

**E20B
State Treasurer**

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,968	\$5,162	\$5,237	\$75	1.5%
Adjustments	0	30	-11	-41	
Adjusted General Fund	\$4,968	\$5,192	\$5,227	\$35	0.7%
Special Fund	1,270	1,846	2,211	364	19.7%
Adjustments	0	0	-1	-1	
Adjusted Special Fund	\$1,270	\$1,846	\$2,209	\$363	19.7%
Reimbursable Fund	31,566	40,218	40,336	119	0.3%
Adjusted Reimbursable Fund	\$31,566	\$40,218	\$40,336	\$119	0.3%
Adjusted Grand Total	\$37,804	\$47,256	\$47,772	\$516	1.1%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The adjusted fiscal 2018 allowance increases by \$516,000, or 1.1%, from the adjusted fiscal 2017 working appropriation.
- General funds increase by \$35,000, or 0.7%, after accounting for a \$30,000 fiscal 2017 deficiency appropriation for financial consulting services, and a fiscal 2018 \$11,000 decrease for the across-the-board contingent reduction for a supplemental pension payment.

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

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Personnel Data

	<u>FY 16 Actual</u>	<u>FY 17 Working</u>	<u>FY 18 Allowance</u>	<u>FY 17-18 Change</u>
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	<u>1.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	61.00	60.00	60.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.04	6.73%
Positions and Percentage Vacant as of 12/31/16	5.00	8.33%

- There are no changes in personnel for the State Treasurer’s Office (STO).

Analysis in Brief

Major Trends

State’s Insurance Program: STO predicts that the number of new claims processed will remain relatively steady with the number of claims closed increasing slightly.

Local Government Investment Pool: The Local Government Investment Pool’s fund balance has increased steadily, but the rate at which it increases each year fluctuates.

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, safeguards 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 of Maryland general obligation bond issues and, through the Capital Debt Affordability Committee (CDAC), reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. CDAC 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:

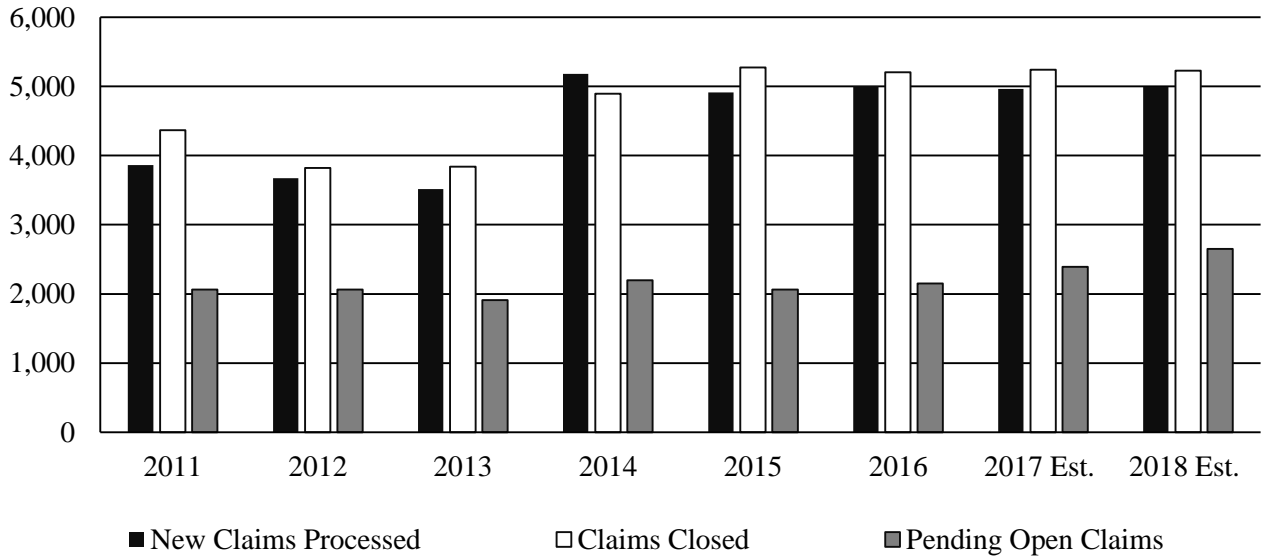
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State’s surplus funds in accordance with State law;
- maintain and enhance the information technology (IT) capability and infrastructure to meet the diverse needs of STO and the agencies it serves; and
- process all agency and third-party claims submitted to the Insurance Division.

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 2011 through estimates for fiscal 2018. STO predicts that the number of new claims processed will remain relatively steady with the number of claims closed increasing slightly. 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.

Exhibit 1
Insurance Claims Pending, Processed, and Closed
Fiscal 2011-2018 Est.

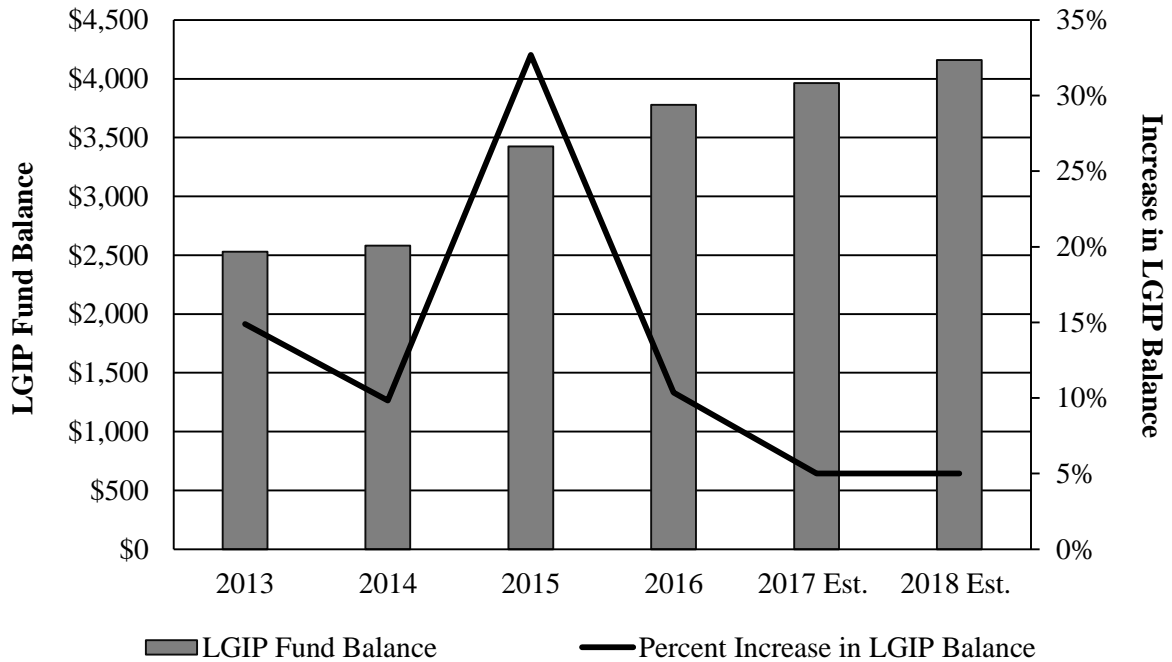


Source: State Treasurer’s Office

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 it is projected to continue this trend. While the fund balance has consistently increased, the rate of the increase has fluctuated over time. Participants in the LGIP change their level of participation for any number of reasons specific to their investment portfolio.

Exhibit 2
LGIP Fund Balance and Percent Increase
Fiscal 2013-2018 Est.
(\$ in Millions)



LGIP: Maryland Local Government Investment Pool

Source: State Treasurer’s Office

Fiscal 2017 Actions

Proposed Deficiency

There is a fiscal 2017 deficiency appropriation of \$30,000 in general funds for financial consulting services in anticipation of increased interest rates in relation to bond sales and refunding policy.

Proposed Budget

As seen in **Exhibit 3**, the fiscal 2018 allowance for the State Treasurer increases by just 1.1% after adjustments for the fiscal 2017 deficiency and contingent reduction. The increase is largely due to \$489,000 for the Financial Systems Modernization project. There is also \$1.6 million in the Major IT Project Development Fund for this initiative. This is a new major IT project in STO that replaces the core financial system currently used. The current system will be obsolete after December 2018. Instead of purchasing a system, STO, in partnership with the Department of Information Technology, determined that the more efficient long-term option is to develop a scalable platform that can meet the needs of STO, as well as many other agencies. The potential modules of the project include insurance management, general ledger, budget management, check management, accounts payable, and purchase order management.

Other major changes include a \$292,000 increase for bond sale expenses largely because of rating agency fees; an \$80,000 increase for a new check printer through the master lease program and new printing supplies; and a \$335,000 decrease in insurance costs paid to STO from other agencies. Insurance costs decrease because the estimated cost of insurance coverage in fiscal 2018 is less than fiscal 2017.

**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 2016 Actual	\$4,968	\$1,270	\$31,566	\$37,804
Fiscal 2017 Working Appropriation	5,192	1,846	40,218	47,256
Fiscal 2018 Allowance	<u>5,227</u>	<u>2,209</u>	<u>40,336</u>	<u>47,772</u>
Fiscal 2017-2018 Amount Change	\$35	\$363	\$119	\$516
Fiscal 2017-2018 Percent Change	0.7%	19.7%	0.3%	1.1%

Where It Goes:

Personnel Expenses

Turnover adjustments	\$27
Employee and retiree health insurance	15
Retirement.....	13
Salaries and other compensation.....	-73

E20B – State Treasurer

Where It Goes:

Other Changes

Financial Systems Modernization project.....	489
Bond Sale Expenses.....	292
New check printer and printing supplies	80
Communications	15
Miscellaneous adjustments	-7
Insurance coverage	-335
Total	\$516

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

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 2016					
Legislative Appropriation	\$4,997	\$2,021	\$0	\$37,327	\$44,345
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	51	4	0	0	55
Reversions and Cancellations	-81	-755	0	-5,760	-6,596
Actual Expenditures	\$4,968	\$1,270	\$0	\$31,566	\$37,804
Fiscal 2017					
Legislative Appropriation	\$5,108	\$1,845	\$0	\$40,218	\$47,171
Cost Containment	0	0	0	0	0
Budget Amendments	54	2	0	0	56
Working Appropriation	\$5,162	\$1,846	\$0	\$40,218	\$47,226

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The fiscal 2016 legislative appropriation for the State Treasurer’s Office increased by \$55,364 through budget amendments. General funds increased by \$51,364 with \$42,000 to restore a 2% pay reduction and \$9,364 for telecommunications. There was \$80,772 in reversions to the General Fund for unspent bank fees.

The special fund appropriation increased by \$4,000 by budget amendments for the restoration of the 2% pay reduction. There was \$754,563 in canceled special funds for lower costs associated with debt issuance.

The reimbursable fund appropriation decreased by \$5.8 million in canceled funds due to lower than anticipated insurance costs.

Fiscal 2017

To date, the fiscal 2017 legislative appropriation increased by budget amendment \$55,619 for statewide salary adjustments, including \$54,038 in general funds and \$1,581 in special funds.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	August 30, 2012 – August 24, 2015
Issue Date:	September 2016
Number of Findings:	4
Number of Repeat Findings:	1
% of Repeat Findings:	25%
Rating: (if applicable)	n/a

Finding 1: **The State Treasurer’s Office (STO) has still not resolved longstanding contract issues involving oversight of claims processing services for workers’ compensation claims provided by the Injured Workers’ Insurance Fund. For example, STO has not implemented certain recommendations made by the Maryland Insurance Administration that were intended to safeguard the State’s financial interests.**

Finding 2: STO did not transfer excess funds totaling \$3.9 million from the State’s Unpresented Check Fund to the General Fund at the end of fiscal 2015, as required by State law.

Finding 3: Sensitive personally identifiable information was not properly protected by STO.

Finding 4: STO did not have a comprehensive information technology disaster recovery plan for recovering its computer operations from a disaster scenario.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Major Information Technology Projects
State Treasurer
Financial Systems Modernization

Project Status	Planning.	New/Ongoing Project:	New.					
Project Description:	The State Treasurer’s Office (STO) must replace the core financial interface and insurance management system with a modern system. The current system will not be serviced beyond December 2018. The solution to replace the core financial system will be a scalable solution that can be leveraged across the State by other agencies.							
Project Business Goals:	Provide modern Treasury Management Systems and Insurance Management Systems to support the critical functions of STO with an emphasis on security and service delivery to constituents.							
Estimated Total Project Cost:	\$3,565,000	Estimated Planning Project Cost:	\$105,750					
Project Start Date:	December 1, 2016.	Projected Completion Date:	December 31, 2018.					
Schedule Status:	Project is currently on schedule to replace the current system before the serve end date.							
Cost Status:	Costs are currently on target.							
Scope Status:	n/a.							
Project Management Oversight Status:	A project manager has been identified.							
Identifiable Risks:	There are 11 identified risks with 3 high risks. The possibility of not meeting the objectives, resistance to the new interface from other agencies, and implementation were all identified as high risks for the project.							
Additional Comments:	n/a							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Balance to Complete	Total
Personnel Services	\$0.0	\$2,115.0	\$1,450.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3,565.0
Professional and Outside Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$0.0	\$2,115.0	\$1,450.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3,565.0

**Appendix 4
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
02 Contractual	1.00	0.00	0.00	0.00	0.0%
Total Positions	61.00	60.00	60.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 5,419,155	\$ 6,107,054	\$ 6,101,481	-\$ 5,573	-0.1%
02 Technical and Spec. Fees	46,479	1,650	2,650	1,000	60.6%
03 Communication	87,817	78,312	93,647	15,335	19.6%
04 Travel	34,351	13,250	15,090	1,840	13.9%
07 Motor Vehicles	2,371	4,580	4,693	113	2.5%
08 Contractual Services	3,901,997	4,860,967	5,668,625	807,658	16.6%
09 Supplies and Materials	143,786	160,497	207,256	46,759	29.1%
10 Equipment – Replacement	149,270	57,837	87,861	30,024	51.9%
11 Equipment – Additional	10,680	0	0	0	0.0%
13 Fixed Charges	28,008,415	35,942,007	35,603,185	-338,822	-0.9%
Total Objects	\$ 37,804,321	\$ 47,226,154	\$ 47,784,488	\$ 558,334	1.2%
Funds					
01 General Fund	\$ 4,967,937	\$ 5,162,041	\$ 5,237,456	\$ 75,415	1.5%
03 Special Fund	1,270,055	1,846,336	2,210,628	364,292	19.7%
09 Reimbursable Fund	31,566,329	40,217,777	40,336,404	118,627	0.3%
Total Funds	\$ 37,804,321	\$ 47,226,154	\$ 47,784,488	\$ 558,334	1.2%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 5
Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY16 Actual</u>	<u>FY17 Working Appropriation</u>	<u>FY18 Allowance</u>	<u>Change</u>	<u>FY17-FY18 % Change</u>
01 Office of The State Treasurer	\$ 6,311,989	\$ 6,909,122	\$ 7,436,924	\$ 527,802	7.6%
02 Insurance Protection	30,714,224	39,133,532	38,842,564	-290,968	-0.7%
03 Bond Sale Expenses	778,108	1,183,500	1,505,000	321,500	27.2%
Total Expenditures	\$ 37,804,321	\$ 47,226,154	\$ 47,784,488	\$ 558,334	1.2%
General Fund	\$ 4,967,937	\$ 5,162,041	\$ 5,237,456	\$ 75,415	1.5%
Special Fund	1,270,055	1,846,336	2,210,628	364,292	19.7%
Total Appropriations	\$ 6,237,992	\$ 7,008,377	\$ 7,448,084	\$ 439,707	6.3%
Reimbursable Fund	\$ 31,566,329	\$ 40,217,777	\$ 40,336,404	\$ 118,627	0.3%
Total Funds	\$ 37,804,321	\$ 47,226,154	\$ 47,784,488	\$ 558,334	1.2%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.