

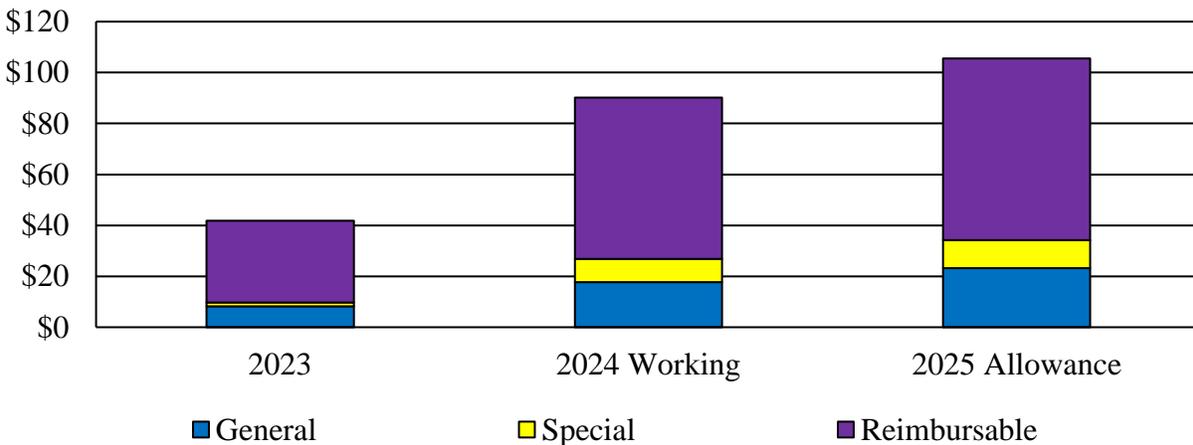
E20B State Treasurer

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, authorizes agents to issue payments of State funds, invests excess funds, safekeeps all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation bond issues, and through the Capital Debt Affordability Committee, reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The State Treasurer annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year. Finally, effective June 1, 2023, the State Treasurer oversees the Maryland 529 program, which provides simple and convenient options to encourage Marylanders to save in advance for educational and disability-related expenses. This includes the Maryland Prepaid College Trust (MPCT) and the Maryland College Investment Plan.

Operating Budget Summary

**Fiscal 2025 Budget Increases \$15.4 Million, or 17.0%, to \$105.5 Million
(\$ in Millions)**



Note: The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency's budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

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Fiscal 2024

Implementation of Legislative Priorities

Maryland 529 consists of three active savings programs including the Maryland Senator Edward J. Kasemeyer College Investment Plan, Prepaid College Trust, and the Achieving a Better Life Experience (ABLE) Program. As of June 1, 2023, the Maryland Senator Edward J. Kasemeyer Prepaid College Trust is closed to new enrollment but active for participants. A 529 plan is a tax-advantaged savings plan designed to encourage families to save for future education expenses. The Maryland 529 plans are the only 529 plans that offer an annual Maryland State income tax deduction, and any earnings and contributions can be used tax free for eligible qualified education or qualified disability expenses. Chapter 113 of 2023 transitioned the administration of the Maryland 529 program to the State Treasurer’s Office (STO). To assist the transition of the Maryland 529 program administration into STO, Section 19 of the fiscal 2024 Budget Bill added \$6.65 million in general funds to the agency. STO has spent \$1.8 million of these funds and will have potential expenditures through fiscal 2024.

The Financial Systems Modernization goal is to replace the core financial interface and insurance management system with a modern Treasury Management System and Insurance Management System. This enables STO to execute its constitutional responsibilities to disburse funds. The objective is to implement a cloud-based system designed to enhance business and technology processes primarily in the Insurance, Accounting, and Treasury Management divisions. The project has experienced delays due to the challenges from the project timeline and budget risks. Section 19 of the fiscal 2024 Budget Bill added \$1.8 million for this project.

The State Treasurer should update the committees on the use of the funds for these priorities to date and any other planned uses in fiscal 2024.

Proposed Deficiency

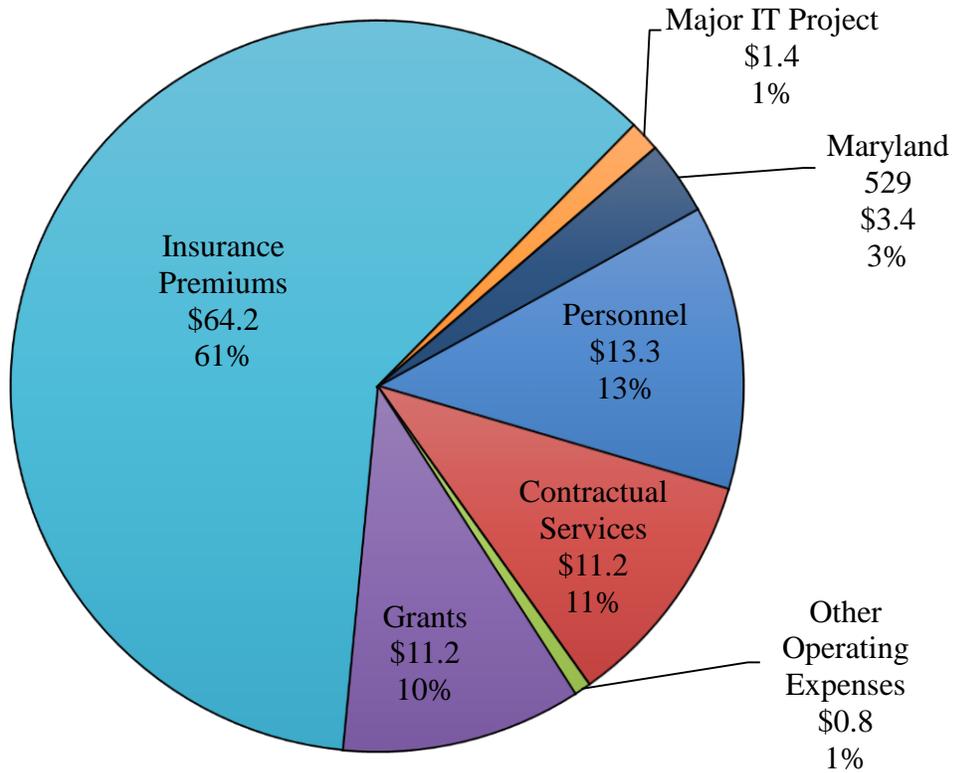
The fiscal 2025 budget includes a proposed deficiency of \$102,390 in special funds to support the addition of 1 position for Maryland 529.

Fiscal 2025 Overview of Agency Spending

The fiscal 2025 allowance for STO totals \$105.5 million. As shown in **Exhibit 1**, insurance premiums total \$64.2 million, or approximately 61% of the fiscal 2025 allowance. Insurance premiums cover a large portion of the budget because of increased premium rates. Personnel includes salaries and contractual personnel totaling \$13.3 million, or approximately 13% of the budget. Contractual services totals \$11.2 million, or approximately 11% of the budget. Grants total almost \$11.2 million, or approximately 10% of the budget. The grant funding will be used to support the Maryland ABLE and Save4College programs. The Maryland 529 program totals

\$3.4 million, or approximately 3% of the budget. The major information technology development project (Financial Systems Modernization) totals \$1.4 million, or approximately 1% of the budget.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Millions)



IT: information technology

Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

Source: Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2025 allowance reflects a net increase of \$15.4 million compared to the fiscal 2024 working appropriation after accounting for the proposed deficiency appropriation. Reimbursable fund spending increases by \$8.0 million, mainly related to insurance coverage. The increase of \$22.4 million related to insurance coverage is due to the higher cost of commercial premiums, claim insurance premiums, cybersecurity insurance, and higher replacement values for property. This increase is partially offset by a decrease related to the Save4College match program. In fiscal 2024, the fund source for the Save4College match program is reimbursable funds, while in fiscal 2025, it is general funds. The year-to-date costs of that program and revenue transfer is \$7.9 million from the Maryland Higher Education Commission.

**Exhibit 2
Proposed Budget
State Treasurer
(\$ in Thousands)**

How Much It Grows:	General Fund	Special Fund	Federal Fund	Nonbudgeted Fund	Reimb. Fund	Total
Fiscal 2023 Actual	\$8,169	\$1,507	\$89	\$14,695	\$32,157	\$56,617
Fiscal 2024 Working Appropriation	17,746	9,082	0	0	63,323	90,152
Fiscal 2025 Allowance Fiscal 2024-2025	<u>23,248</u>	<u>10,992</u>	<u>0</u>	<u>0</u>	<u>71,280</u>	<u>105,520</u>
Amount Change	\$5,501	\$1,910	\$0	\$0	\$7,957	\$15,369
Fiscal 2024-2025 Percent Change	31.0%	21.0%			12.6%	17.0%

Where It Goes:	Change
Personnel Expenses	
Turnover expectancy decreases from 15.46% to 8.93%	794
Salary increases and associated fringe benefits including fiscal 2024 COLA and increments	676
Additional assistance and accrued leave payout due to one-time costs in fiscal 2024	-159
Reclassification – new treasury series classification salary dollars	-861
Other Changes	
Insurance coverage paid to the State Treasurer’s Office	22,366
Fiscal services – banking and custody contracts.....	545
ADC in-state computer usage allocation	374
Capital lease payments – new check printer rental, all services and maintenance combined.....	104

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Where It Goes:	<u>Change</u>
Personnel Expenses	
Cost allocations	101
Management studies and consultants – contract costs for financial advisors and consultations.....	100
Supplies	70
Legal services – Contract costs for New Debtbook software upgrade	60
Subscriptions	41
Advertising and legal publication	33
Communication charges.....	32
Association dues	23
Operations and maintenance for major IT, including decreases associated with one-time general funds included in Section 19 of the fiscal 2024 Budget Bill for the project in fiscal 2024 and funds for the project budgeted in DoIT in fiscal 2025	-4,195
Contractual services to assist personnel.....	-4,726
Other Expenses	-8
Total	\$15,369

ADC: Annapolis Data Center
 COLA: cost-of-living adjustments
 DoIT: Department of Information Technology
 IT: information technology

Note: Numbers may not sum to total due to rounding. The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Personnel Data

	<u>FY 23 Actual</u>	<u>FY 24 Working</u>	<u>FY 25 Allowance</u>	<u>FY 24-25 Change</u>
Regular Positions	78.00	95.00	96.00	1.00
Contractual FTEs	<u>3.15</u>	<u>5.57</u>	<u>5.33</u>	<u>-0.24</u>
Total Personnel	81.15	100.57	101.33	0.76

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	8.48	8.93%
Positions and Percentage Vacant as of 12/31/23	9.00	9.38%
Vacancies Above Turnover	0.52	0.54%

- As of December 31, 2023, 3 of the 9 vacant positions have been vacant for less than six months, while 5 positions have been vacant for more than one year.
- There is 1.0 new position in the Maryland 529 program that is created by the deficiency appropriation; however, this new position is not reflected in the working appropriation column of this chart.

Key Observations

1. Maryland 529 Plan

MPCT lets individuals prepay for college tuition at current rates that they can use to cover tuition and fees for their children when they are of college age. MPCT has a minimum benefit that is equal to payments made under the plan’s contract minus operating expenses plus a rate of return.

In December 2019, the Office of Legislative Audits released a routine fiscal compliance audit with a finding that the MPCT calculations for refunds/rollovers resulted in excessive payments. Maryland 529 decided to change its recordkeeping system to resolve the issue. In August 2021, Maryland 529 attempted to set a new earnings rate that would apply to all the distribution options in an effort to simplify the program. While performing this calculation, Maryland 529 also decided to distribute some of the MPCT surplus to account holders. This process led to a calculation error leading many account holders to believe that they had more earnings in their account than they were entitled to by their contract. Between November 2021 through mid-April 2022, account holders received inaccurate account information, causing parents to make decisions based on excessive amounts.

In April 2022, Maryland 529 froze the earnings to avoid paying account holders too little or too much while addressing the miscalculation. In January 2023, Maryland 529 started a manual calculation process until the automated process was fully operational.

Chapter 113 abolished the Maryland 529 Board and transferred program administration to the State Treasurer on June 1, 2023. The State Treasurer has the sole fiduciary responsibility to delegate the implementation of the 529 plan wholly or partly with respect to MPCT. Also on June 1, 2023, Chapter 113 discontinued any new prepaid contracts and the extension or upgrade of any existing prepaid contracts.

In July 2023, STO released a decision memorandum explaining the office’s understanding of the MPCT issue. In addition to describing the background, the memorandum outlined its plans for resolving the issue. The memorandum discussed a four-phase programmatic policy change initiative for MPCT. Phase 1 established an earnings rate based on the date contributions were posted to the account. Phase 2 updated the automated recordkeeping system to reflect the new earnings rates and other programmatic policy changes. Phase 3 implemented the claims process. Phase 4 is to set interest rates at 0% for accounts. STO’s goal is to start Phase 4 during calendar 2024. STO plans to provide at least 60 days notice to account holders prior to the change.

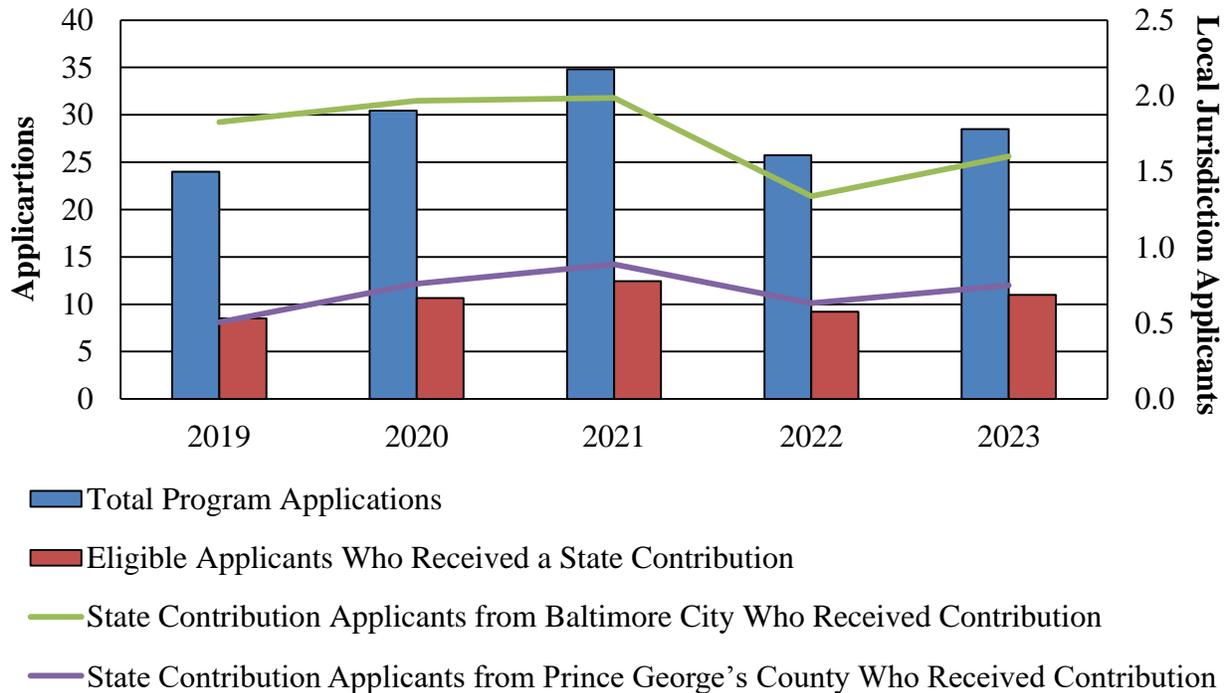
STO should provide a status update on the implementation of the four-phase programmatic policy change process and its ongoing communications with account holders during the implementation.

2. Save4College State Contribution Program

Maryland 529 manages the Save4College State Contribution Program that provides flexible and affordable 529 plans to help Maryland families save for future education expenses and reduce dependence on student loans. The program provides applicants within certain income limitations a matching contribution of up to \$500 to a college savings investment account.

Exhibit 3 provides information on the total program applications and the number of eligible applicants who received a State contribution from fiscal 2019 to 2023. The total number of program applications in fiscal 2023 was 28,488, an increase of 4,504 applications (18.8%) compared to fiscal 2019. Over the five-year period, fiscal 2021 had the highest number of applicants with 34,817 applicants. The number of eligible applicants who received a State contribution in fiscal 2023 increased by 2,485 applicants as compared to fiscal 2019.

Exhibit 3
Save4College State Contribution Program
Total Applications and Number Eligible for Match
Fiscal 2019-2023
(in Thousands)



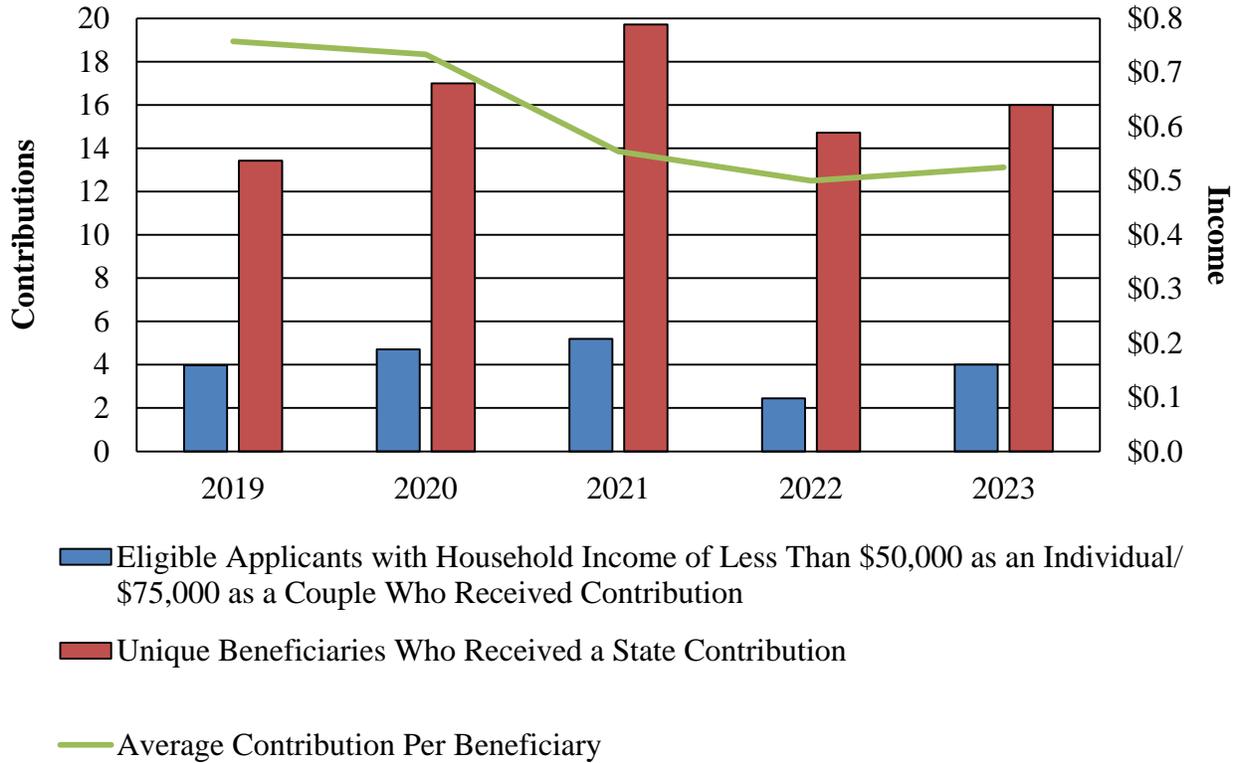
Source: Department of Budget and Management

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One of the program’s objectives is to increase enrollment in Baltimore City and Prince George’s County, the two lowest average household income counties in the metro Baltimore/Washington, D.C. region. In Baltimore City, the number of applicants receiving a State contribution over the five-year period ranged from a low of 1,337 in fiscal 2022 to a high of 1,987 in fiscal 2021. The 1,600 applicants receiving a State contribution in Baltimore City in fiscal 2023 is a 19.7% increase over fiscal 2022. In Prince George’s County, the number of applicants receiving a State contribution over the five-year period ranged from a low of 506 in fiscal 2019 to a high of 889 in fiscal 2021. The 750 applicants receiving a State contribution in Prince George’s County in fiscal 2023 is an 18.7% increase over fiscal 2022.

Another program objective is to increase enrollment in the Save4College Program by low-income households earning less than \$50,000 as an individual or \$75,000 as a couple. **Exhibit 4** shows the number of unique beneficiaries who received a State contribution and the number of eligible applicants with low household income who received contribution. From fiscal 2022 to 2023, the applicants from low-income households who received a contribution is expected to increase by 1,549 applicants, a 63.2% increase. In fiscal 2021, there were 5,196 low-income applicants who received a contribution, which was the highest amount in the five-year period. The number of unique beneficiaries is expected to increase by 1,279 from fiscal 2022 to 2023, an 8.7% increase. The 19,716 beneficiaries in fiscal 2021 was the highest number in the period from fiscal 2019 to 2023. The average contribution in fiscal 2023 is \$232.41 lower than in fiscal 2019.

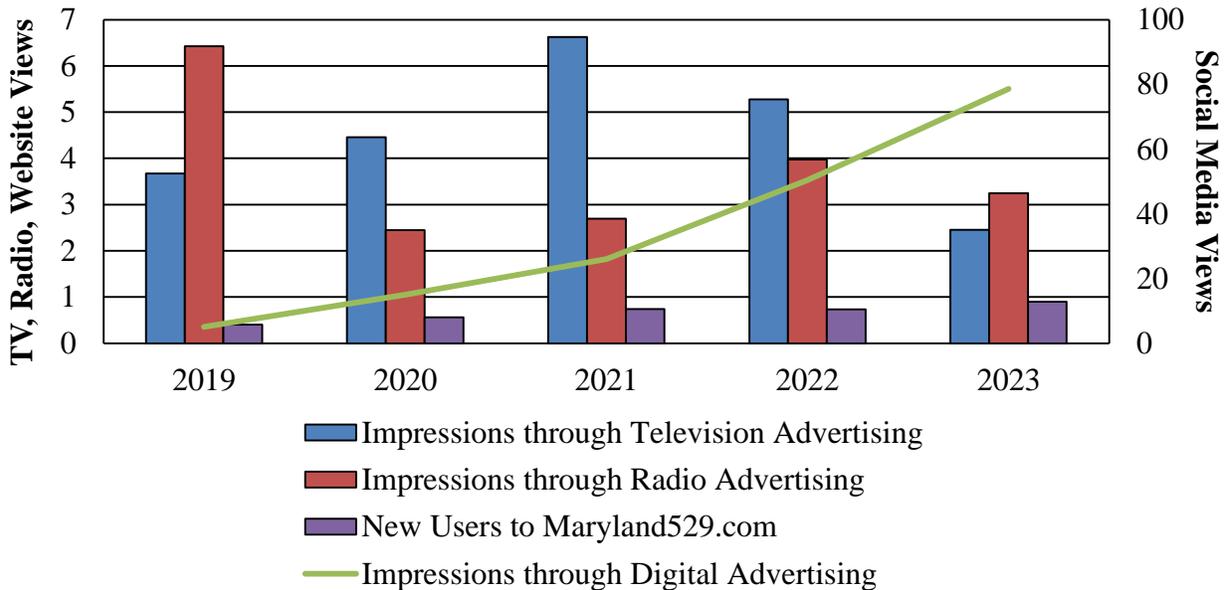
Exhibit 4
Save4College State Contributions Received Based on Income
Fiscal 2019-2023
(In Thousands)



Source: Department of Budget and Management

The STO goal is to raise awareness and participation in MPCT and the Maryland College Investment Plan. The objective is to communicate the benefits of the Maryland 529 Plans to adults ages 25 to 44 with children ages 0 to 12 in the State. As shown in **Exhibit 5**, comparing fiscal 2019 to fiscal 2023, the impressions through radio decreased by 3.2 million. The impressions through television decreased by 1.2 million in fiscal 2023 compared to fiscal 2019. The new users to the Maryland529.com website in fiscal 2023 increased by 497,046 as compared to fiscal 2019. From fiscal 2019 to 2023, there has been a substantial increase in impressions through digital means of 73.5 million.

**Exhibit 5
Maryland 529 Plan Advertising and Users
Fiscal 2019-2023
(In Millions)**



Source: Department of Budget and Management

The State Treasurer should provide an update on how the substantial increase in impressions from digital advertising and users to the Maryland 529 website has been achieved.

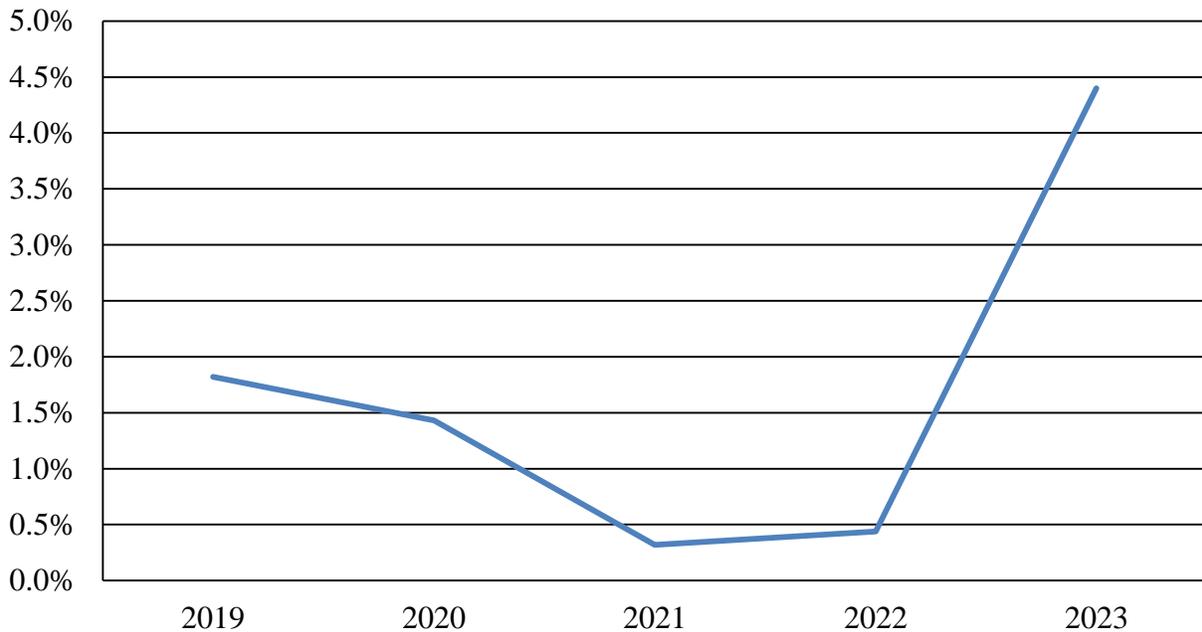
3. State’s Investment Portfolio Earnings

The Treasury Management Division’s Investment Department is responsible for the investment of unexpended State funds that are temporarily idle between the time revenue is collected and budgeted amounts are disbursed. Investments are typically short term and designed to meet the cash flow needs of the State. Section 6-222 of the State Finance and Procurement Article governs the types of investments that may be made, and the State Treasurer’s Investment Policy provides additional guidance. The cautious nature of the Investment Department is highlighted by the restrictions placed on investments, which are limited to secured bank accounts, full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements (repos) collateralized by those securities, certain

money market mutual funds, and limited amounts of highest rated commercial paper. Secured bank accounts require a 100% collateralization, and repos require 102% collateralization.

The STO goal is to maximize investment earnings for the State’s surplus funds in accordance with all State laws and regulations. The objective is to earn a higher-than-average rate of return on the State’s investment portfolio and the Local Government Investment Pool. **Exhibit 6** shows that from fiscal 2019 to 2021, the return on the State’s investment portfolio decreased. The portfolio included lower return coupon investments that lost value when interest rates increased because of unforeseen interest rate hikes. From fiscal 2022 to 2023, there was a 3.96 percentage point increase in the return on the State’s investment portfolio. Over time, the State’s investment portfolio has increased as the State received federal funds. Balances including the Revenue Stabilization Account (Rainy Day Fund) have increased. In the past year, interest rates have risen to counteract inflation, and the investment portfolio size has grown with significant returns.

Exhibit 6
Return on State’s Investment Portfolio
Fiscal 2019-2023



Source: Department of Budget and Management

Operating Budget Recommended Actions

1. Concur with Governor’s allowance.

Appendix 1
2023 Joint Chairmen’s Report Responses from Agency

The 2023 *Joint Chairmen’s Report* (JCR) requested that STO prepare bond rating agency reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Bond Rating Reports:*** Committee narrative in the 2023 JCR requested that STO submit a bond rating report prior to each bond sale issuance. In fiscal 2024, STO has submitted one bond agency rating report. Fitch Ratings and S&P Global Ratings assigned the Maryland Stadium Authority revenue bonds with a long-term rating of AA/Stable.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	March 28, 2018 – July 31, 2021
Issue Date:	August 2023
Number of Findings:	7
Number of Repeat Findings:	1
% of Repeat Findings:	14.3%
Rating: (if applicable)	n/a

Finding 1: STO did not adequately monitor the project administrator responsible for developing the new financial and insurance claims system and did not pursue damages when the project encountered severe implementation problems, delays, and cost increases.

Finding 2: STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which precluded STO from effectively monitoring the contract and validating the related charges.

Finding 3: **STO did not determine the propriety of amounts paid to the Injured Workers’ Insurance Fund for the State’s workers’ compensation claims and related costs and did not follow up on deficiencies noted in the Maryland Insurance Administration audits.**

Finding 4: Redacted cybersecurity-related finding.

Finding 5: Redacted cybersecurity-related finding.

Finding 6: Redacted cybersecurity-related finding.

Finding 7: Redacted cybersecurity-related finding.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Financial System Modernization
Major Information Technology Development Project
State Treasurer’s Office

New/Ongoing: Ongoing								
Start Date: July 2017					Est. Completion Date: June 2026			
Implementation Strategy: Revised to be hybrid waterfall and agile								
(\$ in Millions)	Prior Year	2024	2025	2026	2027	2028	Remainder	Total
GF	\$10.586	\$2.974	\$4.628	\$1.324	\$0.000	\$0.000	\$0.000	\$19.511
SF	2.584	2.900	1.428	0.386	0.000	0.000	0.000	7.297
RF	4.467	0.000	0.000	0.000	0.000	0.000	0.000	4.467
Total	\$17.637	\$5.874	\$6.056	\$1.709	\$0.000	\$0.000	\$0.000	\$31.276

- Project Summary:** Replace the current system to fulfill STO responsibilities, which include disbursing funds, cash flow management, budgeting and accounting, investment of State funds, and insurance claims management. Design a cloud-based system to enhance business and technology processes. Migrate data from the old system to the new platform. Introduce subsequent enhancements to streamline and eliminate manual processes. Develop a Managed File Transfer platform for inbound and outbound file transfers. Implement comprehensive backup or disaster recovery services. Microsoft Office will be used to build the new system.
- Need:** Replace the i5/AS400 batch financial and insurance management system since its IBM hardware platform is end of life, and the applications and databases are no longer maintainable and cannot be functionally enhanced. The new system addresses concerns personally identifiable information.
- Observations and Milestones:** The bank module planning phase was completed in the third quarter of fiscal 2023, and the Managed File Transfer platform is being developed. This platform will revamp and streamline the file transmission process for STO, banks, and agency partners. The Claims Management Software and Accounting Finance and Operations are operating with updates that enhance and modified existing features. The insurance module legacy data migration has encountered delays due to the Maryland 529 claims; therefore, STO indicated a projected completion in the third quarter of fiscal 2024.
- Changes:** The banking module planning phase was delayed due to a production outage in December 2022. Additional time and resources were expended on recovery efforts and refining banking requirements. The banking module estimated projected completion was moved from the fourth quarter of fiscal 2024 to the fourth quarter of fiscal 2025. An additional \$1.8 million of funding was appropriated in fiscal 2024 to accommodate this schedule extension.

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- **Concerns:** The project timeline and budget risks include reallocation of resources to address the legislatively mandated Maryland 529 program claims process; potential delays or unavailability of external partners critical for the banking module Managed File Transfer implementation and testing; change requests from other State-led financial modernization projects that require STO and contractor resources; and agency information technology and banking teams' availability for project tasks is constrained due to the demands of supporting and maintaining legacy systems that drive critical banking operations.

**Appendix 4
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	78.00	95.00	96.00	1.00	1.1%
02 Contractual	3.15	5.57	5.33	-0.24	-4.3%
Total Positions	81.15	100.57	101.33	0.76	0.8%
Objects					
01 Salaries and Wages	\$ 9,325,212	\$ 12,432,655	\$ 12,984,699	\$ 552,044	4.4%
02 Technical and Special Fees	228,607	332,526	324,694	-7,832	-2.4%
03 Communication	111,603	119,724	151,724	32,000	26.7%
04 Travel	28,743	44,002	47,537	3,535	8.0%
07 Motor Vehicles	18,901	18,830	12,630	-6,200	-32.9%
08 Contractual Services	22,494,607	23,410,671	15,701,741	-7,708,930	-32.9%
09 Supplies and Materials	307,351	206,302	276,694	70,392	34.1%
10 Equipment – Replacement	481,781	105,607	209,607	104,000	98.5%
11 Equipment – Additional	0	70,000	70,000	0	0%
12 Grants, Subsidies, and Contributions	0	11,175,211	11,175,211	0	0%
13 Fixed Charges	23,620,027	42,133,921	64,565,953	22,432,032	53.2%
Total Objects	\$ 56,616,832	\$ 90,049,449	\$ 105,520,490	\$ 15,471,041	17.2%
Funds					
01 General Fund	\$ 8,168,781	\$ 17,746,404	\$ 23,247,846	\$ 5,501,442	31.0%
03 Special Fund	1,507,165	8,979,875	10,992,164	2,012,289	22.4%
05 Federal Fund	88,915	0	0	0	0.0%
07 Nonbudgeted Fund	14,695,374	0	0	0	0.0%
09 Reimbursable Fund	32,156,597	63,323,170	71,280,480	7,957,310	12.6%
Total Funds	\$ 56,616,832	\$ 90,049,449	\$ 105,520,490	\$ 15,471,041	17.2%

Note: The fiscal 2024 appropriation does not include deficiencies. The fiscal 2025 allowance does not include statewide salary actions budgeted in the Department of Budget and Management.