August 10, 2011

STATE OF MARYLAND

BOARD OF PUBLIC WORKS

GOVERNOR'S RECEPTION ROOM

SECOND FLOOR, STATE HOUSE

ANNAPOLIS, MARYLAND

August 10, 2011

10:12 a.m.

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PRESENT

- GOVERNOR MARTIN O'MALLEY, Presiding;
- HONORABLE PETER FRANCHOT, Comptroller;
- SHEILA C. MCDONALD, Secretary, Board of Public Works;
- ALVIN C. COLLINS, Secretary, Department of General Services;
- DAVID ROMANS, Deputy Secretary, Department of Budget and Management;
- DARRELL MOBLEY, Deputy Secretary, Department of Transportation;
- MEREDITH LATHBURY, Land Acquisition and Planning, Department of Natural Resources;
- LUWANDA JENKINS, Special Secretary,
 Governor's Office of Minority Affairs;
- MARY JO CHILDS, Procurement Advisor, Board of Public Works; and,
- MARION BOSCHERT, Recording Secretary, Board of Public Works.

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and welcome to the Board of Public Works August 10,
2011. Nancy Kopp is on her way. In other words if
you looked up here and expected to see three people,
no the Board of Public works has not fallen victim to
yet another round of budget cuts.

(Laughter)

member board and Treasurer Kopp is en route back from out of town. And so because of flight delays and storms and weather and things of that nature her connections have been pushed back. So this is what we're going to do. We're going to go ahead and do the Agenda. If there are items that require some greater consideration and all three votes I'm going to ask for your permission to hold those until she gets here, until the Treasurer gets here, Mr. Comptroller.

COMPTROLLER FRANCHOT: I'm shocked.

GOVERNOR O'MALLEY: And, or we could do a jump ball in the middle of the room. And that way we get everybody else back to work. You know, on the

matters where we might have questions. And so anyway,

I know that we also have Ted Mack, Chair of the

Maryland Commission on African American History and

Culture is here with us today. Dr. Joni Jones,

Executive Director of the Maryland Commission on

African American History and Culture and the Banneker
Douglass Museum, one of the longest titles in all of

public service.

(Laughter)

GOVERNOR O'MALLEY: But let me begin by asking the Comptroller if he has any opening thoughts, comments?

COMPTROLLER FRANCHOT: Thank you, Governor.

I turned on the TV set on Sunday morning and there on one of the national shows with Christiane --

GOVERNOR O'MALLEY: Amanpour.

COMPTROLLER FRANCHOT: -- Amanpour, yes, who is kind of the Dan Rather of today, was Governor O'Malley. And I just wanted to compliment you. I thought you did an excellent job.

GOVERNOR O'MALLEY: Thank you.

COMPTROLLER FRANCHOT: And the State was proud of you.

GOVERNOR O'MALLEY: Let me point out, just by a matter of personal privilege, lest Mike Miller thinks I was out of town for that, they tape thirty minutes down the road. So I was back in Maryland by 9:20.

(Laughter)

GOVERNOR O'MALLEY: Thank you.

COMPTROLLER FRANCHOT: Yeah, I get little notes from the Senate President, too. But let me just comment that, what a difference two weeks makes.

We've gone pretty much 180 degrees since we had our very successful bond sale under the leadership of the Treasurer. And now we're meeting in the extraordinary aftermath of the downgrading of the credit rating of the United States of America. The first time it has happened since 1917, which I believe is the year they began these ratings.

In Maryland our own credit rating was put on a watch list. We were assigned a negative outlook for absolutely no fault of our own other than the scope of

our relationship with the federal government. Our State, which has taken extraordinary steps, and at times taken extraordinary sacrifices under the leadership of Governor O'Malley, to keep its fiscal house in order now could possibly lose our own AAA credit rating solely because of that involvement by the federal government.

I think it's important to note that while they hold enormous influence, Standard and Poor's and the other two rating agencies are far from infallible. These are the same analysts that rubber stamped AAA ratings on mortgage backed securities, collateralized debt obligations, and other risky strategies which eventually brought down the nation's housing market and our economy. And there is considerable evidence that the assumptions and methodology used by this particular ratings agency in arriving at the conclusion to downgrade the United States of America was unforgivably sloppy and unbecoming of an institution which holds such sway over our nation's economy and financial markets.

How do you make a \$2 trillion mistake and use that to downgrade the United States of America? It damages the country. It damages our fiscal reputation. It damages our global leadership. It potentially raises interest rates for consumers, interest rates and cost of borrowing for state and local entities. And lose trillions of dollars of wealth in the stock market and get up the next day and look yourself in the mirror? And this \$2 trillion mistake was caught by a third level analyst after about a half hour's look at their press release on Friday.

That notwithstanding I think the bigger issue is not how we feel about who wrote the report, but what's actually in the report. And in the report there was a searing indictment of our nation's institutions of government, the potential of our nation's leaders to put aside their partisan and philosophical differences for the sake of the national interest. After watching Congress embarrass our country before a global audience during the debt ceiling debate it's hard to argue with S&P's

conclusion, and I quote from their downgrading statement, "the political brinksmanship of recent months highlights what we see as America's governance and policy making becoming less stable, less effective, less predictable than what we previously believed." And continuing quote, "the statutory debt ceiling and the threat of default have become political bargaining chips in the debate over fiscal policy." That's quite a statement about a system of government that's endured a tremendous amount, endured great challenges.

As a result of the toxic partisanship that has poisoned our political discourse, and the fact that our citizens have lost, many of them, what little they have, I think it's a wake up call for all of us in public service. I think it's time to put down the partisan brick bats, put country above party. Now more than ever we need economic statesmen. It's time to finally come together to responsibly rein in excessive spending, rein in excessive debate, get our fiscal houses in order. It's time that both parties at all levels of government rededicate ourselves to

rebuilding an economy that is powered by the innovation and entrepreneurship of the private sector and not by the largesse of the federal government.

In other words, it's time for our leaders in Washington to grow up and it's time for the rest of us to keep our eye on the ball. Then and only then will we be able to get back to providing the high quality services that our taxpayers deserve and make the investments in the priorities that we share. Thank you, Governor.

GOVERNOR O'MALLEY: Thank you, Mr.

Comptroller. Okay, shall we go now to the Secretary's

Agenda?

SECRETARY MCDONALD: Thank you, Governor.

Good morning, Governor, Mr. Comptroller. We have

twenty-four items on the Secretary's Agenda. There is

one report of an emergency procurement. We are

withdrawing Item 13. We are prepared for questions

you may have. Item 19 is the African American

Historic Preservation Grants that I think your guests

that you mentioned earlier are here for, if you would

like to hear about that item?

GOVERNOR O'MALLEY: Sure. Let's have Mr.

Mack. Mr. Mack, tell us what's on the Agenda here for
the Maryland Commission on African American History
and Culture.

SECRETARY MCDONALD: This is Item 19.

GOVERNOR O'MALLEY: Item 19, and thank you very, very much for your service.

MR. MACK: Thank you, Governor. On the

Agenda today we have with us Laura Anderson Wright,
representing the Odd Fellows Lodge in Sandy Spring.

That reconstruction of that Lodge, and preserving that
Lodge. We also have with us Clay Washington from,
representing the Kennard School on Eastern Shore; and
Newell Quinton representing the San Domingo Rosenwald
School. So I would like to bring -- oh, they are here

(Laughter)

MR. MACK: -- they are forward. But on behalf of the Maryland Commission on African American History and Culture, in partnership with the Maryland Historical Trust, we administer this program for the three people that you see behind us. GOCI supports

this project, at the Governor's Office of Community

Initiatives in support of the Maryland Commission,

made it possible for us to be standing here today and

we appreciate that very much.

GOVERNOR O'MALLEY: Tell us a little bit about the project?

MR. MACK: The projects are capital projects.

GOVERNOR O'MALLEY: So it's a number of them?

MR. MACK: It's a number of them. Each one represents a separate project. There are a total of sixteen projects. These are the first three of those sixteen, the project for last year is being administered by MHT, the Maryland Historical Trust.

The Odd Fellows Lodge is the last remaining building in Montgomery County that was built by African Americans some years ago. And I would like to ask --

GOVERNOR O'MALLEY: Who wants to speak for the Odd Fellows?

(Laughter)

MS. WRIGHT: An odd lady.

(Laughter)

MR. MACK: Laura Anderson Wright will speak for the Lodge, Governor.

MS. WRIGHT: Thank you. I'm so appreciative being here today and I want to use my opportunity to thank the State, to thank the Board of Public Works, for the foresight in providing this very important capital grant program. I actually represent two entities, the Sandy Spring Slave Museum and African Art Gallery in addition to the Odd Fellows Lodge. The founder of the Sandy Spring Slave Museum, Dr. Winston Anderson, my father, couldn't make it here today. So I am holding the flag for both of them.

But as the Comptroller talks about the economy and the behavior of the markets and how it impacts us all, I think not just my two projects in the eastern part of the county but all of the projects that you will see here today and as the program itself continues represent the economy engine that heritage tourism can be. And that is hopefully creating opportunities for people to come to the counties, to

spend money, to stay a while. That there are so many things right here in Maryland both historic and cultural that our own residents, and of course people from the nearly region, can come and enjoy. Thank you.

GOVERNOR O'MALLEY: Great. Thank you.

MR. MACK: And Newell Quinton will speak to San Domingo Rosenwald School.

MR. QUINTON: Thank you. Good morning, Governor. The Rosenwald School in San Domingo was built in 1919. And thank you for your support. Greatly appreciate all the support of the Trust and the Board in preserving that building. It will be used as a culture center for our community to instill within our youths the values and the commitment made by previous generations and the sacrifices made to not only value education but also deal with values and the ability to persevere in a great time in our history. And those values is what this building represents to And we will use it as an education tool to us. continue to teach our generations today that simply we seem to have a void between family, values, and our

rich culture that our ancestors had. And when this building and other buildings like it were constructed, particularly in the arena of providing education to African Americans. So I thank you.

GOVERNOR O'MALLEY: Thank you. What is a Rosenwald School?

MR. QUINTON: The Rosenwald School was a project with Booker T. Washington and Julius Rosenwald, who at the time was the Chief Executive Officer of Sears and Roebuck. And as an effort to provide education for African Americans in the southern part of the United States he set up a fund where through partnership with Booker T. Washington the Rosenwald Fund would contribute certain funds to building the schools.

And very interesting, there was a partnership of three components, with the Rosenwald Fund providing some money, the community providing some money and resources, and the state or county where the school was located provided some money for the construction of these buildings. So in Wicomico County, where I'm from, there were seven schools

built. And there were some, I think approximately 250 built in the State of Maryland.

But the important thing I mentioned there was this partnership that existed, that included the community, the people themselves, the Rosenwald Fund, and the county to cause these schools to be constructed. And in our school we find that people as early as 1918 donated the land, donated labor, the lumber for building the school. So it's that dedication of the people that were committed to education for their kids and their children is what we're trying to use as an educational vehicle why this building should be preserved, and teaching values and family and culture.

GOVERNOR O'MALLEY: And this is San Domingo of San Domingo Creek?

MR. QUINTON: No San Domingo Creek is actually in, near St. Michael's. Truly our community being designated San Domingo, we believe that that name emanates from the revolution in Haiti, Dominican Republican in 1879? 1779. 1779. And it carries on as a sign that African Americans used to protect

themselves or signal to white people to stay away. So we really can't prove that. But we believe that a lot of people that came in that part of the County and that part of the State actually came from the Caribbean.

GOVERNOR O'MALLEY: Interesting.

MR. QUINTON: And so that name is, stayed with that little community, of an African American community that we trace back to 1820.

GOVERNOR O'MALLEY: That's great.

MR. QUINTON: Yes. Thank you.

GOVERNOR O'MALLEY: That's very cool.

MR. QUINTON: Yes, sir.

GOVERNOR O'MALLEY: Where did the name, I wonder where the name San Domingo Creek came from at St. Michael's?

SECRETARY MCDONALD: Maybe from the community?

MR. QUINTON: No, we believe it's very similar. We find that a lot of people who traveled the Chesapeake from the Caribbean came up the Chesapeake waterways. And many of them were mariners

or sailors from the Caribbean. And so that designation of that revolution, which was the first successful revolution of black people --

GOVERNOR O'MALLEY: Mm-hmm.

MR. QUINTON: -- that designation continued for years as the way small, freed African American communities protected themselves. And even in our community we're sort of, never has been incorporated, but it was always sort of separate and apart. People very independent, self-sufficient, and great pride in having a community with those two institutions surviving, education and religion. I tell the kids today, I say, "Gee, when I was growing up our parents knew we were always in one of two places. We were either in church, or we were in school."

(Laughter)

MR. QUINTON: So that's what --

GOVERNOR O'MALLEY: Hm, that's good history. So San Domingo was a way of, well saying don't tread on me, huh?

MR. QUINTON: Yes, exactly.

GOVERNOR O'MALLEY: Uh-huh.

MR. QUINTON: Yes, sir.

GOVERNOR O'MALLEY: That was the Comptroller's.

MR. QUINTON: Yes, sir, that's exactly it.

GOVERNOR O'MALLEY: Okay.

MR. WASHINGTON: Good morning.

GOVERNOR O'MALLEY: Good morning.

MR. WASHINGTON: I too want to thank the State Legislature, this commission, Maryland Historic Trust, for all the work it's put into putting these grants together. I represent a grass roots organization out in Queen Anne's County, in Centreville, Maryland, that's trying to preserve a piece of African American history.

The Kennard High School, which I was a graduate of, not the original school by the way, I'm not quite that old, was built in 1936. And it was the first and only African American secondary school in Queen Anne's County. And like these Rosenwald schools there were a few of them, and only probably one in every county. And too bad that a lot of them have

been bulldozed, are not being used today in any fashion.

We were fortunate that the County leased us this building for 99 years in 1996. And we started a grass roots campaign to fix this old school. After about 10,000 chicken dinners and fish dinners, we were able to stabilize this building in 2006. We've since strategized a new way to raise funds and to, also to go after larger grants that would help us restore this building and completion. And by the way, I got sticker shock when I found out what it would cost. But we believed that it could be done and we've embarked on a campaign to make that happen.

At this point I feel like I'm part of a surgical team, made up of engineers and contractors and architects, easement overseers like Maryland Historical Trust. This great Commission. But what we've done is try to breathe life back into not just an old building but a body of history. And when we pulled the skin back and started to operate on this building we found there was cancerous decay and rot. And we've been able to address some of those, the

issues. And we hope that by the fall, the end of the fall of this year, we will put a new skin on this building. And we're here today because we've applied for a project, a grant for a project that will also start the interior work in this building.

This project was set up to restore the old doors in this building. That sounds like kind of a mundane thing. But it's not. Because these doors, like the doors in this building, represent the personality of this building. And we're so grateful that you guys have put us on point, hopefully, to get this done. And we're on the way. We're far from finished, but we're on the way. So this will probably not be the last time you'll see me, and hopefully it will not be the last time I see you. But I thank you for your confirmation of the worth of this project by voting on this grant today. Thank you and God bless you.

GOVERNOR O'MALLEY: Thank you.

MR. MACK: Governor, you can see from the passion of the three people that just spoke what this grant program has created in the African American

community. We hear this everywhere we go in the State. And I'm so happy to have with us today Anne Raines from the Maryland Historical Trust who is the administrator of the grant.

MS. RAINES: I just want to thank you very much for your support of this grant program. And as Chairman Mack said, in all the communities that we go to, all the groups that we meet with, we are just so warmly received. And we're so pleased to be able to assist these projects that otherwise in the absence of other capital funding for historic preservation they might not be able to restore. So thank you very much.

GOVERNOR O'MALLEY: Thank you.

MR. MACK: And I would be remiss if I did not bring Dr. Jones before you to offer her comments and thanks for the support that you are giving us.

DR. JONES: Good morning, Mr. Governor, Mr. Comptroller. I just want to echo the sentiments that you've heard so far. This has been a very successful and robust collaboration with just a sampling of the entities that you see here today. We are excited that we have completed round two. The applications for the

second round are in and they are equally compelling.

And we are just raring to go and hope to come back to
you at a later time with more successful partnership
stories to share with you.

GOVERNOR O'MALLEY: Thank you. A big shout out to Izzy and the twin Tonies --

(Laughter)

GOVERNOR O'MALLEY: The twin Tonies?

MR. MACK: -- for their support. Because without them we would not be able to move as fast as we are moving. So thank you so much, very much.

GOVERNOR O'MALLEY: Thank you. That sounds like a radio show today.

(Laughter)

GOVERNOR O'MALLEY: Mr. Comptroller, any questions?

COMPTROLLER FRANCHOT: No.

GOVERNOR O'MALLEY: Okay.

COMPTROLLER FRANCHOT: Great project.

GOVERNOR O'MALLEY: Well thank you all for your passion and for your commitment, and the hard work you do to make our history live in the present.

And so with that the Comptroller moves approval of the items on the Secretary's Agenda, unless there are any other questions on the Secretary's Agenda? Seconded by Yours Truly. All in favor signal by saying, "Aye."

THE BOARD: Aye.

GOVERNOR O'MALLEY: All opposed, "Nay."
(No response.)

GOVERNOR O'MALLEY: The ayes have it. Thank you all. We now move on to the Department of Natural Resources Real Property Agenda.

MS. LATHBURY: Good morning, Governor, Mr. Comptroller. Meredith Lathbury for the Department of Natural Resources. We have three items on the Agenda today and I'd be happy to answer any questions.

GOVERNOR O'MALLEY: Any questions?

COMPTROLLER FRANCHOT: I just had a question about the items, where you reserve abandoned land. I understand you have a statutory limit there. I guess it says the land has to be abandoned for twenty years without the owner or the taxes being paid. I handle the unclaimed property in my agency that, from financial institutions, and there is a three-year

timeframe where it's turned over to the State. I wonder whether you might consider asking the Legislature to address that statutory twenty-year timeframe? Because it seems like a long time when nobody is either using, owning, or paying taxes on property.

MS. LATHBURY: That's a great suggestion. We refer to this certificate of reservation as the lost souls program. This legislation was passed in 2007, and it allows for the Department to claim its abandoned land. These are inholdings within any of our public parks. And it allows us to create public The legislation actually sunsets at the end access. of 2012 so we're hoping that it could become permanent through an act of the Legislature and perhaps they can look at the timing. I believe that the timeframe is actually based on some of the principles of adverse possession. So I think that's why the twenty-year provision is in there. But it's something that certainly could be looked at.

COMPTROLLER FRANCHOT: But they are big chunks of property that, I mean not huge, but twenty acres, and thirty acres so --

MS. LATHBURY: Exactly.

COMPTROLLER FRANCHOT: -- how many are, how many total acres are there in the reserved --

MS. LATHBURY: Well in this group that you're seeing today there is a total of about forty-five acres that we're requesting.

COMPTROLLER FRANCHOT: Uh-huh.

MS. LATHBURY: We've identified I believe up to 300 acres within our State parks that we will be seeking certificates of reservation for. And we've already, we've already seen two of these, and this was last year.

COMPTROLLER FRANCHOT: Good. Well it's a very reasonable course of action. But I am glad you agree that the twenty years is, perhaps should be looked at.

MS. LATHBURY: Absolutely. We'll take a look at that, and we're very grateful for the ability to secure these lands for the State at no cost.

COMPTROLLER FRANCHOT: I would move approval of that Agenda.

GOVERNOR O'MALLEY: Great. The Comptroller moves approval, seconded by Yours Truly. All in favor signal by saying, "Aye."

THE BOARD: Aye.

GOVERNOR O'MALLEY: All opposed?

(No response.)

GOVERNOR O'MALLEY: And the ayes have it.

We move on now to the Department of Budget and

Management. MR. ROMANS: Good morning,

Governor, Mr. Comptroller.

GOVERNOR O'MALLEY: Eloise, you've changed!
(Laughter)

MR. ROMANS: I'm David Romans with the Department of Budget and Management. We have eleven items on our Agenda today. Item 11 is a supplemental item, and Items 1, 3, and 8 have been revised. I'm happy to take any questions if you have them.

COMPTROLLER FRANCHOT: I have a question about Item 5.

GOVERNOR O'MALLEY: Mr. Comptroller?

COMPTROLLER FRANCHOT: Item 5? Is Dr. Lever here?

MR. ROMANS: I think Dr. Smeallie from the State Department of Education is here.

COMPTROLLER FRANCHOT: Oh, good. Well whoever is here.

MR. ROMANS: Just while he's coming up. Oh, Dr. Lever is here? While they're coming up Item 5 is just a request for retroactive approval of a contract to conduct the biennial survey.

COMPTROLLER FRANCHOT: Right. I'm going to support the item. I have no problem with the item.

But it does give me an opportunity to bring up a related, or another issue that's been front and center for me over the last month because it's been so abnormally hot. And that is the fact that our children are going to return to school in just a couple of weeks and I continue to be amazed and disturbed by the fact that in the year 2011 there are a small number of jurisdictions in this State where the majority of school classrooms are not air conditioned. And it's no great secret what I'm

referring to, because I've gotten a lot of the information from Dr. Lever at my request, and thank you for being up front. But the fact that 54 percent of Baltimore County classrooms are not air conditioned is surprising to me. And 54 percent of the City schools are not air conditioned.

I'm not assigning blame for those conditions but I think it's just unacceptable for our school kids, particularly given what Mother Nature is serving up to us, to have the kids in these kinds of conditions. I mean, we've had twenty-four people die this year because of heat related illnesses, hundreds have been hospitalized. I mean, just imagine if we were meeting in a brick building today without the benefit of air conditioning and sit there for seven, eight, nine hours. I think it would be a hard experience. And obviously those of us in the echelons, high echelons of government, we don't have those conditions. And I doubt you could find a school administration official, or a board of education person, or anybody in the State of Maryland, or any of those jurisdictions, that doesn't have air

conditioning. Yet 54 percent of the classrooms in Baltimore County have no air conditioning.

exceptional public servants. And do you want to give me any perspective on how, I understand you only respond to jurisdictions' requests. But I'd be truly grateful if you, and perhaps the Department of Education, could share information for me about how we can improve, I guess, this hazardous, I really think you have to describe it as a hazardous situation given the temperatures that we're seeing outside. And the kids are I think going back to school in a couple of weeks. How did we get here and what can we do?

DR. LEVER: Well thank you for the emphasis that you're putting on this issue. It's one that we also emphasize. My understanding is that both Baltimore City and Baltimore County under their current superintendents and the local administration, local government, are also focusing on this issue. And this is correcting a backlog of deficiencies that, where air conditioning was not a priority at certain points.

Baltimore County is undertaking the renovation of twenty high schools. It will require an enormous amount of capital investment. All of those high schools will have air conditioning. In addition, we expect to see specific requests this fall in the capital improvement program for air conditioning in schools in Baltimore County. Understand that if they try to undertake the air conditioning of all schools now, including those high schools, it would be about \$400 million. Baltimore City has given a figure of about \$230 million to do air conditioning on all schools. So just from a fiscal point of view it's beyond anybody's reach to undertake that right now.

Air conditioning, complete HVAC renovation I understand goes for about \$80 a square foot according to construction sources that I rely on. That means that for an elementary school it's somewhere between \$6 million and \$7 million, for a middle school about \$11 million, for a high school it can be \$16 million. Westminster High School in Carroll County was, installed air conditioning for \$26 million. So these

are not small projects and they affect the operation of a school.

But what we want to see is a plan for undertaking this, for carrying out the work over a long period, recognizing that fiscal restraints are there, and that there are other priorities that have to be addressed along with air conditioning. So in the long term we hope this situation will be corrected. I think it does depend on maintaining a high level of State funding over a course of a number of years. The local governments depend critically on the State --

GOVERNOR O'MALLEY: You mean a number of more years.

DR. LEVER: Yes, a number of more years, exactly. It helps them to reduce the backlog of their own deficiencies. By taking care of major projects it frees up local money to address some of the smaller issues that can be sometimes done through a systemic renovation at the local level.

But also we're investigating alternative funding and financing, on models that have been used

in the United Kingdom, and Canada, and Australia. And we think there's a lot of promise in these methods to address a broader scope of projects within the resources that we already have. We, meaning the State and the local governments.

GOVERNOR O'MALLEY: What would they be, energy conservation?

DR. LEVER: It goes beyond that, Governor. Energy conservation is being used now. There's a model called Design Build Finance Operate, or Design Build Finance Operate Maintenance, which has been used very successfully in England, Scotland, Northern Ireland, Irish Republic, Alberta, Ontario is using it but not for schools, and New South Wales are the jurisdictions I'm familiar with. Where the, essentially a capital cost is turned into a long term operating cost which includes the maintenance and operations of the building as the revenue stream that repays the financing to undertake the capital cost. And they've used parameters to compare this approach, public/private finance initiative it's called, to a public sector comparator. Which means if you did it

under the normal financing mechanisms, what value for money are you getting for using the private sector?

And the reports that I'm getting back are that there is considerable value for money that's achieved.

GOVERNOR O'MALLEY: Great.

DR. LEVER: And Alberta claims to have saved \$97 million by using repeat designs and by using this finance initiative.

GOVERNOR O'MALLEY: Did they have to get out crow bars in order to separate these capital decisions away from their local school boards?

DR. LEVER: No, the school boards were very interested because otherwise they couldn't do the projects.

GOVERNOR O'MALLEY: That's great.

DR. LEVER: They --

GOVERNOR O'MALLEY: It's been my experience with school boards and school CEOs, they would far rather spend a week looking at new building designs and being capital planners than focusing on, you know, the other things. It's almost like recess time for them. They like to look at the capital plans. I

mean, I don't mean that out of any disrespect. mean, but it's so hard politically, given the way we try to keep the politicians out of the education enterprise except to constantly ask them to raise revenues and pump more money in. It's so hard to take over. I mean, even the county executives. I mean we, Mr. Comptroller, I applaud your empathy and your focus on this issue. When I was Mayor of Baltimore, with the dollars we had far less in those years from the State than the dollars now, we ran a whole campaign called Believe in Our Schools. We got private contractors to come in. We realized that air conditioning buildings that were built in the time of the first D'Alessandro, sound like emperors of Rome, don't they? At the time of the first D'Alessandro was cost prohibitive. But people like Bill Streuver went in and figured out a way that they could air condition a floor with window units so that at least during testing time kids could rotate through in that fashion. And we made a lot of strides.

But I hope you come up with, I would encourage you to fast forward these things. And I'm

not opposed to, and would in fact let me not speak like a lawyer, I would embrace efforts by the Legislature to reward, mandate, encourage school boards to find new ways to more rapidly improve learning conditions for our kids and our teachers. I mean, this old model that you must own it, you must build it, you must operate it, there are very few endeavors like that. You know, police are sometimes like that, too. Police and educators believe that because they are police or because they are educators they are best qualified to run their own IT department, run their own buildings, do their own HVAC, and do all these other things that are totally outside the discipline. So that it's so desperately needed by the rest of us, and that they were originally called to. It's, I'm going on too long on your line of questioning --

COMPTROLLER FRANCHOT: No --

GOVERNOR O'MALLEY: See in the second term you get to speak like this freely without worrying about --

(Laughter)

GOVERNOR O'MALLEY: -- how somebody is going to misconstrue it and put it in an attack ad later.

COMPTROLLER FRANCHOT: No I, Governor, I think your comments are exactly on point. Baltimore City, obviously, is a, they have special challenges there as far as the school system. find hard to believe is Baltimore County, where 54 percent of the classrooms are not air conditioned. 85 percent of the classrooms in the State are air conditioned. But for some reason the County has not moved in that direction. And I understand the long term costs of central air conditioning. But if I could just give a helpful suggestion, I'd be happy to pay for the U-Haul truck to go down to the local air conditioning and appliance store in Towson and other places in Baltimore County, pick up some window boxes, some units, and put them in so that come the end of August the kids are, have a little bit of cool air and at least have a safe environment.

I guarantee you that there isn't a school administrator in Baltimore County that doesn't have an air conditioned office. Guarantee it. And you know,

what about the kids? And so I appreciate your attention to this in the long term and I'm very supportive. And whatever the Governor and the legislative leaders come up with, I think that's great. But you're right, those are expensive and they are long term central air conditioning projects.

Let's just go out and buy some air conditioners.

DR. LEVER: It is a change of -COMPTROLLER FRANCHOT: Window units.

DR. LEVER: -- a change of focus that I think has taken place over the last couple of years but it takes a long time to roll out. Just to go to your point about the window units, we call them window shakers. Often the electrical system is, doesn't have sufficient capacity to support a unit in every classroom and so that becomes a problem.

COMPTROLLER FRANCHOT: That's why Secretary Collins is here.

(Laughter)

COMPTROLLER FRANCHOT: He's going to help you get that hook up. But I appreciate this. I didn't mean to take the State Board of Education. But

you guys aren't involved in the school construction but obviously you have an interest in common sense improvements for kids. And any data you have on how hard it is for kids to study when it's 100 degrees, or 95 degrees in the classroom, feel free to send us.

DR. SMEALLIE: Absolutely. And it doesn't take a lot of data. I think as you commented, Mr. Comptroller, it's common sense. When we are under really adverse weather conditions learning is affected. We work with the Department of Health and Mental Hygiene, for example, to issue weather alerts and work with local school systems to do whatever mitigation they can and provide them with advice. But as you point out, when it's 100 degrees learning is affected. So we'll continue to work with the, we are very grateful to have Dr. Lever in his position to work with local school system boards and superintendents to move us forward as quickly as they can.

Thank you for, I would echo Dr. Lever, thank you for raising this issue.

COMPTROLLER FRANCHOT: Excellent. Thank you. Governor, thank you.

GOVERNOR O'MALLEY: Sure.

COMPTROLLER FRANCHOT: I do have a question on Item 9. Is that the health benefit exchange?

MR. ROMANS: I think I've got, Dr.

Sharfstein is here from the Heath Department. Item 9 is a request to create three positions under the Rule of 100 which allows the Board to create positions during the course of the year. They would be to support the health exchange.

Secretary, for being here. I obviously don't have any problem with the federal legislation, nor with the health exchange, or the creation of these positions.

I'm fine on that. And I had a very good conversation with you about the benefits of the exchange. I do have some questions about the way in which this exchange is going to reach its potential without unnecessary cost to the taxpayers. And I take it the Legislature created this exchange as an independent

public entity. What's going on there? Why isn't it
under the supervision of your agency?

DR. SHARFSTEIN: I think the discussion that the Legislature had was between two models. I don't think there was a serious consideration about making it a State agency. I think it was between having it as a fully independent nonprofit and having it as a hybrid. And the Legislature went with the hybrid model, which has a nine-member board. I'm the Chair of the board so we're pretty involved. Also on the board is the Executive Director of the Healthcare Commission and the Head of the Insurance Administration, the Commissioner. And then there are six non-government employees. So that sort of creates part of the hybrid nature.

There is, you know, rules, very specific rules that pertain to the civil service and hiring and, you know, how that's done. And then there's rules that the Legislature, or the, you know, standards the Legislature set up around procurement. And you know, we'll be coming by and briefing you on where that stands.

But the board has met multiple times now.

We have a terrific board. We have, Georges Benjamin is on the board, if you remember Dr. Benjamin was the Secretary of Health? And we have really some terrific, terrific board members. And they have taken some steps in certain areas. They have approved a general procurement policy that was recommended by the Attorney General's Office. They have also approved an initial structure for the hiring of the key staff of the exchange. And we've recruited for an executive director and then there's the key members of that person's team.

The other major thing that's going on this year, as proscribed by the Legislature, is that there are six mandated studies that have to be done, one of them pertaining right to the financial sustainability of the exchange. They have to be done by December 23rd and presented back to the Legislature. So we are now working on those studies. We have four advisory committees with about eighteen people on them from around Maryland each that will be advising as we put

together these studies and they eventually go back from the exchange board to the Legislature.

COMPTROLLER FRANCHOT: Okay. So I understand the new relationship with your agency is basically determined by your membership on the board, and the chairmanship of that board?

DR. SHARFSTEIN: That's right.

COMPTROLLER FRANCHOT: Okay. That's reassuring to me. What have you done to assure that we aren't going to, as we begin to develop this new exchange, that we don't have some kind of mission creep? That we don't, that we have a responsible fiscal control over what the board is studying and suggesting be implemented?

DR. SHARFSTEIN: Sure. I think the most important thing there, there has been a lot of, you know, public review and discussion of this since the Governor has, you know, set up a healthcare reform coordinating council right after the healthcare reform law was signed. And coming out of that there was a real understanding that the taxpayers through the regular revenue system would not be paying for the

exchange. And in fact there really are two phases. One is the first phase, which we are in now where the federal government is paying for 100 percent of the start up costs for the exchange. And so we have so far have a \$100 million in the planning grant. then there is the first phase of an establishment grant, which we have submitted that establishment grant request for roughly \$40 million, has to do with mainly start up costs related to the IT. That's to be able to get the money. And then in 2015 it has to be self-sustaining. So that's where that study the Legislature set up that, you know, where would there be potentially fees assessed for people using the exchange, for example, that would allow it to be selfsustaining.

So the board has in mind, and I can say this as the Chair, that this can't be, you know, a sprawling enterprise because we're going to have to pay for it itself. And ultimately we have to make sure that the exchange is, you know, succeeding. And to succeed it has to have people who are getting insurance through the exchange. And if we have too

many administrative costs that, you know, cause fees in all sorts of different directions it will increase the price of insurance through the exchange and it will create a problem for the success of the exchange. So we're kind of, you know, we're starting with a very small staff. We're going to be, you know, thinking about how to, you know, keep it manageable through the whole process. Because in not too long, you know, it's going to have to succeed on its own.

COMPTROLLER FRANCHOT: Well thank you, Mr.

Secretary, and that's also reassuring. And I'm glad
you brought these three positions before the Public
Works. Moving forward, do you anticipate that the
exchange will bring future procurement actions before
this Board? I ask that because I read a summary of
the new legislation which states that the new exchange
is not subject to the State's Finance and Procurement
Article, which obviously memorializes the role that
the BPW has in procurement. So if --

DR. SHARFSTEIN: Yeah so I think, you know, my view is that we need to work collaboratively with the Board of Public Works for, you know, the

challenges. Because the expertise in procurement, there's a tremendous amount of expertise in your staff and with the Board of Public Works. And this is, I don't view it as a, you know, entirely separate enterprise. On the other hand we need I think, and I think the Legislature saw the flexibility that the structure provides may be necessary, that certain procurements wouldn't go through the Board of Public Works. But that's something that we want to be transparent about with you and with others.

You know, right now for example we have this deadline of December 23rd to do these legislative studies and there are relatively small procurements going on for technical support for those that the board has authorized under the procurement policy set out by the Attorney General's staff. So I think as you get to bigger procurements I think it becomes a more challenging issue and it's something that we should be in communication about.

COMPTROLLER FRANCHOT: Yeah, let me just urge that it needs to be much more than just communication. Those big, whatever big contracts you

enter into need to come before this Board. Because we have a history over the last hundred years where independent, "flexible" approaches to procurement have resulted not in savings to the taxpayer but all sorts of problems. And I'm not suggesting any of that would happen. I'm just saying that when you're, when you get outside the process of, that's been set up you really, as well-intentioned as the Legislature and you are, you can create an environment where big mistakes are made and people are put in awkward positions. I would strongly recommend, and the legislative studies are not of particular concern to me. But to the extent there are big contracts being approved by this exchange, they should come before this Board of Public Works. And that's my opinion.

DR. SHARFSTEIN: Right. Well we'll definitely have a change to talk about that. We're looking at all the different issues involved.

GOVERNOR O'MALLEY: Anything else on this matter, or any other matters? Are we on DBM?

COMPTROLLER FRANCHOT: And this is a big priority for us. Because if there's anything I lie

awake at at night, which I don't do a lot. But if it is it is the healthcare situation. We want affordable, accessible healthcare. But how we're going to pay for that and, you know, is and we're all trying to get to same thing. But you know, I'm, I, for example told that gee, making medical records electronic are going to, you know, have huge cost savings. And it makes sense. I open up the paper and I read that our Maryland hospitals are bleeding, hemorrhaging their cash to pay for these electronic records. And maybe it, ultimately it ends up saving us money. But you know what I'm talking about. are good intentions, and good proposals, and we all want the goals. But --

DR. SHARFSTEIN: No problem --

it? And so that's why I'm a little concerned that this process is outside of this body. And I hope that you and the Legislature can figure out how you bring those contracts before us, albeit in a voluntary way I guess. But I think they should come before the Board for approval.

GOVERNOR O'MALLEY: What Agenda Item was this again?

SECRETARY MCDONALD: It's Item 9-GM. Item 9 on DBM. It is the creation of three positions for the Health Exchange.

GOVERNOR O'MALLEY: Okay. Well this is the electronic health exchange. This is not the same thing --

DR. SHARFSTEIN: No, this is the healthcare reform.

GOVERNOR O'MALLEY: This is the healthcare reform health exchange --

DR. SHARFSTEIN: Yeah.

GOVERNOR O'MALLEY: -- that the brokers are very interested, and everybody else?

DR. SHARFSTEIN: Yes, exactly.

GOVERNOR O'MALLEY: And the small business?

DR. SHARFSTEIN: Exactly. But we use it, right.

GOVERNOR O'MALLEY: We sometimes use those terms interexchangeably.

DR. SHARFSTEIN: Exactly.

GOVERNOR O'MALLEY: And they're not.

DR. SHARFSTEIN: It's the HEX and the HIX.

GOVERNOR O'MALLEY: The what?

DR. SHARFSTEIN: The HEX and the HIX. The Health Safety Exchange is sometimes called the HEX and the --

enormous amount of confusion, I tell you. And in this new world of ours you almost need a glossary of terms to keep up with, with all they're talking about on energy sustainability, environmental sustainability, or financial sustainability. And then when you get into this it's the Health Insurance Exchange, and then the Health IT Exchange.

DR. SHARFSTEIN: Right.

GOVERNOR O'MALLEY: And then the, you know, exchange of new directors to head up DHMH exchange.

(Laughter)

GOVERNOR O'MALLEY: Who's on first?

DR. SHARFSTEIN: That's true.

GOVERNOR O'MALLEY: So this is the thing that the brokers are very much interested in, and the

small businesses, and all of that that we're mandated to do --

DR. SHARFSTEIN: That's right.

GOVERNOR O'MALLEY: -- under the Affordable
Healthcare Act. And what this group is charged with
figuring out, this is more on the accessibility --

DR. SHARFSTEIN: Right.

GOVERNOR O'MALLEY: -- rather than the interoperability of coordinated care?

DR. SHARFSTEIN: Correct. We have to establish by January 1, 2014 a functioning health insurance marketplace called an exchange in Maryland, or the federal government comes in and takes it over. So one of the reasons that the procurement, you know, policy was just, was worked on this way by the Legislature is the acknowledgment that the timelines are fierce.

GOVERNOR O'MALLEY: Right.

DR. SHARFSTEIN: By January 1, 2013 we have to start passing tests that HHS puts in front of us -- GOVERNOR O'MALLEY: Right.

DR. SHARFSTEIN: -- or else they say, "We're pulling the plug on Maryland."

 $\label{eq:GOVERNOR O'MALLEY: Or else we default and then they --$

DR. SHARFSTEIN: Right. And because of many aspects in Maryland which are unique I can tell you across everyone, the brokers, the hospitals, the doctors, everyone who has worked on this, there is complete agreement that we would like to manage our own destiny here. And that is made possible if we can hit these deadlines. So that's basically why this is a big project. And I can promise you that if you're lying awake at night you should feel free to call me because I'm probably --

(Laughter)

DR. SHARFSTEIN: -- I'm probably up wondering about some of these things myself.

GOVERNOR O'MALLEY: I'll share with you, Mr.

Comptroller, that when he first came on board Dr.

Sharfstein said to me, "I've got to tell you I've

looked at this healthcare reform and if you're not

totally committed to finding a way to make it work

you've already condemned your state to failure." So

I'm glad you stay awake at night worrying about this.

I'm glad both of you do. That allows me to stay awake
worrying about other things, as we divide our
energies.

There's this great poem by Wendell Berry called "The Peace of Wild Things." Can you pull that up for me on the internet? I may do a reading of that shortly. But I think the best time for it would probably be after the Department of Information and Technology Agenda items. So --

COMPTROLLER FRANCHOT: Move approval for this.

GOVERNOR O'MALLEY: The Comptroller moves approval of the Department of Budget and Management Agenda items, seconded by the Comptroller. All in favor signal by saying, "Aye."

THE BOARD: Aye.

GOVERNOR O'MALLEY: Oh here it is. Oh here it is. "When despair for the world grows in me and I awake in the night at the least sound in fear of what my life and my children's lives may be, I go and lie

down where the wood drake rests in his beauty on the water, and the great heron feeds. I come into the peace of wild things who do not tax their lives with forethought of grief. I come into the presence of still water. And I feel above me the day-blind stars waiting with their light. For a time I rest in the grace of the world, and am free."

COMPTROLLER FRANCHOT: Boy, if there's ever a better time for that poem given what's happened the last week, thank you for sharing that.

GOVERNOR O'MALLEY: I've been falling back on that one a lot. It makes you breathe deeper, doesn't it?

COMPTROLLER FRANCHOT: Yes. Yes.

GOVERNOR O'MALLEY: Thank you. You like that one too.

SECRETARY MCDONALD: I do.

GOVERNOR O'MALLEY: Was that in your saved file? How did you find that that quickly?

SECRETARY MCDONALD: No, I like the poem. Thank you.

GOVERNOR O'MALLEY: Okay. University System of Maryland.

MR. EVANS: Good morning. Joe Evans, representing the University System of Maryland. We have eight items on the Agenda today. We're here to answer any questions.

COMPTROLLER FRANCHOT: Oh, yeah. Yeah.

This, Governor if I could just --

GOVERNOR O'MALLEY: Sure.

COMPTROLLER FRANCHOT: -- ask a question about Item 5-S?

MR. EVANS: Okay. I would like to bring up Valerie Rolandelli.

COMPTROLLER FRANCHOT: Yeah. Good. Because that's a \$45 million request that I have great difficulty understanding what we're going to be spending \$45 million on.

MS. ROLANDELLI: Good morning. I'm Valerie Rolandelli from the University System and I was the procurement officer on this. What this is a group of consulting contracts. We have what is called EFP systems, which handles all of our back office systems

for the administration, for finances, for the HR system, and primarily for our student systems. And so these systems need to be maintained and kept in order so that our students can apply, that their records are kept current, etcetera. And these, in any information technology world they need to, we need to oftentimes upgrade or bring in experts to help us for particular items related to that. And ten of the University System's schools use People Soft and so that oftentimes takes consulting help.

COMPTROLLER FRANCHOT: Okay. So we're going to approve \$45 million in spending. You have a group of contractors I --

MS. ROLANDELLI: Thirteen.

COMPTROLLER FRANCHOT: -- thirteen that are there. I guess my concern is that in your backup material you indicate that a, some of these \$45 million can in effect be bid --

MS. ROLANDELLI: Correct.

COMPTROLLER FRANCHOT: -- to one of these companies.

MS. ROLANDELLI: That's correct. Oftentimes

COMPTROLLER FRANCHOT: I think the language is one or more?

MS. ROLANDELLI: Correct.

COMPTROLLER FRANCHOT: Why isn't it two or more?

MS. ROLANDELLI: Oftentimes we'll look at all of them. But some of these people are niche players, particularly just trainers, and not all of the, not all of the consultants offer all of the expertise that we need.

COMPTROLLER FRANCHOT: Okay.

MS. ROLANDELLI: Which was --

make sense to me. That you have a process where you put together a group of companies that you're going to bid the \$45 million to, and they are not going to come back to us. We're not going to see these after we vote today, I take it. And that, but yet some of that \$45 million is going to be "bid" to a single niche company. That doesn't make sense to me.

MS. ROLANDELLI: It's rare that we would only look at one. Only if there was a special unique need, or a specific expertise in consulting that one of these firms would offer to us.

COMPTROLLER FRANCHOT: Well --

MS. ROLANDELLI: But in most of the cases there will be more than one firm that's looked at and proposals received for task orders.

COMPTROLLER FRANCHOT: I mean it just doesn't look good. I guess what you're saying is that it's only going to be used rarely. So, but I'm going to go along with it. But I'd request that if you do, solicit a proposal from just one company, as rare as that might be --

MS. ROLANDELLI: Okay.

COMPTROLLER FRANCHOT: -- that you come back to the Board and tell us about it.

MS. ROLANDELLI: We'll be glad to do that.

GOVERNOR O'MALLEY: And make sure in a State as technologically rich as ours, with as many IT businesses as ours, that there's the reflective diversity in --

MS. ROLANDELLI: Absolutely.

GOVERNOR O'MALLEY: -- these projects.

MS. ROLANDELLI: Absolutely.

COMPTROLLER FRANCHOT: Okay. I move approval, Governor.

GOVERNOR O'MALLEY: The Comptroller moves approval, University System of Maryland items, seconded by Yours Truly. All in favor signal by saying, "Aye."

All opposed, "Nay."

(No response.)

GOVERNOR O'MALLEY: We move on now to the Department of Information Technology.

MR. SCHLANGER: Good morning, Governor, Mr.

Comptroller. Elliot Schlanger, Department of

Information Technology. We have six items on the

Agenda this morning, including Supplementary 6-IT.

But I would like to call your attention to Item 3-IT,

which is a proposed contract with NICUSA to provide

eGovernment portal services to the State under a self
funded model. And if the Board will like we are

prepared to offer a brief presentation this morning on

NIC and what they will do for the State. And we can also, of course, answer any questions on any other items.

COMPTROLLER FRANCHOT: How long is brief?

MR. SCHLANGER: We can make it less than five minutes? Fair deal?

GOVERNOR O'MALLEY: I feel badly doing this without the Treasurer.

SECRETARY MCDONALD: Yeah, the Treasurer is the one who wanted the presentation.

COMPTROLLER FRANCHOT: Yeah, yeah --

GOVERNOR O'MALLEY: She was dying to hear this.

SECRETARY MCDONALD: Yeah.

GOVERNOR O'MALLEY: How about we approve it and then you bring it back at the next meeting when the, I mean because it's not going away. Tell us in a nutshell what this is.

MR. SCHLANGER: Okay. Well as you know we do a pretty good job with our online services. As a matter of fact in 2008 the Center for Digital

Government awarded us ninth in the U.S., and that same group in --

GOVERNOR O'MALLEY: Ninth in the U.S. for?

MR. SCHLANGER: For best portal and online services. And in --

GOVERNOR O'MALLEY: Services, and by this you don't mean procurements where companies bid to build bridges --

MR. SCHLANGER: No.

GOVERNOR O'MALLEY: -- or provide IT services. You mean this online services provided to citizens?

MR. SCHLANGER: Government to business and government to citizens.

GOVERNOR O'MALLEY: So licensing of businesses?

MR. SCHLANGER: Right. Sale of data to insurance companies and the like.

GOVERNOR O'MALLEY: Got you. As well as drivers license or registration, and the things you're able to do online --

MR. SCHLANGER: Correct.

GOVERNOR O'MALLEY: -- or getting something from the Department of Assessments and Taxation?

MR. SCHLANGER: Correct.

GOVERNOR O'MALLEY: Got you.

MR. SCHLANGER: Correct. And I'd just like to point out in 2010 that same group gave us a grade of B. Now you, Governor --

GOVERNOR O'MALLEY: In 2010 we got a B? B?

MR. SCHLANGER: Yeah. We are insulted

because you know we are a AAA state.

GOVERNOR O'MALLEY: And I am insulted by B.

MR. SCHLANGER: Right. So am I. And I think so is everyone in this room. So we really need to think out of the box and come out with a way that we can have our online services and web portal equal to that AAA rating that we know we should be at. And so we propose that we are going to partner with NIC, who is the leading expert in this business. As a matter of fact they do self-funded portals in twenty-four states. And when they come in the door they bring twenty years experience and approximately 7,500 egovernment applications that we can leverage. And

the beauty of the self-funded model is it is done without any cost to the agencies in the State. And the way that is done is approximately 20 percent of the applications that they will implement do carry a, it's a convenience fee. These fees, again, are only assessed to those who choose to use the self-serve option. And that funding is successfully driving the 80 percent of the applications that don't have fees.

GOVERNOR O'MALLEY: What are some of the other states?

MR. SCHLANGER: If I may, I have a map. GOVERNOR O'MALLEY: Mm-hmm.

MR. SCHLANGER: And for those of us who are expert in geography we could probably name all of those states --

GOVERNOR O'MALLEY: Ah, there's the Virginians, huh? Good.

MR. SCHLANGER: Right.

GOVERNOR O'MALLEY: Okay. Well do you, unless you have questions on this?

COMPTROLLER FRANCHOT: I move approval and -

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GOVERNOR O'MALLEY: Okay.

COMPTROLLER FRANCHOT: -- please give the power point to the Treasurer.

GOVERNOR O'MALLEY: All right, the

Comptroller moves approval, seconded by Yours Truly.

These are on all, do you have any questions on other

DoIT items?

COMPTROLLER FRANCHOT: Nope.

GOVERNOR O'MALLEY: So on the entire

Department of Information Technology Agenda items,
seconded by the Governor. All in favor signal by
saying, "Aye."

THE BOARD: Aye.

GOVERNOR O'MALLEY: All opposed, "Nay."

(No response.)

GOVERNOR O'MALLEY: The ayes have it.

MR. SCHLANGER: Thank you.

GOVERNOR O'MALLEY: And we hope you will return with your full power point for the Treasurer, who is very excited about this.

 $$\operatorname{MR}.\ \operatorname{SCHLANGER}\colon$$ We will absolutely do that. Thank you --

GOVERNOR O'MALLEY: Okay, thank you. Who are we up now?

SECRETARY MCDONALD: Transportation.

GOVERNOR O'MALLEY: Department of Transportation.

MR. MOBLEY: Good morning, Governor, Mr.

Comptroller. For the record, Darrell Mobley representing MDOT. MDOT is presenting twenty-four items today as Item 25 is being withdrawn. For the record, Items 1, 3, 9, 21, and 22 have been revised.

GOVERNOR O'MALLEY: Any questions,

Department of Transportation? Moved by the

Comptroller, seconded by me. All in favor signal by saying, "Aye."

THE BOARD: Aye.

GOVERNOR O'MALLEY: All opposed, "Nay."

(No response.)

 $\label{eq:GOVERNOR O'MALLEY:} The ages have it. We$ move on now to the Department of General Services.

MR. COLLINS: Good morning, Governor, Mr. Comptroller. The Department of General Services has twenty-eight items on our Agenda, including one

supplemental. Item 4 has been revised. We'd be glad to answer any questions you have at this time.

Governor, before we start may I introduce the new Deputy Secretary for my Department?

GOVERNOR O'MALLEY: Sure.

MR. COLLINS: D'Andrea Lancelin, please stand up? Is our new Secretary, Deputy Secretary for me. As you know, Governor, we've been looking for one for a long time. So finally the right person came along.

GOVERNOR O'MALLEY: Great. Is it Ms.

Lancelin? L-A-N?

MS. LANCELIN: Lancelin.

MR. COLLINS: Lancelin, L-A-N-C-E-L-I-N, Lancelin.

COMPTROLLER FRANCHOT: Excellent.

GOVERNOR O'MALLEY: Great. Tell her to come up to the microphone. Tell us where you came from. Thank you.

MS. LANCELIN: Good morning. I actually came from Department of Transportation. I was -GOVERNOR O'MALLEY: Ah, poaching.

SECRETARY MCDONALD: But tell them where you started, D'Andrea.

MS. LANCELIN: I started up here on the second floor. I used to be the Director to the Board of Public Works for Governor Glendening quite some time ago. So I've been around State government for almost fifteen years now.

GOVERNOR O'MALLEY: Don't let that hold you back.

(Laughter)

MS. LANCELIN: Not at all. Not at all. And I'm happy to be a part of DGS. I do miss Department of Transportation.

GOVERNOR O'MALLEY: What did you do at Transportation?

MS. LANCELIN: I was Deputy Administrator for Operations. So I managed all of the sales services, all of the twenty-five MVA locations and the VEIP locations, and the call centers --

GOVERNOR O'MALLEY: Wow.

MS. LANCELIN: -- and school bus safety.

GOVERNOR O'MALLEY: How are they going to get on without you?

 $\label{eq:MS.LANCELIN:} \mbox{ They have some good people} \\ \mbox{working for them.}$

GOVERNOR O'MALLEY: Mm-hmm. That's great.

MS. LANCELIN: Quite a fine --

GOVERNOR O'MALLEY: And Mr. Collins looks very, very happy.

MR. COLLINS: You know --

(Laughter)

MR. COLLINS: And I want to thank Secretary Swaim-Staley who was very cooperative in making this exchange.

MS. LANCELIN: She was.

MR. COLLINS: And she's been very supportive to this, and we're just excited to have D'Andrea over with us, Governor. And she just brings a wealth of talent that we sorely need.

GOVERNOR O'MALLEY: Great.

MS. LANCELIN: Thank you, Mr. Secretary.

GOVERNOR O'MALLEY: Thank you. Mr.

Comptroller, are you okay with these?

COMPTROLLER FRANCHOT: Yes, I have a question on Item 28.

GOVERNOR O'MALLEY: Item 28?

MR. COLLINS: Item 28. Yes sir, Mr.

Comptroller. This is the health laboratory that we introduced at the last meeting. We're bringing it back today with the one question that you asked us to respond to. But we're happy to answer any questions you have on this item. We have a number of people in the audience who are experts on this particular activity.

COMPTROLLER FRANCHOT: Thank you, Mr.

Secretary. And we did approve this project two years ago, I think, at least we started the approval. And I remain supportive of the project. But I think it's imperative that we understand exactly what we're doing here and the implications of this lease agreement.

It's my understanding, and that of my staff, that this lease agreement is defined as taxpayer supported debt and must therefore be counted against our State's benchmark of debt affordability.

MR. COLLINS: Let me ask Mr. Gaines to come up, Mr. Comptroller, to address that issue. That is not the understanding that we have in working out this item at the Treasurer's Office. But Mr. Gaines has been intimately involved in that.

MR. GAINES: Yes. It is a twenty-year lease. DHMH will be leasing the property from MEDCO. It is structured as a capital lease. And because of that has been reviewed by the Debt Affordability Committee, will count against the State's debt.

COMPTROLLER FRANCHOT: Okay. So just for the sake of people listening at home, I guess. We have our own debt ceiling in Maryland. We've read so much about the feds. We have our own debt ceiling.

MR. GAINES: Correct.

COMPTROLLER FRANCHOT: It's something we do voluntarily. We limit our tax supported debt to 4 percent of personal income and tax supported debt service to 8 percent of revenues. And with this taxpayer supported lab coming online with \$184.8 million in capital lease payments being added to the debt load I think the Treasurer's own projections, as

communicated in a May 26th letter to Governor O'Malley and the presiding officers of the Legislature, would have the State of Maryland hitting that 8 percent debt ceiling in fiscal year 2016 and temporarily exceeding the ceiling in fiscal year 2017. And that doesn't include other projects that currently are not classified as capital debt but could be in the very near future. We've obviously had some attention paid to the State Center project, which I believe after GASB speaks in September or October is going to be, have to be considered to fit under the debt affordability level.

So I guess the point here is that I support this project but I think it's uncomfortable that we're this close to the debt ceiling. And I hope that we reexamine the capital spending commitments that we have and figure out what we can and what we can't live with. Because we're getting dangerously close to those limits. With this one we're basically exceeding it as far as I can tell, at least according to the Treasurer's chart. And I just think that, given the downgrade of the U.S. government and the increased

scrutiny of the rating agencies, obviously, for AAA states like us that have a close connection to the feds, I think it's something that we need to be extremely cautious about that.

MR. GAINES: Well --

COMPTROLLER FRANCHOT: Do you, is that, do you have something new to tell me --

MR. GAINES: Well we agree that --

COMPTROLLER FRANCHOT: -- not what I think it is?

MR. GAINES: Well we do agree that caution is the order of the day. However, this is an essential use and function of the State in providing public health needs to the citizens of the State of Maryland. The current facility that they are in is sorely in need of being replaced, highly dysfunctional, systems are in disrepair, millions of dollars of deferred maintenance. And we need a state of the art facility. I can speak, I can't speak as well as Dr. Sharfstein on it and maybe I'll let him speak to that as well. But based on the letter from Secretary Kopp we believe that this essential need and

function of the State does fit under the cap. There is one year, 2017, where it marginally exceeds. I think the Treasurer's Office has run new numbers that demonstrate that these lease payments will fall under the cap. The Deputy --

COMPTROLLER FRANCHOT: What's, excuse me?

MR. GAINES: -- Treasurer is here this

morning to speak to that.

COMPTROLLER FRANCHOT: That's news, I guess.

Because --

MR. GAINES: It is new information.

it's an important project. But this debt limit
ceilings that the Capital Debt Affordability Committee
has established with the Legislature on the second
floor, these are very important also. So if we, every
time we have a good project we blow through the
ceiling that's not a good dynamic that we're setting
up. It's kind of reminiscent of what, in a very,
very, very, very small way, what some of the problems
in Washington are. But please, is there more
information that's coming out? Ms. Benik?

MS. BENIK: Good morning, Governor, Mr.

Comptroller. Please excuse me, I'm getting over a

summer cold and some laryngitis. Yes, we have run --

SECRETARY MCDONALD: Could you just introduce yourself for the record, please?

MS. BENIK: Oh, I'm sorry. It's Bernadette Benik, Chief Deputy Treasurer for the State Treasurer's Office.

SECRETARY MCDONALD: Thank you.

MS. BENIK: As you know, CDAC begins to meet in August and it goes through September looking at numbers to produce the report at the end of September. In the process of doing that our first meeting with the committee will be on Friday. We have completed our first run of new affordability analysis numbers that will be given out on Friday. What we have determined is that right now with the new numbers that are run, now these do not include the new revenue projections that will come out by the Board of Revenue Estimates in September, but it includes all other debt issues. And right now we're projecting that in 2017 we will hit 7.87 percent versus the original last

year's report of over 8 percent. And it will drop to 7.16 percent in 2021.

Now the reason for that, there are several reasons for that. One of the reasons is our debt service is down about \$22 million compared to the 2010 report. That's because we now have factored in the most recent bond sale we had that just passed. Additionally, last year the Legislature passed under Chapter 163 of the Laws of 2011 a law that says that for capital debt affordability purposes that the State does not have to count any energy leases where there is a guaranteed energy savings that equal or exceed debt service payments. So that's accounting for about another \$13 million in savings that will come off of the debt limit. Additionally, we now have better numbers for the VLTs at Arundel Mills. So the amount last year projected to be spent to finance is down because they have now figured out how many machines they are going to lease/purchase versus the ones that will be the pay outs that they actually lease from the manufacturer. And then we also have some transportation debt service down. And there's a few

million here and there on, Stadium Authority has an exclusion on their energy leases that we do. And then a few other little miscellaneous items.

So right now the way we are projecting the numbers we will with the lab in, and this does include the lab being in, it has the State Center garage out.

We will be under the 8 percent.

COMPTROLLER FRANCHOT: Okay. And what happens when you put State Center, and the Charles County Jail, and all these other wonderful projects that we have considered to be outside of the debt ceiling, what's going to happen when GASB says, "Sorry states, we don't agree with you on the smoke and mirrors operation and we want you to correctly classify these as capital debt?"

MS. BENIK: Well clearly if we had to put
State Center in and if we had to put in the other
leases, there is also about \$60 million, I believe,
that maybe Secretary Collins can clarify, that we do
have in outstanding operating leases that would also
be brought in. So to the extent that GASB or FASB
says the states just include these under their debt

limits I think it would be up to CDAC to go back and then look at those criteria and decide what they were going to do with them. Because the original limits that, while they are self-imposed, that were set were done years ago and were primarily set just to be on general obligation debt that was issued.

understand or try to pierce the wonderful eloquence and elegance of your remarks, basically implies that we're going to go back and raise the limit. And I think that is just, given the climate, outrageous. And I hope that that is not proffered by the Legislature, or legislative leaders, or by the Treasurer, or by others. It's wrong. It's going to get us in a tremendous amount of difficulty if we open this up A to legerdemain, on the one hand, or B, just hey let's raise the limit. It's, you know these --

MS. BENIK: And I understand, Mr.

Comptroller. I'm not saying proposing we're going to do that.

COMPTROLLER FRANCHOT: Well --

MS. BENIK: But I'm just saying that once this happens it is something the CDAC will have to look at when it makes its recommendations on the debt limits.

COMPTROLLER FRANCHOT: If I could, Governor?

GOVERNOR O'MALLEY: Sure.

COMPTROLLER FRANCHOT: Just to finish the point. The problem here is that by voting for this project today, which we're going to do, we put ourselves right up there. And I'm not sure about these energy contracts. That sounds, you know, pretty complicated, and maybe it's taken care of in the federal statute. But the point is that we have got these large increasing debt obligations and we need to be extremely cautious about that given what's happened in the last week, and what could happen in the next foreseeable future.

So I hope that we're not going to take the easy road out here and just say, geez, 8 percent? How about 9 percent? Or how about 10 percent? It's, I think it's something we should avoid at all cost

given, at least until we're well into the recovery that we all hope will happen down the road.

Sorry, Governor, I didn't mean to get down in the weeds there. But it's a, you know, it's something the public looks at and says, geesh. You know, you go back and look at it and all of a sudden you're not breaking through the debt ceiling, you've got all this wiggle room in there. And it just looks at the last minute when you compare it to the letter that was sent in May like we are, you know, like the Wizard of Oz we're back there behind the curtain, pushing and pulling. And it's a bad impression.

And then the worst impression would be, oh, gee, we were really not happy with the 8 percent because it's limiting us. Let's change it. And I, if we were in better times I think we could at least talk about it. But these are not better times. And you know.

Anyway, on that happy note have a great rest of the week, and I'm happy to move approval, Governor.

GOVERNOR O'MALLEY: Okay. Seconded by Yours
Truly. All in favor signal by saying, "Aye." All
opposed, "Nay."

(No response.)

GOVERNOR O'MALLEY: The ayes have it. And let me just add, I think it's important that we take a deep breath and not catch the contagion going on to the west of us. Several times over the last five years we have raised our own debt ceiling. We've done it in a moderate and responsible way and have maintained a AAA bond rating the entire time. And many of the same new approaches that we discussed to doing things, especially where real estate is concerned, getting away from the notion that the State must always own the buildings, the State must always operate, the State must always maintain the buildings, and combining this with our drive to reducing energy costs, requires that we enter into new types of agreement that are build and lease. Because we've decided that those are more fiscally advantageous to Not that it allows us to skate on payments, but us. that it allows us over the long term to fulfill the

needs that we have for this common safeguarding platform of our State government.

So, I don't know, we can have a longer conversation and no doubt will have longer conversations. Mr. Comptroller, I think your cautionary words are well stated and certainly well received. But there is a balance here if we are going to do some of these things in ways that save the people money over the long term.

COMPTROLLER FRANCHOT: And just for the record, there were no one to one votes today.

(Laughter)

GOVERNOR O'MALLEY: That's right. There you go. Hey, thank you. It's Maryland. We figure out a way to make things work.

SECRETARY MCDONALD: Thank you.

GOVERNOR O'MALLEY: Thank you. This adjourns our meeting.

(Whereupon, at 11:32 a.m., the meeting was concluded.)