
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 18, 2023***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

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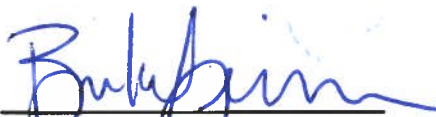
April 18, 2023

TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2024 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28.0 cents (\$0.28) per \$100 of assessed value of real property of public utilities.



Dereck E. Davis
State Treasurer, Chair



Brooke E. Ljerman
Comptroller of the Treasury



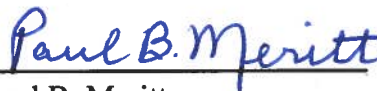
Helene T. Grady
Secretary, Department of
Budget and Management



Samantha J. Biddle
Deputy Secretary, Department
of Transportation



Michael Higgs
Director, Department of
Assessments & Taxation



Paul B. Meritt
Public Member

The chairmen of the Capital Budget Subcommittees in the Senate and the House of Delegates serve as ex-officio, non-voting members.

Craig Zucker
Chair, Capital Budget Subcommittee
Senate Committee on Budget and Taxation

Mark Chang
Chair, Capital Budget Subcommittee
House Appropriations Committee

2023 REPORT OF THE COMMISSION ON STATE DEBT

Charge of the Commission

Executive Order 01.01.1980.06 created the Commission on State Debt as an advisory group to recommend to the Board of Public Works on an annual basis a State property tax rate sufficient to meet debt service requirements on outstanding general obligation bonds during the next fiscal year.

General Obligation Bonds

General obligation bonds are authorized and issued to provide funds for:

- General construction and capital improvements to State-owned facilities, including institutions of higher education;
- Grants to local educational authorities for construction and capital improvements to public schools; and
- Financial assistance in the form of loans or grants to local governments and the private sector for individual capital projects such as water quality improvements, jails and detention facilities, community colleges, economic development, community health facilities, historic preservation, private higher education, and other community projects.

Sources of Debt Service Funds

Several sources provide funds for general obligation debt service in addition to the State property tax:

- (1) Under certain loan enabling acts, the State uses bond proceeds to make loans to local governments, private non-profit organizations, and other private entities. Under the terms of the loans, repayments are required and are credited to the Annuity Bond Fund. Some loan repayments, such as repayments of loans for sewerage facilities and hospitals, extend over a period of up to 40 years, exceeding the fifteen-year life of the bonds;
- (2) Periodically, grantees remit proceeds from the sale of capital assets;
- (3) The State has historically deposited premiums from the sale of general obligation bonds into the Annuity Bond Fund to be used for the payment of debt service. However, in the 2021 session, the General Assembly amended Section 8-132 of the State Finance and Procurement Article to permit premium to be used to pay for capital projects;

- (4) From fiscal year 1972 through fiscal year 2003 and in fiscal year 2008 the State appropriated general funds to support debt service. General fund appropriations were also made in fiscal years 2014 through 2023, and an appropriation is also included in fiscal year 2024.
- (5) Beginning in fiscal year 2010, and continuing through fiscal year 2013, the State issued approximately \$720.0 million of taxable general obligation bonds with an interest subsidy from the US Treasury; and
- (6) Chapter 419 Acts of 2009 authorized \$70.0 million in bond funds for the Department of Natural Resource's Program Open Space (POS) land acquisition program and the use of property transfer tax revenue to pay principal and interest on these POS bonds. This authorization was issued in July 2010 in the 2010 Second Series and transfer taxes were credited to the Annuity Bond Fund beginning in fiscal year 2011.

General Obligation Bonds Outstanding

The amount of general obligation bonds issued, redeemed, and outstanding for fiscal years 2023 and 2024 is shown on Schedule A (page 6). General obligation bonds outstanding are projected to total \$10.0 billion on June 30, 2023. The State issued \$400.0 million in general obligation bonds in fiscal year 2023 and general obligation bonds redeemed and refunded totaled \$987.4 million.

General obligation bonds outstanding are projected to total \$10.0 billion on June 30, 2024. In fiscal year 2024, general obligation bond issuances are expected to total \$960.0 million and general obligation bond redemptions are estimated to total \$1.0 billion.

General Obligation Bonds Authorized But Unissued

Bonds are not issued immediately following an authorization but rather are issued as funds that are required to make payment on authorized capital projects. The amount authorized but unissued is allocated and dedicated to the specified project authorized. Schedule B (page 7) estimates total unissued authorizations of general obligation bonds on June 30, 2023. General obligation bonds authorized but unissued are projected to total \$3.1 billion on June 30, 2023. This amount includes \$1.2 billion in net new authorizations approved during the 2023 session of the Maryland General Assembly and effective on June 1, 2023 to support the fiscal year 2024 capital budget.

Annuity Bond Fund

Debt service for general obligation bonds is paid from the Annuity Bond Fund. Schedule C (page 8) reflects the effect of the continuation of the current rate of 11.2 cents per \$100 of assessed value on real property and 28 cents per \$100 of assessed value on operating real property of public utilities for fiscal years 2022 - 2028. In fiscal year 2024, \$433.1 million is appropriated from the general fund to support debt service assuming that the Board of Public Works maintains the current tax rate. Projections show increasing gaps between revenues and debt service assuming current property tax levels continue. Current projections, as detailed on Schedule C, show general

funds totaling \$347.1 million, \$381.5 million, \$386.8 million; and \$348.9 million will be required in fiscal years 2025, 2026, 2027 and 2028 respectively. These projections include net bond premium totaling \$57.8 million in fiscal year 2023. The remainder of the bond premium earned is appropriated for capital projects. No premium is included in the estimates for fiscal years 2024 - 2028 because premium is volatile and difficult to project. These estimates make assumptions on future bond issuances, interest rates, and increasing property tax income. The lower general fund appropriations predicted arose from an increase in SDAT's assessed property values on March 31, 2023, a reduced General Obligation bond issuance in March of 2023 and a lower than expected interest rate on that issuance. For fiscal years 2024 - 2025, an estimate of 3.0% annual growth in real property tax collections is assumed. For fiscal years 2026 - 2027 an annual growth rate of 2.5% is assumed and 2.0 % is assumed for fiscal year 2028. The five-year average assumption is 3.0%.

History of Property Tax Rates and General Fund Appropriations to the Annuity Bond Fund

Property Tax Rates

Between fiscal years 1983 through 2001, the property tax rate on real property was 21 cents per \$100 of assessed valuation. Also during this time period, real property was assessed at only 40% of full cash value. In fiscal year 2002, the assessment process was reformed to become more transparent and real property began to be assessed at 100% of full cash value. The rate was, therefore, adjusted to 8.4 cents per \$100 of valuation (8.4 cents is 40% of 21.0 cents so there was no change to the overall tax burden). Tax rates increased to 13.2 cents per \$100 of assessed valuation in fiscal years 2004 – 2006. In fiscal year 2007, the rate was reduced to 11.2 cents per \$100 of assessed valuation and has remained at that reduced level since that time. Schedule D (page 9) provides the property tax rates for fiscal years 2002 – 2021 and the recommended rate for fiscal year 2024.

General Fund Appropriations to the Annuity Bond Fund

In fiscal year 2008, \$29.4 million in general funds were appropriated to the Annuity Bond Fund. Previous reports projected that, at current property tax levels, there would be insufficient revenues in the Annuity Bond Fund to cover debt service in future years and that general funds would be necessary to bridge this gap. In fiscal years 2009 through 2013, however, the projected gaps were not realized and a general fund appropriation was not necessary. This was due to three primary factors:

- Interest rates have remained low as the economy continues to rebound slowly from the recession and as investors have sought high quality bonds like Maryland general obligation bonds;
- Debt service has been lower than initially forecast because of the issuance of refunding bonds and the use of federally-supported ARRA bonds which were cheaper for the State than traditional tax-exempt bonds; and
- Actual premiums realized from general obligation bond sales have been significant.

In fiscal year 2024, \$433.1 million in general funds is appropriated to the Annuity Bond Fund. Schedule D (page 9) provides the general fund appropriations to the Annuity Bond Fund for fiscal years 2004 – 2024.

Recommendation

The Commission on State Debt recommends to the Board of Public Works a State property tax rate of 11.2 cents per \$100 of assessed value on real property and 28.0 cents per \$100 of assessed value on operating real property of public utilities for fiscal year 2024.