



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

**December 11, 2012**

**Nancy K. Kopp**

*State Treasurer*

**Section 5-104 of the State Government Article of the Annotated Code of Maryland provides that, “The Treasurer shall address the Legislative Policy Committee of the General Assembly on a semi-annual basis and as necessary on issues of legislative importance, including the activities of the Board of Public Works, bond sales, and investment and procurement initiatives.” This Report is in fulfillment of that law and covers the period since the report of June 8, 2012. I invite and welcome further discussion with the Committee at your convenience.**

The State Treasurer’s activities and responsibilities are of particular concern to the Legislature. One of seven statewide Constitutional officers, and the only one elected by the General Assembly, the State Treasurer’s duties are multifaceted and extend throughout State government and higher education. The Treasurer’s duties include membership on the Board of Public Works and Board of Revenue Estimates and Chairmanship of the Capital Debt Affordability Committee. The Treasurer presently also serves as Chair of the Board of Trustees of the College Savings Plans of Maryland and the Board of Trustees of the State Retirement and Pension System. She is a member of the governing boards of the Teachers’ and Employees’ Supplemental Retirement Plans, the Maryland Health and Higher Education Facilities Authority, the Maryland Small Business Development Financing Authority and of the Maryland Agricultural Land Preservation Foundation. Several of these Boards work under the general oversight of legislative oversight committees which are in periodic receipt of reports and communications from the Office, as do the two legislative budget committees.

While the State’s fiscal picture seems to be improving slightly due to the strength and diversity of Maryland’s economy, the State continues to face fiscal challenges. The Office’s experienced staff continues to assist State agencies in many ways including expanding the use of innovative banking services such as remote deposit, negotiating reduced insurance premiums while enhancing coverage, and advising on procurements.

We continue to plan and conduct our bond sales effectively, while striving to maintain Maryland’s coveted AAA bond rating. We monitor the market routinely to take advantage of savings as they become available, such as by refunding our General Obligation Bonds or issuing new types of debt such as Qualified School Construction Bonds, Qualified Zone Academy Bonds and Qualified Energy Conservation Bonds. Lastly, we continue to invest State funds prudently and conservatively to minimize risk to the Maryland taxpayers.

While we continue to do more with less, the Office is implementing improvements and achieving real results. The items set forth below detail a number of these achievements and we are always available to provide greater information or answer questions regarding these and other issues.

## BOARD OF PUBLIC WORKS

Between June 1, 2012 and November 30, 2012, the Board of Public Works (BPW) met nine 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, the following items, worthy of note, were considered by the Board of Public Works:

### Capital Equipment Lease-Purchase Financing

- The Legislative Policy Committee (LPC) approved the request of the State Treasurer periodically to lease-finance equipment acquisitions in an aggregate amount not to exceed \$40 million over a two-year period beginning July 1, 2011 and ending June 30, 2013. The BPW approved the following lease-purchase equipment financing consistent with this authorization:
  1. **October 2012** Tax-Exempt Equipment Lease-Purchase Agreement for financing the acquisition of approximately **\$739,000 of capital equipment** for the Department of Health and Mental Hygiene, Maryland Department of the Environment, and Maryland Public Television. (9/19/12)
- Following the most recent financing (October 2012), the remaining balance of the \$40 million authorized by LPC for equipment lease-purchase financing is approximately \$34.7 million.

### State General Obligation Bonds

- Adoption of a Resolution for the **sale of \$727,025,000 of State of Maryland General Obligation Bonds**, to be known as the State and Local Facilities Loan of 2012, Second Series:
  - Second Series A: \$26,340,000 tax-exempt bonds (negotiated - retail)
  - Second Series B: \$478,660,000 tax-exempt bonds (competitive)
  - Second Series C: \$23,000,000 taxable bonds (competitive)
  - Second Series D: \$15,230,000 taxable Qualified Zone Academy Bonds (competitive)
  - Second Series E: \$183,795,000 tax-exempt refunding bonds (competitive) (08/01/12)
- **Merger of St. Joseph Medical Center, Inc. and the University of Maryland Medical System, Inc. (UMMS):**

1. Approval of a request to sell property of St. Joseph Medical Center that was improved with State General Obligation bond proceeds to UMMS; and
2. Approval of a capital projects grant assumption agreement between UMMS and the BPW for the three St. Joseph Medical Center, Inc. grant agreements that correspond to the three General Obligation bond-funded grants received since 2004. (11/14/12)

### Procurement

- Adopted regulations to implement the **Veterans Small Business Enterprise Program** and issued a procurement advisory setting forth agency procedures to implement this program. (06/20/12)
- Approval for notification to go out to companies listed on the Agenda Item informing each company that the BPW intends to include the company on a **list of persons engaged in investment activities in Iran**. (Chapter 447 of the Acts of 2012) Each company notified has a 90-day opportunity to refute inclusion on the list. Inclusion of a business on this list would make that business ineligible to bid on, submit a proposal for, or enter into or renew a contract with a public body in Maryland for goods or services. (09/19/12)
- Approval of a consulting services contract to **review current State procurement practices** and develop a business process improvement plan. (11/14/12)

### Maryland Stadium Authority

- Authorized the Maryland Stadium Authority to issue debt on two separate occasions:
  - Issue **\$15.93 million in new debt to repay bonds that financed the Montgomery County Conference Center in 2003**. The Stadium Authority will use \$15.62 million to redeem the existing debt and use the balance for transaction costs. Estimated net present value savings is approximately \$1.77 million. The Series 2012 Refunding Bonds will be payable from rent paid by the State as the Stadium Authority leases the Conference Center to the State (10/17/12); and
  - Issue new debt, **\$14.05 million in tax supported Lease Revenue Bonds** (Series 2012 Taxable Lease Revenue Bonds), with \$13.66 million of the proceeds to be used to redeem the outstanding balance of the Series 2002 Hippodrome Performing Arts Center Taxable Lease Revenue Bonds. (06/20/12)
- Ocean City Convention Center:
  - Approval of **modifications to the Ocean City Convention Center Operating Lease** between the Mayor and City Council of Ocean City and the Maryland Stadium Authority consistent with legislation passed during

the 2012 Session (SB 990; Chapter 630 of the Acts of 2012). The Operating Lease was modified to extend:

- The State’s obligation for one-half of the operating deficit at the Ocean City Convention Center through December 31, 2035; and
- The State’s obligation for an annual \$50,000 contribution to the Ocean City Convention Center’s Capital Improvements Fund until December 31, 2035. (08/22/12)
- **Performing Arts Center** (08/22/12):
  - Approval of a Memorandum of Understanding setting out the **project management obligations** for the Maryland Stadium Authority;
  - Approval of a contract for **design and construction administration services** for conversion of existing ballroom and exhibit hall space into a two-story Performing Arts Center; and
  - Approval of the award of a **construction management contract for pre-construction services** for the Performing Arts Center.

### Lottery and Gaming

- Approval of a **Memorandum of Understanding** between the Board of Public Works and the Department of Business and Economic Development under which DBED is designated to manage the **Small, Minority and Women-Owned Business grant program** funded by video-lottery-terminal proceeds. (08/22/12)
- Approval of the **transfer of ownership of Rocky Gap Hotel/Conference Center** to Evitts Resort, LLC as a part of Evitts’ proposal for a **video lottery terminal facility** adjacent to the Rocky Gap Resort. In order to effect this change of ownership, approval was also given for the Maryland Economic Development Corporation (MEDCO) to assign to Evitts the ground lease through which the Department of Natural Resources leases 260 acres in Rocky Gap State Park to MEDCO. (06/20/12)
- Approval of a request by the **Lottery and Gaming Control Agency to create 44 positions** within the “Rule of 100.” General Funds will be used to cover the cost of the positions (approximately \$1.73 million). The new positions will enable the Agency to perform its regulatory responsibilities under recently enacted legislation (Senate Bill 1 from the 2012 2<sup>nd</sup> Special Session and Senate Bill 864 which was passed during the 2012 Legislative Session):
  - Table games;
  - 24 hour-a-day/7-day-a-week casino operations;

- Licensing of qualified veterans organizations to operate up to five instant ticket lottery machines; and
- Oversight of electronic gaming devices in Anne Arundel and Calvert Counties. (11/14/12)

**Personnel – “Rule of 100”**

- In FY 2013, as of November 30, 2012, the BPW has approved the **creation of 77.4 positions within the “Rule of 100.”**
  - Approval to transfer \$100,000 from the Contingency Fund to the **State Labor Relations Board (SLRB)** to implement the provisions of recently enacted legislation (Chapter 582 of the Acts of 2012) that expands the applicability of the State’s collective bargaining law to include employees of the Office of the Comptroller, the Maryland Transportation Authority who are not police officers, the State Retirement Agency and the Maryland State Department of Education. Part of the implementation plan includes increasing an existing Assistant Attorney General **position from part time to full time (0.6 to 1.0)**. The Board approved the **creation of this new full-time position** under the “Rule of 100.” (08/01/12)
  - Approval of the creation of **33 positions** in the Department of Health and Mental Hygiene to support all key core functions of the **Maryland Health Benefit Exchange**. The cost of the 33 positions, estimated to be approximately \$2.4 million, initially will be supported entirely by federal funds and will at a later date be supported with Exchange fee collections. (09/19/12)
  - Approval of the creation of **44 positions in the Lottery and Gaming Control Agency**. (11/14/12) [See “Lottery and Gaming” Section above for more information.]
- Approval of the creation of **18 positions outside of the “Rule of 100” in the Department of Housing and Community Development (DHCD)** to support EmPower Maryland energy efficiency programs for low income electric customers. The Maryland Public Service Commission ordered the operation of these low income programs to shift from the electric utilities to DHCD. These 18 positions are funded by the EmPower Maryland surcharge that is assessed against all electric utility customers. (06/20/12)
- Approval of the creation of **one federally-funded position outside of the “Rule of 100” within the Maryland Energy Administration** to coordinate a program to reduce energy consumption in State buildings 20% by 2020. This position will be abolished if the funding source is terminated. (09/19/12)

## State Services and Facilities

- Granting of a request for a **Land Patent** to the Baltimore Area Council, Boy Scouts of America for 19 +/- acres of land in Harford County that were determined not to have been granted to anyone by either Lord Baltimore or the State. Land that has never been granted is considered vacant, and the discoverer may purchase the land from the State if the State does not reserve it for public purposes. (06/20/12)
- Approval of a contract modification for the configuration of all new **medevac helicopters** to reflect changes to the searchlight and medical interior initially proposed in the original contract. Authorization was also given to purchase helicopters 7 - 9 during FY 2012 (funds distributed during FY 2013) and to purchase helicopter 10 during FY 2013 (funds distributed during FY 2014). (06/20/12)
- Approval of the demolition of 210 properties on 10 acres near **Coppin State University** campus. Coppin has been acquiring properties specifically to support the growth of Coppin and to provide a site for construction of a new **Science & Technology Center**. Those property acquisitions periodically have been approved by the BPW. Approval was also given to clear the 10-acre site for construction. (07/11/12)
- Approval of a 40-year ground lease between **Towson University** and **Harford Community College** for 10 acres located on the campus of Harford Community College. Towson University intends to build a 55,000 gross square foot classroom/office building to deliver its academic programs to Harford and Cecil Counties as a part of a “2+2” program. **Morgan State University** has until March 31, 2013 to opt into the initiative as well. (08/01/12)
- Approval of a contract to provide end-to-end **talent acquisition services and recruitment processes** for hiring faculty and staff at **University of Maryland University College**. (08/22/12)
- Approval of three federally-funded **National Guard Armory renovation/construction** contracts:
  - **La Plata MD National Guard Readiness Center** – \$9.28 million for renovations and building an addition;
  - **Dundalk MD National Guard Readiness Center** – \$14.3 million for renovations and building an addition; and
  - **Westminster MD National Guard Readiness Center** – \$7.095 million for renovations and building an addition. (09/19/12)

## Environmental Programs

- **Rural Legacy Program:** A program to preserve large blocks of contiguous open space that are among the State's most valuable due to myriad agricultural, forestry, natural and cultural resources. To protect these resources, the Rural Legacy Program, acting through local governments or private land trust sponsors, purchases conservation easements or fee simple interests in real property from willing land owners based on Rural Legacy Plans. For FY 2013, the BPW:
  - Approved the **expansion of the Mountain Ridge Rural Legacy Area** (Allegany County) by 14 acres to complete a multi-parcel easement in the Legacy Area; and
  - Approved the allocation of **\$5.622 million in FY 2013 General Obligation Bond proceeds among 11 Rural Legacy Areas:**
    - Agricultural Security Corridor Rural Legacy Area (Caroline, Cecil, Dorchester, Kent and Talbot Counties): \$440,000;
    - Anne Arundel South Rural Legacy Area: \$45,307.63;
    - Coastal Bays Rural Legacy Area (Worcester County): \$320,000;
    - Deer Creek Rural Legacy Area (Harford County): \$701,366.63;
    - Dividing Creek Rural Legacy Area (Somerset and Worcester Counties): \$130,631.69;
    - Fair Hill Rural Legacy Area (Cecil County): \$113,698.95;
    - Mid-Maryland Washington Rural Legacy Area (Washington County): \$1,260,000;
    - Nanticoke Rural Legacy Area (Dorchester County): \$650,000;
    - Piney Run Rural Legacy Area (Baltimore County): \$568,000;
    - Upper Patapsco and Little Pipe Creek Rural Legacy Areas (Carroll County): \$617,995.09; and
    - Mattapany Rural Legacy Area (St. Mary's County): \$775,000. (09/19/12)
- Approval of the second Maryland **Regional Greenhouse Gas Initiative (RGGI)** Services Contract with RGGI, Inc. to provide technical, scientific and auction support services to Maryland and the other eight member states in the

development and implementation of the multi-state **cap-and-trade, greenhouse gas control program**. (09/19/12)

- Approval of a request by the Department of Housing and Community Development to enter into multiple contracts totaling \$17.9 million to provide **weatherization services for low-income single-family households** in the BGE, Pepco, Delmarva, Potomac Edison and SMECO service territories under the **EmPower Maryland Program**. (09/19/12)
- Approval of the expenditure of \$1.35 million of the State's share of **Program Open Space** funds for the **acquisition of a conservation easement on a 200 +/- acre parcel** in Anne Arundel County that includes bottomland forest, pasture, and cultivated fields (Gail Campbell property). Although the land was not located in a Target Ecological Area, the Department of Natural Resources scored the property using the new "**Community Connections**" **protocol** which is a metric for scoring properties in relation to human ecology objectives. This protocol assesses properties that provide exceptional public benefits and connect people to the land. (10/17/12)
- Approval of the use of \$416,610.34 from Program Open Space State funds to acquire a 101.3-acre **Conservation Reserve Enhancement Program ("CREP") Easement** on property in Wicomico County (Smith Property). With the approval of this project, the 2009 Memorandum of Understanding between the State and the US Department of Agriculture to **protect 3,285 acres in permanent CREP easements** using \$12.6 million in POS State funds was satisfied. (10/17/12)

### **Information Technology**

- Approval of the second phase – Eastern Shore infrastructure build out (\$32.7 million) – of a \$345 million integrated statewide **public safety wireless communication system** for broadcast interoperability among the State's first responders. Authorization was also given for the expenditure of \$23 million by State agencies for subscriber equipment through the end of FY 2013. (06/06/12)
- Approval of an upgrade to information technology equipment that will create a state-of-the-art **E911 delivery network for the Maryland State Police (MSP)**. These upgrades will improve MSP's ability to handle 911 calls directed to its barracks and create Next Generation 911 capabilities. (07/11/12)
- Approval of a 15-year multiple award, indefinite quantity **master contract for commercial off-the-shelf software**. Of the 53 Contractors approved for award, 34 are Maryland resident businesses, 14 are small businesses and 21 are MBEs. The cost of the first 3 years of this contract is estimated to be \$36 million. (09/19/12)
- Approval a 15-year multiple award, indefinite quantity purchase order request for proposals-based **master contract to provide hardware, installation, training services and manufacturer's extended warranty**. Laptops and desktops are

excluded from this contract. Of the 73 Contractors approved for award, 50 are Maryland resident businesses, 16 are small businesses, and 19 are MBEs. The cost of the first 3 years of this contract is estimated to be \$57 million. (11/14/12)

### Transportation

- In December, 2011, the BPW gave its approval for a \$100M expedited procurement with a phased construction schedule for **improvements at BWI Marshall to facilitate the merger between Southwest and AirTran Airlines**. During the June 1 – November 30, 2012 timeframe, the following reports pertaining to the expedited procurement were received:
  - Contract Award for construction of a new nine lane passenger security checkpoint and the airside passenger connector project for Concourses B and C; and (06/06/12)
  - Contract Award for the Concourse C widening project. (11/14/12)
- Approval of a standard **skycap and wheelchair service concession contract** that grants non-exclusive rights for one or more authorized air carriers operating at **BWI Marshall**. (08/01/12)
- Approval of a standard **mishandled baggage delivery service concession contract** that grants the non-exclusive right to conduct mishandled baggage delivery services at **BWI Marshall**. (11-14-12)
- Approval of a Memorandum of Understanding between the State, acting through the Maryland Department of Transportation, and **British Airways** that provides a guarantee to the airline on operating margin not to exceed \$5.5 million/year. The guarantee is based upon the difference between actual operating margin and the target margin required to maintain service (8%) at **BWI Marshall**. The term of the MOU is 3 years. (09/19/12)
- Approval of a contract with **Bombardier Transportation Services USA Corp.** to provide passenger railroad services on the Camden and Brunswick lines of the **MARC Commuter Rail system**. The contract provides for operating the service and maintenance of equipment, facilities and rights-of-way used in providing the service. (10/17/12)
- Approval of the **extension of the MTA's Mobility Services contracts** with Veolia Transportation Services, Inc. and MV Transportation, Inc. each for six months to ensure continued paratransit services while a new procurement for these services is conducted. (08/22/12)
- Approval of the **award of multiple contracts to operate ADA paratransit services for MTA's Mobility Services Program**. Contracts with MV Contract Transportation, Inc., Veolia Transportation Services, Inc. and First Transit, Inc. were approved. (11/14/12)

- Approval of a **modification to the Architectural/Engineering contract for the Inter-County Connector** to increase the contract value by \$20 million for General Engineering Consultant services and to add 2 years to the contract term. Even with this increased funding, the project is within its overall budget of \$2.425 billion. There are an additional \$31 million in costs with over \$20 million attributable to environmental mitigation, monitoring or maintenance work. However, only a \$20 million contract modification was sought due to the availability of cost savings from earlier work. (08/22/12)

## INVESTMENT DIVISION

The Treasurer's conservative investment policy and practices have protected the investment portfolio through these continued volatile and unprecedented economic times. It is a true accomplishment in this environment to report that all principal is intact and a modest but continuous return has been earned on the portfolio. The par value of the General Fund investment portfolio for October 31, 2012 was \$6,450,878,782.93 as compared to October 31, 2011 when it was \$6,453,189,015.32. This is a decrease of \$2.3 million dollars.

On October 31, 2012, the portfolio was earning an average of 0.82%, compared to 0.85% for the same date in 2011. The lower return reflects the impact of the Federal Open Market Committee maintaining the Fed Funds Target rate at .25% or less since December 16, 2008. For comparison, the three month constant maturity Treasury Bill averaged 0.10% from July 2012 until the end of October 2012 as compared with 0.02% for the same time period in the previous fiscal year. The low rate environment combined with the highly conservative portfolio strategy focused on liquidity to offset unpredictable and volatile cash flows has resulted in continued moderate but positive interest earned.

The General Fund gross interest earnings received year-to-date for FY 2013 are \$17,489,065 as compared with \$37,145,517 received for the same time period in FY 2012. The over \$19 million decline in interest received is directly attributable to the continued lower interest rate environment combined with the increased liquid balances which earn a lower return.

The following chart tracks the impact of the legislation passed last fiscal year to reduce the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio. It should be remembered that as the total General Fund portfolio decreases, the proportion of Agency Funds to General Funds increases and therefore their allocated share increases.

## Total Interest Earned

### % of Total Interest Earned Allocated to State Agencies

Fiscal Year	Net General Fund	Allocated to State Agencies	Total	% of Total Allocated to State Agencies
<b>2000</b>	121,951,720	103,173,287	225,125,007	46%
<b>2001</b>	136,981,074	144,249,899	281,230,973	51%
<b>2002</b>	82,641,807	66,399,769	149,041,576	45%
<b>2003</b>	37,205,637	42,240,523	79,446,160	53%
<b>2004</b>	25,037,345	29,053,449	54,090,794	54%
<b>2005</b>	52,886,074	54,538,463	107,424,537	51%
<b>2006</b>	149,613,238	109,222,108	258,835,346	42%
<b>2007</b>	150,798,001	205,589,917	356,387,918	58%
<b>2008</b>	155,170,184	207,179,098	362,349,282	57%
<b>2009</b>	102,768,740	142,619,087	245,387,827	58%
<b>2010</b>	44,190,425	87,921,654	132,112,079	67%
<b>2011</b>	53,002,765	87,698,955	140,701,720	62%
<b>2012</b>	22,981,014	48,647,953	71,628,967	68%
<b>October 2012</b>	7,655,034	9,834,031	17,489,065	56%

The Securities Lending Program continues to provide additional revenue. The program has earned \$152,763.26 so far in FY 2013. This compares with \$138,275.81 for the same period in FY 2012. The Federal Reserve and Federal Treasury programs designed to add liquidity to the financial markets which reduced borrowers' need for the securities in the State's portfolio is being scaled back.

The Office continues to increase MBE participation in the investment of State funds. Twenty-four MBE broker/dealers are on the Office's approved list for FY 2013 and they have handled investments of \$259 million so far this fiscal year. This compares with FY 2012, when the Office had twenty-two approved MBE broker/dealers who handled \$151 million in investments by the end of October.

The Maryland Local Government Investment Pool (MLGIP) AAAM rating was reaffirmed by Standard and Poor's on September 24, 2012. The pool balance at October 31, 2012 was \$3,129,219,623.37 compared with \$3,344,600,869.94 for the same date in 2011. This is a decrease of over \$215 million dollars due to lower available cash balances of the participants. The MLGIP is paying .14% as of October 31, 2012 as compared with .09% last year. The participants continue to use the pool due to the lack of safe short term investment alternatives for Investment Pool members at a comparable yield. The

MLGIP is in total compliance with the 2010 changes in Money Market rules and regulations.

The Office continues to invest according to the officially adopted State Treasurer's Investment Policy, which sets out investment goals, priorities and constraints. The overriding goal is to assure sufficient liquidity to maintain uninterrupted funding of State government and legislated payments. As revenues have become less predictable and more volatile, the strategy has been adjusted to ensure liquidity. The State Treasurer's Office continues to review and compare our cash management and investment policies and practices with those of peer AAA-rated States to ensure best practices are followed and implemented.

## **DEBT MANAGEMENT DIVISION**

### **Ratings**

Maryland is one of eight states with AAA ratings from all three rating agencies. The states are Maryland, Delaware, Virginia, North Carolina, Georgia, Missouri, Iowa and Utah. On July 18 and July 19, 2012 Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings all affirmed the State's AAA rating.

Moody's has assigned a negative outlook to Maryland's General Obligation Bonds. In its latest confirmation of Maryland's Aaa rating dated July 18, 2012, Moody's stated that the negative outlook on Maryland's Aaa rating, like that for the Commonwealth of Virginia, is due to Maryland's indirect linkages to the weakened credit profile of the U.S. government, which itself was assigned a negative outlook by Moody's on August 2, 2011. The July 18, 2012 rating states "Moody's has determined that issuers with such indirect linkages, such as Maryland, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, or high levels of short-term and puttable debt." In a December 7, 2011 assessment of issuers with these indirect linkages, Moody's specifically cited Maryland's and Virginia's economic sensitivity to federal employment and spending as an outlier having high risk exposure when compared to national norms. Moody's did not cite any elevated risk exposure for economic sensitivity to the healthcare industry or capital markets exposure as evidenced by the fact that the State has no general obligation variable rate debt.

On September 11, 2012, Moody's issued an update on the U.S. government stating that the Aaa rating with a negative outlook remains unchanged. The report continued to state that THE DIRECTION OF THE U.S. RATING AND ITS OUTLOOK WILL MOST LIKELY BE DETERMINED BY THE OUTCOME OF BUDGET NEGOTIATIONS DURING THE COURSE OF 2013 AND THAT THE MAINTENANCE OF THE CURRENT RATING AND OUTLOOK INTO 2014 IS "HIGHLY UNLIKELY". THE TREASURER'S OFFICE ANTICIPATES THAT MOODY'S WOULD REVIEW THE STATE'S RATING AND NEGATIVE OUTLOOK SHORTLY FOLLOWING ANY CHANGES TO THE U.S. RATING OR OUTLOOK.

### *Meetings with Rating Agencies*

As of the date of this report, there have been no further rating actions. The Treasurer's Office has provided the rating agencies regular updates on the financial condition of the State. The next conference call with the rating agencies is expected prior to the sale of the 2013 First Series General Obligation Bonds in March, 2013.

### *Excerpts from Ratings Reports*

Generally, there is consensus among the rating agencies in evaluating the State's credit strengths and weaknesses. All three agencies cite Maryland's economy and fiscal management as a credit positive. The State's unfunded pension liability continues to be a credit challenge, although each agency recognizes the State's recent reform efforts. The following summarizes the most recent reports:

Fitch Ratings, in assigning the AAA rating and stable outlook, noted:

- *Debt oversight is strong and centralized, and the debt burden is moderate. The State has policies to maintain debt affordability, and the constitution requires GO and transportation bonds to amortize within 15 years.*
- *Pension funding levels have deteriorated, although the State has undertaken extensive pension and other post-employment benefit (OPEB) reforms.*
- *The State has a diverse, wealthy economy, benefiting from its proximity to the nation's capital.*
- *Financial operations are conservative, and the State maintains a well-funded Rainy Day Fund to manage revenue cyclicalities. The State took repeated action during the course of the recession to address projected budget gaps, including raising tax revenues, cutting spending, and using Rainy Day and other balances.*

Credit challenges that were cited by Moody's include:

- *Continuing budget pressure*
- *Low retirement system funded levels*
- *Above average debt burden*
- *Reliance on federal jobs in year of retrenchment*

Standard and Poor's AAA rating with a stable outlook reflects the State's:

- *Diverse, broad-based economy, which has historically outperformed the national economy;*
- *Strong wealth and income levels, coupled with unemployment that remains below the national average through economic cycles;*
- *Long history of prudent fiscal management, including making difficult decisions to restore structural budget balance; and*

- *Moderate debt burden; enhancing this are a clearly defined debt-affordability model limiting annual issuance and the maintenance of ratios within reasonable limits, including a constitutional 15-year debt maturity schedule.*

Standard and Poor's continues in its analysis to cite below-average pension funded ratios and the potential for significant reductions in federal funding as downside risks to the rating.

The State Treasurer's Office sends copies of the ratings reports for each bond sale to all members of the General Assembly and current reports are also available on the Treasurer's website at [www.treasurer.state.md.us](http://www.treasurer.state.md.us).

### **Closed Financing - General Obligation Bonds**

Since our last report, the State has had one successful bond sale. The 2012 Second Series was sold on August 1, 2012 and totaled \$727,025,000. The proceeds were used to finance new projects and refund existing bonds. The sale closed on August 14, 2012 and had five series:

- Series A: \$26.3 million in Tax-Exempt Bonds sold in a negotiated sale with first priority to Maryland citizens
- Series B: \$478.7 million in Tax-Exempt Bonds sold in a competitive sale primarily to institutions
- Series C: \$23.0 million in Taxable Bonds
- Series D: \$15.2 million of Qualified Zone Academy Bonds (QZABs)
- Series E: \$183.8 million of Tax-Exempt Refunding Bonds

The Series A and Series B bonds provided \$525.0 million, at a historically low TIC of 2.19%, to finance investments in capital projects that benefit communities throughout the State. The Series D QZABs were taxable bonds with a 100% direct interest subsidy from the US Treasury. The refunding bonds saved taxpayers \$16.0 million in interest costs.

### **Closed Financing – Leases**

The Capital Lease-Financing Program allows State agencies to acquire equipment and pay for those items over a three, five, or ten year time frame. Between July 1, 2012 and November 30, 2012, \$0.74 million in capital equipment was leased by State agencies through the State Treasurer's Office. On December 14, 2012, the State Treasurer's Office will finalize the financing of another equipment lease totaling \$0.24 million.

The Treasurer's Office also finances Energy Performance Leases in cooperation with the Department of General Services (DGS), providing funding for energy conservation at State facilities. The program finances significant up-front investments in conservation projects; the lease is paid using the savings in operating costs. No energy leases were financed between July 1, 2012 and November 30, 2012.

## **2013 Financing Plans**

The next general obligation tax-exempt financing, projected to total approximately \$500 million, is planned for early March 2013. In light of reduced retail demand for the State's bonds due to the current low interest rate environment, the State Treasurer's Office does not expect to offer a retail component for this sale. Throughout the year, the Office monitors interest rates to gauge refunding opportunities that meet present value savings criteria in debt policy. If these benchmarks are met, refunding bonds could also be issued in March.

## **Status of the Annuity Bond Fund**

Debt service on General Obligation Bonds is paid from the Annuity Bond Fund (ABF) and the primary source of revenue for this fund is real property tax receipts. The Capital Debt Affordability Committee's 2012 Report updated projections for the Annuity Bond Fund after the issuance of the 2012 Second Series Bonds. A General Fund subsidy is projected beginning in fiscal year 2014, assuming current property tax rates of 11.2 cents per \$100 of assessed value of real property other than that of public utilities and 28 cents per \$100 of assessed value of real property of public utilities are not changed and other assumptions, including no bond premiums, remain as currently projected. Please refer to the 2012 CDAC report for projections.

## **Capital Debt Affordability Committee (CDAC)**

The 2012 Capital Debt Affordability Report and the 2012 meeting materials are available on the State Treasurer's website at <http://www.treasurer.state.md.us/debtmanagement/cdac-reports.aspx>

## **General Obligation Recommendation**

The Committee met on October 1, 2012 and considered a recommendation to increase the authorization assumption projected in the 2011 CDAC Report by \$150 million. The Committee thus approved a total of \$1,075 million for new general obligation authorizations by the 2013 General Assembly to support the fiscal year 2014 capital program. The vote was 4-1, with the Comptroller voting against the proposed amount and advocating no change to the original \$925 million planning assumption.

In addition to determining and recommending a prudent affordable authorization level for the coming year, the Committee also sets out planning assumptions for the DBM and DLS to use in the capital program planning process. The Committee's adopted planning assumptions for future authorizations assume nearly level authorizations through fiscal year 2017 of between \$1,085 million and \$1,105 million. In fiscal year 2018, the projected authorization is \$1,200 million and it increases by approximately 3% through 2022. With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues. The affordability analysis presented at the Committee's meetings indicates that the Committee's projection of General Obligation Bond authorizations will continue

to be affordable (within debt guidelines) going into the future. Debt outstanding peaks at 3.46% of personal income in fiscal year 2014 and is at 2.94% in fiscal year 2022. Debt service increases annually to 7.62% of revenues in fiscal year 2018 but declines to 7.15% in fiscal year 2022.

The Committee recognizes that there are multiple annual authorization levels and patterns that would result in adherence to the benchmarks, depending on future levels of personal income and State revenue. The Committee's planning assumptions for future authorizations will be reviewed in preparation for the 2013 report in light of updated revenue and personal income projections and authorization levels may be adjusted to adhere to these affordability benchmarks.

### **Academic Facilities Bonds Recommendation**

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee therefore, recommended a limit of \$32.0 million for new academic facilities bonds for the University System of Maryland for fiscal year 2014. The Committee did not receive any requests for new issuances for Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and therefore made no recommendations for these institutions.

## **BANKING SERVICES DIVISION**

The primary mission of the Banking Services Division (BSD) is to manage and control relationships with vendors providing banking services for the State of Maryland, to anticipate agency banking requirements and respond timely to agency requests.

The Division is directly responsible for managing the banking needs for all agencies of the State. Over the past six months, BSD continued to be actively involved in the conversion of lockbox processing to the new statewide lockbox provider, Citibank N.A. The first two agencies, the Comptroller's Revenue Administration Division and the Department of Labor, Licensing and Regulation's Contributions Division, have implemented lock boxes with Citibank. These two agencies represent approximately 60% of total statewide lockbox volume. Utilizing Citibank's enhanced imaging capabilities and on-line, real-time access; both agencies anticipate a significant decrease in the amount of "exception" processing. Agency personnel will now be able to review, research, and resolve most exception items on-line. The result will be faster processing of exception deposits and reduced paper flow between the lockbox provider and agencies. The remaining 24 agencies will be converted by February 2013.

Banking Services 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. 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 Banking Services 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. For FY 2013, total cash receipts and disbursements each exceeded \$105 billion through October 31<sup>st</sup> and the State's bank accounts continued to be reconciled to the penny on a daily basis 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 Fed wire payments
- Managing foreign currency transactions
- Processing check stop payments, cancellations and reissues
- Initiating replacement checks for failed ACH payments
- Providing transaction research assistance to State agencies
- Managing the Unpresented and Undeliverable Check Funds
- Recordation in R\*STARS of all bank adjustments
- Maintenance of tables to allow for accurate posting of electronic receipts

During the past six months, BSD worked with several agencies in streamlining their receivables collection processes through implementation of the Bank of America Payment Collection Gateway (PCG) service.

Banking Services continued to work with the Department of Information Technology (DoIT) and NIC USA (NIC), on the implementation of self-funded eGovernment applications using a centralized web portal.

The Division is assisting the Comptroller's Revenue Administration Division (RAD) in implementing Bank of America Image Cash Letter (ICL) Service. The ICL service will allow RAD to deposit tax check receipts via transmission of an image file vs. the physical delivery of paper checks to the bank. Once completed, this service will result in faster availability of funds and a reduction in armored courier fees.

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), Banking Services monitors over 1,800 agency bank accounts at 23 financial institutions. Total posted collateral as of October 31, 2012 was \$355 million.

The Banking Services Division continues to serve as the State's authority for the development, control and maintenance of statewide policies and procedures for banking products and services. We continually strive to stay at the forefront of changes in banking products and services offered in the financial industry. The Division will continue to explore new financial products and improved data delivery methods that will increase its capabilities to provide efficient, cost-saving, banking services to Maryland State agencies.

## INSURANCE DIVISION

The Insurance Division is responsible for administering the State's Insurance Program which is comprised of both commercial and self-insurance. Commercial insurance policies are procured to cover catastrophic property and liability losses, and other obligations derived from State contracts, statutes and regulations. Among the several exposures covered by commercial policies are State maintained 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 coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act.

The Insurance Division is comprised of three units: Underwriting, Loss Prevention, and Claims. The Division's goal is to provide statewide risk management through loss protection (Underwriting), loss control (Loss Prevention), and loss restoration (Claims and Tort Litigation).

### Underwriting

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. Underwriting highlights for the past six months include the following:

The Maryland Transit Administration (MTA) coverage for physical damage of the bus and mobility fleets renewed effective July 1, 2012. After the broker approached five insurance companies, only the State's current carrier, Philadelphia, offered a quote. Philadelphia **reduced its rate by 19.6%**. The expiring premium was \$111,500 and the renewal premium was \$98,181, which **saved MTA \$13,319**.

MTA's property coverage for rail cars was renewed effective July 1, 2012. Three quotes were received, including one from the incumbent carrier, Ace. The values were up 45%, and Ace **reduced their rate 36.4%**, with improved coverage. The expiring premium was \$662,856, and coverage was renewed for \$618,284, which **saved MTA \$44,572**.

MTA's liability renewal was effective July 1, 2012. The broker had warned that the insurance carriers were seeking rate increases in addition to a ridership increase estimated at 15-20%. The broker provided us with two quotes: one quote from Lexington and the other quote from Queens Island. The Queens Island quote was \$292,967 lower than Lexington's which resulted in an **overall savings of \$20,216**.

The Maryland Aviation Administration (MAA) airport liability renewal effective August 15, 2012, for Baltimore Washington International Thurgood Marshall (BWI) and

Martin Airports was renewed with the incumbent carrier, Ace. The broker approached several carriers but all declined to provide a quote because of the incumbent's competitive pricing. In spite of BWI's growth, their losses have been low. Ace reduced the expiring premium (including the broker fee) of \$345,003 to \$339,202, which **saved MAA approximately 2%, or \$5,801**. Ace also continued to offer a plan that may return some premium to MAA after expiration if the losses remain low.

The statewide boiler and machinery coverage was renewed effective September 30, 2012. We reviewed quotes received from Zurich, our incumbent carrier, and from CNA. Our loss experience is poor mainly due to two large losses for which the incumbent paid over \$5.2 million. Even though CNA quoted a lower premium, Zurich included 20 days of infrared testing, a service that is valued at \$21,000. These services are critical in preventing future State losses. Zurich also increased limits on several coverages. In addition, when asked to lower their premium to make their pricing more competitive with CNA, Zurich readily complied by decreasing their premium by more than \$48,000. Zurich was awarded the renewal. With an expiring premium of \$360,688 and a renewal premium of \$352,897, **the overall savings for the State is \$7,791**.

The Maryland Port Administration (MPA) has a policy for the owned cranes that renewed on November 25, 2012. The broker was able to obtain two quotes which were from Travelers, and the incumbent carrier Ace. The Port crane values were down 9.7%. In a market where rate increases are averaging 10-15%, the incumbent carrier took only a 2.7% rate increase. The decrease in crane values offset the premium increase. The expiring premium dropped from \$139,691 to \$129,614, **which saved MPA \$10,077**.

The Treasurer's Office buys three separate terrorism policies. One is for State-owned buildings and contents, another provides increased limits of coverage on our toll facilities, and the third provides a \$1,000,000 limit for chemical, biological, nuclear, and radiological coverage. In spite of the increasing threat of terrorist activities, increased values by 14.8%, and with the broadest coverage available, these three policies were renewed at a lower premium **saving the State \$4,000**.

The Maryland Transportation Authority (MDTA) has a liability policy for the toll bridges, tunnels, and the new Inter-County Connector (ICC). The October 17, 2012 renewal exposures increased because of the extension of the ICC since the last renewal. More broker competition resulted in a reduced broker fee which offset some of the increase in the premium due to the ICC extension. The expiring premium and broker fee was \$499,667. The coverage was renewed at \$511,717.

The Underwriting Unit frequently addresses agencies' commercial and self-insurance questions. The Unit has met with several agencies on specific issues during the first half of FY 2013. Below are highlights of some of the issues that were addressed.

- The Underwriting Unit held a meeting on August 15, 2012, with our contact from the Maryland Port Administration (MPA), our insurance broker, and the insurance carrier, in advance of the January 2013 renewal. Discussions included a review of

open claims, operational changes expected at the Port and loss control services offered by the insurance carrier.

- On August 22, 2012, a meeting was held at MTA to include two representatives from our insurance broker, nine representatives from various divisions of the MTA, and the Insurance Division's underwriting and Claims Managers. The meeting's purpose was to review the unique commercial liability coverage form and the loss reporting requirements (with updated 2012/13 contacts), and to discuss what was needed to maintain the limits of liability if all or a portion of the limits were exhausted. We held two subsequent conference calls with MTA, the insurance broker, and the Underwriting Manager to answer questions emanating from the earlier meeting which proved to be very productive, and provided the basis for establishing regularly scheduled meetings between the Division and MTA.
- The Underwriting Unit met with the insurance broker and a representative from the new primary insurance carrier for the MTA liability, Queens Island. The meeting was held as an introduction to the new carrier, and to clarify a few issues arising from the July 1, 2012 renewal.
- The Underwriting Manager worked with the Department of Budget and Management on an Invitation For Bid for "Specimen Collection" services. The Manager offered advice on recommended coverages and the minimum limits of insurance DBM should consider. Recommendations and input were also obtained from the liability broker.
- The Treasurer has awarded a new Liability Broker Services Contract- Category A, to procure liability coverage for Maryland Public Television (MPT). The Underwriting Manager arranged a meeting with MPT's Vice President and CFO and two members of the newly contracted broker service to discuss MPT's operations, and to tour the Owings Mills facility. The meeting was very informative and timely for the new broker as they were working on two renewals at the time.
- The Underwriting Unit worked with the Procurement Officer to release two Broker Services RFPs. One RFP was for three liability contracts. The other RFP was for the auto contract. All four contracts have been awarded.

### **Claims**

The Insurance Division's Claims Unit investigates and resolves liability claims filed under the Maryland Tort Claims Act, Md State Gov't Code Ann. §12-101 *et seq.* 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, and a number of other perils such as fire, hail, lightning and wind which may cause damage to State structures, equipment and contents.

## **Maryland weathers the storms**

### Derecho

On June 29, 2012, one of the most destructive complexes of thunderstorms in memory, known as a derecho, swept through Maryland bringing with it wind gusts of 60-80 mph. Although the storm wreaked havoc across the State, the damage sustained to State-owned property was relatively minor by comparison. The Department of General Services, Public Safety and Correctional Services, Maryland Aviation Administration, University of Maryland College Park and the State Highway Administration suffered damage to several structures. The State Highway Administration suffered the most costly loss as a result of a lightning strike during the storm at the LaVale facility in Western Maryland. The cost to repair the facility's boiler and other equipment is estimated at over \$300,000. Damages to all of the agencies total approximately \$650,000.

### Hurricane Sandy

On October 29, 2012, Hurricane Sandy slammed into the Mid-Atlantic and left a path of destruction as the 1,000 mile-wide storm moved inland and up the coast. Sandy, which has been called "historic", left over 7 million without power including thousands in Maryland.

In the days leading up to the arrival of the storm, the National Weather Service predicted that Sandy would have a devastating impact on the Mid Atlantic and Northeastern coastal areas. The Loss Prevention Manager provided State agency risk managers, plant and facility managers and insurance coordinators with helpful information including steps to take in preparation for the storm's arrival. The Underwriting Manager manned the dedicated emergency contact phone with all of the State's insurance resources at the ready. Miraculously, during the weekend prior to the storm and over the two days Sandy hovered over Maryland before moving north, no emergency calls were received. After the State resumed its normal operations, the Claims Manager followed up with several agencies including the colleges and universities as well as DGS, BWI Marshall Airport, and other agencies located in areas likely affected by the storm. Preliminary reports indicate that State property was left largely unscathed. Most of the damage reported was comprised of leaking roofs, damaged walls and flooring, downed canopies, awnings, siding and trees. The single largest loss at the time of this report was a flood in the University of Maryland Eastern Shore's boiler room which had damaged a significant amount of equipment, including the boiler itself. The Division will continue to monitor the storm's impact to State-owned property over the next several weeks and will begin the process adjusting the agencies' claims.

## **Highest Single Subrogation Recovery on Record**

Over two years ago, on June 28, 2010, a fire broke out in the Health Sciences Building on the campus of the University of Maryland at Baltimore. As a result, a highly specialized piece of research equipment, known as a spectrometer, was damaged. The replacement cost of the equipment was valued at over \$3 million. The State is self-insured for \$2.5 million. The State's commercial carrier insured the amount in excess of the State's self-insurance.

The preliminary investigation revealed that the cause of the fire may have been due to the equipment's design. The equipment's manufacturer and distributor were immediately notified of the State's intent to pursue a claim to recover the damages to the fullest extent under Maryland law. The Insurance Division's adjuster, the Office of the Attorney General, and the commercial carrier worked together to evaluate the facts and determine the chances for recovery. After several months of fact-finding, the team provided evidence that convinced the manufacturer and distributor that a speedy settlement was a far better alternative to protracted and costly litigation. In August 2012, the Treasurer's Office received a payment of \$316,054, the market value of the damaged equipment. The claim settlement represents the Division's highest single subrogation recovery on record.

## **Continuing Outreach**

The Department of General Services, Lease Compliance Division, held a seminar on September 12, 2012 which featured the Insurance Division. The Division's Claims Manager presented the benefits and services provided by the Division to over 40 participants from several State agencies. The presentation included discussion on coverage, claim filing, loss prevention and litigation.

## **Tort Litigation Management**

The Litigation Manager works closely with the Office of the Attorney General to proactively resolve cases in litigation. The Litigation Manager investigates, evaluates and extends settlement authority to the Assistant Attorneys General on behalf of the Treasurer. In cases valued over \$100,000, the Litigation Manager briefs the Insurance Review Committee which is comprised of the Chief Deputy Treasurer, the Supervising Tort Attorney, and other stakeholders. The Litigation Manager also attends settlement conferences and other court mandated activities. The Litigation Manager provides feedback to adjusters on investigations and provides updates on the status of certain litigation claims of interest.

The Tort Unit handles a rolling docket of approximately 120 litigation claims. The Litigation Manager actively monitors trial verdicts and appeals and assesses the potential impact on the State Insurance Trust Fund. The Litigation Manager also analyzes the data in order to track the litigation outcomes. The disposition of the cases disposed of between July 1, 2012 and November 5, 2012, is noted in the following table:

Disposition	Reason or Method	Count
Dismissal	Motions granted	3
	Notice of claim not provided	0
	State not served	0
	Non – State	1
	Voluntary w/o prejudice	0
	Voluntary w/prejudice	2
Verdict	Adverse	1
	State	3
Settlement	Pre trial settlement	7
	Pre trial settlement conference	2
	Mediation	0
	Settlement at trial	0
	Post trial settlement	0
Total Cases Closed as of Nov. 5, 2012		19

### Loss Prevention

The aim of loss prevention is to help State agencies develop specific action plans and safety practices to mitigate or eliminate State agencies' most frequent or severe sources of preventable losses.

Annually, the Loss Prevention Unit conducts a comprehensive review of numerous State agencies' loss histories to identify problem areas and to help agencies with high severity and/or frequency claims take corrective measures. These efforts are expected to significantly reduce loss frequency and the severity of damage sustained to State-owned buildings and contents.

### Property Loss Control Surveys

In August and September 2012, property loss control engineering inspections were conducted for the Maryland Military Department (Fifth Regiment Armory), Department of General Services (Herbert O'Connor Building), University of Maryland College Park (McKeldin Library), and Maryland Aviation Administration (BWI Thurgood Marshall Airport). Other inspections slated for inspection this fiscal year include, the Department of Public Safety and Correctional Services (Eastern Correctional Institute), the Department of Health and Mental Hygiene (Western Medical Hospital Center), the Maryland Military Department (Camp Fretterd Military Reservation), the University of Maryland Baltimore School of Medicine (Dental School and Frank Bressler Research Building), and the University of Maryland Baltimore County (Albin Kuhn Library).

The intent of the inspections is to identify property exposures and provide solutions to mitigate exposures, which may be the result of deficiencies in fire protection, construction or special hazard protection. The inspection also includes a review of the

loss prevention programs, such as emergency response, impairment handling, fire protection testing and maintenance, as well as contingency planning.

Upon receipt of the engineering reports, the Loss Prevention Manger and the respective agency stakeholders will have an opportunity to review the reports and provide comments and or develop actions plans in response to improvement recommendations offered by our excess commercial property insurance carrier, Lexington Insurance Company.

### **Fleet Safety Assessment**

In September, the Risk Control Consultant from Travelers Insurance Company, the State's auto insurance carrier for the Maryland Port Administration (MPA), and the Loss Prevention Manager met with the MPA Risk Management Officer to conduct a fleet safety assessment. The meeting entailed a review of the auto safety policies and procedures, i.e., driver qualification processes, screenings, fleet maintenance and records. Results of the assessment have been shared with MPA for appropriate action.

### **Loss Analysis**

An analysis of annual losses is near completion for all State agencies. Upon completion of the initial review, further examination will be conducted to identify agencies with high frequency and severity losses. The Loss Prevention Manager will meet with the risk management representatives for these agencies to discuss loss prevention and reduction activities to mitigate future losses.

## **INFORMATION TECHNOLOGY DIVISION**

The Information Technology (IT) Division provides a platform of integrated systems that include midrange, server, and web based hardware that host customized and industry standard applications and communications that support the State Treasurer's Office's (STO) operations.

Over the last six months, the IT Division worked with the Office's Divisions and our State agency clients to support many changes and upgrades. Services provided to state agencies include: electronic funds transfer, check printing, positive pay and account reconciliation process services for the Comptroller's Office, the State Retirement System, as well as the Department of Human Resources.

The Division is receiving more requests from agencies to receive deposit and adjusting entries via an electronic file that can be read into their systems in order to streamline their reconciliation process. To meet this need, IT is expanding our list of transmission options to include secure email, Open SSH and Secure FTP. These new alternatives will satisfy two current agency requests for such options, and will now give many of the State agencies the option of receiving files that can serve as input to an automated reconciliation process, regardless of their hardware platform.

The IT Division is currently testing same day processing of the paid check file versus the current nightly batch method. This change will update the paid check data one day sooner, which will benefit everyone's reconciliation and offer even better protection against fraudulent checks.

The IT Division continued to enhance and support the Banking Services Division's - Treasury Bank Account Information System (TBAIS). The TBAIS system tracks account approval requests, routes them to GAD and Banking Services for approval, and generates up-to-date reporting and management of agency bank accounts. Recent enhancements include conversion and upload of agency collateral data, upload of new agency survey data, creation of a TBAIS Snapshot Report of current account statistics, ability to enter or change notes linked to the account, and the development of a new program to allow global changes to bank name and account when bank mergers occur. Additional features and functions will continue to be added over the next year.

Other IT projects include the addition of R\*STARS agency codes to the Monthly Investment Balance reporting and a new Automated Loss Report process was designed for the Budget Management and Accounting Division. We are in the final testing phase of new programming that will link new check numbers issued from the Unpresented and Undeliverable Funds to the original check numbers. Since the data will be populated in R\*STARS, agencies will have the ability to lookup the checks status themselves and not have to contact the Treasurer's Office to obtain this information.

The Network Services staff maintained support of all network, firewall, email, web, file and application server hardware and software for the agency. Additional responsibilities include maintaining reliable PC hardware and software built via a standard image. This standard provides the staff with the ability to utilize automated scripts for the deployment of security, anti-virus and application patches. They also support custom software utilized within the agency, including, but not limited to, Mun-ease, SunGard, LAS (Leave Accounting System), M&T Check Viewer, Matter Tracker, PTX Viewer, Rumba, J-Walk, NGS Query, Org Plus and the entire MS Office Suite including MS Project. Recent accomplishments include: maintaining excellent uptime despite several hardware failures; migrated the web server to new hardware; and began rollout of new antivirus/security software with improved protection capabilities (based on heuristics and file reputation data).

***As noted in the opening section of this Report, present revenue and market conditions continue to impact the operations and achievements of the State Treasurer's Office in many ways. 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](http://www.treasurer.state.md.us). If the Committee or its members would care to pursue further these or other STO developments, or any other aspects of the Treasurer's activities, please call the Treasurer at (410) 260-7160 or Chief Deputy Treasurer, Bernadette T. Benik at (410) 260-7390.***