



THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

Joint Committee on the Management of Public Funds

December 18, 2020

The Honorable Bill Ferguson, Co-Chair
The Honorable Adrienne A. Jones, Co-Chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

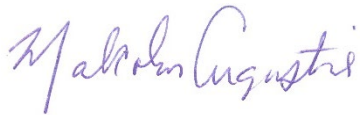
The Joint Committee on the Management of Public Funds is pleased to present this report on its activities undertaken during the 2020 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee had two virtual briefings and was briefed on several relevant topics, including the State's economic development programs, the activities of the Comptroller's and Treasurer's offices, and audits of local governments.

A summary of the activities of the joint committee is enclosed. The joint committee recommends the formulation of a comprehensive plan regarding the amounts that should be set aside for maintenance and the potential savings for the State from not deferring maintenance. Furthermore, the joint committee recommends exploring alternative uses of bond premiums and making statutory changes in order to comply with the updated guidance from the State's bond counsel. In addition, electronic copies of the written testimony provided to the joint committee are available by request through committee staff Caleb Weiss (caleb.weiss@mlis.state.md.us) or Heather MacDonagh (heather.macdonagh@mlis.state.md.us).

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Page 2

The joint committee greatly appreciates the assistance of the many individuals who participated in the activities of the joint committee during the 2020 interim.

Respectfully submitted,



Senator Malcolm Augustine
Senate Chair



Delegate Pat Young
House Chair (Presiding)

MA:PY/CW:HM/cr

Enclosure

cc: Mr. Jake Weissmann
Ms. Alexandra Hughes
Ms. Victoria L. Gruber
Mr. Ryan Bishop

Joint Committee on the Management of Public Funds 2020 Interim Report

The Joint Committee on the Management of Public Funds held two meetings in Annapolis during the 2019 interim.

October 13, 2020 Meeting

Update on State Economic Development Programs

Representatives of the Maryland Department of Commerce (Commerce), the Meridian Management Group (MMG), the Maryland Technology Development Corporation (TEDCO), and the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) addressed the joint committee regarding their economic development and small business financing programs across the State.

Maryland Department of Commerce

The Secretary of Commerce, Kelly Schulz, provided a briefing on Commerce's programs and the impact of COVID-19 on operations. Commerce focused on its two main programs: the Maryland Economic Development Assistance Authority Fund (MEDAAF) and the Maryland Small Business Development Finance Authority (MSBDFA). Commerce also provided an update on its COVID-19 relief efforts, including: the COVID-19 Emergency Relief Loan Fund (\$75 million), the COVID-19 Emergency Relief Grant Fund (\$95 million), the COVID-19 Emergency Relief Manufacturing Fund (\$5 million), MSBDFA (\$5 million CARES Act funding allocated in July), and the Maryland Economic Adjustment Fund (\$700,000). Additionally, Commerce has provided the "Back to Business" guidance and pledge, promoted #MasksOnMaryland, and convened 13 industry advisory groups.

Meridian Management Group

Stanley Tucker, the President, Chief Executive Officer, and co-founder of MMG, highlighted the four program components of MMG: (1) contract financing, which provides loans and loan guarantees to perform on contracts with government agencies or a regulated public utility; (2) the guaranty fund program, which provides guarantees for loans made by a financial institution; (3) the surety bond program, which provides bid, performance, or payment bonds (directly or via commercial sureties) to perform on contracts with a government agency, regulated public utility or private entity; and (4) the equity participation investment program, which provides debt and equity investments, including investments in early stage companies. Mr. Tucker emphasized the need for additional capital for the programs it oversees during the COVID-19 pandemic and economic crisis.

Maryland Technology Development Corporation

The Executive Director of TEDCO, Troy LeMaile-Stovall, provided an overview of TEDCO and the impact of COVID-19 on its operations. The Executive Director emphasized that interactions at TEDCO are driven by its core values of accountability, collaboration, integrity, respect, and stewardship. TEDCO uses three methods to make investments in the State: pre-seed funds, seed funds, and the Maryland Venture Fund. TEDCO is committed to demographic and geographic diversity by reviewing internal practices, improving reporting processes, increasing outreach, and being proactive rather than reactive. As a result of these efforts, 10 out of 13 seed investments in fiscal 2020 were in socially and economically disadvantaged companies.

In response to COVID-19 and the related economic crisis, TEDCO highlighted the actions they have taken to support companies in the State. This included helping portfolio companies navigate the complex set of assistance programs for COVID-19 relief and working with Commerce to review applications for the Maryland COVID-19 Emergency Relief Manufacturing Fund.

Maryland Agricultural & Resource-Based Industry Development Corporation

Stephen McHenry, the Executive Director of MARBIDCO, briefed the joint committee on the activities of MARBIDCO and the impact of COVID-19 on operations. MARBIDCO highlighted some of the challenges faced by the agriculture and rural industries in the State, which include an aging workforce, loss of rural working land, and lack of access to affordable business capital. MARBIDCO's programming falls into three categories: core rural agriculture business development, higher risk specialty lending, and rural land preservation facilitation. The COVID-19 pandemic and the related economic crisis has disrupted Maryland's agricultural and seafood industries. In particular, changes in demand at the local level has left farmers without the necessary equipment, such as cold storage, to meet this new environment. Additionally, many farmers and other producers experienced a sales decline during the shutdowns of restaurants and events. In response to this, MARBIDCO has taken the following actions: (1) deferred loan repayments on 27 loans; (2) reduced the interest rates on core loan programs; and (3) established two new programs: the Pandemic Adjustment Equipment Grant Program and the Pandemic Adjustment Loan Program.

October 21, 2020 Meeting

State Treasurer's Office – Update on Activities

State Treasurer Nancy Kopp provided an update on the activities of the Treasurer's Office. Treasurer Kopp reported that in July 2020 all three rating agencies affirmed the State's AAA bond rating. Maryland is 1 of only 13 states with AAA ratings from each of the three rating agencies.

In October 2020, the Capital Debt Affordability Committee (CDAC) recommended \$1,095 million for new general obligation bond authorizations to support the fiscal 2022 capital program. CDAC further recommended \$10 million annual increases (roughly 1% per year) in

future fiscal years. With these debt levels, the debt affordability ratios remain within CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues.

The Treasurer's Office has made significant progress regarding the implementation of Microsoft Dynamics 365 as the new financial and insurance claims management Enterprise Resource Planning solution to replace their legacy IBM system, which has been in use since 1984. The Maryland State Treasurer Electronic Portal was implemented for citizens in December 2019 and the Finance and Operations module went live in June 2020. The Treasurer and the joint committee also discussed the State Insurance Fund and how the State procures insurance for state property. The Treasurer noted that maintenance of State facilities is important to the rates the State pays for insurance and the condition of the facilities is deteriorating. Over the past few years there has been a steady increase in premiums and difficulty obtaining coverage for boilers and other machinery, specifically for institutions of higher education, due to a lack of carriers willing to write the coverage and the frequency of claims for water damage. The Treasurer also noted climate change is a concern for insurance and causing issues. **The joint committee recommends the formulation of a comprehensive plan regarding the amounts that should be set aside for maintenance and the potential savings for the State from not deferring maintenance.**

A recent change in guidance from the State's bond counsel, Ballard Spahr, on allowable uses of bond premiums will have a potentially significant impact on the State's operating budget. In the past, Ballard Spahr's guidance allowed the State to use most or all of the bond premiums attained during General Obligation bond sales to offset the State's debt service; however, the new guidance restricts the State to applying an amount equal to three years of interest payments to debt service. The State will still be able to use the bond premiums for other purposes. **The joint committee recommends exploring alternative uses of bond premiums and making statutory changes in order to comply with the updated guidance.**

Comptroller's Office – Update on Activities

Comptroller Peter Franchot provided an update on the activities of the Comptroller's Office. The Comptroller noted that the COVID-19 pandemic continues to force many businesses in the state to close and creates a generalized uncertainty throughout Maryland's economy. Although the September revenue estimates by the Board of Revenue Estimates provided some cautious optimism compared to prior estimates, the Comptroller noted that the State remains in a period of economic and fiscal volatility. The Comptroller urged additional stimulus both at the federal and the State level to assist small businesses and taxpayers.

The Comptroller reported that despite the challenges of the COVID-19 pandemic, the Comptroller's Office again focused on providing effective and efficient services to taxpayers during the 2020 tax filing season. The Comptroller's Office extended the tax filing and payment deadlines for individual and business taxpayers from April 15 to July 15. Branch office representatives assisted more than 128,000 taxpayers and provided free tax preparation services to more than 5,000 Marylanders in fiscal 2020.

During the most recent tax season, the State collected \$18.5 billion in gross revenue and

processed more than 3.1 million tax returns. Of those tax returns, more than 88% were filed electronically. More than 2.3 million families received tax refunds, on average within 2.5 business days. The Comptroller also discussed the continued efforts to protect State taxpayers against fraud and identity theft. During the most recent year, the Comptroller's Office blocked more than 17,000 fraudulent tax returns worth nearly \$21.5 million. Lastly, the Comptroller provided the joint committee with an update on the transition into Compass, a new tax processing system.

Office of Legislative Audits – Review of Local Government Audit Reports

Robert Garman, Assistant Director of Quality Assurance in the Office of Legislative Audits (OLA), presented information on the desk reviews of local government audits for fiscal 2019. OLA found that the local governments generally complied with generally accepted accounting principles and auditing standards and the local governments generally appeared to be in good financial condition.

OLA's report summarized the most significant and frequent problem areas found during its annual review of local government audits, which included failing to file an audit report, failing to present the audit or financial statements in accordance with generally accepted auditing and accounting principles, failing to present all required statements, lacking adequate disclosures, and receiving a qualified opinion by an auditor. Financial statements of 10 local governments contained disclosures that cash deposits were not adequately collateralized or otherwise insured. OLA's review did not disclose any local governments with potential financial problems during fiscal 2019.

The Town of Deer Park has not filed an audit report for fiscal 2017 through 2019. Seven other local governments have not filed their fiscal 2019 report: the Town of Chesapeake City, the City of Hyattsville, the City of Mount Rainier, the City of Seat Pleasant, Bel Air Special Taxing Area, Mount Savage Special Taxing Area, and the Upper Potomac River Commission. The Executive Director of the Department of Legislative Services (DLS) is notified of the local governments with more than one audit report outstanding; therefore, the Executive Director of DLS was notified of the outstanding reports for Deer Park.

OLA reported that a letter describing the areas of noncompliance with the audit guidelines was sent to each local government and its independent auditor. For areas of noncompliance with State laws and potential financial problems, OLA requests the local governments to provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses.