

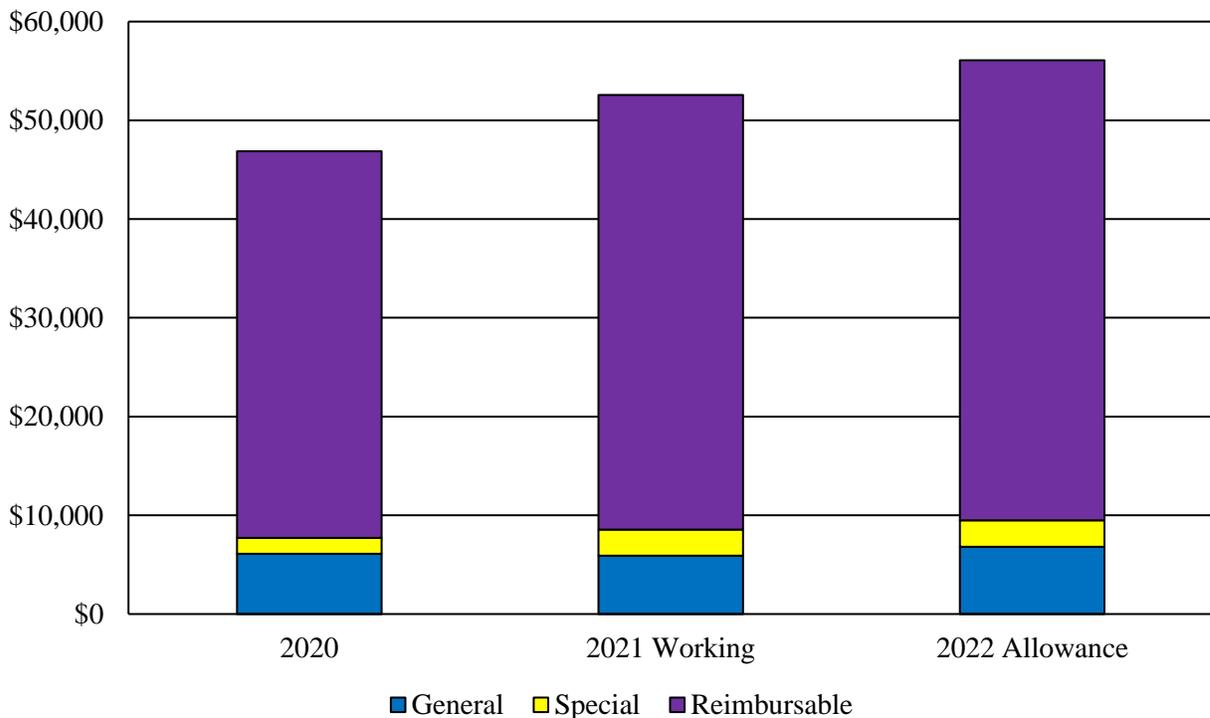
E20B State Treasurer

Program Description

The State Treasurer has authority over the investment, disbursement, and management of State funds. Specifically, the State Treasurer’s Office (STO) is responsible for the daily cash management of State funds through reconciling of receipts and disbursements, managing the State’s investment portfolio, selecting financial institutions to serve as depositories for State funds, procuring banking and financial services for State agencies, and coordinating the State’s general obligation debt functions for the Board of Public Works (BPW). Additionally, the office’s Insurance Division manages the State’s Insurance Program.

Operating Budget Summary

Fiscal 2022 Budget Increases \$3.5 Million, or 6.7%, to \$56.1 Million



Note: The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions and annualization of general salary increases.

Fiscal 2021

Proposed Deficiency

There is a proposed fiscal 2021 deficiency appropriation of \$72,480 for the Treasury Management Division in order to fund interest owed pursuant to the federal Cash Management Improvement Act.

Cost Containment

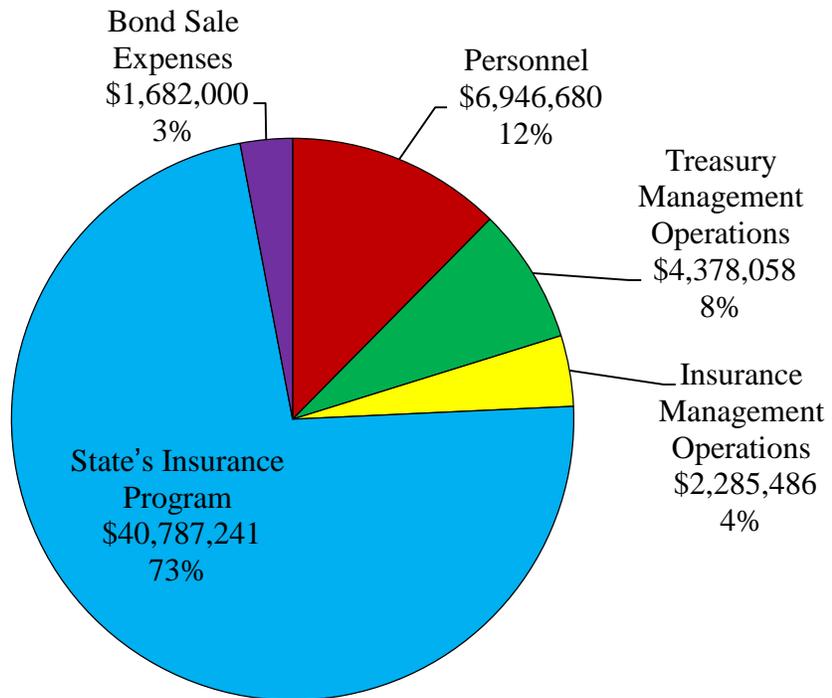
During its July 1, 2020 meeting, BPW approved a cut of \$483,682 in general funds and \$812 in special funds due to anticipated cost savings from the new statewide depository banking contract as well as from the holding open of a vacant position.

Fiscal 2022 Overview of Agency Spending

As shown in **Exhibit 1**, the adjusted fiscal 2022 allowance for STO is \$56,079,000. The majority of the budget consists of the State's Insurance Program, which is funded by reimbursable fund payments from other state agencies. The State Insurance Trust Fund is maintained by the State Treasurer to pay claims and the costs associated with handling those claims. The State's Insurance Program makes up 73%, or \$40,787,241, of the fiscal 2022 allowance.

The remaining 27% of the agency's budget consists of personnel and operating expenses for the Treasury Management Division, Insurance Management Division, and bond sale expenses. Regular and contractual personnel expenses make up \$6,946,680, or 12%, of the budget and support 40 regular positions and a 0.5 contractual full-time equivalent position in the Treasury Management Division and 20 positions in the Insurance Management Division. Operating expenses for the Treasury Management Division total \$4,378,058, or 8%, of the budget, and operating expenses for the Insurance Management Division total \$2,285,486, or 4%, of the budget. Bond sale expenses related to the issuance and sale of general obligation debt total \$1,682,000, or 3%, of the budget.

Exhibit 1
Overview of Agency Spending
Fiscal 2022 Allowance



Note: The fiscal 2022 allowance includes contingent reductions and annualization of general salary increases.

Source: Governor's Fiscal 2022 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, the adjusted fiscal 2022 allowance increases by \$3,503,000, or 6.7%, from the fiscal 2021 working appropriation. The largest change is an increase of \$2,039,391 in insurance coverage payments by the Treasurer and other State agencies to the State's Insurance Program. Additionally, contractual services for software licensing and programming also increase by \$1,402,337 following the end of funding for the Financial Systems Modernization (FSM) major information technology development project. These costs are for ongoing agency enhancements and continued maintenance of the new system.

Exhibit 2
Proposed Budget
State Treasurer
(\$ in Thousands)

How Much It Grows:	<u>General</u>	<u>Special</u>	<u>Reimbursable</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Fiscal 2020 Actual	\$6,105	\$1,617	\$39,149	\$46,872
Fiscal 2021 Working Appropriation	5,901	2,651	44,025	52,577
Fiscal 2022 Allowance	<u>6,810</u>	<u>2,680</u>	<u>46,589</u>	<u>56,079</u>
Fiscal 2021-2022 Amount Change	\$909	\$30	\$2,565	\$3,503
Fiscal 2021-2022 Percent Change	15.4%	1.1%	5.8%	6.7%
Where It Goes:				<u>Change</u>
Personnel Expenses				
Turnover adjustments.....				\$128
Annual salary review				122
Fiscal 2022 costs of January 1, 2021 2% general salary increase.....				84
Other fringe benefit adjustments.....				8
Employee retirement system contributions.....				-38
Employee and retiree health insurance				-38
Regular salaries and reclassification				-64
Other Changes				
Insurance coverage.....				2,039
Software programming				1,079
Software licensing.....				323
Contractual personnel, including additional 0.5 FTE position				26
Other				-45
Capital lease payments.....				-49
Deficiency for Treasury Management				-72
Total				\$3,503

Note: Numbers may not sum to total due to rounding. The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions and annualization of general salary increases.

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The first phase of the new system went live in June 2020. Final system enhancements and the transition away from dependence on the i5 servers are scheduled through the end of fiscal 2021. Some functionality, including the online public portal for filing insurance claims and searching for undelivered checks, is already available; the State agency portal and banking check register are scheduled for completion by the end of fiscal 2021. Further system security enhancements are also scheduled for completion by the end of the fiscal year.

Final completion of the FSM project has been dependent upon the completion of the transition of statewide depository banking services and has been impacted by challenges resulting from the COVID-19 pandemic. Delays to the project as a result of these issues were reported to DoIT as a part of regular monthly reporting and monitoring.

Personnel Data

	<u>FY 20 Actual</u>	<u>FY 21 Working</u>	<u>FY 22 Allowance</u>	<u>FY 21-22 Change</u>
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	<u>0.50</u>	<u>0.00</u>	<u>0.50</u>	<u>0.50</u>
Total Personnel	60.50	60.00	60.50	0.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.11	6.85%
Positions and Percentage Vacant as of 12/31/20	11.00	18.33%
Vacancies Above Turnover	6.89	

- The fiscal 2022 allowance includes an additional 0.5 contractual full-time equivalent position for a Treasury Specialist position in the Treasury Management Division.

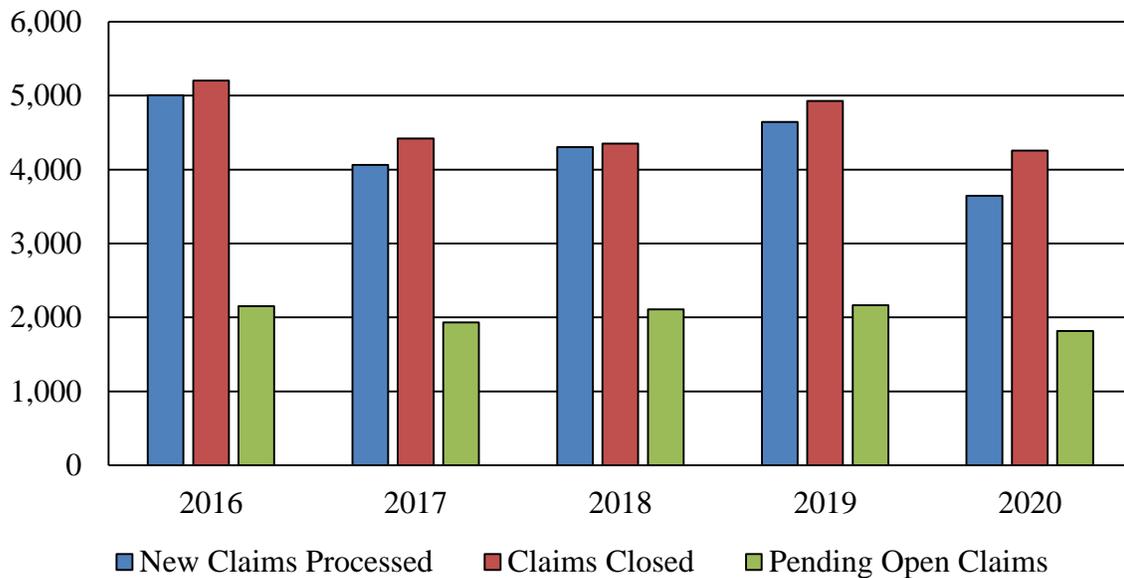
Key Observations

1. State’s Insurance Program

STO is responsible for administering the State’s Insurance Program, which is comprised of both commercial and self-insurance that cover catastrophic property and liability losses as well as other obligations derived from State contracts, statutes, and regulations. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act. The State Insurance Trust Fund is maintained by STO to pay claims filed against the State, its agencies, and employees and the costs associated with handling these claims.

As shown in **Exhibit 3**, in fiscal 2020, there were 3,646 new claims processed, 4,258 claims closed, and 1,817 pending open claims. The total number of claims filed can fluctuate from year to year, depending on various factors such as instances of severe weather or other property loss events and other instances where the State is held liable for damages. New claims processed, closed, and pending open claims all decreased in fiscal 2020.

Exhibit 3
Insurance Claims Processed, Closed, and Pending
Fiscal 2016-2020

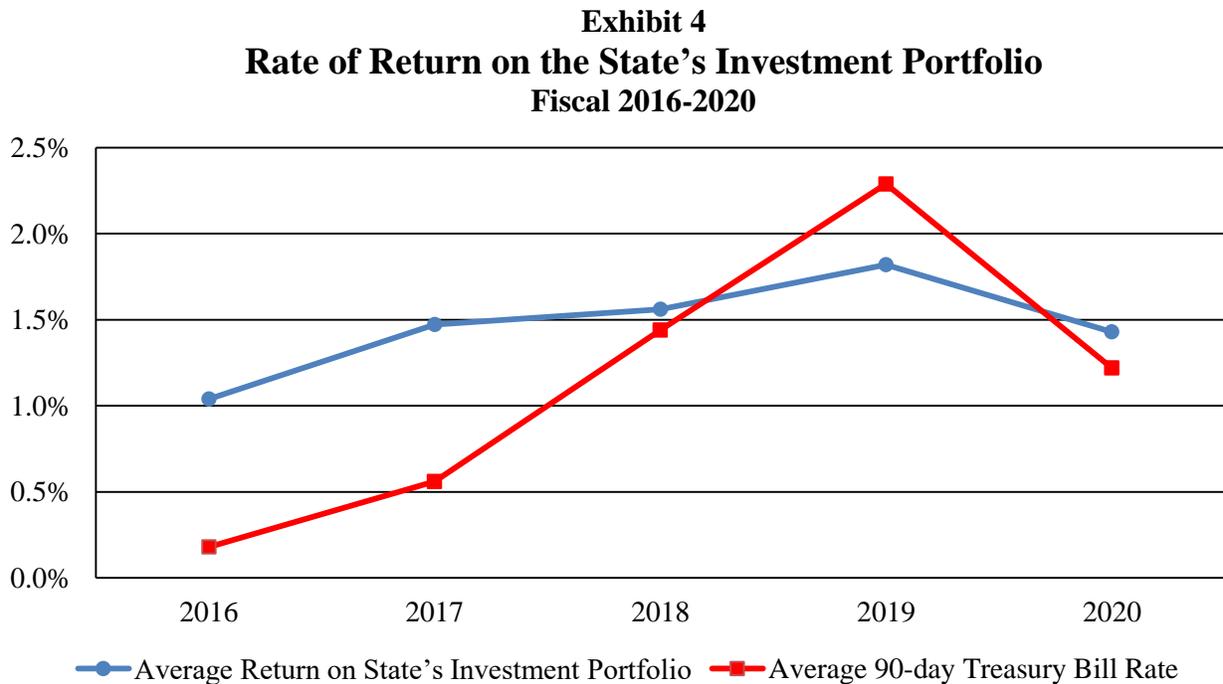


Source: State Treasurer’s Office

Insurance coverage costs have continued to increase in fiscal 2022, following steady increases in premiums in previous years. This can be attributed to a general hardening of the insurance market but is also due to the deteriorating condition of many State-owned facilities and a general lack of maintenance and renewal efforts, which directly impact the rates that the State pays for insurance. This has negatively impacted the State’s loss history, resulting in increased claims related to property damage and torts for personal injury and death. For the State’s private insurance coverage, stricter underwriting criteria and a tightening insurance market have led some carriers to be more reluctant to underwrite the risks inherent to State-owned assets, and to increase premiums and deductibles. Additionally, the total value of State assets, as well as the location of various properties at a higher risk for weather related damage, have also impacted insurance rates for private coverage.

2. State’s Investment Portfolio Earnings

The Treasury Management Division’s Investment Department is responsible for the investment of unexpended State funds that are temporarily idle between the time revenue is collected and budgeted amounts are disbursed. Section 6-222 of the State Finance and Procurement Article governs the types of investments that may be made, and the State Treasurer’s Investment Policy provides additional guidance. Investments are typically short term and designed to meet the cash flow needs of the State. **Exhibit 4** compares the average rate of return on the State’s investment portfolio to the average 90-day U.S. Treasury Bill rate.



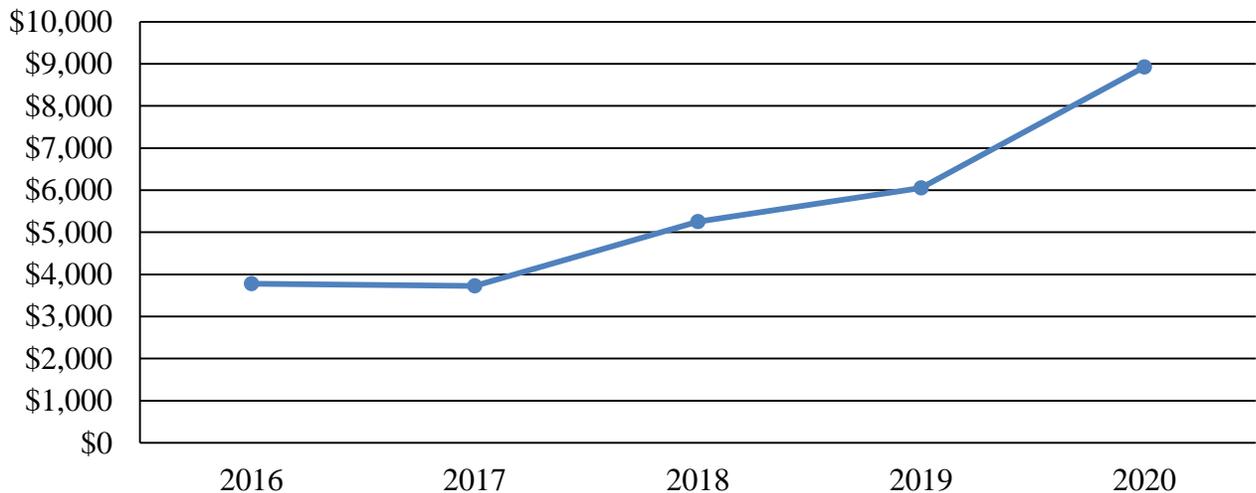
Source: State Treasurer’s Office

The State’s investment portfolio has slightly outperformed the U.S. Treasury Bill rate in each year, except for fiscal 2019. In fiscal 2019, due to increases to the federal funds rate reflecting the strength of the economy at the time, the average return on the State’s investment portfolio increased to 1.82%, and the 90-Day U.S. Treasury Bill rate increased to 2.29%. However, during the later months of fiscal 2020, averages for both rates began to decline due to decreases in the federal funds rate reflecting the negative economic impacts of the COVID-19 pandemic. Rates decreased to 1.43% and 1.22%, respectively, and are projected to continue to decrease sharply in fiscal 2021 to between 0.1% and 0.2%.

3. Maryland Local Government Investment Pool Fund Balance

The State Treasurer is responsible for administering the Maryland Local Government Investment Pool (LGIP), which is defined by Title 17, Subtitle 3 of the Local Government Article. The purpose of LGIP is to provide units of local government a safe investment tool for the short-term investment of funds. Participants benefit from professional money management, a diversified portfolio, and reduced investment costs. The fund is currently rated AAAm by Standard and Poor’s, which is their highest rating. As shown in **Exhibit 5**, the fund balance increased to over \$8.9 billion in fiscal 2020. The average rate of return for the fund was 1.49% in fiscal 2020, down from 2.27% in the previous fiscal year.

Exhibit 5
Maryland Local Government Investment Pool Fund Balance
Fiscal 2016-2020
(\$ in Millions)



Source: State Treasurer’s Office

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The fund saw noticeable increases in investment activity by local units of government beginning in the later months of fiscal 2020 due to the economic impacts of the COVID-19 pandemic. Primarily, due to increased economic uncertainty, units of local government have needed to move funds to more short term and more liquid investments, such as LGIP, in order to better meet their cash flow needs and unexpected expenses before reinvesting in longer term, higher yield investments once the economy stabilizes. The LGIP fund balance also increased in fiscal 2020 due to the investment of excess cash on hand by many entities, resulting in part from other investments in their portfolios being called early prior to their maturity date as the federal funds rate decreased.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- ***Transition of Statewide Depository Banking Services:*** STO is nearing completion of transitioning the State’s depository banking services in accordance with the new statewide depository banking service contract. The project was in its final phases in March 2020, but its full completion has been delayed due to the COVID-19 pandemic. The transition requires depository banking accounts for all State agencies to be transitioned to Wells Fargo, a process that has been extensive and has ranged in complexity based on the number of accounts and deposits and the individual accounting practices of each agency.

Some agencies experienced delays in spring 2020 relating to the delivery and setup of the scanners and equipment necessary to implement remote deposit capture technology. However, these delays were ultimately resolved, and all State agencies now have scanners to use to deposit checks electronically. Another remaining step in the transition process is for STO to finalize entry into a contract for armored courier services for certain State agencies that have large amounts of cash that need to be deposited but are not physically located near a bank branch. The final step in the transition process is the closing of the remaining incumbent bank accounts. This has now been done for most agencies, except for a few remaining agencies with complex and unique banking requirements.

**Appendix 1
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 20 Actual</u>	<u>FY 21 Working Appropriation</u>	<u>FY 22 Allowance</u>	<u>FY 21 - FY 22 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
02 Contractual	0.50	0.00	0.50	0.50	N/A
Total Positions	60.50	60.00	60.50	0.50	0.8%
Objects					
01 Salaries and Wages	\$6,401,095	\$6,683,543	\$6,679,414	-\$4,129	-0.1%
02 Technical and Spec. Fees	15,124	6,500	32,118	25,618	394.1%
03 Communication	27,704	36,485	35,797	-688	-1.9%
04 Travel	14,699	10,002	10,002	0	0%
07 Motor Vehicles	3,687	2,630	2,630	0	0%
08 Contractual Services	7,649,212	6,623,284	7,978,504	1,355,220	20.5%
09 Supplies and Materials	184,934	203,371	204,302	931	0.5%
10 Equipment – Replacement	126,280	126,815	78,114	-48,701	-38.4%
13 Fixed Charges	32,448,914	38,782,200	40,823,436	2,041,236	5.3%
Total Objects	\$46,871,649	\$52,474,830	\$55,844,317	\$3,369,487	6.4%
Funds					
01 General Fund	\$6,105,452	\$5,802,363	\$6,683,010	\$880,647	15.2%
03 Special Fund	1,616,775	2,647,909	2,661,952	14,043	0.5%
09 Reimbursable Fund	39,149,422	44,024,558	46,499,355	2,474,797	5.6%
Total Funds	\$46,871,649	\$52,474,830	\$55,844,317	\$3,369,487	6.4%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or annualization of the general salary increase.