



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

June 3, 2016

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 December 15, 2015. 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. The Treasurer 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.

The Treasurer’s Office continues 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 Zone Academy Bonds. And as you know, we continue to invest State funds prudently and conservatively to minimize risk to the Maryland taxpayers.

The items set forth below detail a number of our recent achievements. We are always available to provide greater information or answer questions regarding these and other issues.

BOARD OF PUBLIC WORKS

Between December 1, 2015 and May 25, 2016, the Board of Public Works (“BPW”) met 12 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, including Qualified Zone Academy Bond authorizations, and the Capital-Lease financings discussed in more detail in the Debt Management Section of this Report, the following items, worthy of note, were considered by the Board of Public Works:

Public School Construction

- State Public School Construction – Capital Improvement (CIP) Program for FY 2017: Approved allocations totaling \$368.403 million, with conditions. (5/11/16)
 - The FY 2017 CIP includes \$280 million of new bond authorizations, \$45 million in reverted funds from the Statewide Contingency Account, and \$43.4 million from FY 2016 and FY 2017 allocations for enrollment growth and relocatable classrooms contained in the Supplemental Capital Grant Program for Local School Systems.
 - In a 2-1 vote, with Treasurer Kopp voting “no”, the following conditions were placed on the approval of the FY 2017 Public School Construction CIP allocations:
 - \$10 million of the total Baltimore County Public Schools allocation is to be withheld until the System returns to the Board of Public Works with a plan to install air conditioning units in all un-air-conditioned classrooms by the beginning of the next school year (2016-2017); and
 - \$5 million of the total Baltimore City Public Schools allocation is to be withheld until the System returns to the Board of Public Works with a plan to install air conditioning units in all un-air-conditioned classrooms by the beginning of the next school year (2016-2017).
 - In a 3-0 vote, directed Dr. Lever, the Executive Director of the State Public School Construction Program, and the IAC to move forward immediately with the regularly scheduled audit of Howard County Public Schools, including steps to investigate mold and maintenance issues.
- Qualified Zone Academy Bond Program for FY 2017: Approved allocations in the amount of \$4.68 million to 13 school systems in support of 31 projects. (5/11/16)

Baltimore City 21st Century Public School Construction Initiative

- Bonds: Approved the Maryland Stadium Authority (MSA) issuing \$320 million in Baltimore City Public Schools Construction and Revitalization Program revenue bonds to finance a portion of the costs to design, construct, renovate, rehabilitate, equip, and furnish the first group of public school facilities under the Baltimore City 21st Century Public School Construction Initiative. (12/16/15)
- Approved the transfer of the following Baltimore City Public School facilities from the Baltimore City Board of School Commissioners to the Baltimore City Government as a part of the school closure commitment contained in the Memorandum of Understanding entered into pursuant to the Baltimore City Public Schools Construction and Revitalization Act:
 - Dr. Rayner Browne Elementary/Middle School; (4/6/16)
 - Independence Charter Local 1 HS Modular Building #333; (4/6/16)
 - Langston Hughes Elementary School; (5/11/16) and
 - William Pinderhughes Building #028. (5/11/16)
- Frederick Elementary School (PK-5): Renovation and Addition:
 - Approved a request of MSA to award Bid Package No. 1 (site work) to the construction manager. (12/16/15)
 - Approved a request of MSA to award Bid Package No. 2 (construction) to the construction manager. (4/6/16)
- Ft. Worthington Elementary School (K-8): Construction of Replacement School:
 - Approved a request of MSA to award Bid Package No. 1 (site work) to the construction manager. (12/16/15)
 - Approved a request of MSA to award Bid Package No. 2 (construction) to the construction manager. (3/23/16)
- Lyndhurst Elementary School: Renovation and Addition:
 - Approved a request of MSA to award Bid Package No. 1 (building and site construction) to the construction manager. (5/11/16)

Personnel, Procurement & Regulations

- Personnel: “Rule of 100”: Pursuant to Section 7-236 of the State Finance & Procurement Article and Section 35 of the Budget Bill for FY 2016 (HB 70), the Board of Public Works is authorized to create no more than 100 additional State funded positions during FY 2016. The following action was taken as a result of this authorization:

- Approved the request of the Office of the Attorney General to create two full-time equivalent positions in furtherance of the creation of the Public Information Act Compliance Board, as required by SB 695 (2015 Session), by providing a Public Access Ombudsman who will mediate disputes under the Public Information Act and an administrative aide. (12/2/15)
- With approval of this request, eight positions have been created within the “Rule of 100” for FY 2016.
- In a 2-1 vote, with Treasurer Kopp voting “no”, adopted amendments to existing COMAR provisions relating to the Public School Construction Program to define the cost of window air-conditioning units as a public school construction cost eligible for State funding through the Capital Improvement Program, Aging Schools Program, and Qualified Zone Academy Bond Program. The motion for approval specified that final adoption of the regulation would be effective July 6, 2016 with no further action of the Board of Public Works required. (5/11/16)

Strategic Demolition and Smart Growth Impact Fund

- Approved a request of the Department of Housing and Community Development for authorization to provide grants totaling \$2,775,000 from the Strategic Demolition and Smart Growth Impact Fund FY 2016 allocation for ten projects in Baltimore City and grants totaling \$1,975,000 from the allocation for eight projects throughout the rest of the State. (12/2/15 & 1/27/16)
- Approved a \$7.1 million grant to the Maryland Stadium Authority for a Strategic Demolition and Smart Growth Impact Fund project in Baltimore City. These grant funds will be used by MSA to support the demolition and stabilization of targeted blighted properties in the City in furtherance of Project CORE. (2/24/16)

State Services, Facilities & Assets

- Approved a request of the Maryland State Department of Education to award a contract to study local school system spending at the school and central office levels to calculate the average operating expenditures by each local school system for students enrolled in a public school that is not a public charter school or stand-alone special education school. The data will be aggregated at the State level to serve as the baseline for determining commensurate funding for all public schools. (3/9/16)
- Approved a request of the Department of Public Safety and Correctional Services to award a contract to provide cellphone-managed access that will prohibit cellphone use by inmates at the Metropolitan Transition Center and the Baltimore City Detention Center. (3/9/16)

- Approved a request of the Department of Information Technology to award a contract to provide statewide public cloud hosting and disaster recovery services that will enable State agencies to migrate data into cloud storage facilities. (1/27/16)
- Approved a request of the University of Maryland College Park to subdivide and sell 3.337 acres of land to Prince George’s County for construction of a crossing over the CSX right-of-way that will allow the public to traverse the right-of-way and provide access from the University’s M Square Research Park to the Riverdale Park Station Project. (1/6/16)
- Approved a request of the Attorney General to compensate outside litigation counsel with a portion of damages that the State recovers in litigation concerning MTBE (methyl tertiary butyl ether). The amount of the contingency fee will be based upon a sliding scale of net recovery and the stage of the MTBE litigation achieved at the time of the recovery. (1/27/16)

Transportation

- BWI Marshall Airport:
 - Approved a request of the Maryland Aviation Administration to award a contract for site work for the extension of Concourse E, the International Terminal. (12/16/15)
 - Approved a Memorandum of Understanding between the State and British Airways to facilitate daily non-stop service from BWI Marshall Airport to London-Heathrow Airport using Boeing 787 Dream Liner aircraft. Payments will be made to British Airways if the Airline’s BWI – London revenues do not meet a specified level of return. (1/27/16)
- Maryland Port:
 - Approved a request of the Maryland Transportation Authority (MDTA) to transfer ownership of the Seagirt Intermodal Container Transfer Facility to the Maryland Port Administration (MPA) in exchange for the payment of \$14.2 million from the Transportation Trust Fund. MDTA was required to have an ownership interest in the Seagirt Facility in order to issue debt to finance improvements at the Maryland Port. The retirement of that debt allows transfer of ownership back to MPA. (1/6/16)
 - Approved a request of MPA to award a contract to construct a new rail track that will provide access to Berth 3 and a new rail yard at the Masonville Marine Terminal. (1/27/16)
- Mass Transit:
 - Approved a request of the Maryland Transit Administration (MTA) to award a contract for the purchase of 172 clean diesel buses. (1/27/16)
 - Approved a Public-Private Partnership (P3) Agreement for the Purple Line Light Rail Transit project using a Design, Build, Finance, Operate, and Maintain (DBFOM)

delivery model. The \$5.59 billion project involves a long-term performance-based agreement between MDOT/MTA and the concessionaire, Purple Line Transit Partners. The P3 Agreement includes a six-year design and construction period and a 30-year operating period. (4/6/16)

State Tidal Wetlands Licenses

- Approved a 30-year State tidal wetlands license authorizing the construction and operation of Phase III of the Paul S. Sarbanes Ecosystem Restoration Project at Poplar Island. This Phase creates an additional 575 acres of mixed-use habitat through depositing clean dredged materials from Baltimore Harbor approach channels. Phase III will accommodate 28 million cubic yards of clean dredged materials. (2/24/16)

Natural Resources

- Approved the sublease of 2.4 acres at Gunpowder Falls State Park for use as a rubble landfill for up to 10 years. Upon termination of the landfill operations, the Tenant is required complete closure of the rubble landfill within three years, resulting in reclamation and restoration of the property to parkland. (12/16/15)
- Approved the expenditure of \$6,528,831 of Program Open Space funds for the acquisition of 3,486+/- acres of land in Somerset (623 acres), Wicomico (972 acres), and Worcester (1,890 acres) Counties. This property is mostly forestland that will be managed by the Maryland Forest Service as part of Chesapeake Forest Lands. Recreational opportunities on the property, including hunting, fishing, birding, and hiking, will be available to the public. (2/10/16)
- Approved a 15-year lease of 2.5+/- acres with improvements in Gunpowder Falls State Park to the Phoenix Wildlife Center, Inc. for use as a wildlife rescue and rehabilitation center that will include a wildlife rehabilitation education component. (2/10/16)

State Property Tax Rate

- Set the State Real Property Tax Rate for FY 2017 based upon the recommendation of the Commission on State Debt. The rate remained unchanged at 11.2 cents per \$100 of the full-assessed value of real property other than that of public utilities and 28.0 cents per \$100 of the full assessed value of real property of public utilities. (04/27/16)

TREASURY MANAGEMENT DIVISION

Banking Services Department

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

The Department is directly responsible for managing the banking needs for all agencies of the State. BSD continues to oversee enhancements for lockbox processing and improved reconciliation processes throughout the State. Total business process improvement at the agencies continues.

The Department procures financial products and services statewide. The Department continued the implementation process for the Agency Depository Contracts for statewide banking depository services. BSD led the Evaluation Committee for the RFP process for the Child Support Enforcement Administration (CSEA) for banking services.

BSD continues to ensure the accurate and timely recordation of State funds and the reconciliation of the State's bank accounts to the State's R*STARS accounting system. The Department 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. For FY 2015, total cash receipts and disbursements exceeded \$216 billion. As of May 31st total cash receipts and disbursements exceeded \$233 billion for the current fiscal year. The State's General Fund bank accounts continue to be reconciled to the penny on a daily basis to the State's general ledger.

In addition to the reconciliation duties, the Department 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 Department 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 over 1,800 agency bank accounts at 23 financial institutions. Total posted collateral as of May 31, 2016 was \$567+ million (unaudited). The update reports for all State bank accounts went out in May with anticipated responses due before July 31, 2016. The information will be used to update the TBAIS system which is used to ensure all accounts are collateralized properly and monitored monthly. The results of the survey will be updated in TBAIS to ensure collection of all interest owed to the General Fund.

The 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. We continually strive to stay at the forefront of changes in banking products and services offered in the financial industry. The Department will continue to explore new financial products and improved data delivery methods that will increase its capabilities to provide efficient, cost-saving, banking and financial services to all State agencies.

Investment Department

The Treasurer's prudent investment policy and practices have protected the investment portfolio through these continued unprecedented economic times and has resulted in a modest but continuous return on the portfolio. The par value of the General Fund investment portfolio for May 31, 2016 was \$5,982,878,817 as compared to May 31, 2015 when it was \$5,735,552,235. This is an increase of over \$247 million dollars.

On May 31, 2016, the portfolio was earning an average of 1.049%, compared to 1.030% for the same date in 2015. The return reflects the diligence of the investment staff despite the impact of the Federal Open Market Committee (FOMC) maintaining the Fed Funds Target rate at .50% or less since December 16, 2008. For comparison, the three month constant maturity Treasury Bill averaged 0.276% from July 2015 until the end of May 2016 as compared with 0.023% for the same time period in the previous fiscal year. The low interest 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 2016 are \$63,467,880 compared to \$50,069,087 received for the same time period in FY 2015. The almost \$13.4 million increase in interest received is directly attributable to higher cash balances available for investment and slightly higher interest rates in the market's anticipation of a further increase in rates by the FOMC.

The following chart tracks the number of individual agency accounts that receive an interest allocation from the total interest earned on the investment portfolio. It is important to note that as the total General Fund portfolio decreases, the proportion of Agency Funds to General Funds increases and therefore the State Agencies allocated share of interest earnings 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
2000	121,951,720	103,173,287	225,125,007	46%
2001	136,981,074	144,249,899	281,230,973	51%
2002	82,641,807	66,399,769	149,041,576	45%
2003	37,205,637	42,240,523	79,446,160	53%
2004	25,037,345	29,053,449	54,090,794	54%
2005	52,886,074	54,538,463	107,424,537	51%
2006	149,613,238	109,222,108	258,835,346	42%
2007	150,798,001	205,589,917	356,387,918	58%
2008	155,170,184	207,179,098	362,349,282	57%
2009	102,768,740	142,619,087	245,387,827	58%
2010	44,190,425	87,921,654	132,112,079	67%
2011	53,178,733	87,900,159	141,078,892	62%
2012	23,207,535	48,647,954	71,855,489	68%
2013	8,646,595	40,710,863	49,357,458	83%
2014	19,133,149	52,602,770	71,735,919	73%
2015	7,064,094	55,460,767	62,524,861	88%
Year to Date	8,018,425	55,449,455	63,467,880	87%

The Office continues to encourage minority business participation in the investment of State funds. The evolving bond market has made this task more difficult. A number of MBE firms have merged, been acquired, or ceased to exist during the last few years. The STO has been diligent in the pursuit of qualified MBE broker/dealer firms. **Twenty-five MBE broker/dealers are on the Office's approved list for FY 2016, and have handled investments of \$2.389 billion out of \$5.670 billion (42%) so far this fiscal year. This compares with fiscal year 2015, when the Office had twenty-four approved MBE broker/dealers who handled \$255 million out of \$1.349 billion (19%) investments by the end of May.**

The Maryland Local Government Investment Pool's (MLGIP) AAA rating was reaffirmed by S&P Global Ratings on March 28, 2016. The MLGIP's balance at May 31, 2016 was \$3,808,756,064 compared with \$3,670,649,529 for the same date in 2015. This is an increase of over \$138 million dollars due to participants' higher available cash balances and lack of trusted alternative investments. The MLGIP yield is 0.36% as of May 31, 2016, compared to

0.06% last year. The 303 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 Investment Division assisted in the crafting of a Custody RFP for the Maryland State Retirement System. The STO also completed the RFP process for College Savings Plans of Maryland for an Investment Advisor.

The overriding goal of the State Treasurer's Investment Policy is to secure sufficient liquidity in order to maintain uninterrupted funding of State government and legislated payments. As revenues have become less predictable and more volatile, our investment 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 implemented and followed.

DEBT MANAGEMENT DIVISION

Ratings

On May 25, 2016, in conjunction with the sale of Maryland's General Obligation Bonds State and Local Facilities Loan of 2016, First Series, Moody's Investors Service, S&P Global Ratings (formerly Standard and Poor's) and Fitch Ratings all affirmed their AAA ratings for Maryland's General Obligation debt. Maryland is one of only ten states to hold the coveted AAA rating, the highest possible rating, from all three major rating agencies. S&P Global Ratings has rated the bonds AAA since 1961. Moody's has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993. The other nine states that hold AAA ratings from all three rating agencies are Delaware, Georgia, Iowa, Missouri, North Carolina, Tennessee, Texas, Utah and Virginia.

Meetings with Rating Agencies

The Treasurer's Office, along with the Bureau of Revenue Estimates, Department of Budget and Management, and the Department of Legislative Services, presented to the three rating agencies via conference call on May 13, 2016. The next meeting with the rating agencies is expected prior to the sale of the 2017 First Series General Obligation Bonds in March, 2017.

Ratings Reports

Generally there is consensus among the rating agencies in evaluating the State's credit strengths and weaknesses. All three major rating agencies cite Maryland's debt policies, fiscal management and strong, stable economy as credit positives and the State's debt burden and pension funding as concerns.

Financial Management

All three rating agencies point to the State's history of strong, sound financial management as a credit strength. Moody's cites a "history of proactive financial management" and "adequate reserve levels and strong liquidity" as two of the three highlighted "strengths" of Maryland's credit profile. In assessing Maryland's management practices, S&P Global Ratings assigned a rating of "strong" to this factor, noting that "the state monitors both revenue and expenditure performance on a regular basis" and, when necessary, "budget adjustments have historically been implemented... on a timely basis. Fitch Ratings notes that its rating reflects Maryland's "extensive budget controls and sound financial operations, and strong management of debt."

Debt Policies and Debt Burden

In the case of all three rating agencies, the State's debt affordability guidelines and rapid amortization of debt are considered credit strengths and help offset concerns the rating agencies have regarding the State's debt burden. Fitch notes that "most debt is constitutionally required to amortize in 15 years, and centralized debt planning and issuance are additional credit strengths,"

while also specifically highlighting the State's debt affordability policies. Moody's states that the fifteen-year amortization requirement "quickly replenishes the State's debt capacity and helps restrain growth in outstanding balance." S&P echoes this assessment, noting that more than 80% of the State's outstanding tax-supported debt will be retired within the next ten years. All three rating agencies note the importance of the Capital Debt Affordability Committee and the positive role it plays in the State's debt management practices.

Economy

In assigning its 'AAA' long-term rating and stable outlook, S&P Global Ratings said: "The rating reflects what we view as the state's "broad and diverse economy," and "continued strong wealth and income levels." S&P's further states: "The stable outlook on Maryland reflects recent improved economic growth and structural budget alignment with projected growth in state reserve levels." Fitch observed that Maryland's economy "has long benefited from proximity to the nation's capital," while also citing lower than national unemployment and high personal income as strengths of the Maryland economy.

Each rating agency cites ties to the federal government as both benefits and risks to Maryland's economy. S&P Global Ratings notes the "slower pace of growth in 2013 and 2014 as a result of federal sequestration and the loss of government jobs" while also stating that the government sector and federal research agencies are economic strengths. Fitch writes that despite the "drag posed by federal sequestration," the federal government continues to be an "important anchor... supporting the State's solid economic performance."

Pension and other liabilities

Pension reforms enacted during the 2011 Legislative Session, the teacher pension sharing enacted during the 2012 Legislative Session, the phase-out of the corridor funding method that was enacted during the 2013 Legislative Session, and the acceleration of the corridor funding method phase-out along with annual supplemental contributions passed in the 2015 Legislative Session are noted by each of the three rating agencies. On the topic, Fitch Ratings calls pensions a "significant burden," but notes that the state has taken multiple steps to reduce their burden and improve sustainability over time. Moody's indicated it considers the State's retirement system its "most significant credit challenge," but goes on to recognize that "the state has taken a number of measures to manage its pension burden," which demonstrates its "proactive management approach." S&P's indicates "failure to demonstrate a consistent commitment to fully funding its pensions could also pressure [Maryland's] rating."

The State Treasurer's Office provides information about the State's ratings reports for each bond sale to all members of the General Assembly. Current reports are also available on the Treasurer's website at www.treasurer.state.md.us.

General Obligation Bonds

No General Obligation bond sales have occurred since our last report to this committee. The next sale is scheduled for June 8, 2016. Further details are provided below.

Closed Financing – Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (QZAB) totaling \$4.6 million were issued on December 17, 2015. The bonds earn federal tax credits at the rate of 4.76% per annum for Branch Banking & Trust Company until maturity on December 15, 2030.

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 December 15, 2015 and May 31, 2016, \$3,211,936.57 in capital equipment was leased by State agencies through the State Treasurer's Office, leaving a current balance of \$23.7 million authorized by the Legislative Policy Committee for equipment lease-purchase financing through June 30, 2016.

The Treasurer's Office also finances Energy Performance Leases in cooperation with the Department of General Services, providing funding for energy conservation improvements 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 have been closed since the last report. A total of \$44.7 million remains of the \$50 million authorized by the Legislative Policy Committee for energy performance lease-purchase financing through June 30, 2016.

Upcoming Financing Plans

The next General Obligation tax-exempt financing, projected to total approximately \$1.036 billion, is planned for June 8, 2016. The bonds are planned to be sold via competitive bid in a single series. No retail, taxable, or refunding bonds will be sold. This is the only sale expected this calendar year.

After the June sale, the following sale is tentatively scheduled for March 2017. The State Treasurer's Office will consider whether a retail component will be offered in light of market conditions. 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, and the primary source of revenue for this Fund is the State's real property tax receipts. Over the years, however, the debt service has also been supported on occasion by appropriations from the General Fund, as well. The Commission on State Debt met and released its annual report on

April 20, 2016. In FY 2017, \$283.0 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 subsidy is projected for FY 2018 - 2021. The complete Commission on State Debt report is available on the Treasurer's website at: <http://www.treasurer.state.md.us/debtmanagement/csd-reports.aspx>

Annuity Bond Fund Projections, FY 2016 – 2021
(\$ thousands)

	2016	2017	2018	2019	2020	2021
Beginning Balance	86,804	198,831	82,525	2,127	2,971	2,727
Total Property Tax Collections	750,504	779,864	799,238	807,431	815,637	823,879
General Fund Appropriation	252,400	283,000	356,000	489,000	509,000	521,000
Bond Sale Premium	209,090					
Federal Subsidy	11,511	11,539	11,539	11,539	10,855	10,134
Transfer Tax	6,422	6,575	6,735	7,059	6,851	6,884
Other Cash Receipts	3,093	3,106	3,106	3,106	3,106	3,106
Debt Service	-	-	-	-	-	-
	1,120,994	1,200,391	1,257,015	1,317,292	1,345,692	1,364,740
Ending Balance	198,831	82,525	2,127	2,971	2,727	2,990

INSURANCE DIVISION

The Insurance Division is responsible for administering the State's Insurance Program which includes both commercial insurance 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 has three Units: Underwriting, Loss Prevention, and Claims, which includes Tort Litigation. 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, Loss Prevention and Claims

The Insurance Division, our insurance broker and insurance carrier participated in the annual meeting held with the Maryland State Police Aviation Command (MSPAC) on April 19, 2016, at their headquarters location. We discussed the plans for their new building addition (the training center) which will house the new flight simulator currently being built. The simulator will allow MSPAC to conduct quarterly training and annual skills testing without taking one of their helicopters out of regular service. There were also discussions of a "helicopter flight data monitor" service needed to support equipment already on board each helicopter.

The Insurance Division, our insurance broker and insurance carrier also participated in the annual meeting with the Maryland Aviation Administration staff at BWI Airport on April 27, 2016. The VP of Parsons Transportation Group, the current General Contractor for the construction work presented the status of all ongoing projects at BWI, which included the expansion of Concourse E and the airfield standards and pavement rehab work required by FAA. There was a loss prevention discussion of drones and what MAA can expect in the future, as well as potential impact on their insurance. MAA made a presentation of the safety improvements they have made in the past year, and the insurance carrier discussed expectations for the upcoming renewal.

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 the following:

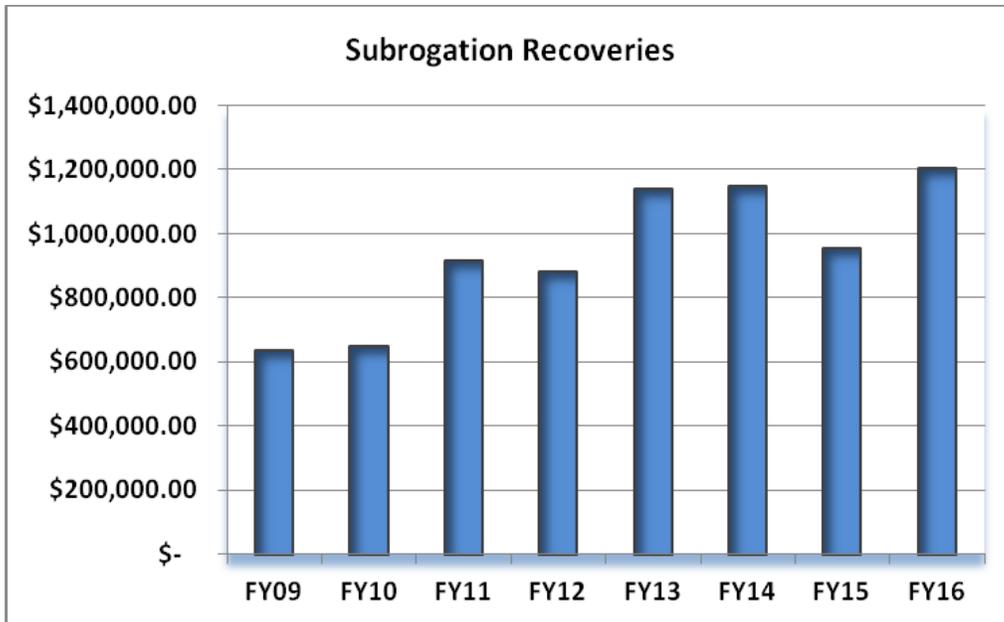
- The Maryland Port Administration's auto coverage renewed effective January 1, 2016 with three fewer autos, and an approximate 2% rate reduction, resulting in a premium savings of \$2,856.
- The Maryland Port Administration's liability and terrorism coverage renewed effective January 31, 2016 with dry goods (cargo) up 83% and cruise passengers up 42%. Although there have been losses and exposure increases, the broker negotiated a renewal that generated a premium savings of \$7,124.
- Maryland Institute for Emergency Medical Services Systems liability coverage for radio towers renewed effective February 18, 2016 with an approximate rate reduction of 20%, resulting in a premium savings of \$500.
- Maryland Department of Housing and Community Development's bond coverage for their HUD operations renewed effective March 1, 2016 with an approximate 15% rate reduction, leading to a premium savings of \$2,879.
- The Excess Property coverage for State-owned building, contents, and computer equipment exposures was renewed April 1, 2016. Reported values were up \$2,277,010,080 (6.9%) and the premium only increased \$254,284.

Claims Unit

The Insurance Division's Claims Unit investigates and resolves claims filed by private citizens under the Maryland Tort Claims Act for property damage and personal injury. The Unit also handles claims for damage to State-owned property arising from sudden and accidental perils such as collision and comprehensive losses to autos, and a number of other perils such as fire, hail, lightning, and wind which may cause damage to State structures, equipment, and contents.

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 FY 2016 total \$1,201,129.16. The current subrogation recoveries have met and exceeded the \$1 million target. This is a continued area of focus and is a priority within the Claims Unit.

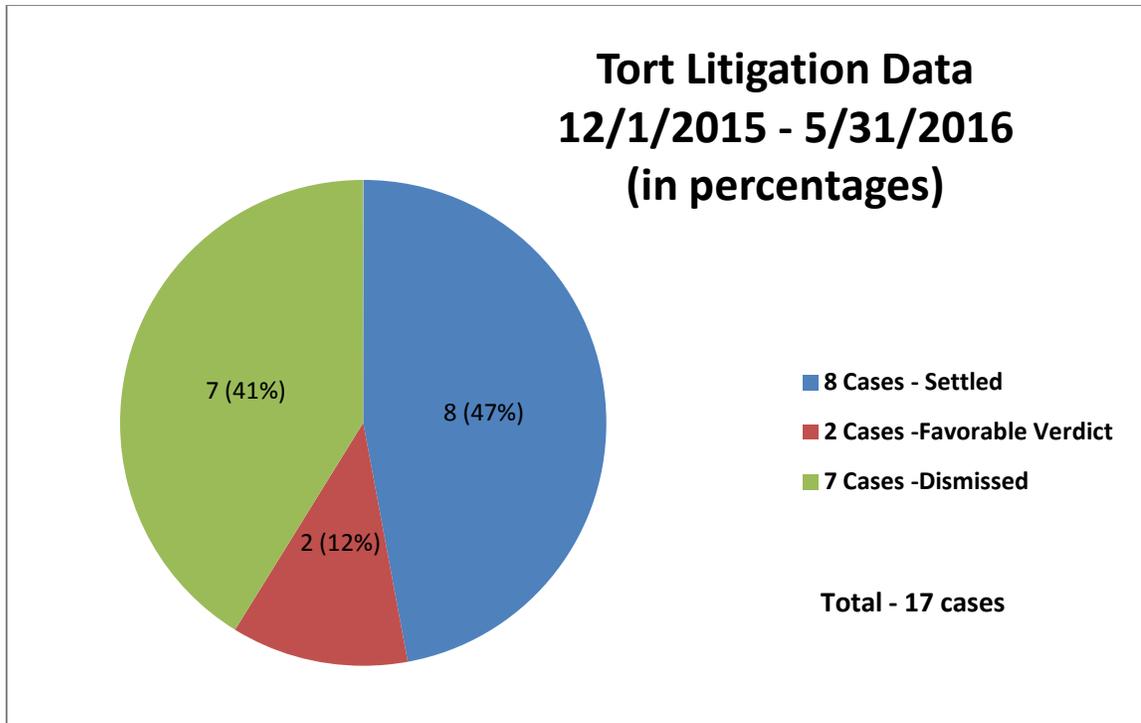


Tort Litigation Management

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 on behalf of the Treasurer to the Office of the Attorney General. In cases valued over \$200,000, the Litigation Manager briefs the Insurance Review Committee which includes the Chief Deputy Treasurer, the Director of the Insurance Division, the Deputy Director of the Insurance Division, the Supervising Tort Attorney, and other stakeholders requesting settlement authority.

Settlement costs for the period of December 1, 2015 – May 31, 2016 total \$289,500.00. The Litigation Manager also attends settlement conferences and other court mandated activities and provides periodic updates on the status of certain litigation claims of interest. The Litigation Manager provides feedback to adjusters during the discovery process and upon resolution to help improve the adjusters’ investigative skills. The Litigation Manager also assists with developing strategies to prevent similar claims from recurring.

The Tort Unit handles a rolling docket of approximately 120 - 130 litigation claims. The current caseload is 128. 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 between December 1, 2015 and May 31, 2016 is presented in the chart below:



Loss Prevention Unit

The goal of the Loss Prevention Unit is to help State agencies develop specific action plans and safety practices to mitigate or eliminate the most frequent or severe sources of preventable losses.

Monthly loss reports are distributed to the agencies and universities with the highest claims frequency. Meetings are arranged with various representatives within the agencies to discuss their loss prevention programs, mitigation strategies, lessons learned and agency success stories.

State agencies and universities visited over the last several months include Department of Health and Mental Hygiene - Clifton T. Perkins, Springfield and Western Maryland Hospital Centers, Department of Juvenile Services – Charles Hickey School and University of Maryland Baltimore County. Topics included preventive maintenance, pre- and post-loss activities and strategies aimed to prevent or mitigate property damage losses caused by water (frozen and broken pipes), rain, snow and windstorms, and extreme cold temperatures.

Loss Prevention and Claims Unit personnel met with State Highway Administration District Shops to discuss the road pavement and maintenance programs, road hazard claims and strategies to reduce losses and complaints. Meetings were also held with Maryland State Police, Department of Public Safety and Correctional Services, Department of Natural Resources, Maryland Transportation Authority, and the University of Maryland College Park. These meetings entailed discussions regarding accident reporting, preventable losses, agency fleet

management, drivers training and improvement programs, and strategies to reduce claims frequency and severity.

In May 2016, Loss Prevention participated in the Department of Natural Resources' annual training for the Conservation Job Corps (CJC). This summer program hires temporary workers who must attend and successfully pass the mandatory drivers training program. This year, Loss Prevention's main focus was accident reporting, pre- and post-trip vehicle inspections, and preventable accidents.

Loss Prevention also presented at the 2016 State Employee Risk Management Administration (SERMA) Annual Conference and Awards Program, the presentation highlighted data relating to the "State of Maryland Weather Related Losses – Loss Prevention and Mitigation Activities."

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 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.