

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$5,145	\$5,227	\$5,231	\$5	0.1%
Adjustments	0	-33	24	57	
Adjusted General Fund	\$5,145	\$5,194	\$5,255	\$61	1.2%
Special Fund	936	2,209	2,598	389	17.6%
Adjustments	0	-4	3	6	
Adjusted Special Fund	\$936	\$2,206	\$2,601	\$395	17.9%
Reimbursable Fund	35,110	41,856	39,320	-2,536	-6.1%
Adjustments	0	0	27	27	
Adjusted Reimbursable Fund	\$35,110	\$41,856	\$39,347	-\$2,510	-6.0%
Adjusted Grand Total	\$41,191	\$49,256	\$47,203	-\$2,053	-4.2%

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The adjusted fiscal 2019 allowance decreases \$2.1 million from the adjusted fiscal 2018 working appropriation largely due to a decrease in funding for insurance paid to the State Treasurer's Office and the Financial Systems Modernization project.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	60.00	60.00	60.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.05	6.75%
Positions and Percentage Vacant as of 12/31/17	6.00	10.00%

- There are no changes in regular positions or contractual full-time equivalents.

Analysis in Brief

Major Trends

State's Insurance Program: In fiscal 2017, the number of new insurance claims decreased due to a decline in weather-related damage across the State.

Local Government Investment Pool: The balance in the Local Government Investment Pool has decreased sharply when compared to the balance at the same point in time in fiscal 2016. At the same time, the average return on the State's investment portfolio has increased in fiscal 2017.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safe keeps all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State general obligation bond issues, and through the Capital Debt Affordability Committee reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The State Treasurer annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer’s Office (STO) are to:

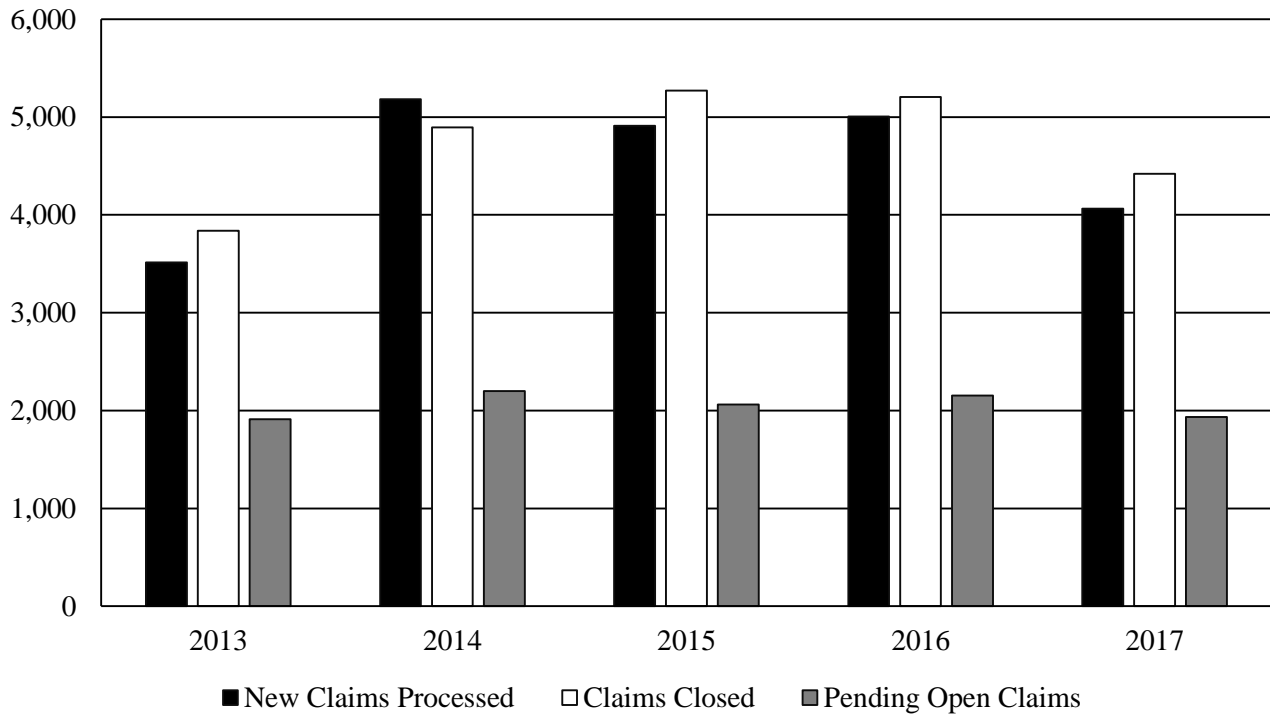
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State’s surplus funds in accordance with State laws and regulations;
- maintain and enhance the information technology infrastructure needed to provide ongoing support services to STO and the agencies it serves; and
- provide statewide risk management through loss control, loss protection, loss restoration, and loss resolution.

Performance Analysis: Managing for Results

1. State’s Insurance Program

STO is responsible for administering the State’s Insurance Program, which is comprised of both commercial and self-insurance. **Exhibit 1** shows the number of new claims processed, open claims pending, and claims closed from fiscal 2013 through 2017. The increase in claims since fiscal 2013 is the result of several weather-related claims in recent years caused by road hazards, snow, and other effects of extreme weather conditions. In fiscal 2017, the number of claims decreased as the number of extreme weather incidents decreased.

Exhibit 1
Insurance Claims Processed, Pending, and Closed
Fiscal 2013-2017

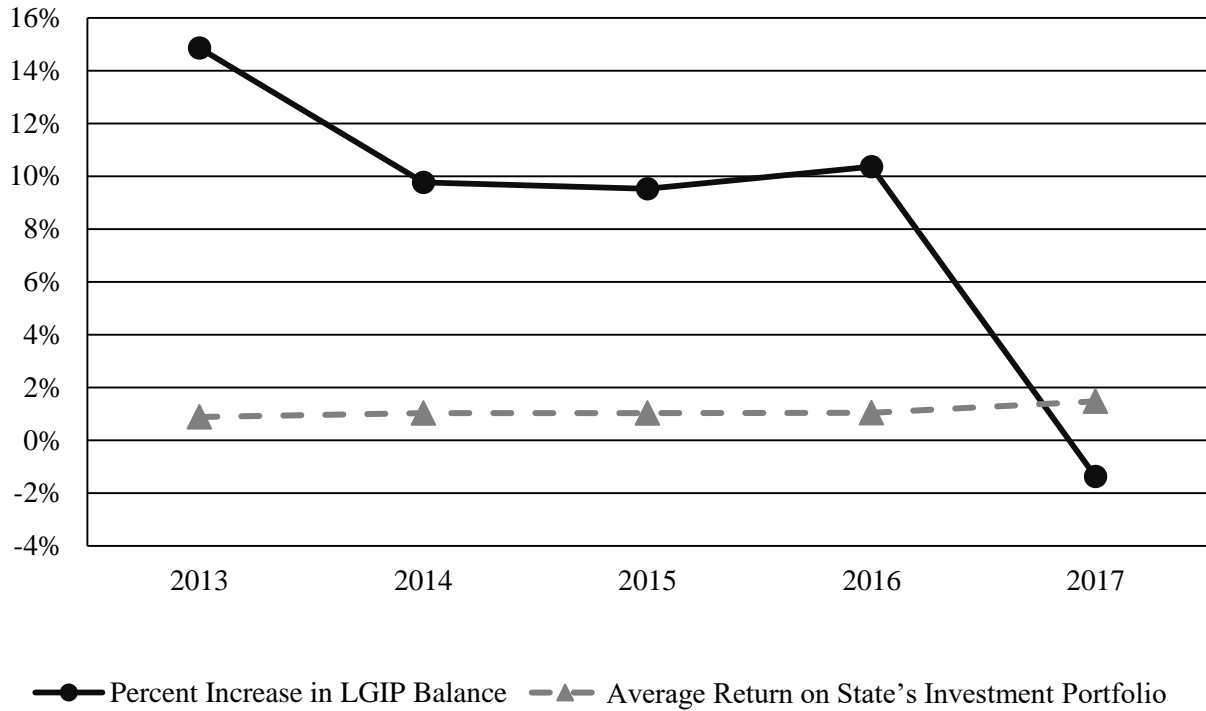


Source: State Treasurer's Office

2. Local Government Investment Pool

Sections 17-301 through 17-309 of the Local Government Article of the Annotated Code of Maryland establish the Maryland Local Government Investment Pool (LGIP) and assigns to STO the responsibility for administering the pool. The pool provides all local government units a safe investment tool for the short-term investment of funds. **Exhibit 2** shows that the balance in the LGIP has increased steadily since fiscal 2013, and this trend was expected to continue. However, in fiscal 2017, there was a notable decrease in the LGIP balance. This is due to the timing of deposits received in the LGIP. In comparing the balances for the same point in time annually, there are some fluctuations in the balance, but there has been an overall increase in monthly average asset size for the investment pool.

Exhibit 2
Local Government Investment Pool Balance
Fiscal 2013-2017



LGIP: Local Government Investment Pool

Source: State Treasurer's Office

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is \$33,032 in general funds and \$3,571 in special funds.

Proposed Budget

As shown in **Exhibit 3**, the adjusted fiscal 2019 allowance has a \$2.1 million decrease from the fiscal 2018 working appropriation.

Exhibit 3 Proposed Budget State Treasurer (\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2017 Actual	\$5,145	\$936	\$35,110	\$41,191
Fiscal 2018 Working Appropriation	5,194	2,206	41,856	49,256
Fiscal 2019 Allowance	<u>5,255</u>	<u>2,601</u>	<u>39,347</u>	<u>47,203</u>
Fiscal 2018-2019 Amount Change	\$61	\$395	-\$2,510	-\$2,053
Fiscal 2018-2019 Percent Change	1.2%	17.9%	-6.0%	-4.2%

Where It Goes:

Personnel Expenses

General salary increase	\$53
Health insurance, primarily due to the fiscal 2018 health insurance deduction holidays ..	37
Reclassifications.....	26
Retirement contributions.....	-15
Other fringe benefit adjustments	-10

Other Changes

Bond sale issuance costs	381
Check printer and servers.....	16
Software maintenance for the old financial system	-42
Bank fees.....	-79
Insurance management support.....	-180
Insurance coverage paid to the State Treasurer's Office.....	-997
Financial Systems Modernization (See Appendix 2)	-1,247
Other.....	4

Total	-\$2,053
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Note: Numbers may not sum to total due to rounding.

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The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is \$52,843. There is also a \$26,000 increase for reclassifications. The reclassifications represent 4 vacant positions that were budgeted at their base salaries and reclassified once staff were hired for the positions.

Financial Systems Modernization

The Financial Systems Modernization project manager was selected through a Request for Proposals process and supports the efforts to find a commercial off-the-shelf system with both the capacity and capabilities necessary for STO's new system. The Microsoft Dynamics system was selected, and as a result of that purchase in fiscal 2018, there is a \$1.2 million decrease in the fiscal 2019 allowance for the project and a \$42,000 decrease for software maintenance costs for the old system.

The new system has been purchased and is currently undergoing a legacy data conversion. While the project is on schedule, the current system is scheduled to become obsolete in December 2018. STO is working to develop multiple contingency plans to ensure that there is no interruption in service while the Microsoft Dynamics modules are being loaded.

Other Changes

There is a \$381,000 increase for bond sale issuance costs. There is also a \$180,000 decrease for insurance management costs and a \$997,000 decrease in costs associated with the insurance coverage paid to STO based on budgeted rates for each State agency.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Current and Prior Year Budgets
State Treasurers Office
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2017					
Legislative Appropriation	\$5,108	\$1,845	\$0	\$35,110	\$42,063
Deficiency Appropriation	30	0	0	0	30
Cost Containment	0	0	0	0	0
Budget Amendments	58	2	0	0	60
Reversions and Cancellations	-51	-911	0	0	-962
Actual Expenditures	\$5,145	\$936	\$0	\$35,110	\$41,191
Fiscal 2018					
Legislative Appropriation	\$5,227	\$2,209	\$0	\$40,336	\$47,772
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	1,520	1,520
Working Appropriation	\$5,227	\$2,209	\$0	\$41,856	\$49,292

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The fiscal 2017 legislative appropriation for the State Treasurer’s Office decreased by \$872,000. General funds increased through budget amendment by \$58,000 with \$54,000 for centrally budgeted salary adjustments and \$4,000 for telecommunications. There was also a \$30,000 deficiency appropriation for financial consulting services to assess bond sale interest rates and refunding policies. These increases were offset by \$51,000 in reverted general funds for unspent bank fees.

The special fund appropriation increased through a budget amendment of \$2,000 for centrally budgeted salary adjustments. This was more than offset by \$911,000 in canceled special funds for lower costs associated with debt issuance.

Fiscal 2018

To date, the fiscal 2018 legislative appropriation has increased by \$1.5 million in reimbursable funds for costs associated with the Financial Systems Modernization project.

Appendix 2
Major Information Technology Projects
State Treasurer
Financial Systems Modernization

Project Status	Implementation.	New/Ongoing Project:	Ongoing.					
Project Description:	IBM has designated an end-of-service date of December 31, 2018, for the current midrange AS400/i5 Treasury Management System (TMS) and Insurance Management System (IMS). The AS400/i5 is the core financial interface system and is critical in ability of the State Treasurer’s Office (STO) to execute the Treasurer’s constitutional and statutory responsibilities to disburse funds as warranted by the Comptroller’s Office. In addition, these systems are used for daily cash flow management and reconciliation functions, automated clearing house and wire transfers for Statewide receipts and disbursements, investment of State funds, daily budget and accounting functions, and overall State Insurance Trust Fund claims management processing and recordkeeping. This project will aim to replace the current system with a server-based TMS and IMS. The solution to replace the core financial system will be a scalable solution that can be leveraged across the State by other agencies. Normalizing the data and solution to a centralized scalable solution will provide greater return on investment and allow for streamlined maintenance.							
Project Business Goals:	Provide modern TMS and IMS to support the critical functions of STO with an emphasis on security and service delivery to constituents.							
Estimated Total Project Cost:	\$5,136,530	Estimated Planning Project Cost:	\$83,280					
Project Start Date:	December 1, 2016.	Projected Completion Date:	2019.					
Schedule Status:	Requirements analysis has been ongoing for over two years. Use cases have been developed. Proof of concepts are being planned for sensitive and critical requirements.							
Cost Status:	This project faces high funding concerns that are typical with projects that are over the target budget requests. However, the risk in not completing this project by 2018 is widely understood. Additionally, concerns over recent pricing changes in the market could significantly impact the project budget.							
Scope Status:	The scope of this project is to provide modern TMS and IMS to support the critical functions of STO with an emphasis on security and service delivery to constituents.							
Project Management Oversight Status:	There is funding budgeted for continued project management.							
Identifiable Risks:	The current system will become obsolete in December 2018, which creates pressure on the completion schedule for the project. The objective is clear and not meeting the objective will have significantly potential consequences beyond 2018.							
Additional Comments:	n/a.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	2,049.3	2,165.2	922.0	0.0	0.0	0.0	0.0	5,136.5
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$2049.3	\$2,165.2	\$922.0	\$0.0	\$0.0	\$0.0	\$0.0	\$5,136.5

**Appendix 3
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 17 Actual</u>	<u>FY 18 Working Appropriation</u>	<u>FY 19 Allowance</u>	<u>FY 18 - FY 19 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
Total Positions	60.00	60.00	60.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 5,883,997	\$ 6,089,444	\$ 6,091,122	\$ 1,678	0%
02 Technical and Spec. Fees	30,213	2,650	4,150	1,500	56.6%
03 Communication	77,994	93,647	83,428	-10,219	-10.9%
04 Travel	30,629	15,090	10,090	-5,000	-33.1%
07 Motor Vehicles	1,949	4,693	2,482	-2,211	-47.1%
08 Contractual Services	3,622,209	7,068,500	6,044,111	-1,024,389	-14.5%
09 Supplies and Materials	230,055	207,256	194,520	-12,736	-6.1%
10 Equipment – Replacement	18,410	148,799	103,692	-45,107	-30.3%
11 Equipment – Additional	6,462	59,062	0	-59,062	-100.0%
13 Fixed Charges	31,289,039	35,603,185	34,616,273	-986,912	-2.8%
Total Objects	\$ 41,190,957	\$ 49,292,326	\$ 47,149,868	-\$ 2,142,458	-4.3%
Funds					
01 General Fund	\$ 5,145,349	\$ 5,226,719	\$ 5,231,464	\$ 4,745	0.1%
03 Special Fund	935,629	2,209,328	2,598,335	389,007	17.6%
09 Reimbursable Fund	35,109,979	41,856,279	39,320,069	-2,536,210	-6.1%
Total Funds	\$ 41,190,957	\$ 49,292,326	\$ 47,149,868	-\$ 2,142,458	-4.3%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

**Appendix 4
Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 - FY 19 % Change</u>
01 Office of the State Treasurer	\$ 6,462,645	\$ 8,944,762	\$ 7,621,912	-\$ 1,322,850	-14.8%
02 Insurance Protection	34,166,986	38,842,564	37,641,956	-1,200,608	-3.1%
03 Bond Sale Expenses	561,326	1,505,000	1,886,000	381,000	25.3%
Total Expenditures	\$ 41,190,957	\$ 49,292,326	\$ 47,149,868	-\$ 2,142,458	-4.3%
General Fund	\$ 5,145,349	\$ 5,226,719	\$ 5,231,464	\$ 4,745	0.1%
Special Fund	935,629	2,209,328	2,598,335	389,007	17.6%
Total Appropriations	\$ 6,080,978	\$ 7,436,047	\$ 7,829,799	\$ 393,752	5.3%
Reimbursable Fund	\$ 35,109,979	\$ 41,856,279	\$ 39,320,069	-\$ 2,536,210	-6.1%
Total Funds	\$ 41,190,957	\$ 49,292,326	\$ 47,149,868	-\$ 2,142,458	-4.3%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.