



MARYLAND STATE TREASURER
Dereck E. Davis

Informational Testimony of the Maryland State Treasurer's Office

Senate Bill 959: Higher Education - Maryland 529 Program - Reform

**Senate Budget and Taxation Committee and Senate Education, Energy, and the
Environment Committee**

March 15, 2023

During his electoral address to the General Assembly, Treasurer Davis expressed a willingness to be a part of the solution to fix the problems facing the Maryland 529 Program. To that end, the State Treasurer's Office (STO) appreciates the opportunity to provide information regarding the reforms proposed in Senate Bill 959. By reviewing STO's current staffing levels and the resources needed to integrate the Maryland 529 Program, this testimony endeavors to help the Committees decide the best path forward. Additionally, the testimony suggests one amendment to clarify the General Assembly's intent.

Background on STO

The State Treasurer's Office maintains a small staff of 63 employees who account for and invest over \$20 billion in assets on behalf of the State, oversee the State's debt issuances (exceeding \$1.0 billion in 2022), and manage the State's self-insurance program for tort claims, among other responsibilities. In order to fulfill the agency's core debt management, insurance, and treasury management functions, STO competes directly with private-sector employers in those industries. The tight labor market has made filling vacancies especially challenging, which led to a high-water mark vacancy rate of 35% in December 2021. Reclassifying salaries and implementing a telework policy have helped to reduce the vacancy rate to closer to 13%.

In terms of information technology (IT), upon taking office, Treasurer Davis learned that STO operates on a legacy system that is vulnerable to hardware and software challenges. The system had become so outdated that hardware replacement parts were nearly impossible to find and software had become completely unsupported. In fiscal year 2023, STO completed an important first step by upgrading the insurance part of the IT system, which is the one that interfaces most directly with the public. STO must now focus on banking, the system's most critical activity, which is responsible for all payments and

revenues received by the State. Leasing new hardware and entering into a new service agreement, STO is working to make the system more secure throughout the transition.

While great progress has been made in terms of staffing and IT, Treasurer Davis continues to focus on hiring staff and modernizing the operations of the office. Additional resources are needed to support the core operations of the agency that are critical to overall functioning of State government.

Costs of 529 Program Integration

By extension, STO requires both flexibility and resources to successfully integrate its operations with those of the Maryland 529 Program. Flexibility with funding will help the Treasurer to take an agile approach to implementation. Additional resources will make it possible for STO to operationalize all of the Board's responsibilities, which comprise the majority of the bill text. For illustrative purposes, the list below identifies resources that STO anticipates needing for staffing, IT, and consultants.

Staffing

- **Existing Vacancies:** Several vacant positions within Maryland 529 need to be filled to improve the provision of services to account holders.
- **Deputy Director:** Hiring a Deputy Director will facilitate communication across STO, support the work of the Executive Director, and assist with succession planning in future years.
- **Contract Management:** There is need to increase State oversight of the various contracts that Maryland 529 manages. For example, the Program has three separate managers overseeing each of the three savings plans (Prepaid Plan, Maryland College Investment Plan, and ABLE). Additionally, Maryland 529 has contracts with other vendors who provide accounting, actuarial, auditing, and other services.
- **Customer and Constituent Service:** Maryland 529 currently lacks internal staff to provide customer service outreach. STO envisions establishing a robust staff dedicated to communicating with account holders and legislators. Beyond handling Prepaid Plan inquiries, these customer service representatives will also assist the Maryland College Investment Plan and ABLE account holders.
- **IT and Human Resources (HR):** The on-boarding of new staff and the integration of Maryland 529's IT system with STO's requires the addition of at least one full-time IT professional and one full-time HR professional.
- **Legal:** Additional STO staff and/or attorneys from the Office of the Attorney General may be needed to implement the interest payment requirement under § 18-1909 of the Education Article in the bill.
- **Marketing:** Marketing each of the three plans will require care and attention as public trust in Maryland 529 is rebuilt. STO may seek to hire an additional marketing expert to help the Program navigate these challenges.
- **Workgroup:** Depending on the nature of the work that the Workgroup undertakes, the expenditure of staff time may justify the need for additional staff to help the Workgroup until the work is complete.

IT

Resources are needed to upgrade STO's website and integrate the Maryland 529 website. These investments will better support the anticipated increase in web traffic following the transition.

Consultants

STO may require the assistance of various consultants to handle claims, review past practices, and communicate updates with the public. Possible engagements include audit and performance review, communications, and outside legal counsel. The need for outside legal counsel is especially pressing as long as the Assistant Attorney General position for Maryland 529 remains vacant.

Proposed Amendment

STO suggests one amendment to clarify the General Assembly's intent surrounding the proposed reforms. Specifically, the legislation is silent as to a remedy for account holders. The incentive for rolling over accounts from the Prepaid Plan to the Maryland College Investment Plan helps to phase out the Prepaid Plan, but does not address concerns that account holders have raised about their earnings. If the General Assembly would like STO to resolve the dispute between the Maryland 529 Program and account holders, the legislation will need to identify the methodology, process, and funding source for such resolution.

Treasurer Davis and STO hope that this information is useful as the committees consider Senate Bill 959. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.