Capital Debt Affordability Committee

Treasurer Nancy K. Kopp, Chair
Treasury Building Assembly Room
80 Calvert St.
Annapolis, MD
September 21, 2011
2:30 PM

Agenda

Treasurer's Opening Comments

Work Group Report

Projected Affordability Assumptions and Ratios

Discussion of Recommendations:

- *General Obligation Bond Authorization*
  Recommendation of total amount of new State debt that prudently may be authorized for the next fiscal year and the annual increase for future years.

- *Academic Facilities Bonds Authorization*
  - Evaluation of the Capacity to Increase the Amount of the USM Academic Revenue Bonds (ARB) by $5,000,000 Annually Beginning in the 2012 Legislative Session
  - Recommendation of amount of new bonds for academic facilities for the next fiscal year by the University System of Maryland, Morgan State University, St. Mary's College of Maryland and the Baltimore City Community College.

Other Items:

There were no Public-Private Partnership agreements presented to CDAC during the reporting period that, in compliance with Chapter 641 of the Laws of 2010, would require the Committee to analyze and report on the aggregate impact of Public-Private Partnership agreements on the total amount of new State debt that prudently may be authorized for the next fiscal year.

Work Group Report

Report of the 2011 Work Group
of the Capital Debt Affordability Committee

<u>Meeting Dates, Scope, and Members</u>

The members of the Work Group are as follows:

State Treasurer's Office	Bernadette Benik, Patti Konrad and Susanne Brogan
OAG – Treasurer's Counsel	Steve Vanderbosch
Comptroller's Office	David Roose
MDOT	David Fleming, June Hornick, Linda Williams
DBM	Chad Clapsaddle and Amber Teitt
DLS	Patrick Frank and Matthew Klein

Dates and Topics

The 2011 CDAC Work Group met on May 18, August 9 and September 8. There were comprehensive discussions of the following topics:

1. **Leases:**
   - Possible changes in the accounting treatment of operating leases by GASB and FASB
   - Energy leases and guaranteed savings – what leases are and are not included in the affordability ratios?
   - Future Capital Leases

2. **Assumptions in the Affordability Analysis:**
   - Sensitivity analysis
   - Debt issuance, personal income and revenue

3. **Allocation of bond capacity to all components of tax-supported debt**

Discussion and Recommendations:

Leases

GASB Changes to Lease Accounting:

Under current Generally Accepted Accounting Principles (GAAP), if a lease meets one or more of the following four criteria it is classified as a capital lease:

- The lease transfers ownership of the property to the lessee (user) by the end of the lease term.
- The lease allows the lessee (user) to purchase the property at a bargain price at fixed points in the term of the lease and for fixed amounts.
- The term of the lease is 75% or more of the estimated useful economic life of the property.
- The present value of the lease payments is 90% or more of the fair value of the property.

The Financial Accounting Standards Board (FASB) has a current project that proposes to establish a common leasing standard and to change lease accounting so that all lease obligations and the related right-to-use are reported on private sector balance sheets. GASB has added a similar lease accounting project to their research agenda for the period April to August 2011.

CDAC has been briefed about the possibility of proposed accounting changes. Since there have been no definitive changes to accounting standards to date, the Work Group recommends that CDAC continue to consider only capital leases in its affordability analysis in 2011.

Tax-Supported Debt and the Inclusion of Energy Leases in the Affordability Analysis

In accordance with SF&P §8-104(c), leases are considered tax-supported debt when the lease or unit of State government is "supported directly or indirectly by State tax revenues". However, SF&P §8-104 was amended in the 2011 Session by Chapter 163 of the 2011 Laws of Maryland. Effective June 1, 2011, tax supported debt does not include capital leases used to finance energy performance contracts if, as determined by the committee, energy savings that are guaranteed by the contractor:

(i) equal or exceed the capital lease payments on an annual basis; and

(ii) are monitored in accordance with reporting requirements adopted by the committee.

The work group recommends that CDAC adopt the following guidelines to determine the inclusion of energy leases in the affordability analysis.

1. All energy leases that do not have any guarantees should be included as tax supported debt in CDAC's affordability analysis.
2. Prior to the recommendation of the total amount of new State debt that prudently may be authorized for the next fiscal year, CDAC should monitor and review the following:

   If construction of the energy improvement is complete:
   - The Guarantee must be current and not expired
   - If the amount of the Guarantee is greater than or equal to the annual debt service on the lease, the lease will not be included as tax supported debt in CDAC's affordability analysis.

   If the energy project is in construction:
   - If the proposed amount of the surety bond that will be posted is greater than or equal to the future annual debt service on the lease, the lease will not be included as tax supported debt in CDAC's affordability analysis.

The Work Group also recommends that the CDAC Report include these guidelines and list all energy leases in its report, noting those leases that are and are not included in the affordability analysis.

The Work Group should also review all energy leases annually to determine if they meet the guidelines in the future and should continue to be excluded for the affordability analysis.

Future Capital Leases

The Work Group recommends that the Committee recognize the following prospective leases as capital leases and include them in the affordability analysis.

- Department of Health and Mental Hygiene (DHMH) Public Health Lab
- State Center Garage
- Video Lottery Terminals (VLTs) for Arundel Mills

Assumptions and Revenue Sensitivity Analysis

Revenue Sensitivity Analysis

The Committee requested a sensitivity analysis that assumed that there was a "double dip" recession. To develop this analysis, the assumptions were as follows:

- The general fund revenue projection received from BRE in August 2011 was the base line.
- $300 million was added to the FY 2011 figure to reflect actual revenues.
- There was a 0.9% decline from FY 2011 to FY 2012, which accounts for roughly $300 million of new revenue from the BRFA.
- The growth rate was cut in half, to 2.1% for FY 2013.

- The growth rates in the August forecast continued beginning in FY 2014.

As a result of the projected decline in revenues in the assumed “double dip” recession, the 2017 debt service to revenues ratio went from 7.81% to 8.19%. To retain the affordability ratio at no more than 8% in all years, issuances of tax-supported debt would have to decline almost $1 billion in the period between fiscal years 2012 and 2018.

The Work Group recommends that the Committee use the estimated revenues that are reported by the Board of Revenue Estimates in September in its analysis which is the basis for the recommendation. While there would be a significant revision in authorizations and issuance if there was another recession and all other variables were constant, the work group also concluded that the Board of Revenue Estimates (BRE) produces the State’s official forecast of revenues and CDAC should continue to use those estimates in its affordability analysis. Because of the current uncertain economic climate, the CDAC may want to re-examine the affordability ratios again in December after the next BRE general fund revenue projections.

Other Assumptions

The Work Group also reviewed other assumptions which are integral to the affordability analysis. The assumptions are reported in the 2011 CDAC Report.

- Revenues
- Personal income
- Coupons
- Authorizations
- Issuances
- Future Energy leases

Allocation of bond capacity to all components of tax-supported debt

Background

Tax-supported debt has increased in the last decade as the State expanded investments in its capital infrastructure through various financing mechanisms including General Obligation and Consolidated Transportation bonds as well as newer forms of tax-supported debt such as Grant Anticipation Revenue Vehicles Bonds (GARVEEs) and Bay Restoration Bonds. Most recently in 2011, the State issued Certificates of Participation (COPs) to finance Video Lottery Terminals and the Board of Public Works approved the capital lease for the public health lab in the Department of Health and Mental Hygiene. These new bonds, COPs and capital leases are all included in CDAC’s affordability analysis.

Whether set by statute or through agreements with bondholders, there are specific debt outstanding limitations for Consolidated Transportation Bonds, GARVEEs and Bay Restoration Fund Revenue Bonds that are noted in Section II of the CDAC Report. While each component of tax-supported debt may be within its prescribed limits, tax-supported debt, in aggregate, is projected to approach the debt service to revenues benchmark of 8% within the next 10 years.

Request to Evaluate the State's Debt Affordability Process

The legislative budget committees have requested CDAC evaluate the State's debt affordability process and make recommendations for consideration by the General Assembly in the 2012 session. Specifically, in a letter to the members of CDAC dated June 16, 2011, the Chairs of the budget committees have requested consideration of the following:

- CDAC Should Recommend an Aggregate Debt Limit Encompassing All Types of State Debt
- The Administration Should Recommend a Specific Debt Limit for Each Type of State Debt
- Each Year, the Governor Should Include Limits to All Types of State Debt in the Capital Budget Bill
- The Legislature Should Review the Proposed Debt Limits
- A Process That Allows the Limits to be Exceeded Under Clearly Defined Circumstances Should be Developed

CDAC's Recommendations

The CDAC has considered the items set forth by the budget committees and recommends the following process to set debt limits for each year. For the following discussion "debt limits" is defined as the amount of bonds that are authorized annually.

At the initial CDAC meeting, CDAC staff will present a preliminary affordability analysis based on projections of debt issuance, debt outstanding and debt service as submitted by the issuers of tax-supported debt. As the CDAC conducts its review, the Administration will also review the preliminary debt affordability analysis and the issuer's projections. The Administration will then direct an issuer to make any adjustments that are determined necessary and finalize an allocation of debt capacity among the tax-supported issuers.

The affordability analysis will then be updated for all necessary changes and distributed to CDAC prior to its final recommendations of an authorization of general obligation bonds and an aggregate tax-supported debt limit for the next legislative session. This process will address the first two items set forth for CDAC consideration by the budget committees.

As there are existing processes in place to facilitate legislative review of the issuance of tax-supported debt, it is recommended that the aggregate debt limit be included in the CDAC report and that the specific debt limits be set forth by the Governor in a letter to the Legislature. This process facilitates the communication of debt limits with the budget committees for their further action while maintaining the State's ability to manage tax-supported debt.

In the event that unusual circumstances prompt the consideration of exceeding the aggregate debt limit as recommended by CDAC, the committee may meet to determine if changes are necessary and the procedures to effect such a change.

Projected Affordability Assumptions and Ratios

Appendix B-1

Proposed General Obligation Authorizations and Estimated Issuances
CDAC 2011 Recommendation

($ in millions)

Legislative Session	Fiscal Year	Total Proposed Authorizations	Rate of Increase	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 and beyond	Total Issued
2012	2013	$925	0%		287	231	185	139	83						$925
2013	2014	$925	0%			287	231	185	139	83					$925
2014	2015	$935	1%				290	234	187	140	84				$935
2015	2016	$945	1%					293	236	189	142	85			$945
2016	2017	$955	1%						296	239	191	143	86		$955
2017	2018	$1,200	26%							372	300	240	180	$108	$1,200
2018	2019	$1,240	3%								384	310	248	$298	$1,240
2019	2020	$1,280	3%									397	320	$563	$1,280
2020	2021	$1,320	3%										409	$911	$1,320
2021	2022	$1,360	3%											$1,360	$1,360
Projected Issuance of New Authorizations		**$11,085**		**0**	**287**	**518**	**706**	**850**	**941**	**1,023**	**1,101**	**1,175**	**1,243**	**3,239**	**$11,085**
Current Authorized but Unissued		**$2,357**		**960**	**668**	**427**	**229**	**80**	**(1)**	**(3)**	**(1)**	**(0)**	**(0)**		**$2,358**
Total Projected Issuances		**$13,442**		**$960**	**$955**	**$945**	**$935**	**$930**	**$940**	**$1,020**	**$1,100**	**$1,175**	**$1,243**	**$3,239**	**$13,442**

Projected Bond Sales	*Fiscal Year*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*
	1st sale	$512	$475	$475	$475	$475	$485	$500	$525	$565	$600
	2nd sale	$448	$480	$470	$460	$455	$455	$520	$575	$610	$643
	Total sales	$960	$955	$945	$935	$930	$940	$1,020	$1,100	$1,175	$1,243

Percentage Issuance assumptions by fiscal years:

Fiscal year following year of authorization:	1st	2nd	3rd	4th	5th
Percent of original authorization issued	31%	25%	20%	15%	9%

Projected Personal Income and Revenues
As of September 2011

MARYLAND PERSONAL INCOME AND POPULATION

Historical Data through 2010
Projections 2011 - 2021

UPDATED SEPTEMBER 2011, PROJECTIONS CAN AND WILL CHANGE

Calendar Year	Personal Income *($ in millions)*	% Change	Population *(thousands)*	% Change
2001	$ 194,581	5.65%	5,414	1.95%
2002	$ 201,793	3.71%	5,479	1.20%
2003	$ 209,701	3.92%	5,534	1.00%
2004	$ 224,646	7.13%	5,582	0.87%
2005	$ 237,146	5.56%	5,621	0.70%
2006	$ 252,431	6.45%	5,650	0.52%
2007	$ 264,798	4.90%	5,677	0.48%
2008	$ 274,286	3.58%	5,711	0.60%
2009	$ 274,980	0.25%	5,760	0.86%
2010	$ 282,770	2.83%	5,822	1.08%
2011	$ 297,084	5.06%	5,866	0.76%
2012	$ 308,095	3.71%	5,900	0.58%
2013	$ 316,842	2.84%	5,932	0.54%
2014	$ 332,074	4.81%	5,963	0.52%
2015	$ 350,310	5.49%	5,993	0.50%
2016	$ 366,845	4.72%	6,023	0.50%
2017	$ 381,518	4.00%	6,053	0.50%
2018	$ 396,092	3.82%	6,082	0.48%
2019	$ 411,659	3.93%	6,112	0.49%
2020	$ 428,660	4.13%	6,140	0.46%
2021	$ 446,793	4.23%	6,170	0.49%

4.40% Average rate of personal income growth for 10 year period 2001 through 2010
4.41% Median rate of personal income growth for 10 year period 2001 through 2010

Sources: Personal Income
2001 - 2010 Bureau of Economic Analysis, U.S. Dept. of Commerce
2011 - 2021 BRE

Population
2001 - 2009 Census Bureau, U.S. Dept. of Commerce
2010 - 2021 Forecast: Moody's Analytics July 2011 forecast

MARYLAND STATE REVENUE PROJECTIONS
($ in millions)

UPDATED SEPTEMBER 2011, PROJECTIONS CAN AND WILL CHANGE

Fiscal Year	General Fund Revenue	% Growth of GF	Property Taxes	% Growth of Prop. Taxes	Use of Premium and Misc. ABF Receipts	US Treasury Subsidy - Direct Subsidy Bonds	Educational Trust Fund (VLT revenues)	Transfer Taxes	Total	Transportation Revenues	Stadium Related Revenues	Garvee Bonds	Bay Restoration Fund	Total Revenues	Percent Change of Total Revenues
1999	$8,524.0	5.9%	$246.9		$11.0				$8,781.9	$1,462.6	$24.5			$10,269.0	6.11%
2000	$9,220.0	8.2%	$250.8		$12.6				$9,483.4	$1,568.4	$21.2			$11,073.0	7.83%
2001	$9,802.0	6.3%	$257.1		$11.4				$10,070.5	$1,615.0	$27.6			$11,713.1	5.78%
2002	$9,504.0	-3.0%	$270.0		$25.5				$9,799.5	$1,663.0	$27.2			$11,489.7	-1.91%
2003	$9,409.8	-1.0%	$286.0		$36.7				$9,732.5	$1,603.0	$21.9			$11,357.4	-1.15%
2004	$10,204.3	8.4%	$468.4		$97.2				$10,769.8	$1,884.0	$22.2			$12,676.1	11.61%
2005	$11,548.0	13.2%	$516.5	10.3%	$94.5				$12,159.1	$2,085.0	$21.7			$14,265.8	12.54%
2006	$12,390.3	7.3%	$575.1	11.3%	$46.4				$13,011.8	$2,122.0	$21.4			$15,155.2	6.23%
2007	$12,940.2	4.4%	$552.7	-3.9%	$37.6				$13,530.4	$2,100.0	$21.2			$15,651.6	3.28%
2008	$13,545.6	4.7%	$625.7	13.2%	$37.1				$14,208.4	$2,009.0	$21.5	$441.3	$55.0	$16,735.2	6.92%
2009	$12,900.5	-4.8%	$698.6	11.6%	$79.2				$13,678.2	$2,140.3	$20.0	$441.3	$53.3	$16,333.2	-2.40%
2010	$12,587.1	-2.4%	$742.9	6.3%	$67.8	$0.9	$11.0		$13,409.7	$2,135.8	$20.0	$441.3	$54.8	$16,061.6	-1.66%
2011	$13,537.4	7.5%	$801.1	7.8%	$81.2	$9.2	$82.8	$113.8	$14,625.4	$2,256.0	$23.7	$540.2	$55.4	$17,500.7	8.96%
2012	$14,117.0	4.3%	$761.8	-4.9%	$60.0	$11.5	$127.5	$118.9	$15,196.7	$2,254.0	$27.3	$440.4	$55.9	$17,974.3	2.71%
2013	$14,493.8	2.7%	$737.0	-3.3%	$2.2	$12.0	$286.6	$134.0	$15,665.6	$2,512.0	$24.7	$440.4	$56.5	$18,699.2	4.03%
2014	$14,998.0	3.5%	$711.5	-3.5%	$2.2	$12.0	$471.3	$157.4	$16,352.4	$2,686.0	$24.8	$440.4	$57.0	$19,560.6	4.61%
2015	$15,756.9	5.1%	$711.8	0.0%	$2.2	$12.0	$512.3	$174.2	$17,169.4	$2,772.0	$23.5	$440.4	$57.6	$20,462.9	4.61%
2016	$16,496.9	4.7%	$712.1	0.0%	$2.2	$12.0	$549.4	$177.8	$17,950.3	$2,845.0	$23.5	$440.4	$58.2	$21,317.4	4.18%
2017	$17,274.9	4.7%	$729.9	2.5%	$2.2	$12.0	$560.4	$182.2	$18,761.5	$2,877.0	$23.5	$440.4	$58.8	$22,161.2	3.96%
2018	$18,052.3	4.5%	$748.1	2.5%	$2.2	$12.0	$571.6	$186.8	$19,573.0	$2,881.0	$23.5	$440.4	$59.4	$22,977.2	3.68%
2019	$18,864.7	4.5%	$766.8	2.5%	$2.2	$12.0	$583.0	$191.4	$20,420.1	$2,940.0	$23.1	$440.4	$60.0	$23,883.5	3.94%
2020	$19,713.6	4.5%	$786.0	2.5%	$2.2	$11.2	$594.7	$196.2	$21,303.9	$2,989.0	$23.1	$440.4	$60.6	$24,816.9	3.91%
2021	$20,600.7	4.5%	$805.6	2.5%	$2.2	$10.4	$606.6	$201.1	$22,226.7	$3,043.0	$8.7	n/a	$61.2	$25,339.5	2.11%

General Fund:
- 1999 - 2021: Bureau of Revenue Estimates after September BRE meeting

Property Tax and Use of Premium Revenues:
- 1999 - 2010: State Budget Books
- 2011 - 2021 : Dept. of Budget and Management, STO, Department of Assessments and Taxation

US Treasury Subsidy - Direct Subsidy Bonds including Build America, Qualified School Construction, Qualified Zone Academy, and Qualified Energy Conservation Bonds

Educational Trust Fund (slots revenues)
- 2011 - 2016 - Dept. of Budget and Management
- 2017 through 2021, projected at 2% growth

Transfer Taxes
- 2011 - 2016: Bureau of Revenue Estimates
- 2017 - 2021: Projected at growth rate of 2.5%

Transportation Revenues:
- 1999-2021: Department of Transportation, Office of Finance, updated June 2011
- Revenues consist of Taxes and Fees, Operating Revenue, Other Revenue, (including investment revenue) and federal funds for operations; MdTA transfers are deducted.

Garvee Bond Revenues:
- 2008-2021: Federal highway capital revenues; source MdTA, June 2011 DEBT SERVICE GOES TO 0 IN 2021; no revenues to be included in 2021

Stadium Revenues:
- represents lottery revenues transferred to the Stadium Authority net of debt service on the 2010 & 2011 Sports Facilities Revenue Bonds PLUS Camden Yards revenues and Hippodrome ticket charge revenues

Bay Restoration Fund Revenues:
- 2008-2021 total program revenues; source MDE, MWQFA, updated May 2011

Debt Outstanding to Personal Income
As of September 2011

STATE TAX SUPPORTED DEBT OUTSTANDING

TABLE 1

COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME

($ in thousands)

Sep-11

Fiscal Years 2002-2011 are final; Fiscal Years 2012-2021 are projections and subject to change

		Department of Transportation								
Fiscal Year	**General Obligation Bonds**	**Consolidated Transportation Bonds**	**County Transportation Bonds (b)**	**Total DOT**	**Capital Leases**	**Stadium Authority**	**Bay Restoration Bonds**	**Garvee Bonds**	**Total Tax Supported Debt Outstanding**	**Fiscal Year**
	(a)				(c) (d)					
2002	$3,544,178	$714,150	$3,155	$717,305	$186,238	$277,995			$4,725,716	2002
2003	$3,932,493	$961,245	$2,440	$963,685	$193,136	$323,240			$5,412,554	2003
2004	$4,102,278	$1,185,650	$1,675	$1,187,325	$198,585	$320,955			$5,809,143	2004
2005	$4,511,826	$1,069,945	$865	$1,070,810	$175,062	$309,195			$6,066,893	2005
2006	$4,868,471	$1,078,475	$0	$1,078,475	$226,898	$296,820			$6,470,664	2006
2007	$5,142,154	$1,111,050	$0	$1,111,050	$247,939	$283,090		$325,000	$7,109,233	2007
2008	$5,493,830	$1,268,815	$0	$1,268,815	$247,427	$271,570	$50,000	$300,655	$7,632,297	2008
2009	$5,873,643	$1,582,605	$0	$1,582,605	$266,757	$256,013	$46,825	$704,365	$8,730,208	2009
2010	$6,523,222	$1,645,010	$0	$1,645,010	$242,636	$243,557	$44,185	$651,795	$9,350,406	2010
2011	$6,982,846	$1,561,840	$0	$1,561,840	$166,551	$225,743	$41,560	$596,915	$9,575,456	2011
2012	$7,391,377	$1,759,000	$0	$1,759,000	$323,932	$224,701	$88,820	$539,355	$10,327,185	2012
2013	$7,782,077	$1,890,000	$0	$1,890,000	$382,822	$200,205	$253,764	$479,035	$10,987,904	2013
2014	$8,113,098	$1,999,000	$0	$1,999,000	$371,096	$174,873	$400,884	$415,775	$11,474,725	2014
2015	$8,400,846	$2,031,000	$0	$2,031,000	$329,325	$149,982	$480,183	$349,440	$11,740,776	2015
2016	$8,594,201	$2,076,000	$0	$2,076,000	$286,511	$129,226	$453,919	$279,780	$11,819,638	2016
2017	$8,770,016	$2,179,000	$0	$2,179,000	$249,503	$109,203	$426,277	$206,590	$11,940,589	2017
2018	$8,980,101	$2,356,000	$0	$2,356,000	$233,770	$88,431	$397,172	$129,680	$12,185,155	2018
2019	$9,252,892	$2,554,000	$0	$2,554,000	$218,189	$67,282	$366,525	$48,865	$12,507,753	2019
2020	$9,553,801	$2,592,000	$0	$2,592,000	$202,234	$45,225	$334,134	$0	$12,727,394	2020
2021	$9,913,965	$2,597,000	$0	$2,597,000	$186,088	$36,840	$299,987	$0	$13,033,879	2021

State Tax Supported Debt Outstanding as a Percent of Personal Income

(Affordability criteria standard = 4.0%)

Fiscal Year	**General Obligation Bonds**	**Consolidated Transportation Bonds**	**County Transportation Bonds (b)**	**Total DOT**	**Capital Leases**	**Stadium Authority**	**Bay Restoration Bonds**	**Garvee Bonds**	**Total Tax Supported Debt Outstanding**	**Fiscal Year**
2002	1.76%	0.35%	0.00%	0.36%	0.09%	0.14%			**2.34%**	2002
2003	1.88%	0.46%	0.00%	0.46%	0.09%	0.15%			**2.58%**	2003
2004	1.83%	0.53%	0.00%	0.53%	0.09%	0.14%			**2.59%**	2004
2005	1.90%	0.45%	0.00%	0.45%	0.07%	0.13%			**2.56%**	2005
2006	1.93%	0.43%	0.00%	0.43%	0.09%	0.12%			**2.56%**	2006
2007	1.94%	0.42%	0.00%	0.42%	0.09%	0.11%		0.12%	**2.68%**	2007
2008	2.00%	0.46%	0.00%	0.46%	0.09%	0.10%	0.02%	0.11%	**2.78%**	2008
2009	2.14%	0.58%	0.00%	0.58%	0.10%	0.09%	0.02%	0.26%	**3.17%**	2009
2010	2.31%	0.58%	0.00%	0.58%	0.09%	0.09%	0.02%	0.23%	**3.31%**	2010
2011	2.35%	0.53%	0.00%	0.53%	0.06%	0.08%	0.01%	0.20%	**3.22%**	2011
2012	2.40%	0.57%	0.00%	0.57%	0.11%	0.07%	0.03%	0.18%	**3.35%**	2012
2013	2.46%	0.60%	0.00%	0.60%	0.12%	0.06%	0.08%	0.15%	**3.47%**	2013
2014	2.44%	0.60%	0.00%	0.60%	0.11%	0.05%	0.12%	0.13%	**3.46%**	2014
2015	2.40%	0.58%	0.00%	0.58%	0.09%	0.04%	0.14%	0.10%	**3.35%**	2015
2016	2.34%	0.57%	0.00%	0.57%	0.08%	0.04%	0.12%	0.08%	**3.22%**	2016
2017	2.30%	0.57%	0.00%	0.57%	0.07%	0.03%	0.11%	0.05%	**3.13%**	2017
2018	2.27%	0.59%	0.00%	0.59%	0.06%	0.02%	0.10%	0.03%	**3.08%**	2018
2019	2.25%	0.62%	0.00%	0.62%	0.05%	0.02%	0.09%	0.01%	**3.04%**	2019
2020	2.23%	0.60%	0.00%	0.60%	0.05%	0.01%	0.08%	0.00%	**2.97%**	2020
2021	2.22%	0.58%	0.00%	0.58%	0.04%	0.01%	0.07%	0.00%	**2.92%**	2021

(a) Reflects presumed authorizations as follows:

General Assembly Session:	2011	2012	2013	2014	2015
Fiscal Year/Capital Budget:	**2012**	**2013**	**2014**	**2015**	**2016**
(in millions)	$925	$925	$925	$935	945

(b) Net of sinking funds or debt service reserve funds.

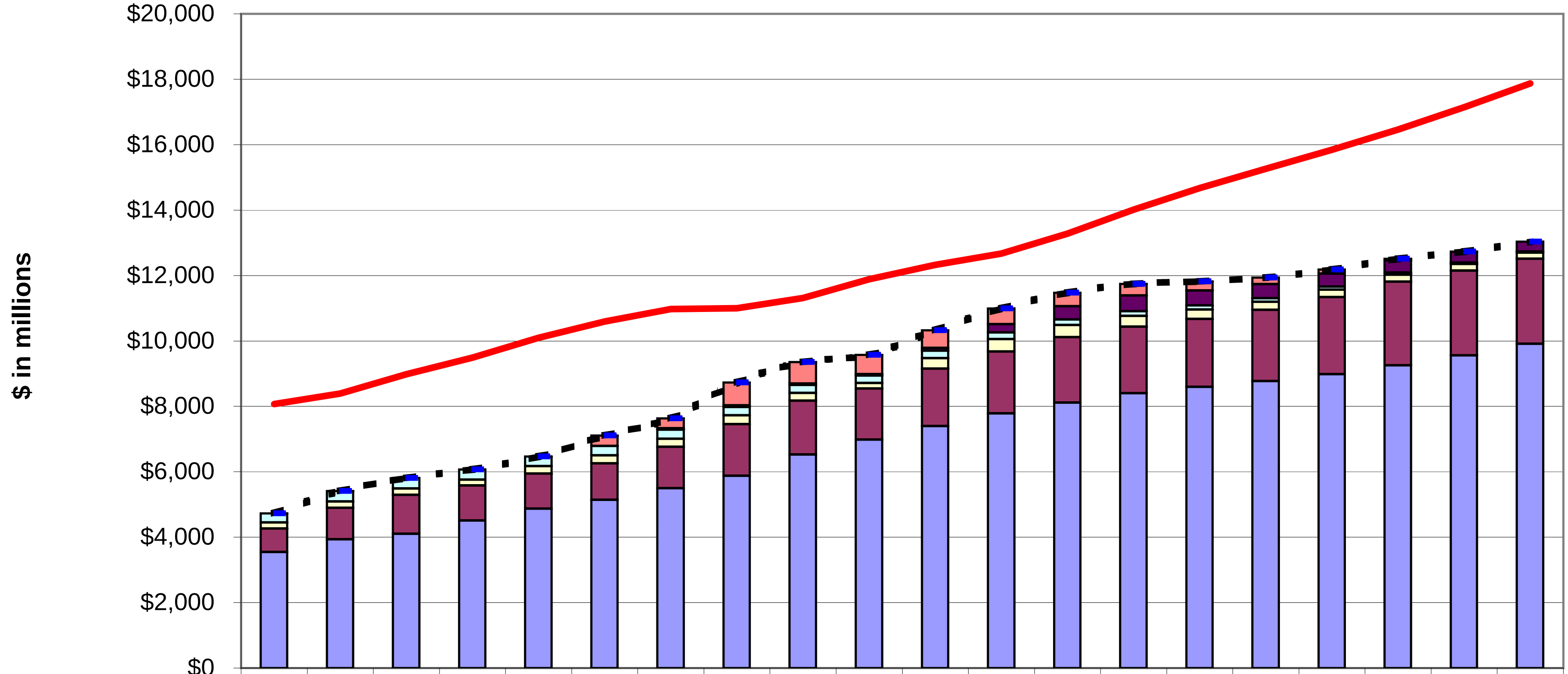
(c) Includes financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waste water facility at ECI, DHMH public health lab and State Center Garage.

(d) Leases include equipment, video lottery terminals and energy leases that do not have guaranteed energy savings = or > debt service.

Issuance Assumptions: ($ in millions)	**2012**	**2013**	**2014**	**2015**	**2016**
G.O. issues	$960	$955	$945	$935	$930
DOT issues	$300.0	$240.0	$240.0	$185.0	$210.0
Stadium Authority issues	$0.0	$0.0	$0.0	$0.0	$0.0
New Capital Leases - Equip. & EPC	$10.0	$10.0	$10.0	$10.0	$10.0
New Capital leases - DHMH Lab	$179.0	$0.0	$0.0	$0.0	$0.0
New Capital Leases - State Center Garage	$0.0	$0.0	$32.5	$0.0	$0.0
New Capital leases - VLTs	$0.0	$85.0	$0.0	$0.0	$0.0
Garvee Bond Issues	$0.0	$0.0	$0.0	$0.0	$0.0
Bay Bonds Issues	$50.0	$170.0	$160.0	$100.0	$0.0
Personal Income (billions) (Appendix A-1)	$308.1	$316.8	$332.1	$350.3	$366.8

Tax Supported Debt Outstanding to Personal Income
as of September 2011

Fiscal Years 2002-2011 are final; Fiscal Years 2012-2021 are projections and subject to change

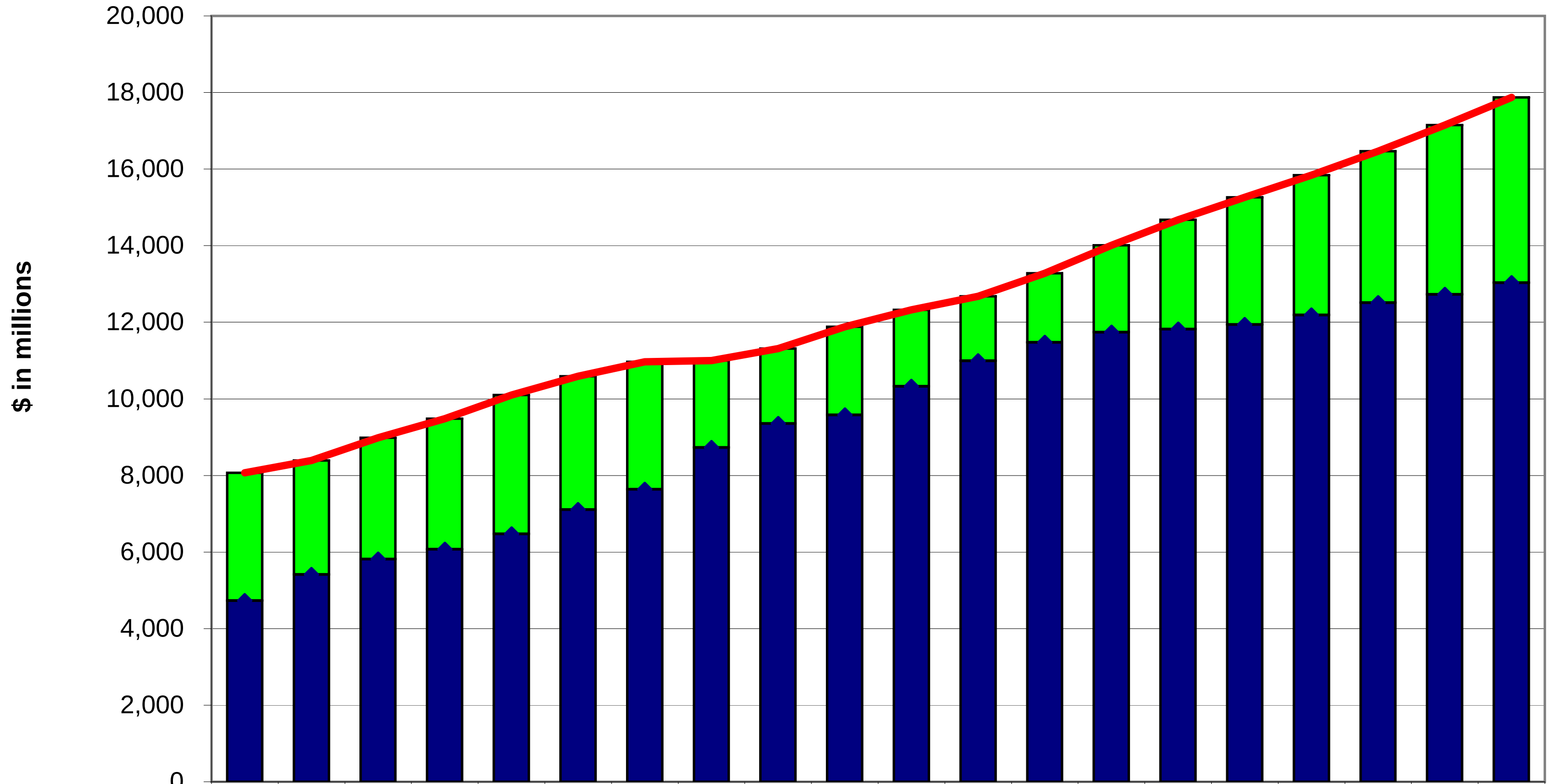


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Garvee	0	0	0	0	0	325	301	704	652	597	539	479	416	349	280	207	130	49	0	0
Bay Restoration	0	0	0	0	0	0	50	47	44	42	89	254	401	480	454	426	397	367	334	300
Stadium Authority	278	323	321	309	297	283	272	256	244	226	225	200	175	150	129	109	88	67	45	37
Capital Leases	186	193	199	175	227	248	247	267	243	167	324	383	371	329	287	250	234	218	202	186
Total DOT	717	964	1,187	1,071	1,078	1,111	1,269	1,583	1,645	1,562	1,759	1,890	1,999	2,031	2,076	2,179	2,356	2,554	2,592	2,597
General Obligation	3,544	3,932	4,102	4,512	4,868	5,142	5,494	5,874	6,523	6,983	7,391	7,782	8,113	8,401	8,594	8,770	8,980	9,253	9,554	9,914
4.0% Benchmark	8,072	8,388	8,986	9,486	10,097	10,592	10,971	10,999	11,311	11,883	12,324	12,674	13,283	14,012	14,674	15,261	15,844	16,466	17,146	17,872
Total Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,350	9,575	10,327	10,988	11,475	11,741	11,820	11,941	12,185	12,508	12,727	13,034

Source: Table 1 as of September 2011

Available Debt Capacity Using the 4.0% Criterion as of September 2011

Fiscal Years 2002-2011 are final; Fiscal Years 2012-2021 are projections and subject to change



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Remaining Capacity	3,346	2,975	3,177	3,419	3,627	3,483	3,339	2,269	1,960	2,308	1,997	1,686	1,808	2,272	2,854	3,320	3,659	3,959	4,419	4,838
Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,350	9,575	10,327	10,988	11,475	11,741	11,820	11,941	12,185	12,508	12,727	13,034
4.0% Benchmark	8,072	8,388	8,986	9,486	10,097	10,592	10,971	10,999	11,311	11,883	12,324	12,674	13,283	14,012	14,674	15,261	15,844	16,466	17,146	17,872
Total Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,350	9,575	10,327	10,988	11,475	11,741	11,820	11,941	12,185	12,508	12,727	13,034

source: Table 1 as of September 2011

Debt Service to Revenues
As of September 2011

TABLE 2A

STATE TAX SUPPORTED DEBT SERVICE
STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF REVENUES
(Affordability criteria standard = 8%)
($ in thousands)

as of September 2011

Fiscal Years 2002-2011 are final; Fiscal years 2012-2021 are projections and subject to change

Fiscal Year	General Obligation Bonds	DOT Consolidated Bonds	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Service	Total Revenues	Total Tax Supported Debt Service as a % of Revenues	Fiscal Year
	(a)	(b)	(c) (d)					*(Appendix A-2)*		
2002	$495,217	$113,178	$37,979	$27,383			$673,757	$11,489,682	**5.86%**	2002
2003	$496,870	$128,694	$46,152	$27,035			$698,751	$11,357,434	**6.15%**	2003
2004	$536,819	$134,910	$52,117	$27,333			$751,179	$12,676,056	**5.93%**	2004
2005	$553,783	$153,655	$52,239	$30,480			$790,157	$14,265,771	**5.54%**	2005
2006	$625,208	$141,172	$43,532	$31,713			$841,625	$15,155,236	**5.55%**	2006
2007	$654,055	$118,424	$41,636	$31,725			$845,840	$15,651,623	**5.40%**	2007
2008	$692,539	$121,390	$47,357	$32,108		$36,091	$929,484	$16,735,213	**5.55%**	2008
2009	$744,799	$142,355	$50,783	$31,935	$4,655	$40,364	$1,014,892	$16,333,158	**6.21%**	2009
2010	$777,523	$150,954	$47,460	$32,054	$4,710	$87,458	$1,100,158	$16,061,611	**6.85%**	2010
2011	$834,833	$158,662	$35,252	$32,464	$4,616	$87,455	$1,153,282	$17,500,654	**6.59%**	2011
2012	$878,568	$182,000	$38,125	$35,553	$4,614	$87,457	$1,226,317	$17,974,309	**6.82%**	2012
2013	$921,302	$197,000	$43,850	$33,369	$9,598	$87,451	$1,292,572	$18,699,184	**6.91%**	2013
2014	$989,543	$226,000	$61,872	$33,395	$26,531	$87,458	$1,424,799	$19,560,606	**7.28%**	2014
2015	$1,040,389	$254,000	$63,450	$32,112	$42,473	$87,454	$1,519,877	$20,462,877	**7.43%**	2015
2016	$1,126,565	$269,000	$63,578	$27,093	$52,434	$87,450	$1,626,120	$21,317,401	**7.63%**	2016
2017	$1,181,088	$307,000	$56,546	$25,693	$52,405	$87,452	$1,710,183	$22,161,174	**7.72%**	2017
2018	$1,237,610	$321,000	$34,173	$25,714	$52,364	$87,457	$1,758,317	$22,977,222	**7.65%**	2018
2019	$1,267,477	$307,000	$33,577	$25,289	$52,322	$87,452	$1,773,116	$23,883,516	**7.42%**	2019
2020	$1,320,028	$297,000	$33,492	$25,317	$52,434	$51,365	$1,779,635	$24,816,925	**7.17%**	2020
2021	$1,357,838	$332,000	$33,193	$10,952	$52,435	$0	$1,786,418	$25,339,514	**7.05%**	2021

Assumptions: See Table 1

(a) Includes payments for 2001, 2004, 2006, 2007, 2008, 2009, 2010 and 2011 Qualified Zone Academy Bonds (QZAB's).

(b) Does not include debt service on county transportation bonds. Highway user revenues from counties exceed debt service requirements.

(c) Includes debt service on financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waster water facility at ECI, DHMH public health lab and State Center Garage.

(d) Debt service on leases include equipment, video lottery terminals and energy leases that do not have guaranteed energy savings = or > than debt service.

TABLE 2B

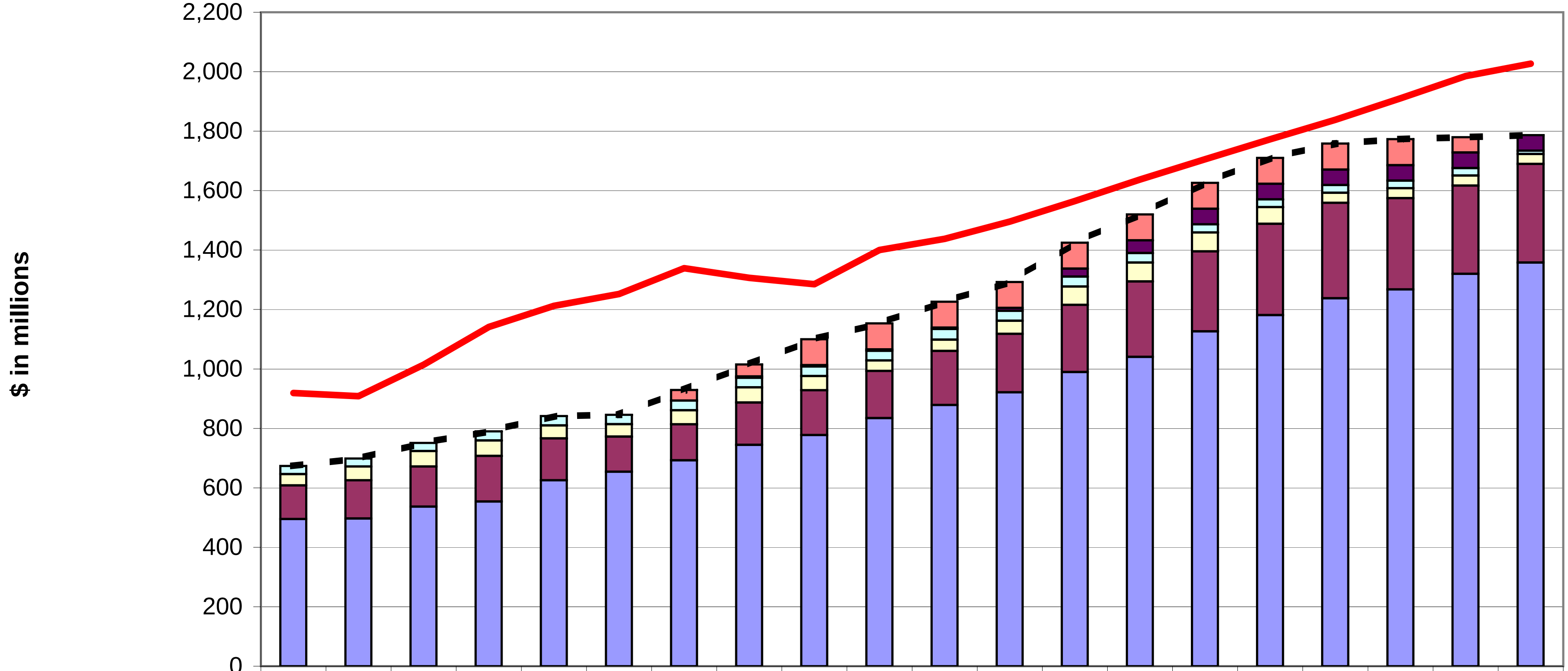
STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF DEDICATED REVENUES

Fiscal Year	General Obligation Bonds	DOT Consolidated Bonds	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds
2002	5.05%	6.81%	0.40%	100.56%		
2003	5.07%	8.03%	0.49%	123.17%		
2004	5.48%	7.16%	0.51%	122.93%		
2005	5.65%	7.37%	0.45%	140.40%		
2006	6.38%	6.65%	0.35%	147.99%		
2007	6.67%	5.64%	0.32%	149.65%		
2008	7.07%	6.04%	0.35%	149.34%		8.18%
2009	7.60%	6.65%	0.39%	159.68%	8.73%	9.15%
2010	7.93%	7.07%	0.38%	160.27%	8.59%	19.82%
2011	8.52%	7.03%	0.26%	137.26%	8.34%	16.19%
2012	8.97%	8.07%	0.27%	130.22%	8.25%	19.86%
2013	9.40%	7.84%	0.30%	134.83%	16.99%	19.86%
2014	10.10%	8.41%	0.41%	134.88%	46.51%	19.86%
2015	10.62%	9.16%	0.40%	136.73%	73.72%	19.86%
2016	11.50%	9.46%	0.39%	115.29%	90.11%	19.86%
2017	12.05%	10.67%	0.33%	109.33%	89.17%	19.86%
2018	12.63%	11.14%	0.19%	109.39%	88.21%	19.86%
2019	12.93%	10.44%	0.18%	109.61%	87.27%	19.86%
2020	13.47%	9.94%	0.17%	109.67%	86.59%	11.66%
2021	13.86%	10.91%	0.16%	125.92%	85.73%	n/a

Note: Unlike Table 2A, Table 2B ratios are serviced by separate and specific revenue sources and have different denominators; therefore, ratios cannot be added across to provide a sum of combined ratio totals. Refer to "Appendix A-2, Revenue Projections."

Tax Supported Debt Service to Revenues
as of SEPTEMBER 2011

Fiscal Years 2002-2011 are final; Fiscal Years 2012-2021 are projections and subject to change

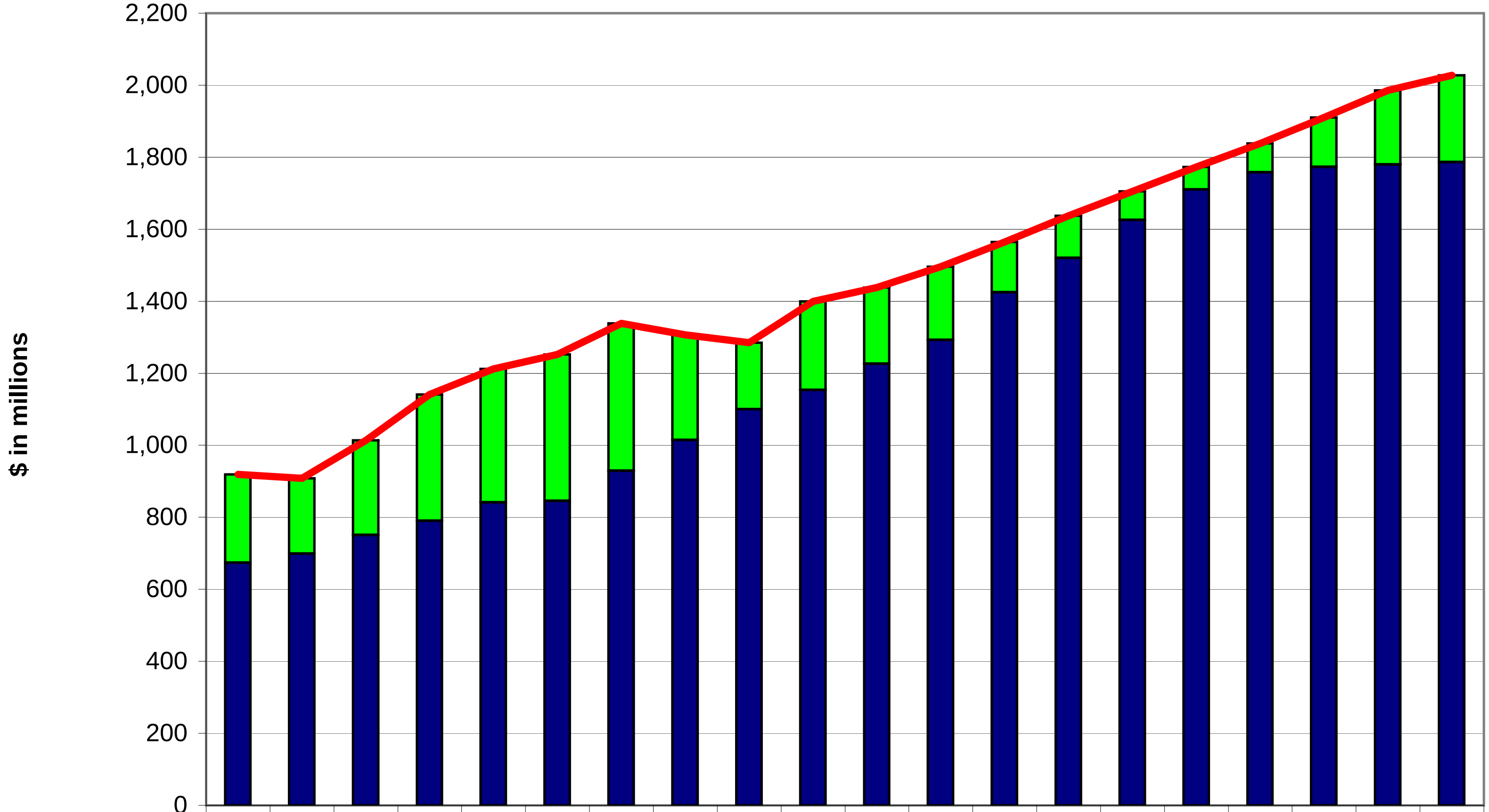


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Garvee Bonds							36	40	87	87	87	87	87	87	87	87	87	87	51	0
Bay Restoration Bonds								5	5	5	5	10	27	42	52	52	52	52	52	52
Stadium Authority	27	27	27	30	32	32	32	32	32	32	36	33	33	32	27	26	26	25	25	11
Capital Leases	38	46	52	52	44	42	47	51	47	35	38	44	62	63	64	57	34	34	33	33
DOT Consolidated Bonds	113	129	135	154	141	118	121	142	151	159	182	197	226	254	269	307	321	307	297	332
General Obligation Bonds	495	497	537	554	625	654	693	745	778	835	879	921	990	1,040	1,127	1,181	1,238	1,267	1,320	1,358
8.0% Benchmark	919	909	1,014	1,141	1,212	1,252	1,339	1,307	1,285	1,400	1,438	1,496	1,565	1,637	1,705	1,773	1,838	1,911	1,985	2,027
Total Tax Supported Debt Service	674	699	751	790	842	846	929	1,015	1,100	1,153	1,226	1,293	1,425	1,520	1,626	1,710	1,758	1,773	1,780	1,786

Source: Table 2A as of Sept. 2011

Available Debt Service Capacity Using the 8.0% Criterion
as of SEPTEMBER 2011

Fiscal Years 2002-2011 are final; Fiscal Years 2012-2021 are projections and subject to change



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Remaining Debt Service Capacity	245	210	263	351	371	406	409	292	185	247	212	203	140	117	79	63	80	138	206	241
Total Tax Supported Debt Service	674	699	751	790	842	846	929	1,015	1,100	1,153	1,226	1,293	1,425	1,520	1,626	1,710	1,758	1,773	1,780	1,786
8.0% Benchmark	919	909	1,014	1,141	1,212	1,252	1,339	1,307	1,285	1,400	1,438	1,496	1,565	1,637	1,705	1,773	1,838	1,911	1,985	2,027

Source: Table 2A as of Sept. 2011

Discussion of Recommendations

September 21, 2011

The Honorable Martin J. O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21401

The Honorable Thomas V. M. Miller, Jr.
President of the Senate
Maryland General Assembly
State House
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House
Maryland General Assembly
State House
Annapolis, Maryland 21401

Gentlemen:

The Capital Debt Affordability Committee, created pursuant to Section 8-104, *et seq*., of the State Finance and Procurement Article, is required to submit to the Governor and the General Assembly each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. The Committee is also required to submit an estimate of the amount of new academic facilities bonds that prudently may be authorized.

At this time, the Committee recommends a $925 million limit for new general obligation authorizations by the 2012 General Assembly to support the 2013 capital program. The Committee's projections for future authorizations assume level authorizations through 2016 of between $925 million and $955 million. In 2017 the projected authorization is $1,200 million and it increases by approximately 3% through 2021. With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues.

The motion to adopt this level specifically recognized that authorization levels proposed in the Governor's 2013 capital budget could be adjusted to reflect up-to-date economic and fiscal information and the Board of Revenue Estimate's December revenue estimates. Accordingly, the Capital Debt Affordability Committee may review its authorization in December 2011 and make any necessary modifications to its recommendation.

The Committee evaluated the State's debt affordability process and, pursuant to legislative direction, made recommendations to improve that process which is in Section VII of the 2011 CDAC Report. The Report will also include a recommendation to the General Assembly of the amount of non-GO tax supported debt in fiscal year 2013.

As required by Chapter 396 of the 2011 Laws of Maryland, CDAC evaluated the capacity of the University System of Maryland (USM) to increase the amount of Academic Revenue Bonds (ARBs) by $5 million. USM has reported that the total debt planned for 2013 will not change; only the allocation between academic and auxiliary bonds will change. CDAC concluded that the overall level of debt is prudent over time and accepted the breakdown (between academic and auxiliary) as proposed by the system. Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee therefore, recommends a limit of $32 million for new academic facilities bonds for the University System of Maryland for fiscal year 2013, an increase of $5 million from last year's recommendation of $27 million.

We are pleased to present to you the Committee's Annual Report, with the recommendations relating to the fiscal 2013 capital program.

Nancy K. Kopp
State Treasurer
Chair

Peter Franchot
State Comptroller

David Romans, Deputy Secretary
Budget and Management, on behalf of
T. Eloise Foster, Secretary
Department of Budget and Management

Beverley Swaim-Staley, Secretary
Department of Transportation

Paul B. Meritt
Public Member