Capital Debt Affordability Committee

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

Agenda

September 25, 2013
1:30 PM

Treasurer's Opening Comments

Affordability Analysis: September Baseline
Amber Teitt, Director of Debt Management, State Treasurer's Office

Discussion of recommendations for FY 2015 to be submitted to the Governor and General Assembly:

- *Academic Facilities Bonds Authorization:*
  Recommendation of the amount of new bonds for academic facilities for fiscal year 2015 by the University System of Maryland, Morgan State University, St. Mary's College of Maryland and the Baltimore City Community College.

- *General Obligation Bond Authorization:*
  Recommendation of the total amount of new State debt that prudently may be authorized for the fiscal year 2015.

Discussion of planning assumptions for FY 2015 – FY 2023 to be included in the 2013 annual report:

- Recommendation of planning assumptions for the total amount of new State debt for fiscal years future years.

Affordability Analysis of Alternatives
Amber Teitt, Director of Debt Management, State Treasurer's Office

Affordability Analysis:

September Baseline

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Affordability Analysis: September Baseline

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General Obligation Bonds
New Authorization Baseline

In its 2012 annual report the committee adopted $1,085 million as the planning assumption for fiscal year 2015. This has now become the new authorization baseline for the 2013 annual report.

Fiscal Year	Authorization Baseline ($ in millions)
2015	1,085

General Obligation Bonds Baseline Planning Assumptions

In its 2012 report the committee adopted the following planning assumptions for future authorizations. This has now become the new authorization baseline for the 2013 annual report.

Fiscal Year	Planning Assumption Baseline ($ in millions)
2016	1,095
2017	1,105
2018	1,200
2019	1,240
2020	1,280
2021	1,320
2022	1,360
2023	1,400

Tax-Supported Debt Issuance Assumptions

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GO	$977	$995	$1,014	$1,068	$1,125
MDOT	*$625*	*$685*	*$570*	*$410*	*$720*
Bay Bonds	$90	$140	$140	$80	$30
Capital Leases	$15	$19	$69	$5	$5
Total	$1,702	$1,839	$1,793	$1,563	$1,880

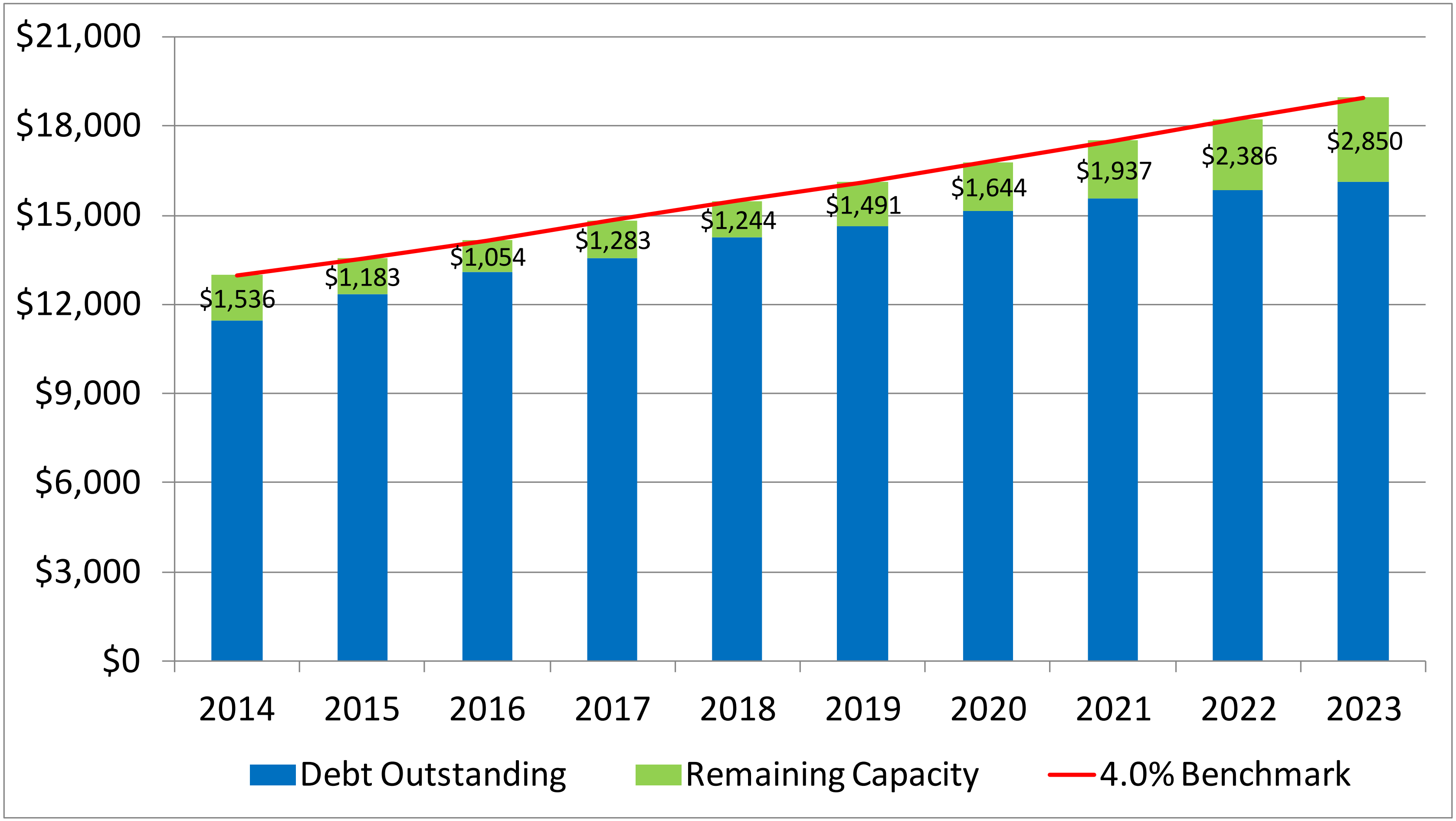
Note: Italics denote changes from the last meeting.

Debt Outstanding Benchmark

Fiscal Year	Debt Outstanding ($ in millions)	Personal Income ($ in billions)	Debt Outstanding Ratio (%)
2014	$11,461	$324,927	3.53
2015	12,368	338,777	3.65
2016	13,110	354,083	3.70
2017	13,557	371,002	3.65
2018	14,249	387,326	3.68
2019	14,636	403,168	3.63
2020	15,147	419,778	3.61
2021	15,568	437,619	3.56
2022	15,844	455,736	3.48
2023	16,110	474,011	3.40

Debt Outstanding Capacity

($ in Millions)



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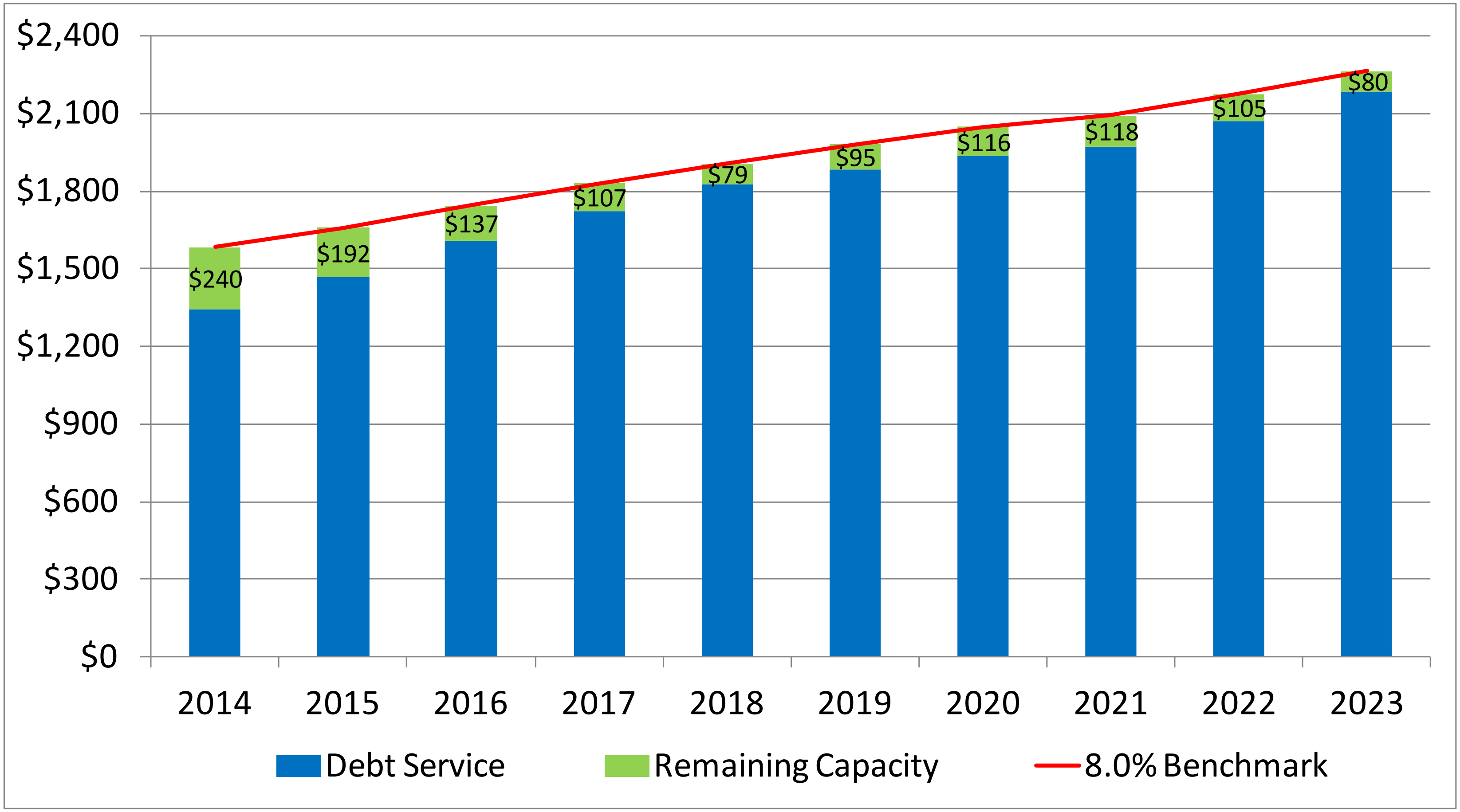
Debt Service Benchmark

Fiscal Year	Debt Service ($ in millions)	Revenues ($ in millions)	Debt Service Ratio (%)
2014	$1,344	$19,804	6.79
2015	1,466	20,721	7.07
2016	1,609	21,822	7.37
2017	1,724	22,890	7.53
2018	1,828	23,830	7.67
2019	1,886	24,759	7.62
2020	1,933	25,607	7.55
2021	1,973	26,146	7.55
2022	2,071	27,203	7.61
2023	2,185	28,316	7.72

Debt Service Capacity

($ in Millions)



Academic Facilities Bonds Authorization:

Recommendation of Amount of New Bonds for Academic Facilities for Fiscal Year 2015

Amount of new bonds for academic facilities for fiscal year 2015 requested by institution:

University System of Maryland:	$32 million
Morgan State University:	$0
St. Mary’s College of Maryland:	$0
Baltimore City Community College:	$0
Total	*$ 32 million*

General Obligation Bond Authorization:

MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

MARTIN O'MALLEY
Governor

ANTHONY BROWN
Lieutenant Governor

T. ELOISE FOSTER
Secretary

DAVID C. ROMANS
Deputy Secretary

September 20, 2013

MEMORANDUM

TO: Capital Debt Affordability Committee

FROM: T. Eloise Foster, Secretary

RE: Recommended GO Bond Authorization Increases for FY 2015 – FY 2019

The Department of Budget and Management recommends increasing the State's GO bond authorization levels for FY 2015-FY 2019 by $75 million each year. Since the Capital Debt Affordability Committee voted on authorization levels last October, the Transportation Infrastructure Investment Act of 2013 was enacted which mandates $395 million in spending for the Watershed Implementation Plan (WIP) over five years. A debt limit increase of $75 million per year covers most of the increased cost of the WIP while keeping the state within both CDAC debt ratios.

The proposed increase to the State's GO bond authorization levels for FY 2015 – FY 2019 will:

- Add a total of $375 million to the State's debt capacity over the next five-year period while taking advantage of low interest rates;
- Allow the State to fund most of the projects called for in the Capital Improvement Plan (CIP) as well as accommodating the Watershed Implementation Plan expenses;
- Keep the affordability ratios comfortably within the State's affordability guidelines; and
- Support the State's ongoing jobs recovery. Almost 8 jobs are created for every one million in construction funding. Therefore, increasing debt levels by $75 million a year will support up to 3,000 jobs over the five year period, providing employment opportunities for citizens and generating additional revenue for the state.

<u>Capacity for Current and Future Projects</u>

The Transportation Infrastructure Investment Act of 2013 requires the Governor to include bond funds in the capital budget for the State Highway Administration to comply with the WIP. The five year cost of this proposal is $395 million. Accommodating the WIP without an increase in debt levels would require deferring or downsizing many projects that were already included in the FY 2014-FY 2018 CIP. Increasing the debt authorizations will provide the capacity to meet this legislative commitment while maintaining funding for most of the projects already in the funding queue.

Affordability

The increase in authorizations will change the affordability ratios, but will keep them below the affordability guidelines.

Debt Service to Revenues

	September Baseline	$75 Million Annual Increase (FY 15-FY 19)
FY 2015	7.07%	7.07%
FY 2016	7.37%	7.38%
FY 2017	7.53%	7.55%
FY 2018	7.67%	7.70%
FY 2019	7.62%	7.67%
FY 2020	7.55%	7.63%
FY 2021	7.55%	7.65%
FY 2022	7.61%	7.73%
FY 2023	7.72%	7.85%

DBM considered the sensitivity of the revenues with the proposed debt level increase for FY 2015-FY 2019. DBM determined that over the five years of the proposed increased authorizations, General Fund revenues could withstand an approximate 3.75 percent reduction in FY 2018 before the State would be in violation of CDAC affordability ratios. This 3.75 percent represents approximately $893 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.

The debt service to revenues ratio gets closer to the 8.0 percent benchmark after FY 2019. However, the State has the ability in future years to make downward revisions in its authorization levels (as was done during the 2010 CDAC process) should CDAC determine revisions are necessary to remain within affordability ratios.

Debt Outstanding to Personal Income

	September Baseline	$75 Million Annual Increase (FY 15-FY 19)
FY 2015	3.65%	3.66%
FY 2016	3.70%	3.72%
FY 2017	3.65%	3.69%
FY 2018	3.68%	3.73%
FY 2019	3.63%	3.69%
FY 2020	3.61%	3.68%
FY 2021	3.56%	3.63%
FY 2022	3.48%	3.55%
FY 2023	3.40%	3.46%

DBM also considered the sensitivity of personal income with the proposed debt level increase. Personal income would have to drop by 6.81 percent (a drop of $26 billion) in FY 2018 for the debt outstanding to personal income ratio to meet the 4.0 percent threshold.

Conclusion

Increasing the State's GO bond authorizations by $75 million per year over the next five years will allow the State to add $375 million to the CIP and will:

- Accommodate the WIP while minimizing the impact on projects already planned in FY 2015 and scheduled in FY 2016-2019;
- Create and support jobs in Maryland, providing employment opportunities to citizens and generating additional revenue to the State; and
- Take advantage of low interest rates that may not be available in the future.

Affordability Analysis of Alternatives

Affordability Analysis: Alternative Authorization Recommendation

Capital Debt Affordability Committee
September 25, 2013

▪T. Eloise Foster, Secretary
Department of Budget and Management

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Alternative Authorization Recommendation

($ in millions)

The Department of Budget and Management recommends increasing the general obligation bond authorization fiscal year 2015 by $75 million to from $1,085 million to $1,160 million.

Fiscal Year	Recommended Authorization	Change from Baseline
2015	1,160	75

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Alternative Planning Assumption Recommendation

($ in millions)

DBM recommends increasing the planning assumptions for general obligation bonds for fiscal years 2016 – 2019 by $75 million each year.

Fiscal Year	Recommended Planning Assumption	Change from Baseline
2016	1,170	75
2017	1,180	75
2018	1,275	75
2019	1,315	75
2020	1,280	0
2021	1,320	0
2022	1,360	0
2023	1,400	0

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Alternative Tax-Supported Debt Issuance Assumptions

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GO	$977	$1,018	$1,056	$1,125	$1,193
MDOT	$625	$685	$570	$410	$720
Bay Bonds	$90	$140	$140	$80	$30
Capital Leases	$15	$19	$69	$5	$5
Total	$1,702	$1,862	$1,835	$1,620	$1,948

Note: GO issuances increased in FY 2015 - FY 2019 by $23 million, $42 million, $57 million, and $68 million respectively.

Analysis of Alternatives

Fiscal Year	Debt Service Ratio	Change from Baseline	Personal Income Ratio	Change from Baseline
2015	7.07	0.00	3.66	0.01
2016	7.38	0.01	3.72	0.02
2017	7.55	0.01	3.69	0.03
2018	7.70	0.03	3.73	0.05
2019	7.67	0.05	3.69	0.06
2020	7.63	0.08	3.68	0.07
2021	7.65	0.10	3.63	0.07
2022	7.73	0.12	3.55	0.07
2023	7.85	0.13	3.46	0.07

Note: Ratios are draft and intended for discussion purposes only; pending CDAC action.