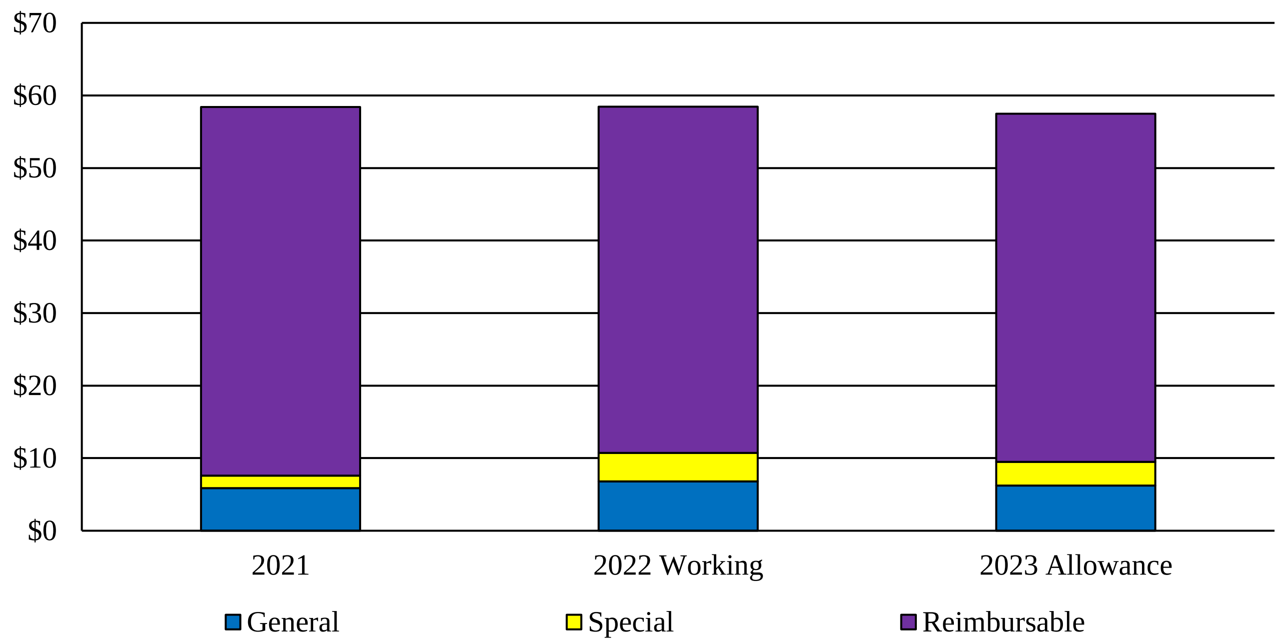
E20B
State Treasurer

Program Description

The State Treasurer is responsible for the management and protection of State funds and property, which involves the receipt, disbursement, protection, and investment of State funds. The State Treasurer is an ex officio member of the Board of Public Works (BPW), State Retirement and Pension System Board of Trustees, Capital Debt Affordability Committee, and other committees. The State Treasurer's Office (STO) has a Treasury Management Division that provides banking and investment services to protect, receive, disburse, and invest the State's cash balances. The Insurance Division manages claims against the State in accordance with the Maryland Tort Claims Act (MTCA). The Debt Management Division manages bond sales and the master lease program and also directs State debt by advising policies to minimize borrowing costs and maintain the State's credit rating.

Operating Budget Summary

Fiscal 2023 Budget Decreases $972,525, or 1.7%, to $57.5 Million
($ in Millions)



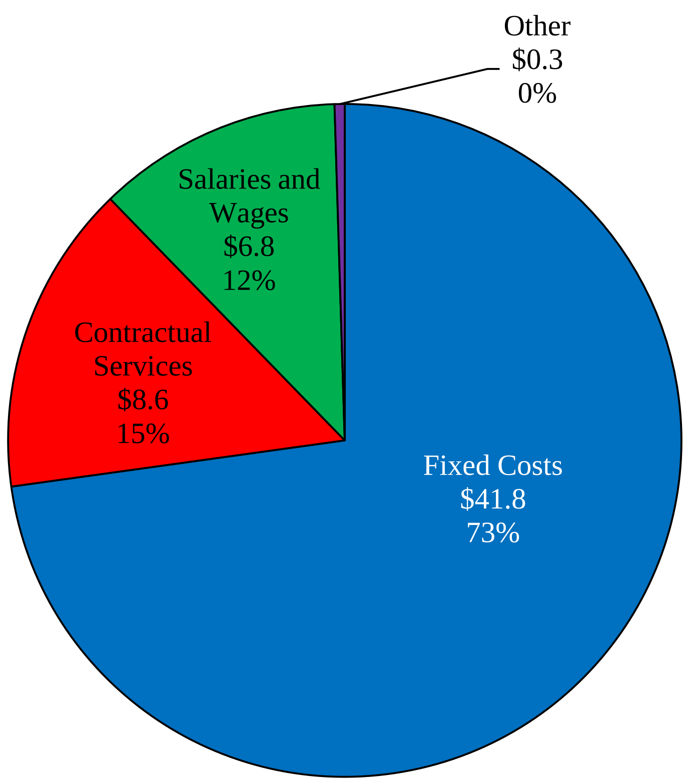
Note: The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

For further information contact: Patrick S. Frank Phone: (410) 946-5530

Fiscal 2023 Overview of Agency Spending

Exhibit 1 shows that over 99% of STO spending supports fixed costs, contracts, and salaries and wages. Fixed costs are almost exclusively attributable to insurance premiums and payouts. Contractual services support such activities as developing the financial systems modernization major information technology (IT) project (which is discussed in more detail in **Appendix 1**), software applications, banking and investment services, and State general obligation (GO) bond sales.

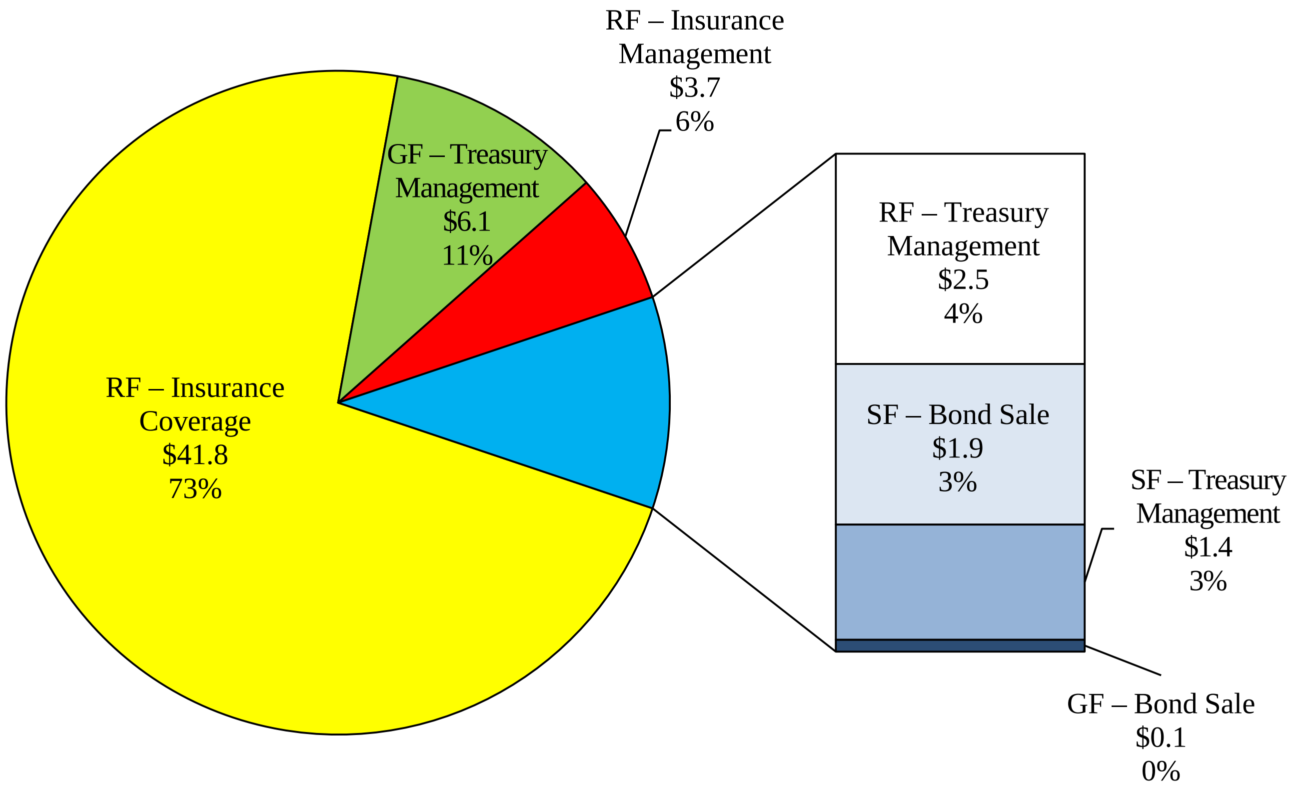
Exhibit 1
Overview of Agency Spending
Fiscal 2023 Allowance
($ in Millions)



Source: Governor's Fiscal 2023 Budget Books

Exhibit 2 shows that the source of seven out of every eight dollars spent by STO is reimbursable funds from State agencies. The State's Insurance Program is 79% of the STO budget (73% in premiums and payouts and 6% administration). Another 4% of the budget provides banking and other services for State agencies for which STO receives funds equivalent to the cost of providing those services. About 11% of the budget is supported by general funds. This is for treasury management ($6.1 million) and GO bond sale expenses ($140,000). Special fund revenues are realized from GO bond sales to support the issuance of bonds and investment fees to offset general funds supporting treasury management.

Exhibit 2
Overview of Agency Revenues
Fiscal 2023 Allowance
($ in Millions)



GF: general funds
RF: reimbursable funds
SF: special funds

Source: Governor's Fiscal 2023 Budget Books

Proposed Budget Change

Exhibit 3 provides details about anticipated changes in the fiscal 2023 allowance, which is approximately $973,000 less than the fiscal 2022 working appropriation. The largest changes to the fiscal 2023 budget relate to the major IT project and premiums for the State's Insurance Program. With respect to IT, savings totaling almost $1.7 million are attributable to software application and programming costs that will not be needed in the treasury and insurance management programs in fiscal 2023 as more modules of the new Financial Systems Modernization project are implemented. While the STO budget shows a decline in fiscal 2023 costs for the modernization project, the Department of Information Technology (DoIT) has $2.6 million in general funds that are expected to be transferred to this project as reimbursable funds. This project is discussed in more detail in Appendix 1.

Exhibit 3
Proposed Budget
State Treasurer
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimbursable Fund	Total
Fiscal 2021 Actual	$5,884	$1,710	$50,826	$58,419
Fiscal 2022 Working Appropriation	6,813	3,919	47,717	58,449
Fiscal 2023 Allowance	6,222	3,286	47,969	57,477
Fiscal 2022-2023 Amount Change	-$591	-$633	$251	-$973
Fiscal 2022-2023 Percent Change	-8.7%	-16.1%	0.5%	-1.7%

Where It Goes:	Change
Personnel Expenses	
Turnover adjustments	$59
Employee retirement contribution	9
Reclassifications	-13
Other salary and fringe benefit adjustments	-83
Employee and retiree health insurance	-125
Other Changes	
Insurance coverage premiums	1,011
Bond sale expenses supporting potential additional sales	272
Other changes in contractual services	143
General funds to support financial advisor review of public debt issues	100
Other	-9

Where It Goes:	**Change**
Statewide capital lease program	-48
Development costs for new Financial System Modernization major IT project	-620
Software applications and programming changes attributable to implementing new Financial System Modernization major IT project	-1,669
Total	**-$973**

IT: information technology

Note: Numbers may not sum to total due to rounding. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Statewide insurance premiums are budgeted to increase by just over $1 million in fiscal 2023. The increase is necessary to bring the fund balance above the actuarially recommended amount, following declines in fund balances since fiscal 2020. The Insurance Program is discussed in more detail in the Key Observations section of the analysis.

Personnel Data

	FY 21 Actual	FY 22 Working	FY 23 Allowance	FY 22-23 Change
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	0.75	0.50	0.00	-0.50
Total Personnel	**60.75**	**60.50**	**60.00**	**-0.50**

Vacancy Data: Regular Positions

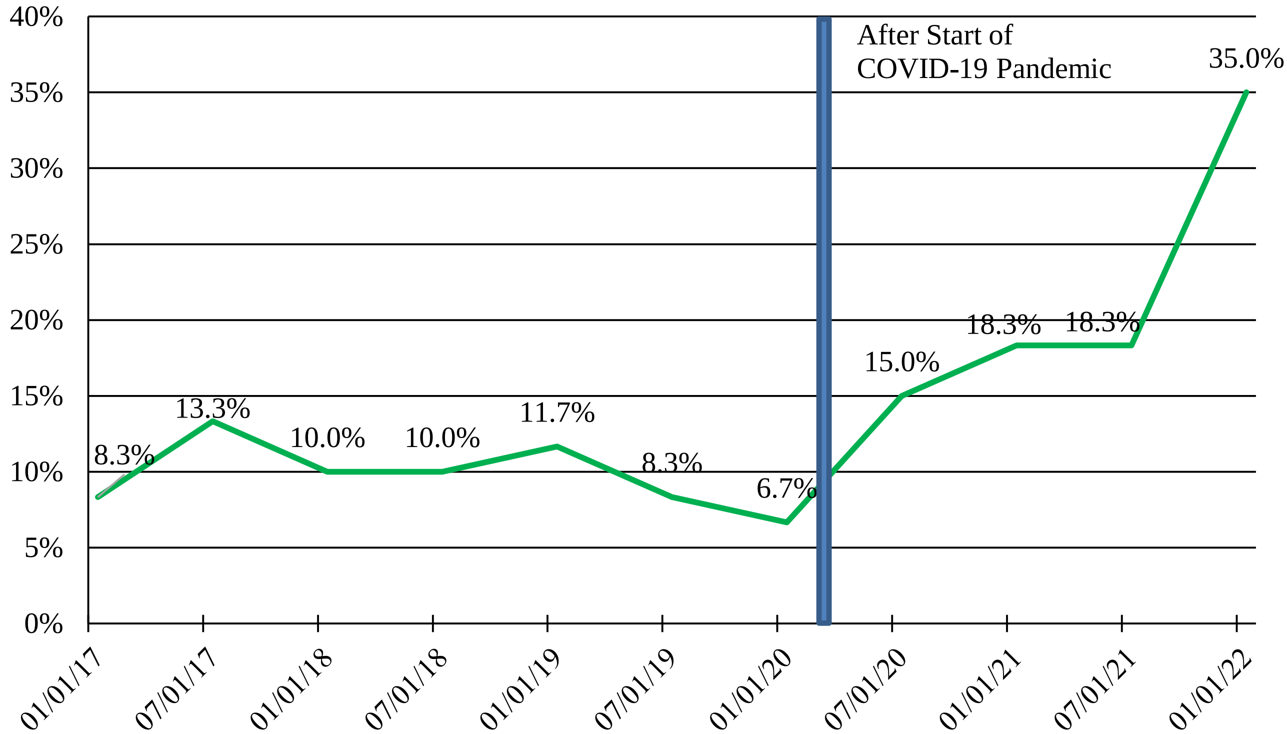
Turnover and Necessary Vacancies, Excluding New Positions		3.61	6.01%
Positions and Percentage Vacant as of 12/31/21		21.00	35.00%
Vacancies Above (Below) Turnover		17.39	

- The fiscal 2022 working appropriation includes an additional 0.5 contractual full-time equivalent position for a treasury specialist position in the Treasury Management Division that is not in the fiscal 2023 allowance.

Vacancy Rates Have Increased During the COVID-19 Pandemic

As in other State agencies, vacancies in STO are quite high. **Exhibit 4** shows snapshots of vacancy rates at the beginning and middle of each fiscal year since fiscal 2018. Before the pandemic, the vacancy rate ranged between 6.7% and 13.3%; since the beginning of the pandemic, 15% is the lowest vacancy rate.

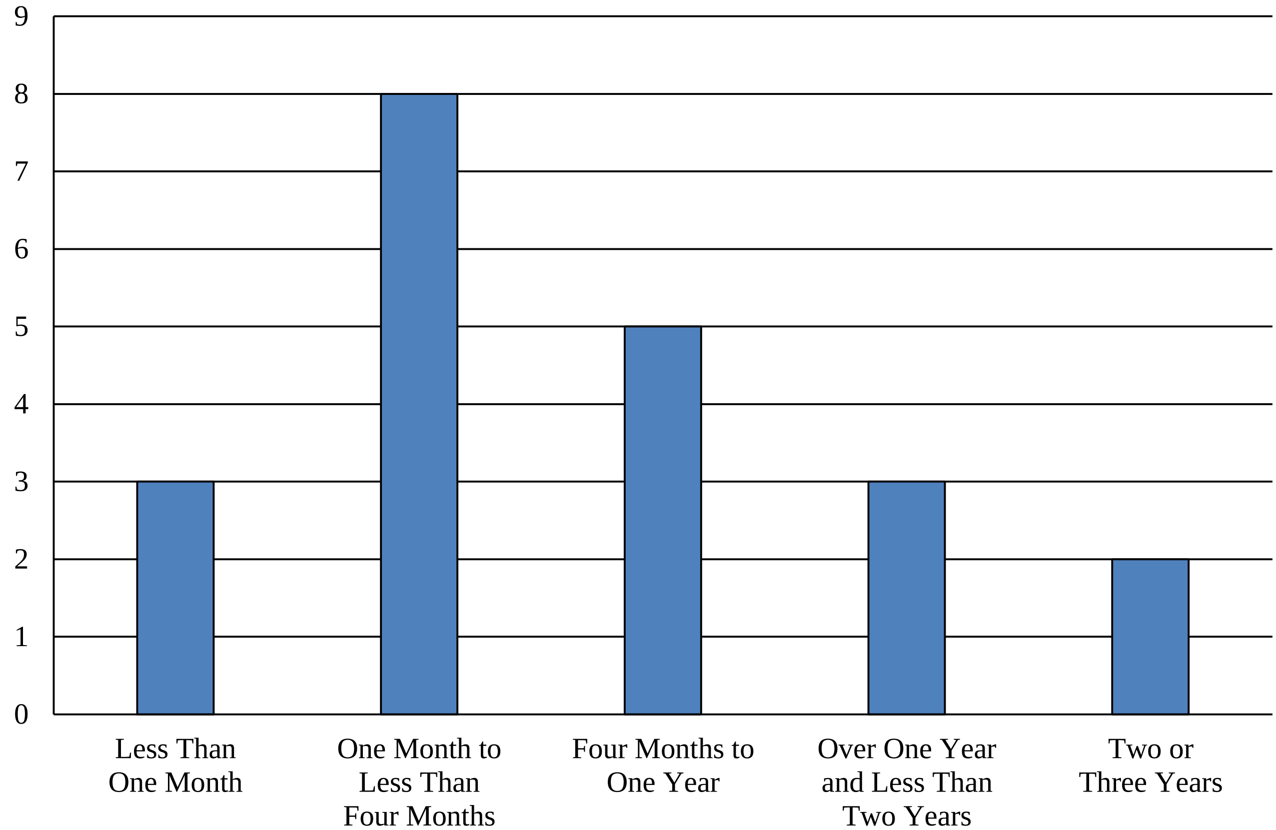
Exhibit 4
Vacancy Rates at the State Treasurer's Office
January 2017 to January 2022



Source: Department of Budget and Management

Vacancies are currently high, in part, due to the retirement of State Treasurer Nancy K. Kopp in December 2021. This contributed to the retirement of several senior executives. **Exhibit 5** shows that 11 of the 21 vacancies as of January 1, 2022, were for positions that became vacant in the last four months of calendar 2021. Five positions were vacant for longer than one year.

Exhibit 5
Vacant Positions by Months Vacant
As of January 1, 2022



Source: Department of Budget and Management

Exhibit 6 shows that 4 of 8 positions in the Executive Pay Plan were vacant on January 1, 2022. Some of these positions have since been filled. The exhibit also shows especially high vacancies in positions that are grades 16 to 20, with all groups of positions having at least 20% of their positions vacant. High vacancies have affected almost all areas of STO operations, which suggests that the reasons for high vacancies may be attributable to several different factors. A major initiative in STO is the financial systems modernization major IT project. This is a critical project that will be used by most of the office, including for key operations like managing investments and insurance claims. This project has been delayed in part due to staffing changes and vacancies. While several components have been implemented successfully, the project delays highlight the importance of staffing. **The State Treasurer should consider reviewing the office's personnel policies to determine what actions can be taken to reduce vacancies across the office.**

Exhibit 6
Vacancies by Grade
January 1, 2022

	Minimum Salary	Maximum Salary	Positions	Vacant	Percent Vacant	Common Vacant Positions
Grades 10 to 15	$41,612	$66,366	13	3	23.1%	Casualty Claims Adjuster, Treasury Specialist IV
Grades 16 to 20	47,881	99,103	21	10	47.6%	Procurement Officer III, Accountant Advanced
Grades 21 to 26	70,280	149,500	18	4	22.2%	Treasury Specialist VII, IT Assistant Director
Executive Pay Plan	87,555	190,387	8	4	50.0%	Directors, Chief Deputy Treasurer
Total			**60**	**21**	**35.0%**	

Source: Department of Budget and Management

Key Observations

1. State's Insurance Program

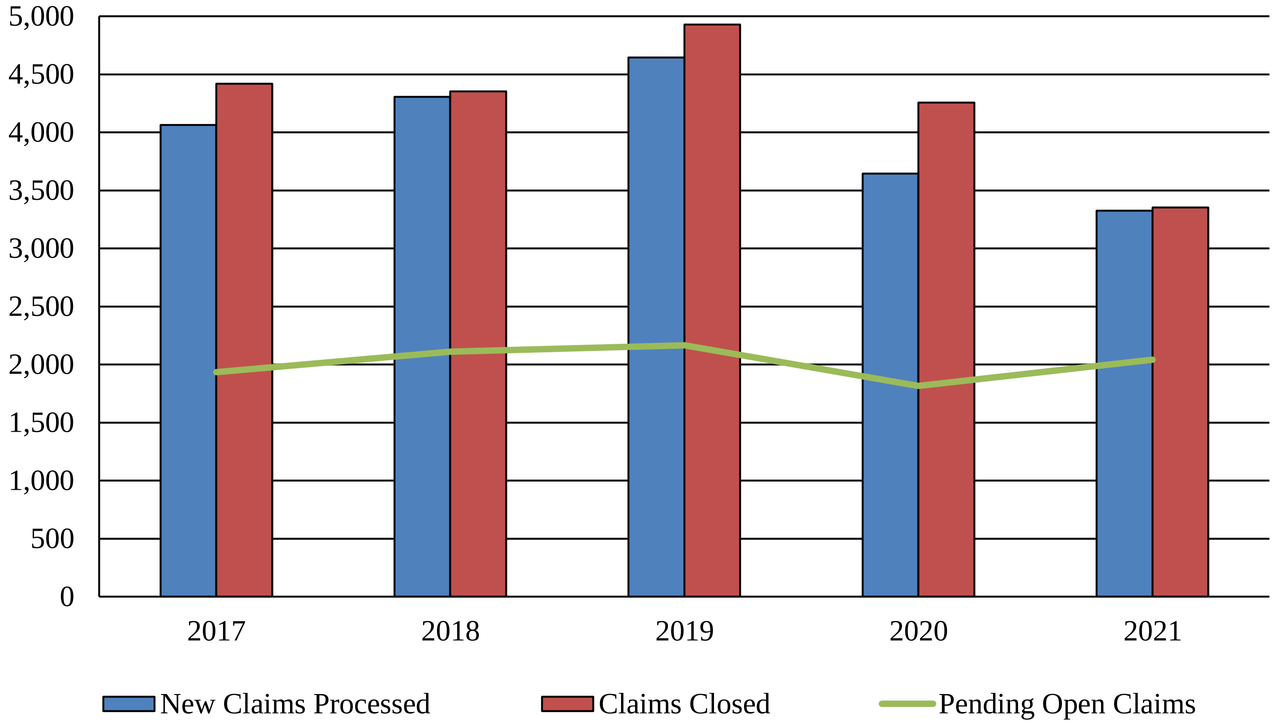
STO is responsible for administering the State's Insurance Program, which is comprised of both commercial and self-insurance. The program covers catastrophic property and liability losses as well as other obligations derived from State contracts, statutes, and regulations. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the MTCA. The State Insurance Trust Fund (SITF) is maintained by STO to pay claims filed against the State, its agencies, and employees and the costs associated with handling these claims. Self-insurance coverage is limited to $2.5 million per incident; the State has purchased insurance to cover incidents that exceed $2.5 million. Not all activities can be self-insured, and commercial insurance is purchased for those activities. Examples of this include the Port of Baltimore and the Baltimore/Washington International Thurgood Marshall Airport.

A tort is a civil act or omission that causes an individual to suffer loss or harm leading to legal liability. The legal doctrine of sovereign immunity allows the State to avoid legal liability. The MTCA waives the State's sovereign immunity. The MTCA limits the State's liability to $400,000 for a single claimant from a single incident. BPW can authorize an award in excess of $400,000, but it is uncommon for BPW to do this.

Special funds from State agencies support the SITF. Pricing is in two parts, a per head premium and a premium based on claims history. All agencies pay into the fund, while agencies with higher claims pay higher premiums.

Exhibit 7 shows that new claims declined in fiscal 2020 and 2021. STO advises that this is due to less activity and more people working from home during the pandemic. The office advises that, with respect to torts, (1) routine claims without injuries are usually processed in 90 days; (2) auto claims require three estimates and can take longer; and (3) bodily injury claims take the longest amount of time to process.

Exhibit 7
Insurance Claims Processed, Closed, and Pending
Fiscal 2017-2021



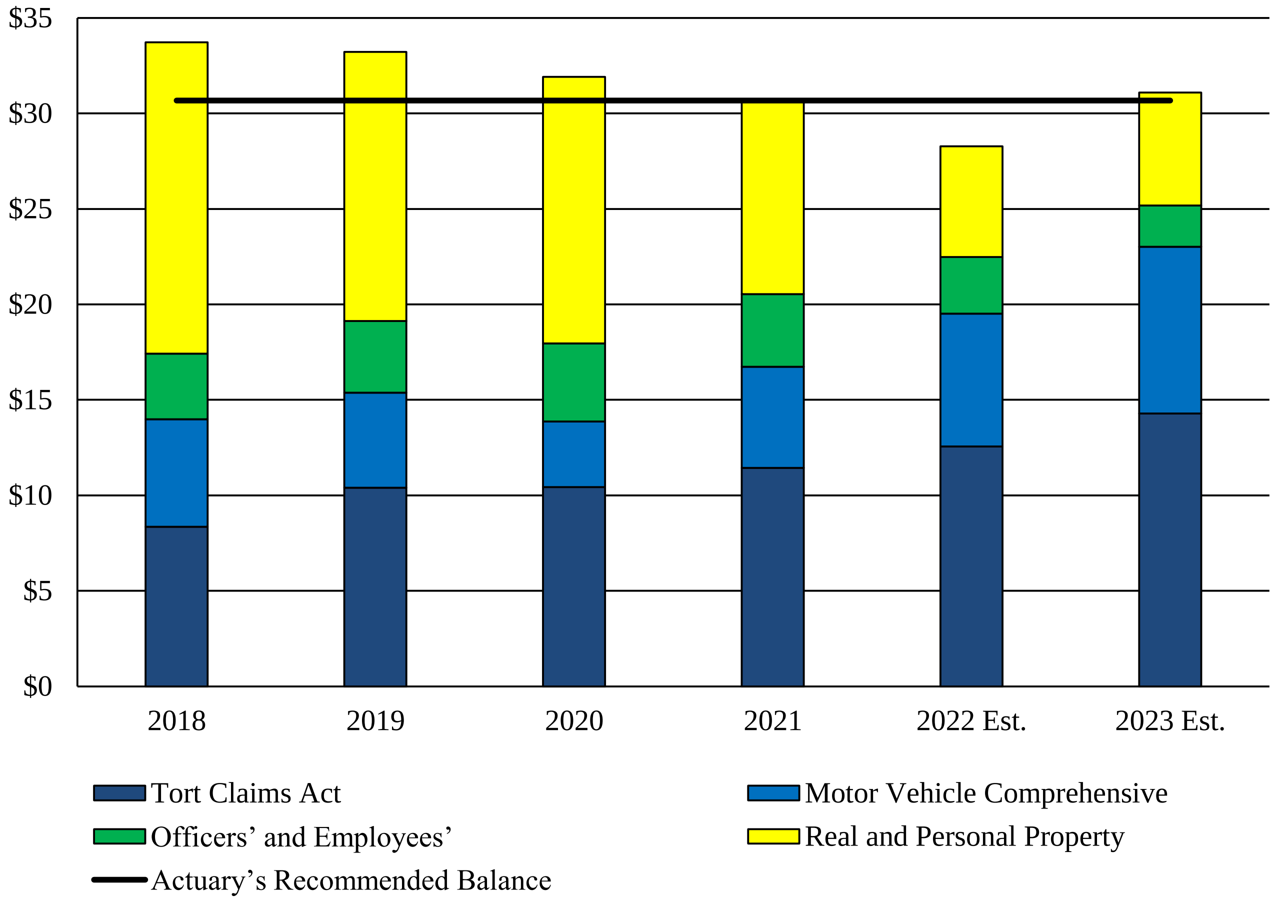
Source: Department of Budget and Management

The Department of Legislative Services (DLS) notes that Volume 1 of the Governor's Budget Books shows SITF activity, but it does not show the actuarially recommended fund balance. **DLS recommends that subsequent budget books show the actuarially recommended fund balance.**

Increase in Premiums Brings Fund Balance to Actuarially Recommended Amount

Insurance premiums for State agencies are increasing by $1 million in fiscal 2023. **Exhibit 8** shows that the SITF balance is expected to fall below the actuarially recommended balance at the end of fiscal 2022. Increasing the premiums brings the balance above the actuarially recommended amounts at the end of fiscal 2023.

Exhibit 8
State Insurance Trust Fund Balance by Type of Liability
Fiscal 2018-2023 Est. Closing Balances
($ in Millions)



Source: State Treasurer's Office

Improved Maintenance Can Reduce Property Claims

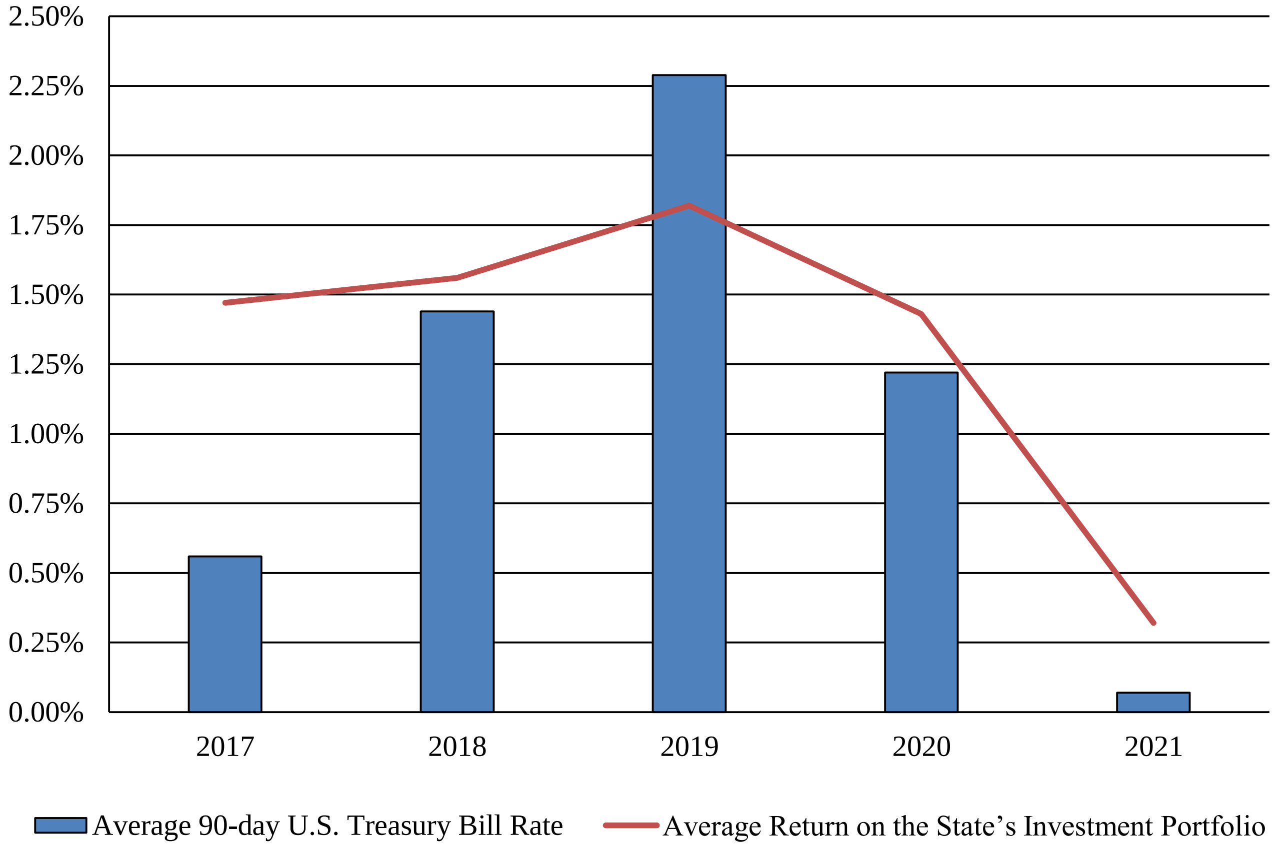
One area that has seen an increase in premiums is real and personal property. Premiums increased from $9 million in fiscal 2019 to $17 million in the fiscal 2023 allowance. One of the factors contributing to higher premiums is improperly maintained infrastructure. For example, aging boilers and damaged roofs, windows, and doors can result in additional damage and claims to other property and equipment. Among the benefits expected from increased maintenance funding is reduced property insurance claims and premiums.

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. Investments are typically short term and designed to meet the cash flow needs of the State. 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. The cautious nature of the Investment Department is highlighted by the restrictions placed on investments, which are limited to (1) secured bank accounts; (2) full faith and credit obligations of the federal government; (3) obligations of certain federal agencies or instrumentalities; (4) repurchase agreements (repos) collateralized by those securities; (5) certain money market mutual funds; and (6) limited amounts of highest rated commercial paper. Secured bank accounts require a 100% collateralization, and repos require 102% collateralization.

Exhibit 9 shows that the average rate of return on the State's investment portfolio was more than the average 90-day U.S. Treasury Bill rate for all years from fiscal 2017 to 2021 except fiscal 2019. Lower relative returns in fiscal 2019 are primarily attributable to the long-term holdings in the portfolio coupled with the rise in interest rates on the short end. When interest rates rise, the division cannot take advantage of the increase in the longer-term securities. But when interest rates decline, the longer-term securities continue to pay higher interest rates, which benefits the fund. Under most economic conditions, longer-term interest rates tend to have higher yields than shorter-term interest rates, so investing in longer-term securities is expected to increase returns over time. If properly managed, the State's return should exceed the 90-day benchmark in most years, but it cannot be expected to exceed the benchmark in all years. From fiscal 2011 to 2021, the State's rate of return exceeded the 90-day Treasury Bill rate in 10 of 11 years.

Exhibit 9
Rate of Return on the State's Investment Portfolio
Fiscal 2017-2021



Source: Department of Budget and Management

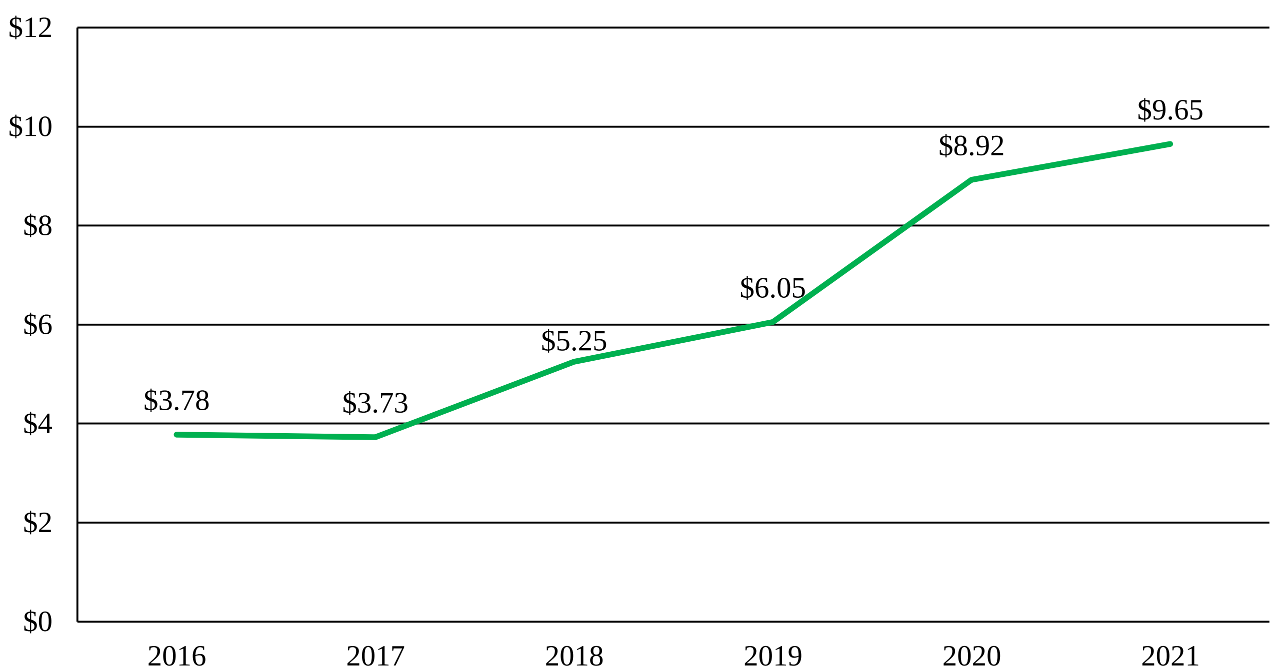
Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- ***Local Government Investment Pool:*** The State Treasurer is responsible for administering the Maryland Local Government Investment Pool (LGIP), which provides units of local government a safe investment tool for the short-term investment of funds. Management of LGIP has been contracted to PNC Financial Services Group, Inc. The pool is audited annually. Participants benefit from professional money management, a diversified portfolio, and reduced investment costs. In September 2021, Standard and Poor's reaffirmed the LGIP's AAAm rating, which is their highest rating. **Exhibit 10** shows how the fund balance has increased in recent years. Since the beginning of the COVID-19 pandemic, increased balances are primarily attributable to excess cash balances and a short-term need to move funds into liquid, high-quality investment instruments. This is prudent in uncertain times. Fund balances are expected to decline when uncertainty recedes, and local agencies move funds into longer-term, higher-yield instruments.

Maryland Local Government Investment Pool Fund Balance
Fiscal 2016-2021
($ in Billions)



Source: Department of Budget and Management

Appendix 1
Financial Systems Modernization
Major IT Project
State Treasurers Office

New/Ongoing: Ongoing								
Start Date: July 2017				**Est. Completion Date:** March 2023				
Implementation Strategy: Hybrid Waterfall and Agile								
($ in Millions)	**Prior Year**	**2022**	**2023**	**2024**	**2025**	**2026**	**Remainder**	**Total**
GF	$4.200	$1.000	$2.600	$0.000	$0.000	$0.000	$0.000	$9.000
SF	0.700	0.300	0.400	0.000	0.000	0.000	0.000	2.600
RF	2.400	0.700	1.400	0.000	0.000	0.000	0.000	4.500
Total	**$7.300**	**$2.000**	**$4.300**	**$0.000**	**$0.000**	**$0.000**	**$0.000**	**$16.100**

- ***Project Summary***: Replace the system that processes over 1 million State agency bank and accounting transactions daily. The new system should provide (1) new, cloud-based financial applications; (2) banking applications; (3) file transfer applications; (4) insurance-claims applications; (5) debt management capital lease management applications; (6) investment interest allocation applications; and (7) state-of-the-art application and infrastructure security systems to protect STO's agency data and business applications.

- ***Need:*** Replace the i5/As400 batch financial and insurance management system since its IBM hardware platform is end-of-life, and the applications and databases are no longer maintainable and cannot be functionally enhanced. The new system addresses cybersecurity concerns raised by the Legislative Auditor, which found that the legacy system was insufficiently robust to protect personally identifiable information.

- ***Observations and Milestones:*** The accounting system and insurance claims portals have been rolled out. Modules to be completed include (1) insurance claims intake, adjudication, and rollout; (2) treasury module development in Azure services to process bank, Comptroller, General Accounting Division, and agency financial transactions; and (3) managed file transport using FTP (file transfer protocol) and ETL (extract, transfer, and load) programs.

- ***Changes:*** The project is taking longer and costing more than expected. It is estimated that COVID-19 pandemic-related staffing issues delayed the project's schedule by at least a year. The challenges of staffing and telework are being mitigated by (1) adding project development staff, including subject matter experts; (2) the addition of a new agency IT director and project manager; and (3) the implementation of professional development tools that are designed for virtual team work to reduce the impact of teleworking. The project's budget and timeline are being rebaselined for DoIT's review to further mitigate the impact of the pandemic on the project.

- ***Concerns*****:** Risks include resource availability (challenges due to pandemic, retirements and staffing changes), organizational culture (agency focused on existing system and business processes), and implementation (staffing changes within IT and within agency management reduces the staff with institutional knowledge of the system and business processes).

Appendix 2
Object/Fund Difference Report
State Treasurer

Object/Fund	FY 21 Actual	FY 22 Working Appropriation	FY 23 Allowance	FY 22 - FY 23 Amount Change	Percent Change
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
02 Contractual	0.75	0.50	0.00	-0.50	-100.0%
Total Positions	**60.75**	**60.50**	**60.00**	**-0.50**	**-0.8%**
Objects					
01 Salaries and Wages	$ 6,310,735	$ 6,922,268	$ 6,769,466	-$ 152,802	-2.2%
02 Technical and Special Fees	33,179	32,118	3,775	-28,343	-88.2%
03 Communication	23,830	35,797	35,797	0	0%
04 Travel	2,272	10,002	10,002	0	0%
07 Motor Vehicles	1,821	2,630	2,630	0	0%
08 Contractual Services	6,606,094	10,340,402	8,581,785	-1,758,617	-17.0%
09 Supplies and Materials	140,534	204,302	196,302	-8,000	-3.9%
10 Equipment – Replacement	102,418	78,114	30,384	-47,730	-61.1%
13 Fixed Charges	45,198,472	40,823,436	41,846,403	1,022,967	2.5%
Total Objects	**$ 58,419,355**	**$ 58,449,069**	**$ 57,476,544**	**-$ 972,525**	**-1.7%**
Funds					
01 General Fund	$ 5,883,610	$ 6,812,797	$ 6,221,755	-$ 591,042	-8.7%
03 Special Fund	1,709,676	3,918,921	3,286,021	-632,900	-16.1%
09 Reimbursable Fund	50,826,069	47,717,351	47,968,768	251,417	0.5%
Total Funds	**$ 58,419,355**	**$ 58,449,069**	**$ 57,476,544**	**-$ 972,525**	**-1.7%**

Note: The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.