



**MARYLAND STATE TREASURER**  
**Dereck E. Davis**

**Testimony of the Maryland State Treasurer's Office**  
**E20B – State Treasurer's Office Operating Budget | Fiscal Year 2026**

**House Appropriations Committee – Public Safety and Administration**  
**Subcommittee**  
**February 6, 2025**

**Senate Budget and Taxation Committee – Education, Business and**  
**Administration Subcommittee**  
**February 10, 2025**

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 2026. In addition, STO would like to respond to the questions that DLS raised pertaining to the Maryland 529 Program, the State's investment portfolio returns, and the outlook for the State's credit rating.

**Update on the Maryland Prepaid College Trust**

The DLS analysis requested that STO provide a status update on the implementation of the programmatic policy changes associated with the Maryland Prepaid College Trust (MPCT). These changes stem from the July 2023 memorandum in which Treasurer Davis identified four phases of policy change to reform MPCT. As noted in the analysis, STO implemented all four phases as of summer 2024 by (1) establishing a 6% retroactive earnings rate on historical account balances, (2) updating the automated recordkeeping system (online account portal) to reflect new account balances, (3) establishing and administering a claims process, and (4) setting the earnings rate for accounts to 0% to stop the accrual of new interest on prepaid accounts.

STO implemented the first two phases of policy change during the summer of 2023 in advance of the fall 2023 semester. During the third phase of policy change, STO reviewed over 3,300 claims. Claims related to the November 2021 disclosure statement change ("earnings claims") required to be filed by December 31, 2023, received priority. As of January 31, 2025, STO settled and closed 98% of earnings claims while 37 claims remain open. Of these 37 claims, most require extensive review or cannot be closed until STO

receives additional information or documents from claimants. STO will continue to evaluate claims on a rolling basis, given that claims other than earnings claims are not limited by the December 31, 2023 filing deadline.

During the final phase of policy change, interest rates on prepaid accounts switched to 0%, which prompted an increase in rollover disbursements of more than \$24 million over the same period during the previous year. As of December 31, 2024, 26,043 prepaid accounts remain open, a decrease of approximately 4,600 accounts from the prior year.

Now that STO has fully implemented all four phases of policy change, the Office is focused on administering MPCT in a responsible, prudent manner for as long as it remains viable.

### **Update on the State's Investment Portfolio Earnings**

The DLS analysis further requested that STO explain why the State investment portfolio experienced proportionately lower returns during fiscal year 2024. While this is true, the overall size of the portfolio was smaller on average in fiscal year 2024, and the lower balances impacted returns. The Federal Reserve dramatically raised rates from March 2022 through July of 2023 (fiscal year 2023) to fight inflation. The portfolio took advantage of the higher rates and shortened the duration of assets. The higher short rates offset other longer assets that had been purchased years ago at lower interest rates; overall, the lower aggregate size of the portfolio was the major driver of lower returns in fiscal year 2024. Looking ahead, the Federal Reserve held rates steady at the elevated level until this past September 2024 (fiscal year 2025) and has now lowered rates by 100 basis points. The lower rates are anticipated to positively impact returns this fiscal year.

### **Update on General Obligation Bond Ratings**

The DLS analysis noted that Moody's assigned Maryland a negative outlook in connection with the most recent bond sale. Maryland has been rated AAA by the three major rating agencies since the rating agencies first began issuing credit ratings. While the assignment of a negative outlook is not ideal, the State has rebounded from a negative outlook in the past. In 2011, Moody's assigned a negative outlook in connection with the shutdown of the federal government, due to the State's interconnectedness with the federal government. Shortly thereafter, Moody's restored the State's stable outlook. Returning to a stable outlook this time and maintaining the highly coveted AAA rating are goals that STO works daily to achieve, but the Office cannot achieve these goals alone. The State's credit quality depends on partnership, collaboration, and action from decisionmakers across State government.

Shortly after receiving the negative outlook, the State garnered interest from eight major banks, achieved favorable pricing, successfully issued over \$1 billion in general obligation bonds, and earned over \$150 million in premium to support the capital program. Looking forward, to bolster the State's credit quality, STO ensures that the State is positioned to pay its debt service on time and in full. The Office maintains regular communication with the State's assigned rating analysts, sharing the breadth of fiscal information that Maryland is

well-known for producing. In addition, to help foster the relationship with newer rating analysts, in May 2024, STO hosted in-person visits as part of the most recent general obligation bond credit review.

STO also works to convey to the rating agencies and the investor community the qualities and attributes that validate Maryland's credit as deserving of the highest rating. The various fiscal institutions and procedural protections, like the 15-year maturity requirement for debt and the Capital Debt Affordability Committee (CDAC) process, continue to lend stability to Maryland's fiscal planning. The value that the State places on having top-rated credit, however, requires continual evaluation of its credit vulnerabilities. Fiscal, economic, and policy decisions made by the Administration and the General Assembly, such as not increasing the State's debt burden and crafting a budget solution to address the structural deficit, can heavily influence the State's credit ratings. STO looks forward to continuing to engage the Administration and legislative leaders to restore a stable outlook for Maryland.

For the foregoing reasons, STO concurs with DLS' recommendation to concur with the Governor's allowance. Please contact Jonathan Martin, Chief Deputy Treasurer ([jmartin@treasurer.state.md.us](mailto:jmartin@treasurer.state.md.us)), with any questions.