

Joint Committee on the Management of Public Funds

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

2018 Interim Membership Roster

**Senator Cheryl C. Kagan, Senate Chair
Delegate Ana Sol Gutiérrez, House Chair (Presiding)**

Senators

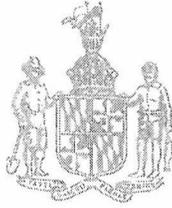
Joanne C. Benson
Richard S. Madaleno, Jr.
Edward R. Reilly

Delegates

Carolyn J. B. Howard
David E. Vogt, III
Alonzo T. Washington

Committee Staff

Heather N. Ruby
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THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401

Joint Committee on the Management of Public Funds

December 17, 2018

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 2018 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 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. In addition, electronic copies of the written testimonies provided to the joint committee are available by request through committee staff Heather Ruby (heather.ruby@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 2018 interim.

Respectfully submitted,

Senator Cheryl C. Kagan
Senate Chair

Delegate Ana Sol Gutiérrez
House Chair (Presiding)

CCK:ASG/BBW:HNO/cr

Enclosure

cc: Ms. Victoria L. Gruber
Mr. Ryan Bishop

Joint Committee on the Management of Public Funds 2018 Interim Report

The Joint Committee on the Management of Public Funds held two meetings in Annapolis during the 2018 interim.

October 2, 2018 Meeting

Update on State Economic Development Programs

The joint committee invited representatives of the Maryland Technology Development Corporation, the Maryland Agricultural & Resource-Based Industry Development Corporation, and the Maryland Small Business Development Financing Authority to address the committee regarding their economic development and small business financing programs across the State.

Maryland Technology Development Corporation

John Wasilisin, President and Chief Operating Officer, George Davis, Chief Executive Officer, and Andy Jones, Chief Investment Officer of the Maryland Technology Development Corporation (TEDCO) provided an overview of agency operations and reported economic output of more than \$1 billion for the State since 1998. TEDCO discussed its recent investment activity and highlighted the New Builder Fund and the Rural Business Innovation Initiative.

Committee members asked TEDCO about several aspects of the agency's operations. One committee member asked about how TEDCO supports university research and the agency explained its tech transfer activities. Another committee member asked how TEDCO ensures that its venture capital is invested in Maryland companies, as required by law. The agency explained how it responds when companies expand or relocate outside Maryland and discussed the challenges that situation creates. One of the co-chairs also raised the issue of restrictions on investment in Maryland companies by board members. TEDCO reported that they have lost board members and potential board members because those individuals preferred to be free to invest in companies and discussed with the committee how the General Assembly could resolve this issue.

Maryland Agricultural and Resource-Based Industry Development Corporation

Stephen McHenry, Executive Director of the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) briefed the committee on the activities of MARBIDCO and how it supports business activity in Maryland. MARBIDCO noted that the sector it supports is directly responsible for over 6% of State Gross Domestic Products. The agency also provided an update on changes to the Next Generation Farmland Acquisition Program that were enacted during the 2016 session and how a total of \$5 million provided in fiscal 2018 and 2019 is being used to help beginning farmers purchase property and establish permanent conservation

easements on that land. One of the co-chairs asked for additional information about support for urban farmers and the committee discussed how to expand those offerings.

Additionally, one of the co-chairs noted that the MARBIDCO website did not provide free translation as required by State law. Following the meeting, MARBIDCO resolved this deficiency.

Maryland Small Business Development Financing Authority

Stanley Tucker, President and Chief Executive Officer, and Alex Agwuna, Vice President of Meridian Management Group (MMG), which is the administrator of the Maryland Small Business Development Financing Authority (MSBDFA) briefed the committee and answered questions on its loan-making activities including the return on MSBDFA's investments and the demographics of its loan recipients. The committee also discussed and recommended additional reporting, particularly on investment performance that would be beneficial. The conferees raised a concern to the committee regarding the need to direct additional funding to increase outreach to Hispanic businesses, expand lending capacity, and reestablish an appropriation specifically for marketing Hispanic, Asian, and other minority businesses.

The committee and conferees also discussed the recent reallocation of funds from the Maryland Casino Business Investment Fund (MCBIF) to the Education Trust Fund by the General Assembly. Some committee members strongly advocated for the future restoration of funding. No action is being recommended by the committee at this time.

October 17, 2018 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 2018 all three rating agencies affirmed the State's AAA bond rating. Maryland is 1 of only 12 states with AAA ratings from each of the three rating agencies.

In September 2018, the Capital Debt Affordability Committee (CDAC) recommended \$995 million for new general obligation bond authorizations to support the fiscal 2020 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 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. Over the past few years, there has been a steady increase in premiums and difficulty obtaining coverage for boilers and other machinery, specifically for the universities, due to a lack of carriers willing to write the coverage and the severity of the claims.

The joint committee was asked to sponsor legislation by the State Treasurer's Office for the 2019 legislative session. Under current law, CDAC is required to submit its recommendations

to the Governor and General Assembly on or before October 1 of each year. In addition to its review of debt, the committee's analysis requires careful consideration of State revenues. The Board of Revenue Estimates generally issues its official revenue estimates in late September. The timing of the board's approval of the revenue estimates leaves little time for the debt affordability analysis to be completed. Therefore, Treasurer Kopp asked the joint committee to support legislation in the 2019 session to extend the CDAC deadline to no later than October 20. The joint committee agreed to do so.

Comptroller's Office – Update on Activities

Comptroller Peter Franchot provided an update on the activities of the Comptroller's Office. In March 2018, the Comptroller's Office's Bureau of Revenue Estimates (BRE) released 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. BRE also projected significant increases in revenue for fiscal 2019 and 2020 resulting from the federal Tax Cuts and Job Act of 2017 and the Supreme Court's recent decision on *Wayfair v. South Dakota*.

The Comptroller told the committee that his office again focused on providing effective and efficient services to taxpayers during the 2018 tax filing season. In an effort to improve its call center operations, the office has two remote call centers, which answered more than 146,000 phone calls of the over 421,000 phone calls answered by the taxpayer services division in fiscal 2018. The Annapolis taxpayer service office was relocated in September 2018 from the Revenue Administration Division (RAD) to a retail space on West Street to serve the needs of taxpayers while establishing an extra layer of security to protect sensitive taxpayer information held by RAD.

The Comptroller's Office advised that during the most recent tax season, the State collected \$17 billion in gross revenue and processed more than 3 million individual tax returns. Of those 3 million tax returns, more than 85% were filed electronically. More than 2 million families received tax refunds on average within three business days. 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 11,000 fraudulent tax returns worth nearly \$14 million. The co-chairs asked about the Office of the Comptroller's modernization of its IT systems. The Comptroller commented that the evaluation process is complete, but they are several years away from implementing a new tax administration system.

The joint committee was not asked to sponsor any legislation by the Office of the Comptroller for the 2019 legislative session. While the Comptroller does not plan to introduce legislation for the 2019 session, the Comptroller will inform the joint committee if that changes.

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 2017.

OLA's report identified two local governments: Charlestown and Pocomoke City as having potential financial problems. Charlestown had an unrestricted general fund deficit of approximately \$205,000 as of June 30, 2017, related to closing a special revenue fund into the general fund. 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 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 through 2017 due in large part to the town's previous mayor embezzling funds and destroying accounting records, but has recently filed audit reports for fiscal 2013 through 2016. The Town of Deer Park has not filed audit reports for fiscal 2015 through 2017. The Washington Suburban Transit Commission has not filed audit reports for fiscal 2015 and 2016, while Hyattsville has not filed for fiscal 2016 and 2017. Four local governments: Bel Air, Lonaconing, Mount Rainier, and Seat Pleasant Special Taxing Area have not filed an audit report for fiscal 2017.

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 questioned the ramifications of unfiled audit reports. The Executive Director of the Department of Legislative Services (DLS) is notified of those local governments with more than one audit report outstanding. If a local government does not comply with the audit report filing requirements, State law provides that the Comptroller, on notice from the Executive Director of DLS, may order the discontinuance of all moneys, grants, or State aid to which the local governments are entitled. Transportation aid was withheld in recent years for Marydel and Deer Park due to their failure to file. Robert Garman noted that Marydel is working on their audit reports and anticipates that they will be filed shortly. Failure to file a required report with DLS for three successive years is one of the three conditions that must be satisfied before the Executive Director of DLS is required to notify the Secretary of State that a municipal charter should be repealed. **The joint committee recommends DLS to continue to closely monitor jurisdictions that have consistently ignored requests to file audit reports, like Deer Park.**

Written Reports on State Procurement Reforms

In addition to the two hearings discussed above, the committee remains interested in the impact of recently implemented changes to the State's procurement system required under Chapter 590 of 2017. While the deadline for this reorganization to go into effect, October 1, 2018, precluded the scheduling of a hearing with the relevant stakeholders, the co-chairs did request that the Department of General Services, Board of Public Works, and State Treasurer's Office submit written testimony for committee review on the status of procurement reform.