THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

Joint Committee on the Management of Public Funds

December 19, 2019

The Honorable Thomas V. Mike Miller, Jr., 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 2019 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 deferred maintenance at State-owned facilities, 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 to look at what should be set aside for maintenance and the potential savings for the State from not deferring maintenance. In addition, electronic copies of the written testimonies provided to the joint committee are available by request through committee staff Heather MacDonagh (heather.macdonagh@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 2019 interim.

Respectfully submitted,

Senator Malcolm Augustine /HNM
Senator Malcolm Augustine
Senate Chair (Presiding)

Delegate Pat Young /HNM
Delegate Pat Young
House Chair

HNM/cr

Enclosure

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

Joint Committee on the Management of Public Funds 2019 Interim Report

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

September 18, 2019 Meeting

Briefing on Deferred Maintenance at State-Owned Facilities

Lauren Buckler, Assistant Secretary of Facilities Planning, Design & Construction of the Department of General Services (DGS), provided an overview of deferred maintenance at State-owned facilities. DGS is responsible for approximately 2,900 facilities and as buildings age, more maintenance is needed. DGS started a database of project requests in 1990 and currently has a tracked project backlog of $183.4 million for 811 projects within 17 agencies. While the project backlog is $183.4 million, less than $50 million has been appropriated for these projects, thus projects are prioritized by risk factor. Projects receive highest priority if there is high risk of litigation, high risk of cessation of service, high risk of reduction of service, or finable code violations.

Since 2015, the project backlog has been reduced by 800 projects. DGS achieved this by increasing staffing, combining projects based on geography and type of project, increasing project thresholds, procurement reform, pilot programs, and annual agency outreach sessions. The number of unexpected and emergency projects has been decreasing but the cost of those projects has been increasing because the emergencies are severe. DGS is dedicating approximately $4 million for emergencies, which helps to prevent deferring funding of planned projects. Previously, when unexpected emergencies occur, funding would be diverted from planned projects, so deferring the planned projects occasionally created emergencies. A cabinet facilities workgroup was created in January 2019 to create recommendations to resolve maintenance challenges and create best practices. The Conditions Assessment Unit is now staffed with four employees to identify projects and reduce emergencies. Operating facilities systems funding has increased 40% to $10.5 million in the fiscal 2020 budget and capital facilities systems funding has increased 135% to $34.4 million over the past year. Since fiscal 2014 through fiscal 2020, overall funding has increased 120%. DGS highlighted a routine inspection which identified a potential catastrophic issue that DGS was able to handle with minimum disruption to employees.

The co-chairs asked several questions following the presentation. One co-chair inquired about the increase in funding DGS has been receiving and DGS commented that the department is better able to maintain buildings with the increased funding. DGS noted recent changes, such

as different types of contracting and procurement changes that enable them to address issues more quickly without the long procurement procedures. When the other co-chair asked why certain agencies are not under the purview of DGS, DGS responded that those agencies lease their properties; therefore, the landlord is responsible for the maintenance rather than DGS.

November 5, 2019 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 2019 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 2019, the Capital Debt Affordability Committee (CDAC) recommended $1,095 million for new general obligation bond authorizations to support the fiscal 2021 capital program. CDAC further recommended $10 million annual increases (roughly 1% per year) in future fiscal years. The Comptroller and the Treasurer voted against those recommendations, but the motion passed 3-2. 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 begun 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 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 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 institutions of higher education, due to a lack of carriers willing to write the coverage and the frequency of claims for water damage.

One of the co-chairs asked how to mitigate risk and the Treasurer's Office discussed the work of their risk manager and how the Treasurer's Office is reviewing buildings. The joint committee recommends the formulation of a comprehensive plan to look at what should be set aside for maintenance and the potential savings for the State from not deferring maintenance.

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 economy is approaching a tenuous inflection point because of the shift in the age composition of the State's tax base, which is having a dynamic effect on State revenues. The Comptroller also noted the significant economic trends at the national level, such as an inverted yield curve, the federal deficit, and trade policy.

The Comptroller reported that his office again focused on providing effective and efficient services to taxpayers during the 2019 tax filing season. Branch office representatives assisted more than 147,000 taxpayers and provided free tax preparation services to more than 17,000 Marylanders in fiscal 2019.

The Comptroller's Office advised that during the most recent tax season, the State collected $18.8 billion in gross revenue and processed more than 3.2 million tax returns. Of those tax returns, more than 86% were filed electronically. More than 2.3 million families received tax refunds, on average within 2.5 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 15,000 fraudulent tax returns worth nearly $15 million.

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 2018. 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 identified one local government, the City of Crisfield, as having potential financial problems due to general fund expenditures that exceeded general fund revenues, significant decreases in general fund balances, and significant decreases in the ratio of general fund balances to general fund expenditures. Additionally, OLA's report summarized the most significant and frequent problem areas found during its annual review of local government audits, which 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 receiving an adverse opinion by an auditor. Financial statements of 19 local governments contained disclosures that cash deposits were not adequately collateralized or otherwise insured. The Town of Morningside invested in equities, which is a violation of State law, and the town has since rectified the problem.

Three local governments: Bel Air, Lonaconing, and Mount Rainier have not filed an audit report for fiscal 2017 and fiscal 2018. Five additional local governments have not filed their fiscal 2018 report: Allegany County, the City of Hyattsville, the City of Seat Pleasant, Bel Air Special Taxing Area, and Upper Potomac River Commission. The Executive Director of the Department of Legislative Services (DLS) is notified of those local governments with more than one audit report outstanding. Lonaconing filed audit reports for fiscal 2017 and 2018 after the reporting deadline, thus the Executive Director of DLS was notified of the outstanding reports for only Bel Air and Mount Rainier.

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 local governments with audit findings. 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 Deer Park due to failure to file.