

Joint Committee on the Management of Public Funds

**Maryland General Assembly
Joint Committee on the Management of Public Funds**

2017 Interim Membership Roster

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Delegate Ana Sol Gutiérrez, House Chair**

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Committee Staff

Trevor S. Owen
Benjamin B. Wilhelm

Joint Committee on the Management of Public Funds

December 1, 2017

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, 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 2017 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met twice and was briefed on several relevant topics, including 9-1-1 modernization, 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. In addition, electronic copies of the written testimonies provided to the joint committee are available by request through committee staff Trevor S. Owen (trevor.owen@mlis.state.md.us) or Ben Wilhelm (benjamin.wilhelm@mlis.state.md.us).

The joint committee greatly appreciates the assistance of the many individuals who participated in the activities of the joint committee during the 2017 interim.

Respectfully submitted,



Senator Cheryl C. Kagan
Senate Chair (Presiding)



Delegate Ana Sol Gutiérrez
House Chair

CCK:ASG/BBW:TSO/dag

Enclosure

cc: Ms. Carol L. Swan
Mr. Ryan Bishop

Joint Committee on the Management of Public Funds 2017 Interim Report

The Joint Committee on the Management of Public Funds held two hearings in Annapolis during the 2017 interim.

July 18, 2017 Hearing

Briefing on 9-1-1 Modernization

The joint committee invited the Maryland Association of Counties (MACo), local public safety answering point (PSAP) directors, and the Emergency Number Systems Board (ENSB) to brief the committee regarding the sufficiency of funding for current 9-1-1 systems in the State and migration to Next Generation 9-1-1. In addition, the Comptroller's Office attended and submitted written testimony on how 9-1-1 fees are collected for landlines, wireless phones, and prepaid wireless phones as well as how those funds are directed by his office.

Maryland Association of Counties and Local PSAP Directors

Mr. Kevin Kinally and Ms. Robin Eilenberg of MACo began the briefing with a general overview of 9-1-1 systems in Maryland and the need to migrate to Next Generation 9-1-1 to keep pace with evolving telecommunications technology, along with the costs and risks of doing so. Mr. R. Ross Coates, Public Safety Manager of the Harford County Department of Emergency Services and Ms. Charlynn Flaherty, Associate Director of Public Safety Communications for Prince George's County, offered additional testimony and addressed questions from the joint committee on how next generation systems will impact their jurisdictions and noted the transition costs to migrate to the new systems. All panel participants agreed that current funding is not sufficient to cover current operations, let alone the expense of acquiring and operating new systems, which will approximately double the cost for the PSAPs during the transition. The joint committee also discussed different fee structures for funding 9-1-1 systems, including per line surcharges.

Emergency Number Systems Board

Mr. Scott Roper, Executive Director of ENSB, board chair Mr. Anthony Myers, and board members Mr. Steve Souder and Mr. Jack Markey provided additional information to the joint committee on the State's role in the delivery of 9-1-1 service. They updated the joint committee on progress in the procurement of Next Generation 9-1-1, for which ENSB anticipates issuing a request for proposals (RFP) in summer 2018. ENSB reported that the development of the RFP is ongoing and provided an explanation of how the process will proceed through 2018. The joint committee also continued its discussion of the technical, fiscal, and logistical aspects of Next

Generation 9-1-1 with the ENSB representatives. In response to inquiries from the co-chairs, ENSB clarified that implementation of text to 9-1-1 service is also proceeding under a separate RFP with the goal of procuring a single contract for this service statewide. Finally the co-chairs posed questions to ENSB on how it collects and audits 9-1-1 surcharges from telecommunications companies. Mr. Roper explained how the ENSB monitors remittances by carriers and the technical challenges to collecting and auditing mobile phone records. Mr. Roper also noted that an audit was conducted in 2008 which found a total of \$154,000 in underpayments over two years and cost \$185,000.

Comptroller's Office

At the request of the co-chairs, representatives of the Comptroller's Office attended the hearing and prepared written testimony on how the State collects 9-1-1 fees on prepaid wireless phones. The testimony explains that fees are collected and reported in the same manner as sales and use taxes and reported by retailers on the same form. The Comptroller's Office directs these funds to the 9-1-1 Trust Fund and makes a monthly transfer to ENSB.

October 10, 2017 Hearing

Comptroller's Office – Update on Activities

Comptroller Peter Franchot provided an update on the activities of the Comptroller's Office. He told the committee that his office again focused on providing effective and efficient services to taxpayers during the 2017 tax filing season. In an effort to improve its call center operations, the office opened its first remote call center in Salisbury this year and plans to open a second remote call center in Hagerstown at the start of next year's tax filing season. The Comptroller's Office also staffs its Annapolis call center with several employees who speak multiple languages in an effort to better serve non-English-speaking taxpayers.

The Comptroller's Office advised that during the most recent tax season, the State collected a gross amount of \$17 billion and processed more than 3.0 million individual tax returns. Of those 3.0 million tax returns, more than 85% were filed electronically. The joint committee requested that the conferees discuss the resolution of a recent issue with the improper sorting of some taxpayers into the wrong taxing districts. The Comptroller's Office explained its new protocols for confirming its records are accurate and committed to biannual outside audits.

The Comptroller's Office also discussed its continued efforts to protect State taxpayers against fraud and identity theft. During the most recent year, the Comptroller's Office blocked more than 10,000 fraudulent tax returns worth more than \$16.0 million. The Comptroller thanked the members of the joint committee and the General Assembly for unanimously passing the Taxpayer Protection Act during the 2017 session. The legislation is designed to strengthen the Comptroller's ability to protect Maryland taxpayers by providing the office with greater statutory

authority to go after financial predators. The committee and the conferees discussed how the Comptroller protects its data and what taxpayers can do to protect themselves.

The Comptroller's Office notified the joint committee that the office's Bureau of Revenue Estimates is in the process of finalizing a study examining a considerable shift in the age composition of the State's tax base and the dynamic effect this shift has had and will continue to have on State revenues. This study is due to be released in December 2017.

The co-chairs also asked whether it would be possible to receive additional information on the impact of recently passed legislation that affects revenues. In particular, the committee requested more timely reporting of revenues generated by slots and casino gambling, and requested updated information on the impact of recent legislation on these revenue contributions to the Education Trust Fund. The Comptroller committed to providing that information.

The joint committee was not asked to sponsor any legislation by the Office of the Comptroller for the 2018 legislative session.

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 August 2017 all three rating agencies affirmed the State's AAA bond rating. Maryland is 1 of only 11 states in the nation with AAA ratings from each of the three rating agencies.

There is general consensus among the rating agencies that Maryland's debt policies, fiscal management, highly educated workforce, and diverse economy are all credit positives; however, the State's debt and pension burdens and uncertainty in the federal government are concerns. All three rating agencies point to the State's history of strong, sound financial management, and the State's debt affordability guidelines and rapid amortization of debt are credit strengths that help offset concerns about the State's debt burden. Standard & Poor's and Moody's state that the Capital Debt Affordability Committee (CDAC) and the debt affordability process have a positive stabilizing effect on the State's debt profile.

In September 2017, CDAC recommended \$995 million for new general obligation bond authorizations to support the fiscal 2019 capital program. CDAC further recommended that the authorization of \$995 million be maintained in future fiscal years. With these debt levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues.

The Treasurer and the joint committee also discussed the State Insurance Fund and how the State procures insurance for State property. The Treasurer suggested that maintenance of State facilities is important to the rates the State pays for insurance and their condition is deteriorating.

The joint committee was not asked to sponsor any legislation by the State Treasurer's Office for the 2018 legislative session.

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 2016.

OLA's report identified two local governments – Crisfield and Pocomoke City – as having potential financial problems. The City of Crisfield had an unrestricted general fund deficit of nearly \$215,000 as of June 30, 2016. Pocomoke City was identified as having negative financial trends and ratios in its general fund, including recent year expenditures exceeding revenues that has led to a large decrease in available fund balance.

OLA's report summarized the most significant and frequent problem areas the agency found during its annual review of local government audits. These problem areas include 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 the issuance of qualified or adverse opinions by an auditor. The Town of Marydel had not filed audit reports for fiscal 2013-2016 due in large part to the town's previous mayor embezzling funds and destroying accounting records. The Town of Deer Park had not filed audit reports for fiscal 2014-2016. Three local governments – Bel Air Special Taxing Area, Hyattsville, and Mount Savage Special Taxing Area – had not filed audit reports for fiscal 2014-2016, and two other local governments – Glenarden and Mount Rainier – had not filed an audit report for fiscal 2016.

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 that the local governments provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses. The joint committee recommended that OLA also communicate areas of noncompliance with the counties in which these local governments are located so that they are aware of the matter and can potentially aid in its resolution.