



MARYLAND STATE TREASURER
Dereck E. Davis

**Testimony of the Maryland State Treasurer's Office
E20B – State Treasurer's Office Operating Budget | Fiscal Year 2025**

**Senate Budget and Taxation Committee – Education, Business and
Administration Subcommittee
February 2, 2024**

**House Appropriations Committee – Public Safety and Administration
Subcommittee
February 5, 2024**

After careful review, the State Treasurer's Office (STO) respectfully requests that the committees concur with the Department of Legislative Services' recommendation to concur with the Governor's allowance for the proposed operating budget for fiscal year 2025. While STO is generally supportive of the allowance, STO notes that there are three areas of the budget where the funding levels raise concerns that additional funding may be required to (1) complete STO's Major IT Project, (2) provide for operations and maintenance of two modules of the Major IT Project (insurance and financial operations) which have been or will be completed in the near future, and (3) continue filling key vacancies. After providing an update on the four items identified in DLS' analysis (legislative priorities, Maryland 529 Program transition, digital advertising, and investment returns), STO will outline the need for investments beyond what is provided for in the allowance.

Update on Implementation of Legislative Priorities

The DLS analysis highlights two priorities of the Maryland General Assembly that STO has worked diligently to implement throughout fiscal year 2024: (1) the transfer of the Maryland 529 Program (Maryland 529) to STO; and (2) the completion of STO's current Major IT Project. Key investments in both of these priorities greatly facilitated implementation, however the resources that the former required impeded STO's ability to complete the latter.

DLS first requested that STO provide the committees with an update on the use of funds for these priorities and any other planned uses in fiscal year 2024. While the analysis correctly notes that STO has only spent approximately \$1.8 million of the \$6.65 million

appropriated for the Maryland 529 transition, the agency's mindful approach to spending met the most pressing needs (claims system infrastructure, legal assistance, and marketing) while leaving reserves for future needs. Half of the funds spent supported the new claims system, while the remainder covered other expenses. Seven months into the transition, unexpected challenges continue to arise. STO anticipates additional spending for continued staff support for the claims process, legal assistance, and marketing, among other transition-related expenses.

In terms of the Major IT Project, due to the transition of Maryland 529, STO diverted resources from the Major IT project to address the crisis at hand. That cost in time, coupled with delays in updating STO's connections with outside entities, require a full year of funding as opposed to the six months of funding that STO originally envisioned for fiscal year 2025.

STO expresses concern that the Governor's allowance does not fully fund STO's Major IT Project. The project requires approximately \$6.6 million in fiscal year 2025. The allowance largely provides that level of funding but requires \$900,000 for Independent Verification and Validation (IV&V) from the Department of Information Technology. In other words, the allowance may be \$900,000 short of what is needed to fund the project. Full funding is needed to complete the project and continually improve the technology that supports the office's critical operations.

As noted in the analysis, STO is undertaking efforts to modernize information technology and other internal processes. These updates have made the State's Insurance Program and STO's Treasury Management Division more efficient and customer-friendly and will make similar upgrades to STO's finance and accounting functions over time.

Update on Maryland 529 Transition

The DLS analysis next requested that STO provide a status update on the overall transition of Maryland 529 and discuss ongoing communication with account holders during implementation. While STO responds to account holders via phone and e-mail on a daily basis, the following timeline reflects the milestones where account holders and members of the General Assembly received correspondence from STO.

- In **early May**, Treasurer Davis established a dedicated e-mail address for Maryland 529-related questions and concerns. In addition, he invited account holders to submit written comments regarding their experience with the Program and sign up to participate in a virtual listening session.
- On **May 24**, one week before STO assumed responsibility of Maryland 529, Treasurer Davis held a virtual listening session with account holders.
- On **July 10**, Treasurer Davis issued a 47-page Decision Memorandum explaining STO's understanding of the issues facing the Maryland Prepaid College Trust and outlining four phases of policy change to resolve the issues:

- Phase I: Established a 6% retroactive earnings rate on historical account balances (**completed July 2023**);
- Phase II: Updated the online portal to automatically reflect new account balances (**completed August 2023**);
- Phase III: Established and announced the parameters for claims filed against the Maryland Prepaid College Trust (**completed October 2023; review of claims received prior to the December 31 filing deadline is ongoing**); and
- Phase IV: Specified that the earnings rate will switch to zero percent at some future date on or before July 1, 2024 (**in process; STO will provide at least 60 days' notice to account holders prior to making the change**).

In a relatively short amount of time, while balancing its unrelated but constitutionally mandated duties, STO restored account holders' access to their full account balances, honored a commitment to provide 6% retroactive earnings, and established a process that received over 3,300 claims over the course of several months. Together, these steps have opened a new chapter for the Maryland Prepaid College Trust.

Update on Digital Advertising

The DLS analysis also requested that STO provide context for the substantial increase in impressions from digital advertising and users to the Maryland 529 website.

Digital advertising utilizes the Internet to reach a target audience. This includes paid advertising on search engines, websites, and social media platforms, as well as unpaid promotion through those same platforms, news sites, blogs, and partner organizations (such as CASH Campaign of Maryland) that are promoting Maryland 529 and offering readers or followers an option to click to the Maryland529.com website.

In addition to the relatively low cost of producing and purchasing digital advertisements over traditional advertisements (such as television and radio), digital advertising offers the ability to track and measure audience engagement in real time. Every paid digital ad promoting the Maryland 529 plans directs the user to a specific page on the Maryland529.com website that corresponds with the ad's message. For example, if the ad is promoting State tax benefits, the ad will direct users to the Tax Benefits page on Maryland529.com. This offers the ability to analyze the changing behaviors of customers and modify campaigns for those changes.

These benefits have led to a shift in advertising Maryland 529 on digital platforms versus more expensive traditional means, resulting in increased impressions and visitors to the Maryland529.com website. In particular, digital advertisements were increased on Facebook, Instagram, and Google Search, as past results indicated that those mediums generated the highest click-through rates and account openings.

Update on Investment Portfolio

The DLS analysis notes that, from fiscal year 2022 to fiscal year 2023, the State's investment portfolio experienced a 3.96 percentage point increase, resulting in "significant returns." The rate of return is a function of the size of the portfolio, which increased given the influx of federal funds and the rise in inflation rates, but investment strategy also contributed to the portfolio's success.

It is important to note that in fiscal year 2023, interest income earning by the Investment Division totaled \$650 million with \$312.5 million going to the General Fund and the remaining amount going to agency special fund balances. Going as far back as fiscal year 2010, the highest amount of interest income earned for the General Fund was \$58.4 million. In fiscal year 2024, STO estimates that the Investment Division will again reach the \$300 million benchmark in earnings for the General Fund. Higher interest rates coupled with a large portfolio balance and wise investments by STO's Investment Division have helped to create this unprecedented amount of interest earnings.

During the 2023 session, the committees passed legislation (Senate Bill 153/House Bill 397) that provided STO with additional flexibility in making investment decisions. While the changes to State Finance and Procurement, § 6-222 authorized STO to establish thresholds for different types of investments in regulations, the portfolio could stand to benefit from a more flexible approach. This session, STO is asking the committees to support legislation to clarify that regulations may establish the asset classes in which the State and local governments may invest.

Need for Additional Investments

As mentioned previously, the Governor's allowance fails to include three investments that are necessary for STO's continued success.

First, STO requests full funding to complete the Major IT Project, as discussed under "Update on Implementation of Legislative Priorities."

Second, STO requests \$750,000 in General Funds for operations and maintenance support for the Major IT Project. Typically, in the first year following completion of a project, the Department of Information Technology provides funding for maintenance. While the final component of the project will still be in process during fiscal year 2025, the other two components (Insurance and Finance) will have been completed for over a year. To adequately maintain the system that has been built, STO requires three contracted resources to address issues that arise within the system, maintain the system based upon software updates from Microsoft, and continually enhance the system.

Third, STO requests \$250,000 in General Funds to reduce the vacancy rate to 5%. The budget assumes a vacant rate of 8.5%. Prior to the Maryland 529 transition on June 1, 2023, the number of vacant positions in STO totaled two for a vacancy rate of 3%. This rate reflected a great deal of progress as the vacancy rate had been 32% when Treasurer Davis assumed office in December 2021. STO has 17 positions that have been vacant for longer than one year, 16 of which are inherited positions from the Maryland 529 Program. The remaining position is an IT position that STO is currently in the midst of recruiting. STO continues to evaluate resource levels while rebuilding and transitioning. Increasing the turnover rate will only adversely impact operations.

For the foregoing reasons, STO concurs with DLS' recommendation to concur with the Governor's allowance with additional investments in the Major IT Project, operations and maintenance for follow-up IT work, and General Fund turnover adjustment. Please contact Jonathan Martin, Chief Deputy Treasurer (jmartin@treasurer.state.md.us), with any questions.