complex, requiring 29 insurers with 42 separate placements to achieve coverage limits required by MTA's contractual partners.
- A meeting with Maryland Aviation Administration, airport liability insurer Starr, broker WTW, and Insurance Division staff was held at BWI Airport on November 16, 2022. Open liability claims were reviewed and expectations for renewal coverage were discussed. A Promobot, a mobile robot able to converse in different languages to aide travelers, was demonstrated by MAA staff.

Commercial Insurance Program Renewals

Volatility of commercial insurance markets continued, translating to rate increases for most lines of coverage. Conflict abroad, rising cost of building materials, widespread damage from Hurricane Ian, and other natural events globally produced unfavorable claim results for insurance companies. Commercial insurance premiums have risen twenty consecutive quarters on average and industry experts expect similar results in 2023.

July 1, 2022 – December 31, 2022

- Maryland Transit Administration's excess liability program renewed effective July 1, 2022-2023 with the same limits and retentions as expiring. Overall pricing increased from \$10,176,591.48 to \$10,786,668. This was an increase of \$610,081.52, or approximately 6% compared to expiring cost.
- Maryland Transit Administration's rolling stock floater renewed effective July 1, 2022-2023. The overall pricing increased from \$709,779 to \$985,100. This was an increase of \$275,321, or approximately 38.8% compared to expiring cost.
- Maryland Transit Administration's bus fleet physical damage program renewed effective July 1, 2022-2023. The overall pricing increased from \$323,290 to \$336,154. This was an increase of \$12,864, or approximately 4% compared to expiring cost.
- Department of Agriculture's liability program for farmers markets renewed effective July 1, 2022-2023. The overall pricing decreased from \$4,586 to \$4,402. This was a decrease of \$184, or approximately 4% less than expiring cost.
- Department of Human Services and Juvenile Service's volunteer accident & excess liability program for foster grandparents renewed effective July 1, 2022-2023. The pricing remained the same as expiring, \$534.60.
- Maryland State Retirement & Pension System crime fidelity bond renewed effective July 1, 2022-2023. The overall pricing increased from \$4,016 to \$4,064. This was an increase of \$48, or approximately 1.2%.

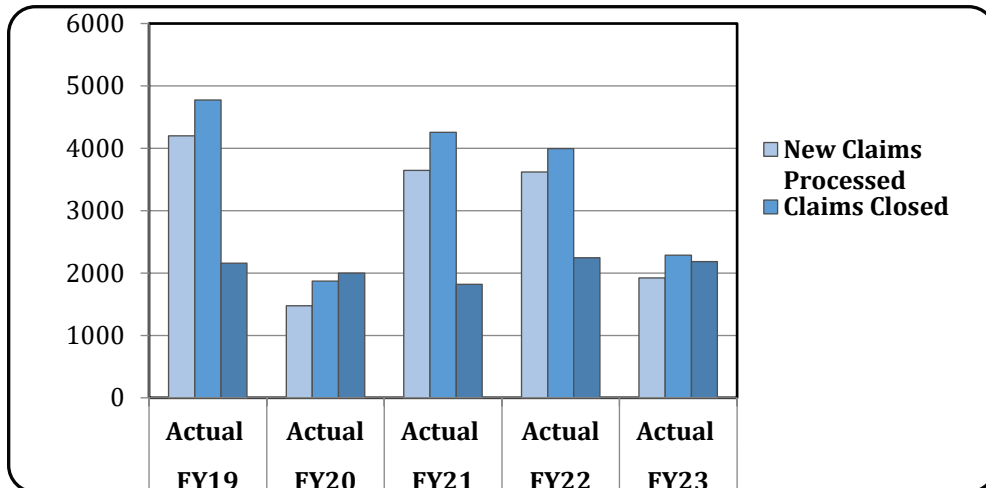
- Athletic Participants Accident basic program covering 10 universities and colleges renewed effective August 1, 2022-2023. The overall pricing increased from \$983,554 to \$1,030,749, however, the expiring premium was reduced due to COVID restrictions impacting athletics. This was an increase of \$47,195, or approximately 4.8% over expiring cost.
- Baltimore City Community College's athletic participants accident program (catastrophic) renewed effective August 1, 2022-2023. The overall pricing stayed the same, \$4,967.
- St. Mary's College of Maryland's athletic participants accident program (catastrophic) renewed effective August 1, 2022-2023. The overall pricing stayed the same, \$800.
- Maryland Aviation Administration's airport liability insurance renewed effective August 15, 2021-2022. Renewal pricing was \$1,273,800 compared to expiring cost of \$1,240,500, an increase of \$33,300 or about 2.7%.
- Allied Health professional liability policy covering thirteen participating universities and colleges renewed effective September 1, 2022-2023. The overall pricing decreased from \$126,489 to \$126,375. This was a decrease of \$114, a reduction of less than 1% compared to expiring cost.
- Maryland State Retirement & Pension System fiduciary liability policy renewed effective September 1, 2022-2023. The overall pricing increased from \$251,627 to \$262,211. This was an increase of \$10,584, or approximately 4.2% compared to expiring cost.
- Cyber, network security & privacy liability policies renewed effective September 30, 2022-2023. The overall pricing increased from \$1,392,000 to \$2,442,000. This was an increase of \$1,050,000, or approximately 75.4% compared to expiring cost.
- Blanket boiler and machinery policy renewed September 30, 2022-2023. Values insured increased by about 5%. The overall pricing increased from \$623,974 to \$661,309. This was an increase of \$37,335, or an about 6% over expiring cost.
- University of Maryland, Baltimore and University of Baltimore professional liability coverage for law clinics renewed effective October 10, 2022-2023. The overall pricing increased from \$20,230 to \$22,790. This was an increase of \$2,560, approximately 12.7% more than the expiring cost.
- Maryland Public Television general liability, umbrella, and Errors & Omissions (E&O) policies renewed effective October 11, 2022-2023. The overall pricing increased from \$29,892 to \$32,530. This was an increase of \$2,638, 8.8% over expiring cost.
- Blanket terrorism and chemical, biological, radiological and nuclear (CBRN) property coverage renewed effective October 13, 2022-2023. The overall pricing increased from \$221,406.75 to \$226,625. This was an increase of \$5,218.75, or 2.4% over expiring cost.

- Maryland Transportation Authority Bridges & Tunnels Liability program renewed effective October 17, 2022-2023. The existing carrier exited this line of insurance, a new carrier was required for a 2nd consecutive year. Total cost increased from \$960,869 expiring to \$1,287,067 for renewal. This was an increase of \$326,190, or approximately 33.9%.
- The bond for Legislative Auditor Gregory A. Hook renewed effective November 7, 2022-2023. Total cost remained the same as expiring, \$850.
- Crane physical damage policy for Maryland Port Administration renewed effective November 25, 2022-2023. Overall pricing rose from \$72,994 to \$89,181, an increase of \$16,187 or approximately 22.2%.
- The Maryland Transportation Authority crime policy renewed effective December 1, 2022. The overall pricing increased from \$7,194 to \$7,305. This was an increase of \$11, or approximately 1.5%.
- The Maryland Transportation Authority Bridges & Tunnels Property policy renewed effective December 1, 2022. Values for major structures increased 15% over last year; national indices rose to account for inflation. Total cost for renewal was \$4,631,360 compared to \$3,780,900 expiring, an increase of \$850,460 or 22.5%.

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, and 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, 2022 through December 31, 2022, there were 1,921 new claims processed and 2,287 claims closed. The chart below shows claims detail of all claims by fiscal year. There are currently 2,183 open pending claim files for fiscal year 2023.



Recently Reported Major Claims - From July 1, 2022 – December 31, 2022, the Insurance Division received notice of 24 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.

Tort/Auto/O&E

On July 11, 2022, the University of Maryland, Baltimore County received notice a claimant alleged sexual harassment and assault by a former UMBC swim coach.

On August 22, 2022, the State Highway Administration received notice claimant alleged the agency removed a political sign from private property on July 5, 2022.

On August 22, 2022, the Department of Public Safety & Correctional Services received notice multiple claimants alleged employment harassment.

On September 6, 2022, the State of Maryland received notice claimants alleged family member murdered by Squeegee Worker at Light and Conway Street, Baltimore on July 7, 2022.

On September 8, 2022, the Maryland Aviation Administration received notice a claimant alleged injury from trip on exterior walkway at BWI Airport on July 17, 2022. This claim was reported to the commercial liability carrier.

On September 21, 2022, the State of Maryland received notice a claimant alleged he was attacked and threatened with use of deadly weapon by squeegee workers at Light and Conway Street, Baltimore on July 7, 2022

On September 22, 2022, the Maryland Aviation Administration received notice a claimant alleged injuries from fall on wet floor at BWI Airport on July 13, 2022. This claim was reported to the commercial liability carrier.

On September 9, 2022, the Maryland Stadium Authority received notice a claimant alleged injury when removed from premises by security guards at Oriole Park on September 2, 2022.

On September 10, 2022, the University of Maryland, Baltimore County received notice a claimant was sexually harassed and sexually assaulted by a former UMBC swim coach.

On November 19, 2022, the State of Maryland received notice a claimant alleged sexual assault, improper detention, and surveillance by Sheriff's Deputy of Wicomico County on October 26, 27, and 28, 2022.

On December 7, 2022, the Maryland Department Housing and Community Development and Maryland Stadium Authority received notice of the four firefighters who sustained injury or perished when the house collapsed.

Property/Boiler

On July 2, 2022, the University of Maryland, College Park experienced flooding and power outage affecting multiple buildings. Estimated loss \$75,000.

On July 7, 2022, Salisbury University, Ward Museum ventilation system malfunctioned resulting in mold damage to contents, walls, and fine arts. Estimated loss \$500,000.

On July 12, 2022, the University of Maryland, College Park sustained wind, flooding damage, and power outage affecting multiple buildings resulting from severe storms (CAT 2246 loss). Estimated loss \$800,000.

On August 4, 2022, Department of Military 5th Regiment Armory sustained chimney collapse due to lightning during storm. Estimated loss \$350,000.

On August 10, 2022, the University of Maryland, College Park experienced a mudslide from construction site damaging the Microbiology building and contents. Estimated loss \$300,000.

On August 12, 2022, Bowie State University sustained flooding in the basement of Harriet Tubman Residence Hall from overflowing exterior drain. Estimated loss \$85,000.

On September 12, 2022, the Department of Labor had a boiler pressure safety valve fail, resulting in flooding damage to several offices. Estimated loss \$75,000.

On September 16, 2022, the University of Maryland, College Park had a HVAC water supply line valve cap fail causing flooding in the Computer Science Instructional Center. Estimated loss \$160,000.

On October 17, 2022, St. Mary's College of Maryland's contractor ignited insulation when brazing pipes, causing fire damage to several floors of newly renovated Calvert Hall. Estimated loss \$1,500,000.

On October 18, 2022, the Maryland Environmental Service sustained fire damage to Crownsville Maintenance Building. Estimated loss \$165,000.

On November 22, 2022, Morgan State University experienced an overflowing sink in Spencer Hall causing water damage to transformer. Estimated loss \$275,000.

On December 19, 2022, Frostburg State University sustained water damage in Woodward Pealer Performing Arts Center. Estimated loss \$175,000.

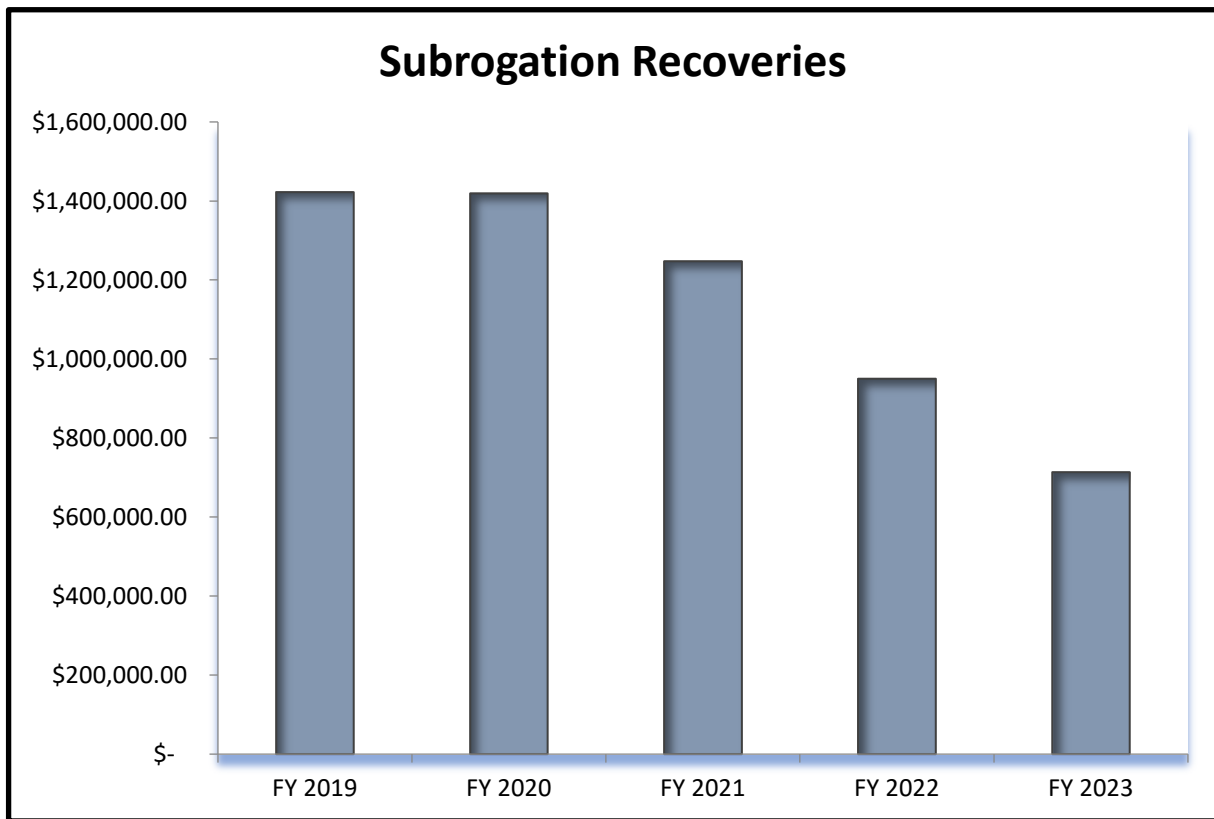
On December 23, 2022, the University of Maryland, Baltimore County sustained water damage from broken pipes during power failure impacting eleven buildings (CAT 2273 loss – Winter Storm Elliott).

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 2023 total \$713,414.45 as of December 31, 2022. This is a continued area of focus and is a priority within the Claims Unit.

Subrogation recoveries for fiscal year 2023 are still impacted by lingering effects of the COVID-19 pandemic. As a result of the crisis, beginning in early 2020, the governor suspended debt collection activities to lessen the burden of Maryland businesses and citizens. CCU has since resumed full collection activities, however, delayed responses to the State’s subrogation requests, supply chain challenges for auto parts, or other repairs and staffing issues in the insurance industry continue to hamper recoveries.

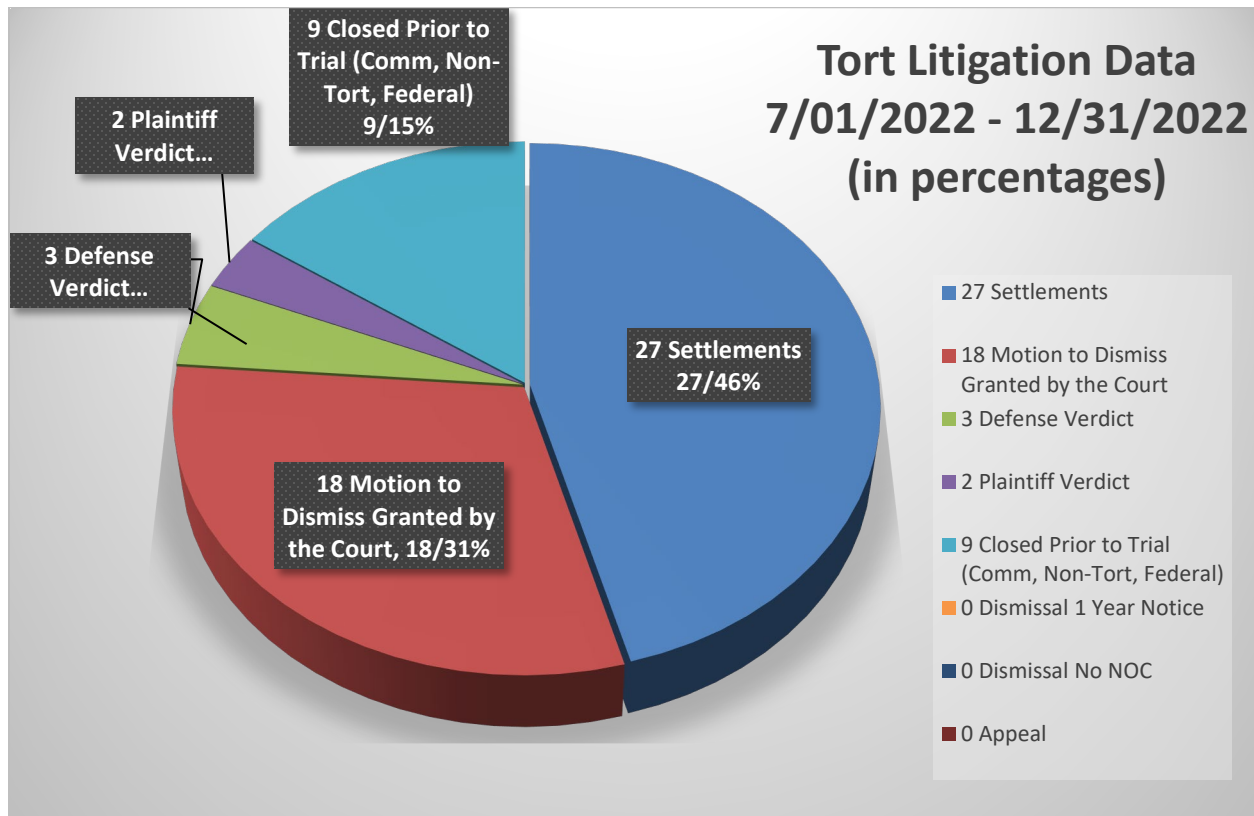


Tort Litigation Management

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, 2022 through December 31, 2022, totaled \$2,092,506.54, litigation expense costs were \$56,440.41, for a total of \$2,148,946.95. 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 157, as of December 31, 2022. 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, machinery, 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.

Over the past few years, boiler and machinery/equipment breakdown insurance has become challenging. Commercial premiums have risen while some carriers have exited the market due to poor loss results. Compounding the difficulty is frequency of water damage claims at state universities, many of those claims fall under boiler and machinery perils.

Quarterly meetings are conducted with the commercial broker and boiler insurance company to review outstanding violations for State-owned objects. Reports are furnished to agencies periodically, tracking open and closed violations. Significant progress has been made with older violations over the past year, including by Department of Corrections at the Patuxent Institution.

The boiler carrier provides additional services, including thermographic testing, as part of the premium paid for the policy. Salisbury University and The Hippodrome recently utilized thermographic testing by the carrier's vendor. Other agencies, including Department of General Services, are interested in scheduling testing.

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 the building structure and its operating systems. Inspections are coordinated with agency staff and typically take three to five hours. A report is generated by the insurance company's representative describing general conditions, including photographs, and observations of any potential issues. The agency, broker and Insurance Division receive copies of the carrier's report to review the recommendations and discuss intended actions. For the recent cycle, locations inspected were:

- Department of Health – Curtis Bay Warehouse
- Maryland Transit Administration – Kirk Bus Terminal
- University of Maryland, Baltimore
- University of Maryland, College Park
- University of Maryland, Global Campus – Inn and Hotel
- Salisbury University

- Clifton T. Perkins Hospital
- Western Maryland Hospital
- Salisbury District Courthouse
- Annapolis Court of Appeals

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.

The Treasurer appreciates the opportunity to provide this Report to the Legislative Policy Committee on a regular schedule. A copy of this Report is also available on the State Treasurer's website: www.treasurer.state.md.us. If the Committee or its members would care to pursue these or other STO developments further, or any other aspects of the Treasurer's activities, please call the Treasurer at (410) 260-7160 or Chief Deputy Treasurer, Jonathan Martin (410) 260-7390.