MARYLAND STATE TREASURER
Dereck E. Davis

Testimony of the Maryland State Treasurer's Office

Senate Bill 775: State Officers and Employees – Required Surety Bonds – Insurance Policies Authorized

Position: Favorable

House Health and Government Operations and Economic Matters Committees

March 26, 2024

As agency-wide modernization efforts continue, the State Treasurer's Office (STO) respectfully requests that the Committees give Senate Bill 775 favorable consideration. The bill is identical to House Bill 1012, which the Committees and full House of Delegates unanimously passed.

For many years, Maryland law has required various State officials and employees to obtain surety bonds that guard against future wrongdoing. For example, statutory provisions require the Treasurer, Comptroller, Legislative Auditor, and Executive Directors, board members, and staff for a range of State programs and boards to be covered by surety bonds. The State agency, program, or board affiliated with the individual is generally required to obtain the bond, except in cases where the Treasurer is required to do so on behalf of a public official.

STO supports the passage of Senate Bill 775 because of the benefits that it offers in terms of governance, flexibility in type and amount of coverage, and reduced administrative burden and costs.

Governance

In 1967, the General Assembly created the Maryland State Employees Surety Bond Committee to set the type and amount of bonds for State officers and employees who are required to be bonded. Although the Attorney General, Comptroller, and Treasurer serve on the Committee, it appears that the Committee has not met or conducted business since 2005. Instead, STO's Insurance Division has obtained bonds for some individuals, while agencies, programs, or boards have independently obtained bonds for other individuals. Senate Bill 775 replaces the existing structure with a more streamlined governance framework where the Treasurer will stand in the shoes of the Committee. In particular, the Treasurer will determine the type and amount of coverage of surety bonds or insurance policies, as appropriate, unless statute establishes a different amount or approval process. For most individuals, STO will keep record of insurance policies purchased and the Comptroller will continue to retain records of bonds purchased.

STO can handle these additional requirements with existing resources and welcomes the bill's streamlined approach.

Flexibility in Coverage Type and Amount

By authorizing an insurance policy, instead of a surety bond, to cover a State official or employee, Senate Bill 775 provides flexibility that STO believes will better protect the State's interests. Public official surety bonds and government crime insurance policies both offer protection in the event of wrongdoing, with each product offering benefits and drawbacks. Surety bonds can be tailored to fit a specific term of office and coverage level, but only protect against the actions of one individual. Commercial insurance policies, however, offer agency-wide coverage for employees acting within the scope of their employment, but often contain coverage exclusions or limitations.

State agencies will benefit from a more flexible approach that applies a cost-benefit analysis of both products to the unique job responsibilities of the covered officials and employees.

Reduced Administrative Burden and Costs

Passage of Senate Bill 775 will reduce the administrative burdens placed on STO and other agencies for obtaining individual surety bonds for various fiduciaries. Using STO as an example, the current insurance broker contract requires a broker to obtain at least three quotes or declinations for each placement. This means that STO is required to complete multiple applications for each individual required to be bonded. The transfer of the Maryland 529 Program in June of 2023 has exacerbated the burden on STO staff to complete this paperwork and secure bonding.

Having the option to obtain one insurance policy to cover multiple individuals would also reduce costs to the State. Commercial insurance is typically a more cost-effective way to insure against losses as compared with an individual fiduciary bond, because insurance can cover many State personnel for a single annual premium and broker fee, as opposed to multiple bonds, premiums, and broker fees.

For the foregoing reasons, STO requests that the Committees give Senate Bill 775 a favorable report. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.