Capital Debt Affordability Committee

Treasurer Nancy K. Kopp, Chair
Treasury Building Assembly Room
80 Calvert St.
Annapolis, MD

Agenda

October 1, 2012
3:00 PM

Treasurer's Opening Comments

Projected Affordability 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.

Projected Affordability Ratios

MARYLAND PERSONAL INCOME AND POPULATION

Historical Data through 2010
Projections 2011-2022

Calendar Year	Personal Income *($ in millions)*	% Change	Population *(thousands)*	% Change
2008	$ 277,793	4.91%	5,706	0.67%
2009	$ 272,829	-1.79%	5,758	0.91%
2010	$ 283,634	3.96%	5,810	0.91%
2011	$ 296,965	4.70%	5,846	0.62%
2012	$ 308,398	3.85%	5,882	0.61%
2013	$ 318,637	3.32%	5,913	0.53%
2014	$ 332,944	4.49%	5,944	0.52%
2015	$ 349,890	5.09%	5,974	0.50%
2016	$ 368,085	5.20%	6,004	0.50%
2017	$ 385,385	4.70%	6,034	0.50%
2018	$ 400,029	3.80%	6,063	0.49%
2019	$ 415,790	3.94%	6,092	0.48%
2020	$ 433,087	4.16%	6,121	0.47%
2021	$ 451,753	4.31%	6,150	0.48%
2022	$ 471,043	4.27%	6,180	0.48%

4.44% Average rate of personal income growth for 10 year period 2001 through 2010
4.90% Median rate of personal income growth for 10 year period 2001 through 2010

Sources: Personal Income
2000-2010 Bureau of Economic Analysis, U.S. Dept. of Commerce
2011-2022 Forecast: BRE March 2011 forecast

Population
2000-2010 Census Bureau, U.S. Dept. of Commerce
2011-2022 Forecast: Economy.com June 2012 forecast

MARYLAND STATE REVENUE PROJECTIONS
($ in millions)
Updated as of September 2012

Fiscal Year	General Funds	% Change	Property Taxes	% Change	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 Revenues	Bay Restoration Fund	Total Revenues	% Change
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	$10.8		$13,409.5	$2,135.8	$20.0	$441.3	$54.8	$16,061.4	-1.66%
2011	$13,537.4	7.5%	$798.3	7.5%	$83.0	$9.2	$82.8	$113.8	$14,624.4	$2,282.4	$23.7	$540.2	$54.6	$17,525.3	9.11%
2012	$14,257.8	5.3%	$752.9	-5.7%	$132.7	$11.5	$91.1	$121.7	$15,367.7	$2,277.0	$24.4	$440.4	$55.1	$18,164.7	3.65%
2013	$14,631.3	2.6%	$728.5	-3.2%	$76.5	$12.2	$286.1	$131.3	$15,865.8	$2,454.0	$24.6	$440.4	$99.0	$18,883.8	3.96%
2014	$15,317.5	4.7%	$726.1	-0.3%	$2.7	$12.4	$297.0	$153.4	$16,509.1	$2,623.0	$24.6	$440.4	$100.0	$19,697.1	4.31%
2015	$15,984.8	4.4%	$720.1	-0.8%	$2.7	$12.4	$483.4	$179.6	$17,383.0	$2,700.0	$23.3	$440.4	$101.0	$20,647.7	4.83%
2016	$16,740.0	4.7%	$727.7	1.1%	$2.7	$12.4	$514.7	$196.8	$18,194.3	$2,763.0	$23.3	$440.4	$102.0	$21,523.0	4.24%
2017	$17,568.4	4.9%	$735.2	1.0%	$2.7	$12.4	$523.6	$206.7	$19,048.9	$2,806.0	$23.4	$440.4	$103.0	$22,421.7	4.18%
2018	$18,358.9	4.5%	$753.5	2.5%	$2.7	$12.4	$539.3	$210.8	$19,877.6	$2,856.0	$23.3	$440.4	$104.1	$23,301.4	3.92%
2019	$19,185.1	4.5%	$772.4	2.5%	$2.7	$12.4	$555.5	$215.0	$20,743.1	$2,868.0	$22.8	$440.4	$105.1	$24,179.5	3.77%
2020	$20,048.4	4.5%	$791.7	2.5%	$2.7	$11.6	$572.2	$219.3	$21,646.0	$2,913.0	$22.8	$440.4	$106.2	$25,128.3	3.92%
2021	$20,950.6	4.5%	$811.5	2.5%	$2.7	$10.9	$589.3	$223.7	$22,588.7	$2,959.0	$8.7	n/a	$107.2	$25,663.6	2.13%
2022	$21,893.4	4.5%	$831.8	2.5%	$2.7	$10.1	$607.0	$228.2	$23,573.1	$3,003.0	$8.7	n/a	$108.3	$26,693.1	4.01%

Sources:
General Fund: 2008 - 2022: Bureau of Revenue Estimates
Property Tax and Use of Premium Revenues: 2008 - 2011; State Budget Books; 2011 - 2022 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 (VLT revenues): 2010 - 2017 - Dept. of Budget and Management; 2017 through 2022, projected at 3% growth
Transfer Taxes: 2011 - 2017: Bureau of Revenue Estimates & DBM; 2018 - 2022: Projected at growth rate of 2.0%
Transportation Revenues: 2008-2022: Department of Transportation; Includes Taxes and Fees, Operating Revenue (including federal funds), Other Revenue (including investment revenue); MdTA transfers are deducted.
Garvee Revenues: 2008-2020; MdTA, Federal highway capital revenues; No debt service or revenues to be included after 2020
Stadium Revenues: Stadium's Lottery revenues net of debt service on the 2010 & 2011 Sports Facilities Revenue Bonds, Camden Yards revenues, and Hippodrome ticket surcharge revenues
Bay Restoration Fund Revenues: 2008-2022 total program revenues; Department of Environment - MWQFA

TABLE 1

STATE TAX SUPPORTED DEBT OUTSTANDING
COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME

FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

State Tax Supported Debt Outstanding

($ in thousands)

Fiscal Year	General Obligation Bonds[a]	Consolidated Transportation Bonds	Capital Leases[b,c]	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Outstanding	Fiscal Year
2008	$5,493,830	$1,268,815	$247,427	$271,570	$50,000	$300,655	$7,632,297	2008
2009	$5,873,643	$1,582,605	$266,757	$256,013	$46,825	$704,365	$8,730,208	2009
2010	$6,523,222	$1,645,010	$242,636	$243,557	$44,185	$651,795	$9,350,406	2010
2011	$6,982,846	$1,561,840	$166,551	$225,743	$41,560	$596,915	$9,575,456	2011
2012	$7,541,102	$1,562,630	$310,464	$217,891	$38,820	$539,355	$10,210,262	2012
2013	$8,009,372	$1,803,000	$289,182	$194,830	$85,995	$479,035	$10,861,414	2013
2014	$8,325,393	$2,048,000	$295,433	$170,823	$230,738	$415,775	$11,486,161	2014
2015	$8,577,688	$2,110,000	$298,436	$147,047	$378,279	$349,440	$11,860,890	2015
2016	$8,724,603	$2,194,000	$273,878	$127,211	$457,806	$279,780	$12,057,278	2016
2017	$8,876,830	$2,275,000	$252,828	$107,848	$451,726	$206,590	$12,170,822	2017
2018	$9,027,516	$2,410,000	$232,653	$87,631	$423,455	$129,680	$12,310,935	2018
2019	$9,251,010	$2,518,000	$212,078	$66,892	$393,813	$48,865	$12,490,658	2019
2020	$9,512,470	$2,555,000	$190,812	$45,225	$362,613	$0	$12,666,120	2020
2021	$9,841,241	$2,561,000	$175,176	$36,840	$329,858	$0	$12,944,115	2021
2022	$10,199,357	$2,551,000	$158,875	$27,945	$295,471	$0	$13,232,648	2022

State Tax Supported Debt Outstanding as a Percent of Personal Income

(Affordability criteria standard = 4.0%)

Fiscal Year	General Obligation Bonds	Consolidated Transportation Bonds	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Outstanding	Fiscal Year
2008	1.98%	0.46%	0.09%	0.10%	0.02%	0.11%	**2.75%**	2008
2009	2.15%	0.58%	0.10%	0.09%	0.02%	0.26%	**3.20%**	2009
2010	2.30%	0.58%	0.09%	0.09%	0.02%	0.23%	**3.30%**	2010
2011	2.35%	0.53%	0.06%	0.08%	0.01%	0.20%	**3.22%**	2011
2012	2.45%	0.51%	0.10%	0.07%	0.01%	0.17%	**3.31%**	2012
2013	2.51%	0.57%	0.09%	0.06%	0.03%	0.15%	**3.41%**	2013
2014	2.50%	0.62%	0.09%	0.05%	0.07%	0.12%	**3.45%**	2014
2015	2.45%	0.60%	0.09%	0.04%	0.11%	0.10%	**3.39%**	2015
2016	2.37%	0.60%	0.07%	0.03%	0.12%	0.08%	**3.28%**	2016
2017	2.30%	0.59%	0.07%	0.03%	0.12%	0.05%	**3.16%**	2017
2018	2.26%	0.60%	0.06%	0.02%	0.11%	0.03%	**3.08%**	2018
2019	2.22%	0.61%	0.05%	0.02%	0.09%	0.01%	**3.00%**	2019
2020	2.20%	0.59%	0.04%	0.01%	0.08%	0.00%	**2.92%**	2020
2021	2.18%	0.57%	0.04%	0.01%	0.07%	0.00%	**2.87%**	2021
2022	2.17%	0.56%	0.03%	0.01%	0.06%	0.00%	**2.81%**	2022

(a) Reflects presumed authorizations as follows:

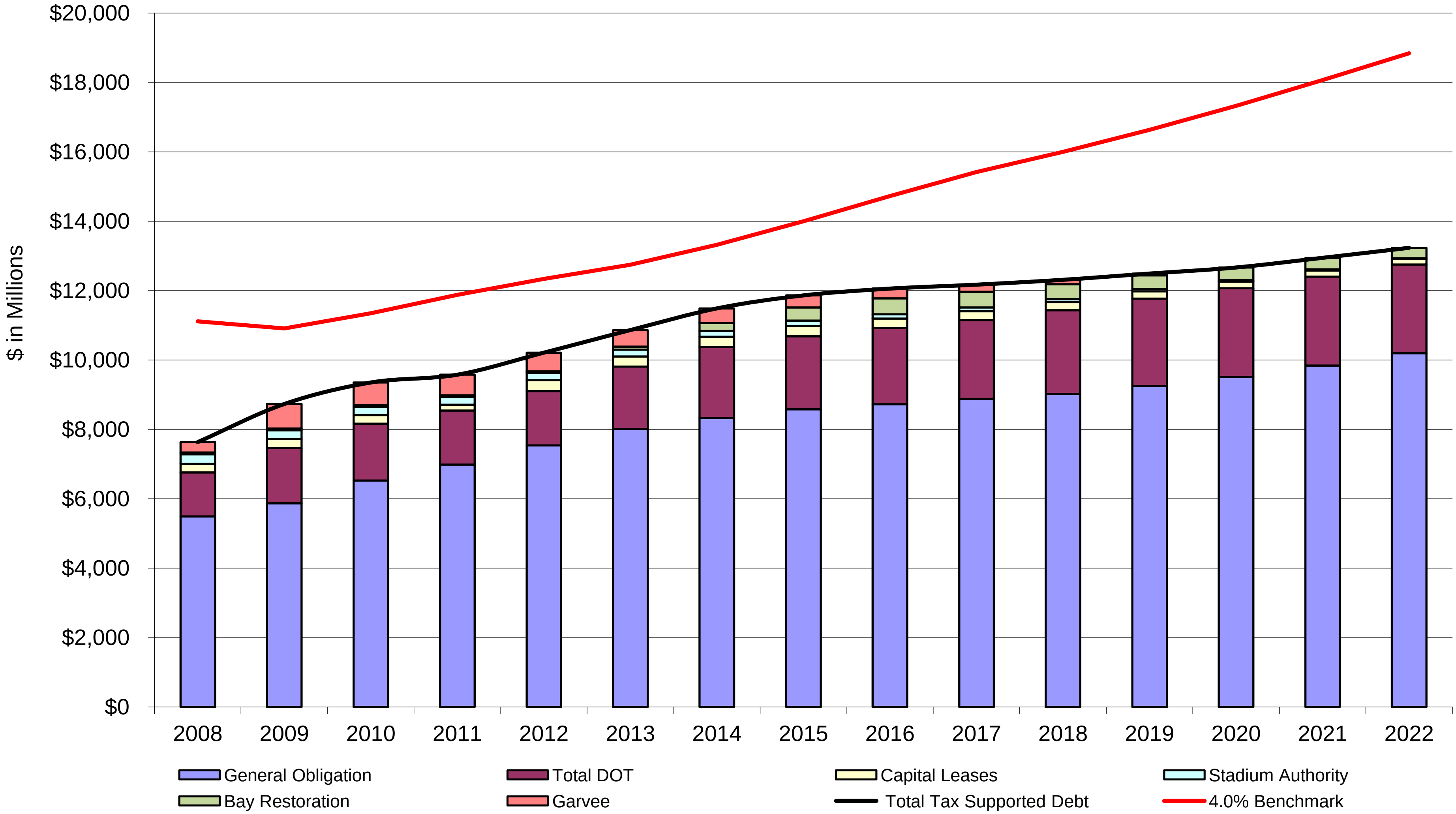
General Assembly Session:	2012	2013	2014	2015	2016
Fiscal Year/Capital Budget:	**2013**	**2014**	**2015**	**2016**	**2017**
(in millions)	$1,075	$925	$935	$945	$955

(b) Includes financings for a multi-agency office building in St. Mary's County, district court facilities in Prince George's County, a MDOT headquarters building, shuttle buses at BWI Airport, the DHMH public health lab and parking facilities at the Annapolis Office Complex and State Center.

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

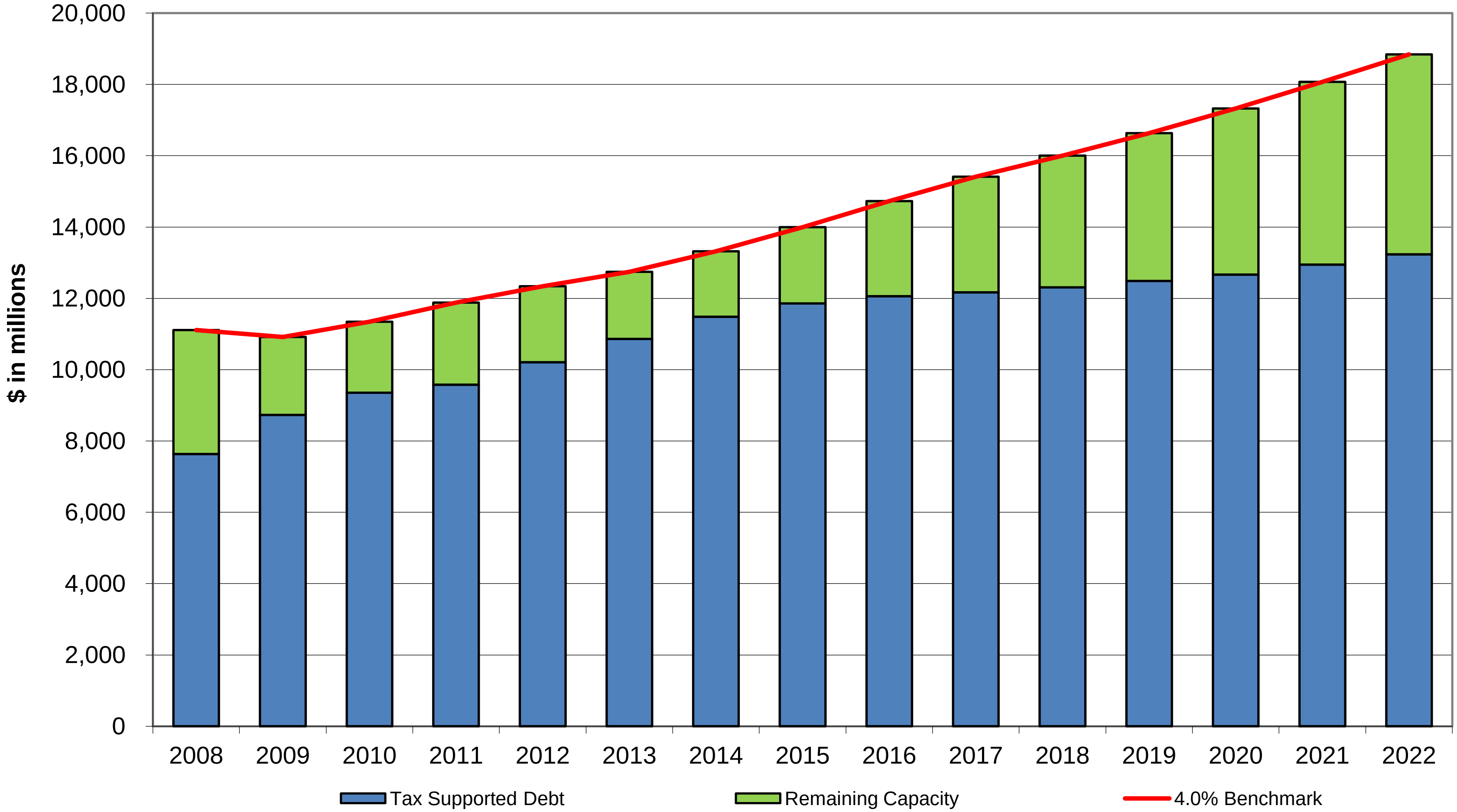
Issuance Assumptions: ($ in millions)	**2013**	**2014**	**2015**	**2016**	**2017**
G.O. issues	$1,028.0	$930.0	$910.0	$900.0	$931.0
DOT issues	$350.0	$375.0	$215.0	$250.0	$270.0
Stadium Authority issues	$0.0	$0.0	$0.0	$0.0	$0.0
New Capital Leases - Equip. & EPC	$5.0	$5.0	$25.0	$5.0	$5.0
New Capital Leases - State Center Garage	$0.0	$32.5	$0.0	$0.0	$0.0
Garvee Bond Issues	$0.0	$0.0	$0.0	$0.0	$0.0
Bay Bonds Issues	$50.0	$150.0	$160.0	$100.0	$20.0
Total	$1,433.0	$1,492.5	$1,310.0	$1,255.0	$1,226.0
Personal Income (billions) (Appendix A-1)	$318.6	$332.9	$349.9	$368.1	$385.4

Tax Supported Debt Outstanding to Personal Income
FY 2008 - FY 2022



Source: Table 1 as of Septembert, 2012
FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

Tax Supported Debt Outstanding to Personal Income
Available Debt Capacity using the 4.0% Benchmark
FY 2008 - FY 2022



Source: Table 1 as of September, 2012
FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

TABLE 2A

STATE TAX SUPPORTED DEBT SERVICE

FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF REVENUES

($ in thousands)

(Affordability criteria standard = 8%)

Fiscal Year	General Obligation Bonds[(a)]	DOT Consolidated Bonds[(b)]	Capital Leases[(c,d)]	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
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	$34,331	$32,464	$4,616	$87,455	$1,152,361	$17,525,280	**6.58%**	2011
2012	$878,208	$174,215	$37,097	$32,694	$4,614	$87,457	$1,214,285	$18,164,677	**6.68%**	2012
2013	$915,982	$183,000	$30,922	$33,223	$4,617	$87,451	$1,255,195	$18,883,840	**6.65%**	2013
2014	$988,295	$216,000	$35,847	$33,239	$9,431	$87,458	$1,370,270	$19,697,081	**6.96%**	2014
2015	$1,048,843	$243,000	$39,999	$31,942	$23,884	$87,454	$1,475,122	$20,647,735	**7.14%**	2015
2016	$1,139,911	$260,000	$44,224	$26,904	$39,297	$87,450	$1,597,786	$21,522,982	**7.42%**	2016
2017	$1,190,954	$288,000	$37,432	$25,563	$48,902	$87,452	$1,678,302	$22,421,742	**7.49%**	2017
2018	$1,246,585	$304,000	$35,380	$25,505	$50,788	$87,457	$1,749,715	$23,301,412	**7.51%**	2018
2019	$1,268,083	$292,000	$34,874	$25,067	$50,746	$87,452	$1,758,221	$24,179,459	**7.27%**	2019
2020	$1,319,405	$278,000	$31,736	$24,984	$50,858	$51,365	$1,756,347	$25,128,289	**6.99%**	2020
2021	$1,353,091	$318,000	$28,382	$10,952	$50,859	$0	$1,761,285	$25,663,602	**6.86%**	2021
2022	$1,404,511	$341,000	$28,336	$10,990	$50,856	$0	$1,835,693	$26,693,139	**6.88%**	2022

(a) Includes payments for 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 financings for a multi-agency office building in St. Mary's County, district court facilities in Prince George's County, a MDOT headquarters building, shuttle buses at BWI Airport, the DHMH public health lab and parking facilities at the Annapolis Office Complex and State Center.
(d) Debt service on leases include equipment, video lottery terminals and energy leases that do not have guaranteed energy savings = or > than debt service.

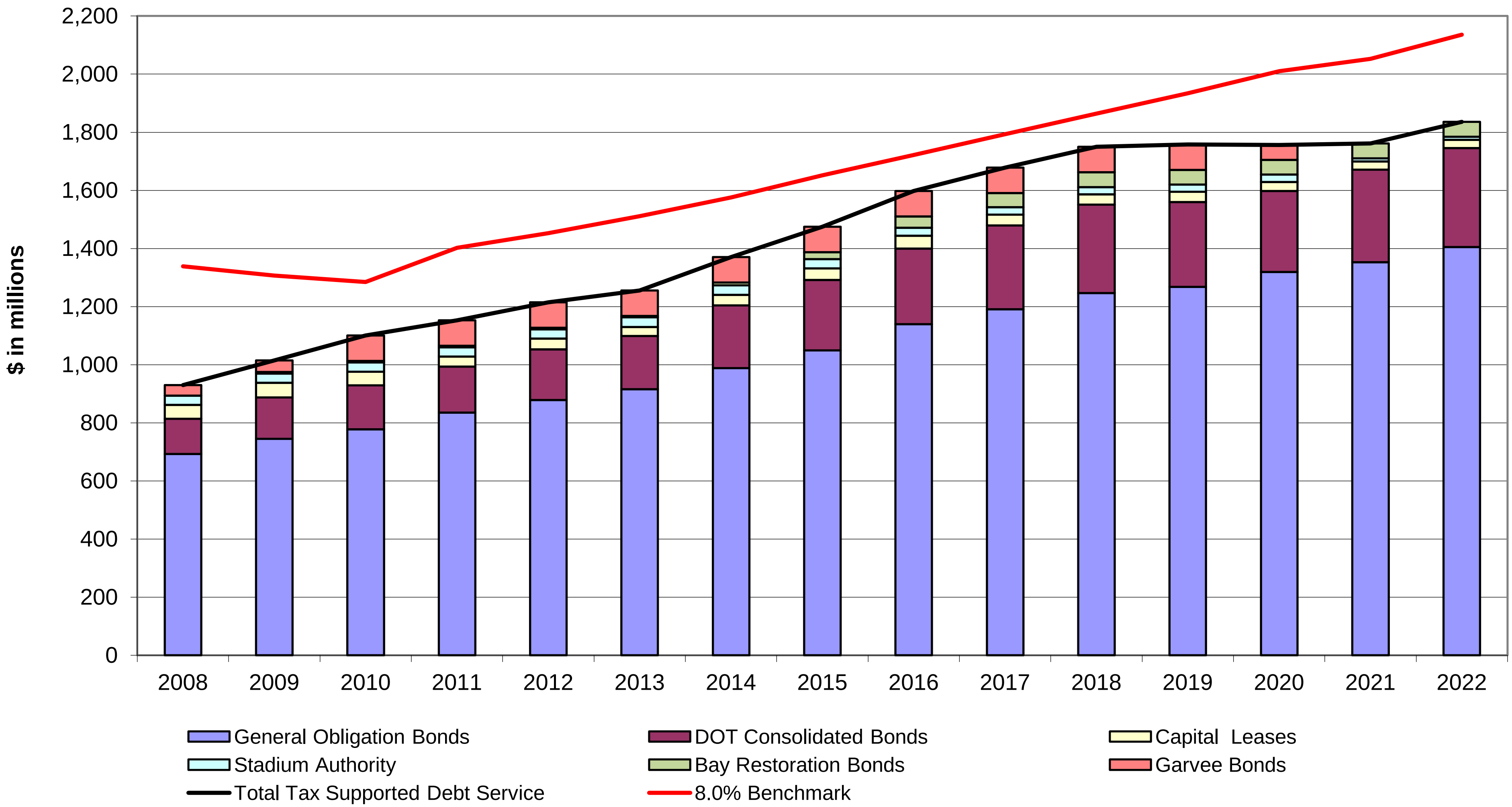
TABLE 2B

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
2008	4.9%	6.0%	0.3%	149.3%		8.2%
2009	5.4%	6.7%	0.4%	159.7%	8.7%	9.1%
2010	5.8%	7.1%	0.4%	160.3%	8.6%	19.8%
2011	5.7%	7.0%	0.3%	137.3%	8.5%	16.2%
2012	5.8%	7.8%	0.3%	133.8%	8.4%	19.9%
2013	5.8%	7.5%	0.2%	135.0%	4.7%	19.9%
2014	6.1%	8.2%	0.2%	135.1%	9.4%	19.9%
2015	6.1%	9.0%	0.3%	137.0%	23.6%	19.9%
2016	6.3%	9.3%	0.3%	115.4%	38.5%	19.9%
2017	6.3%	10.2%	0.2%	109.4%	47.5%	19.9%
2018	6.4%	10.7%	0.2%	109.5%	48.8%	19.9%
2019	6.2%	10.1%	0.2%	109.7%	48.3%	19.9%
2020	6.2%	9.5%	0.2%	109.8%	47.9%	11.7%
2021	6.1%	10.6%	0.1%	125.9%	47.4%	n/a
2022	6.0%	11.2%	0.1%	126.1%	47.0%	n/a

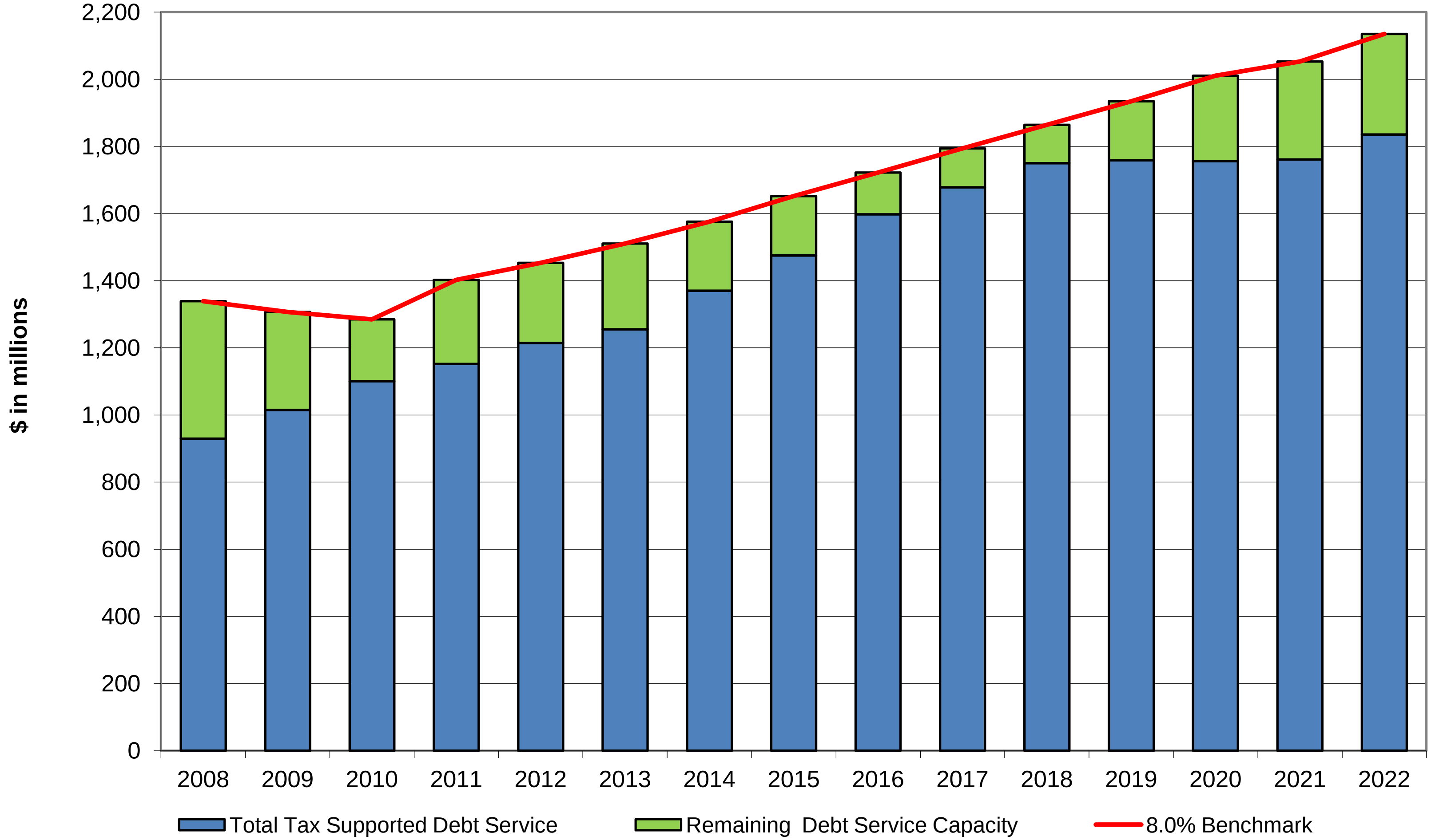
Note: Unlike Table 2A, Table 2B ratios are serviced by separate and specific revenue sources and have different denominators; therefore, ratios cannot be added across to provide a sum of combined ratio totals. Refer to "Appendix A-2, Revenue Projections."

Tax Supported Debt Service to Revenues
FY 2008 - FY 2022



Source: Table 2A as of September, 2012
FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

Tax Supported Debt Service to Revenues
Available Capacity using the 8.0% Benchmark
FY 2008 - FY 2022



Source: Table 2A as of September, 2012
FY 2008-2011 are final; FY 2012-2022 are projections and subject to change

General Obligation Authorizations and Affordability Ratios
Comparison of September 2012 Baseline to Alternative Authorization

	General Obligation Authorizations ($ in millions)		Debt Outstanding as a percent of Personal Income		Debt Service as a percent of Revenues	
Fiscal Year	September Baseline	Alternative Authorization	September Baseline	Alternative Authorization	September Baseline	Alternative Authorization
2014	925	1075	3.45%	3.46%	6.96%	6.96%
2015	935	1085	3.39%	3.43%	7.14%	7.16%
2016	945	1095	3.28%	3.34%	7.42%	7.45%
2017	955	1105	3.16%	3.26%	7.49%	7.55%
2018	1050	1200	3.08%	3.21%	7.51%	7.62%
2019	1240	1240	3.00%	3.15%	7.27%	7.44%
2020	1280	1280	2.92%	3.08%	6.99%	7.20%
2021	1320	1320	2.87%	3.01%	6.86%	7.12%
2022	1360	1360	2.81%	2.94%	6.88%	7.15%

Discussion of Recommendations

MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

MARTIN O'MALLEY
Governor
ANTHONY BROWN
Lieutenant Governor

T. ELOISE FOSTER
Secretary
DAVID C. ROMANS
Deputy Secretary

MEMORANDUM

DATE: September 26, 2012

TO: Members, Capital Debt Affordability Committee

FROM: Secretary T. Eloise Foster *TEF*

RE: Recommended GO Bond Authorization Increases for FY 2014 – FY 2018

At the September 24, 2012 Capital Debt Affordability Committee meeting, the Department of Budget and Management recommended increasing the State's GO bond authorization levels for FY 2014 – FY 2018 by $150 million each year. The increase is possible due to the State's improving revenue outlook. Since the CDAC voted on an authorization level last December, State revenues have grown faster than projected. Ongoing State revenues will continue to increase in light of actions undertaken by the Governor and the General Assembly. Most recently the Board of Revenue Estimates raised the revenue estimate for FY 2013 by $181 million and raised ongoing revenue estimates by $120 to $185 million per year. The favorable revenue forecast provides the CDAC with the capacity to increase the debt authorization while comfortably remaining within the affordability ratios for both debt service to revenues and debt outstanding to personal income.

The proposed increase to the State's GO bond authorization levels for FY 2014 – FY 2018 will:

- Add a total of $750 million to the State's debt capacity over the next 5-year period, creating and supporting thousands of job in Maryland, while taking advantage of historically low interest rates;
- Allow the State to fund all of the projects called for in the CIP as well as the $457 million in preauthorized projects approved by the legislature during the 2012 session;
- Allow the Governor to expand current or invest in new initiatives that are 'shovel-ready;' and
- Be achievable while remaining within affordability ratios that are lower than previously estimated.

Jobs and Revenues

Projects funded through the increased authorization levels will support the creation of 7,500 to 9,225 jobs. In addition to providing employment for thousands of Marylanders, these jobs will generate additional GF revenues in the magnitude of $30 million to $37 million over the life of the projects.

Capacity for Current and Future Projects

During the 2012 legislative session, the General Assembly preauthorized more than $457 million in GO projects in the CIP. Chief among these preauthorized projects are:

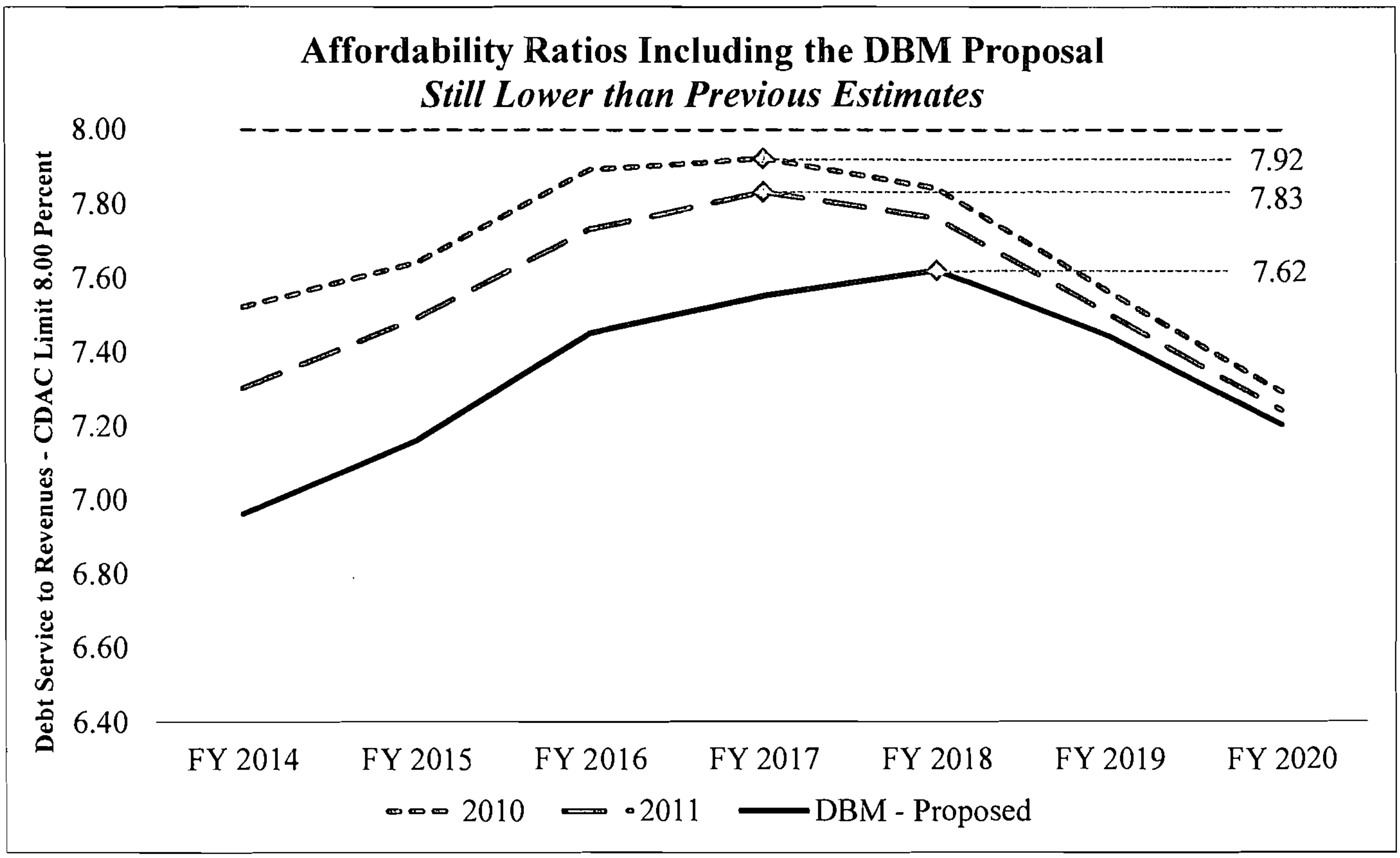
- The USM Biomedical Science and Engineering building at Shady Grove – $168 million
- The new Library at Salisbury University - $104 million
- The Bioengineering building at the University of Maryland, College Park – $97 million
- The High Performance Computing Center at The Johns Hopkins University – $27 million

Accommodating these obligations will require deferring or downsizing many projects that were already included in the FY 2013-FY 2017 CIP. Increasing the debt authorizations will provide the capacity to meet these legislative pre-authorizations as well as to fund projects already in the funding queue.

The remaining increase in debt authority will be used to fund additional 'shovel-ready' and other high-priority projects approved through the capital budget process.

Affordability

The increase in authorizations will change the affordability ratios. However, even with the increased authorizations, the ratios in the 2012 CDAC report will be more than 20 basis points lower than those included in the revised 2011 CDAC report.



While the additional authorizations will increase the debt outstanding to personal income ratio, the revised ratio will remain less than what was included in the last year CDAC report.

The Recommended Increase Will Still Lower Ratios
Debt Outstanding to Personal Income – Previous Max: 3.53%
($ in millions)

	September Baseline	$150 Million Increase
FY 2014	3.45%	3.46%
FY 2015	3.39%	3.43%
FY 2016	3.28%	3.34%
FY 2017	3.16%	3.26%
FY 2018	3.08%	3.21%
FY 2019	3.00%	3.15%
FY 2020	2.92%	3.08%
FY 2021	2.87%	3.01%
FY 2022	2.81%	2.94%

DBM considered the sensitivity of the revenues and the recommendation and determined that revenues could withstand an approximate 4.45 percent reduction in FY 2018 before the State would exceed the CDAC affordability ratios. This 4.45 percent represents approximately $1,037 million in revenues that would have to be lost in order for the debt service to revenues ratio to meet the 8.0 percent threshold.

Conclusion
Increasing the State's GO bond authorizations by $150 million per year over the next 5 years will add $750 million to the CIP and will:

- Create and support thousands of jobs in Maryland, providing employment opportunities to citizens and generating additional revenue to the State
- Satisfy obligations resulting from legislative preauthorizations approved in the 2012 session, and
- Expand our capacity to invest in priority projects.

All of the outputs will be funded with debt issued at historically low interest rates that will not be available in the future, guaranteeing that the same $750 million will be more costly to the State later than it is now. Moreover, we have the ability in future years to make downward revisions in our authorization levels as we did during the 2010 CDAC process should we determine they are necessary to remain within affordability ratios.