

Capital Debt Affordability Committee

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

Agenda

September 30, 2015

2:00 PM

- 1) Treasurer's Opening Comments**

- 2) Affordability Analysis**
Nikki Griffith, Deputy Director of Debt Management, State Treasurer's Office

- 3) Discussion of recommendations for FY 2017 to be submitted to the Governor and General Assembly:**
 - *General Obligation Bond Authorization:*
Recommendation of the amount of new State debt that prudently may be authorized for fiscal year 2017.

- 4) Discussion of planning assumptions for FY 2018 – FY 2025 to be included in the 2015 annual report:**
 - Recommendation of planning assumptions for the total amount of new State debt for future fiscal years.

- 5) Discussion of recommendations for FY 2017 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 2017 by the University System of Maryland, Morgan State University, St. Mary's College of Maryland and the Baltimore City Community College.

Affordability Analysis for the Capital Debt Affordability Committee

September 30, 2015

Topics of Discussion

1. CDAC Baseline with \$75 million authorization increase through FY2020 Ratios
2. CDAC Baseline without \$75 million Ratios
3. Governor's Proposed Authorizations per September 16th DBM – Office of Capital Programs Presentation Ratios
4. Recommended General Obligation Bond Authorization for FY2017 and planning assumptions for out years
5. Recommended Academic Facilities Bond Authorization

General Obligation Bonds New Authorization Comparison

In the Table on page 4:

- The 2014 Baseline CDAC Authorization represents the original October 2014 CDAC recommendation of \$1095 million, plus 3% annual growth and includes a \$75 million increase for planning purposes for fiscal years 2017 through 2020 as incorporated in the October 2014 CDAC report. Subsequent to the October report, revenue estimates were revised twice, the State achieved refunding savings and received lower than anticipated interest rates for 2015 GO bonds.
- The CDAC October 2014 Baseline Authorizations with 3% annual growth without the \$75 million increase in out-year planning.
- Final Legislative Authorization represents a 3% annual growth rate based upon the \$1,045 million authorized during the 2015 Legislative Session.
- The Governor's Projected Authorization is derived from DBM's₃ September 16th presentation to CDAC.

General Obligation Bonds New Authorization Comparison

(\$ in millions)

Fiscal Year	CDAC Baseline Authorization With \$75 million	CDAC Baseline Authorization (3% annual growth)	Final Legislative Authorization (3% annual growth)	Governor's Projected Authorization
2017	1,180	1,105	1,075	1,030
2018	1,275	1,200	1,110	1,060
2019	1,315	1,240	1,140	1,090
2020	1,355	1,280	1,175	1,120
2021	1,320	1,320	1,210	1,150
2022	1,360	1,360	1,250	1,180
2023	1,400	1,400	1,285	1,210
2024	1,440	1,440	1,325	1,240
2025	1,480	1,480	1,365	1,270

The CDAC baseline reflects a 3% annual growth rate from the recommended FY2016 authorization of \$1,095 million in the October 2014 CDAC report.

Tax-Supported Debt Outstanding Ratio

(2014 CDAC Baseline with \$75 million increase)

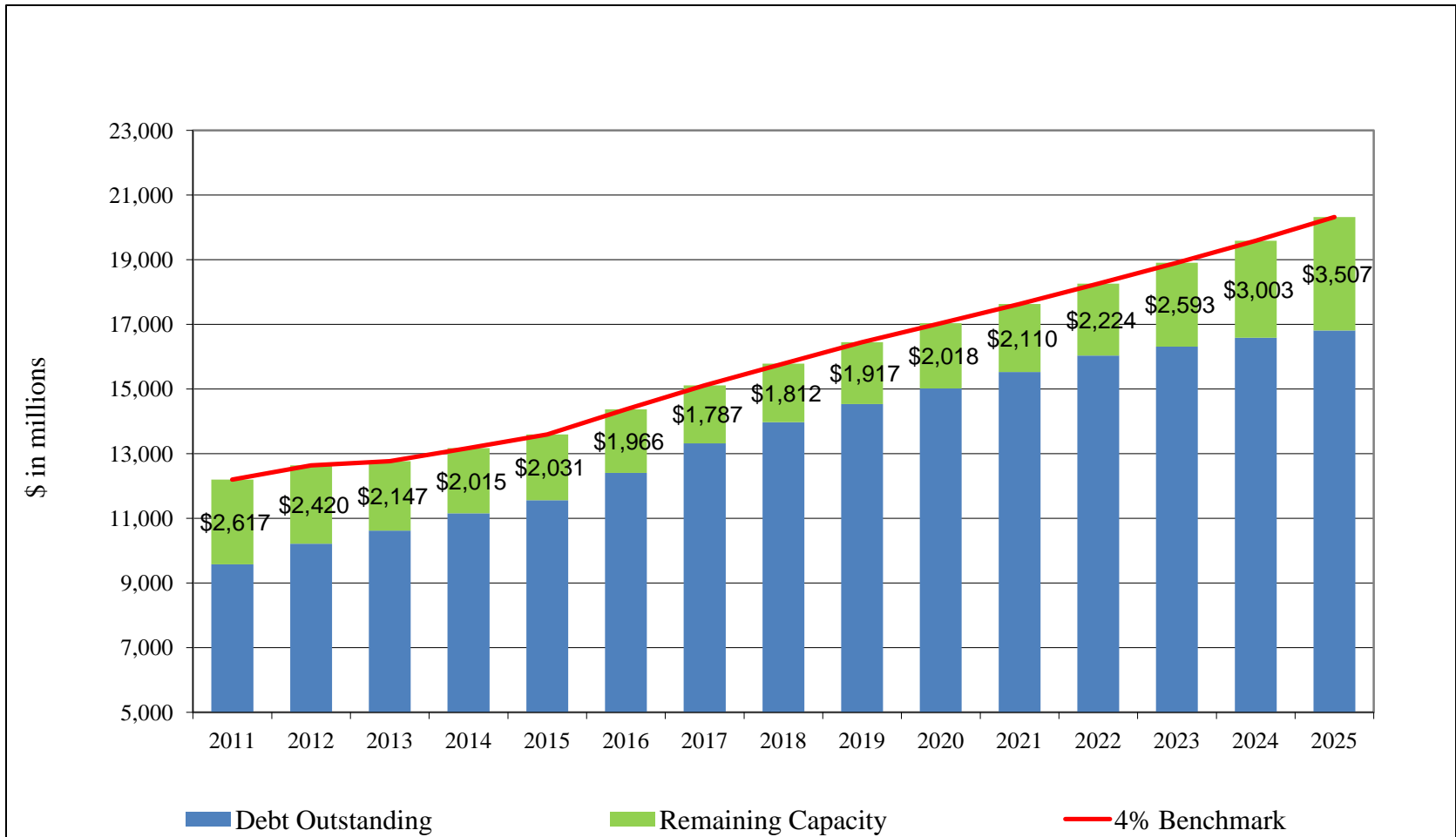
(\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Outstanding	Personal Income	Ratio (%)
2016	12,399	359,210	3.45%
2017	13,319	377,667	3.53%
2018	13,971	394,575	3.54%
2019	14,530	411,180	3.53%
2020	15,013	425,771	3.53%
2021	15,519	440,708	3.52%
2022	16,030	456,340	3.51%
2023	16,309	472,531	3.45%
2024	16,582	489,628	3.39%
2025	16,804	507,796	3.31%

Tax-Supported Debt Outstanding Capacity

(2014 CDAC Baseline with \$75 million increase)



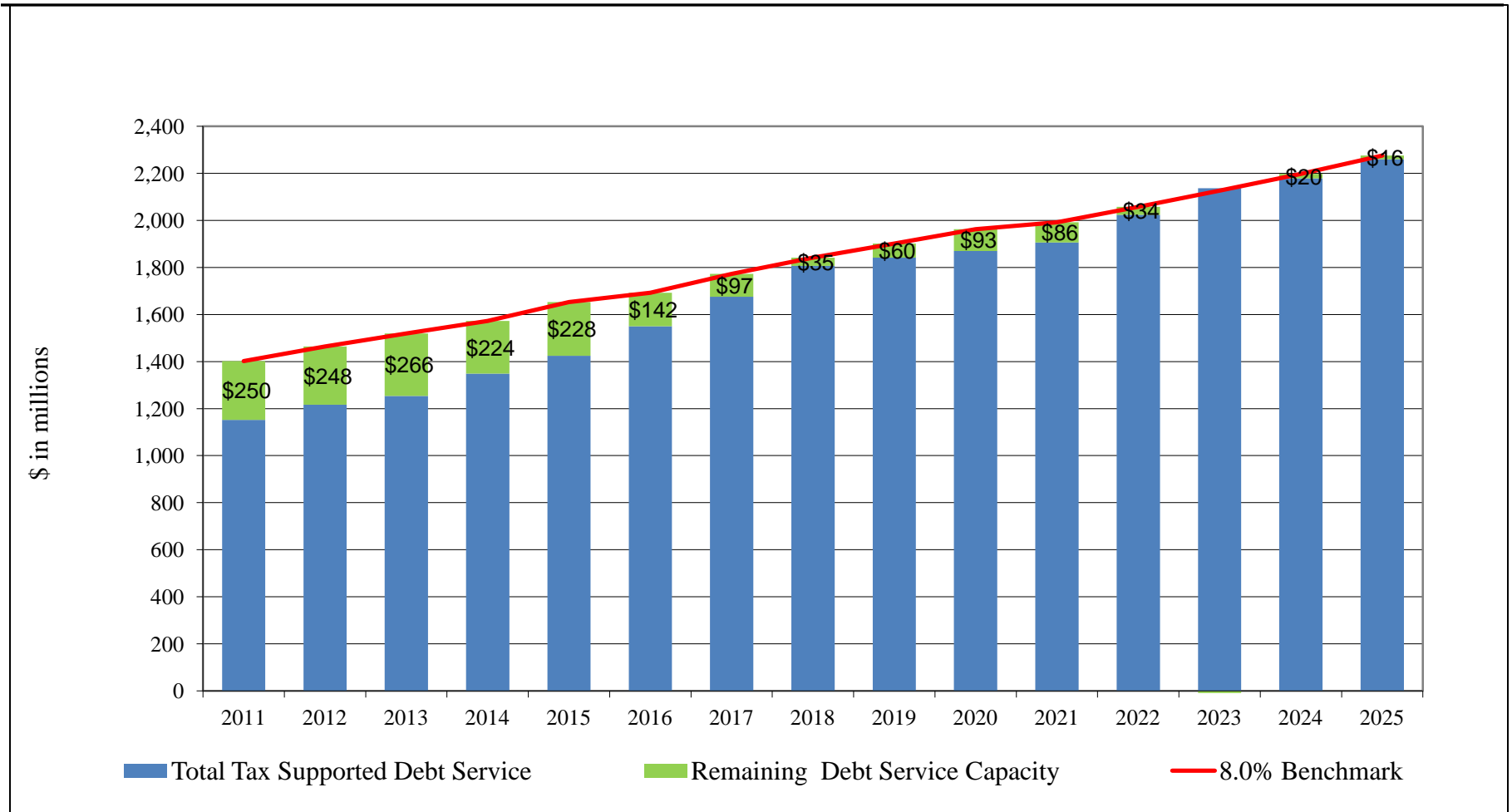
The CDAC baseline reflects a 3% annual growth rate from the recommended FY2016 authorization of \$1,095 million in the October 2014 CDAC report.

Tax-Supported Debt Service Ratio (2014 CDAC Baseline with \$75 million increase) (\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Service	Revenues	Ratio (%)
2016	1,550	21,296	7.28%
2017	1,675	22,152	7.56%
2018	1,806	23,013	7.85%
2019	1,841	23,775	7.75%
2020	1,870	24,533	7.62%
2021	1,906	24,897	7.65%
2022	2,024	25,721	7.87%
2023	2,137	26,584	8.04%
2024	2,178	27,470	7.93%
2025	2,259	28,441	7.94%

Tax-Supported Debt Service Capacity (2014 CDAC Baseline with \$75 million increase)



The CDAC baseline reflects a 3% annual growth rate from the recommended FY2016 authorization of \$1,095 million in the October 2014 CDAC report.

Tax-Supported Debt Outstanding Ratio

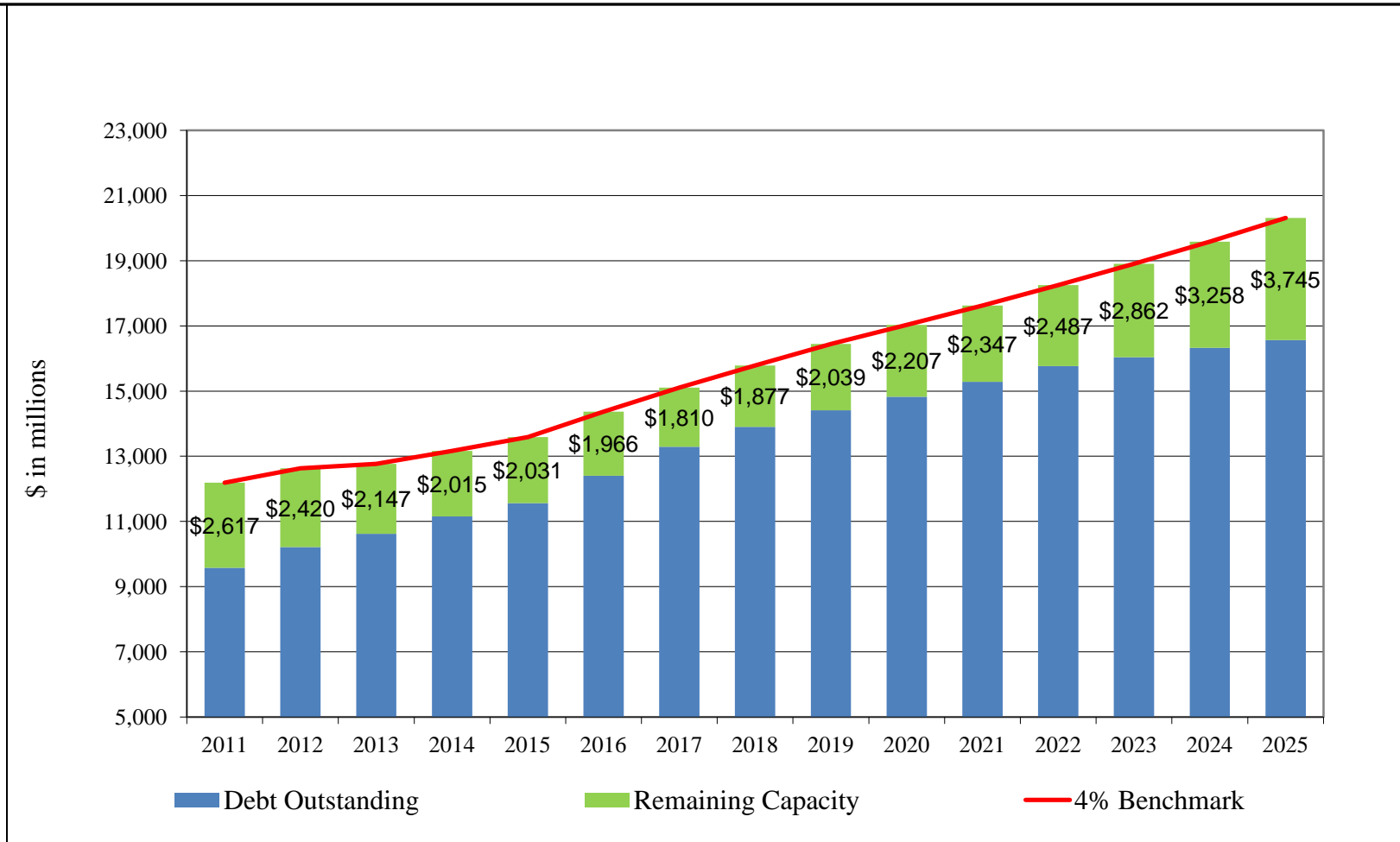
(Baseline without \$75 million increase)
(\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Outstanding	Personal Income	Ratio (%)
2016	12,402	359,210	3.45%
2017	13,296	377,667	3.52%
2018	13,906	394,575	3.52%
2019	14,408	411,180	3.50%
2020	14,824	425,771	3.48%
2021	15,282	440,708	3.47%
2022	15,767	456,340	3.46%
2023	16,039	472,531	3.39%
2024	16,328	489,628	3.33%
2025	16,567	507,796	3.26%

Tax-Supported Debt Outstanding Capacity

(CDAC Baseline, 3% growth without \$75 million increase)



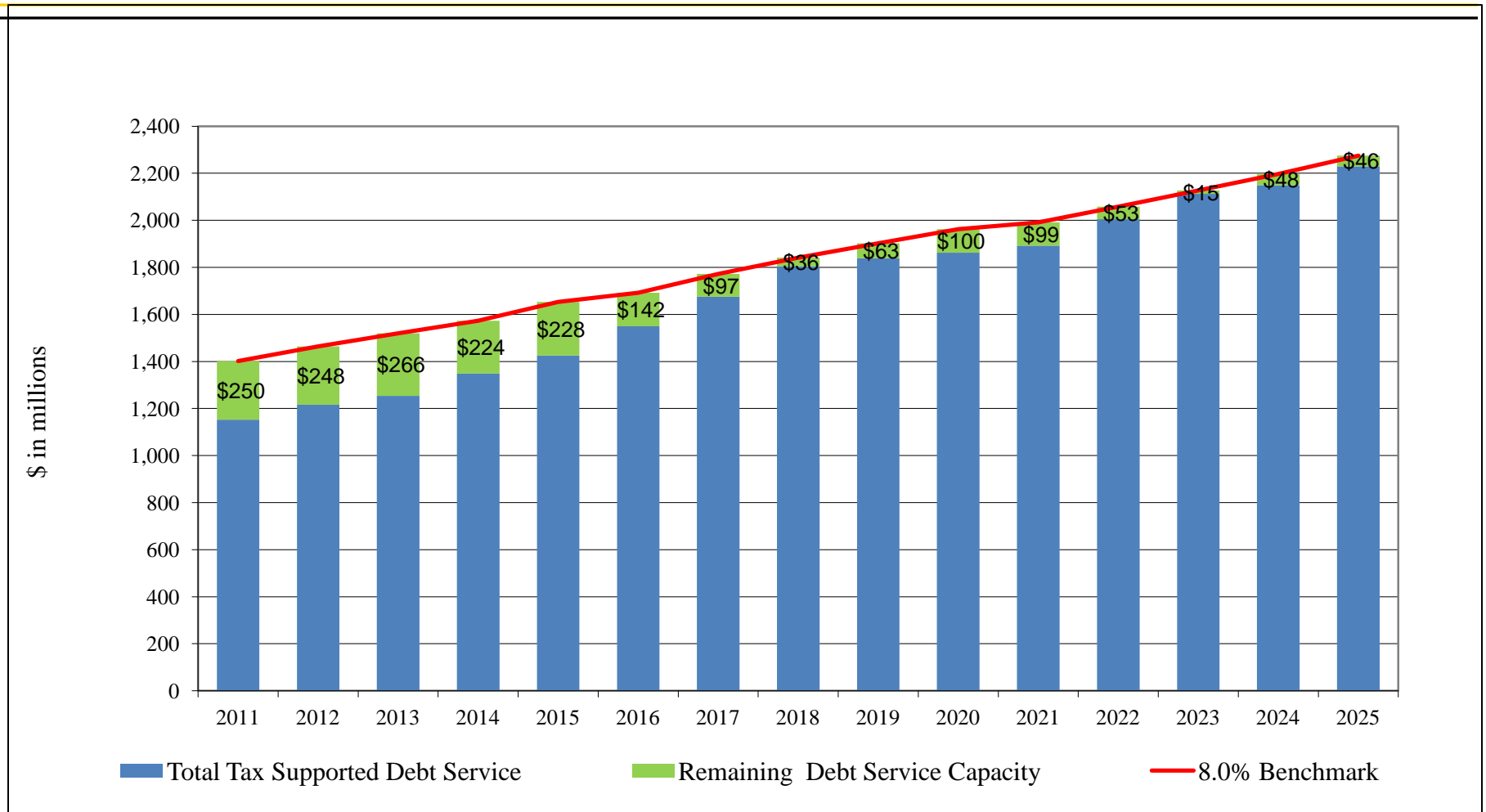
Tax-Supported Debt Service Ratio (Baseline without \$75 million increase) (\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Service	Revenues	Ratio (%)
2016	1,550	21,296	7.28%
2017	1,675	22,152	7.56%
2018	1,805	23,013	7.84%
2019	1,839	23,775	7.73%
2020	1,863	24,533	7.59%
2021	1,893	24,897	7.60%
2022	2,005	25,721	7.79%
2023	2,112	26,584	7.94%
2024	2,150	27,470	7.83%
2025	2,229	28,441	7.84%

Tax-Supported Debt Service Capacity

(CDAC Baseline, 3% growth without \$75 million increase)



Tax-Supported Debt Outstanding Ratio

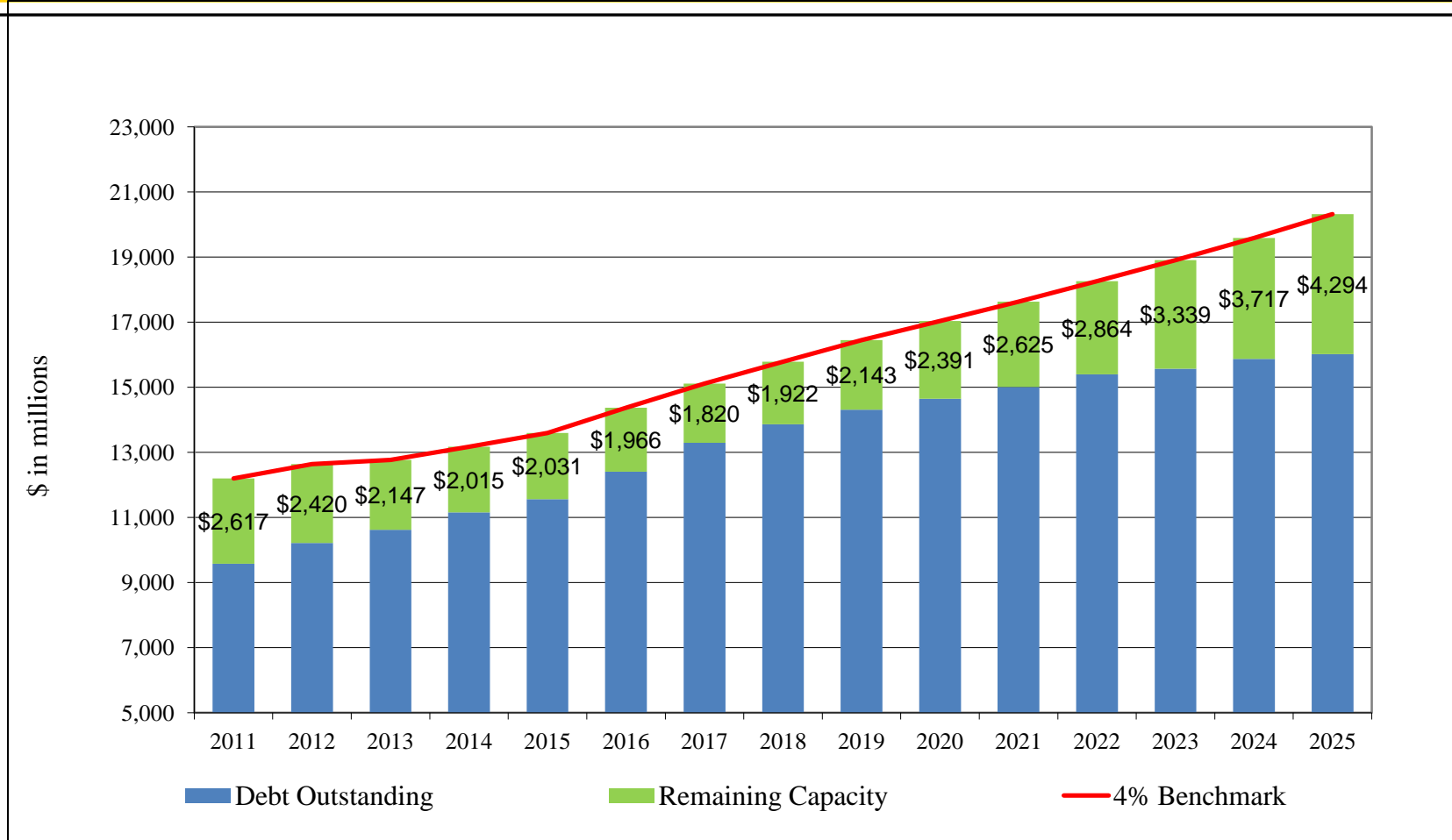
(Final 2015 Legislative Authorization)
(\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Outstanding	Personal Income	Ratio (%)
2016	12,402	359,210	3.45%
2017	13,287	377,667	3.52%
2018	13,861	394,575	3.51%
2019	14,304	411,180	3.48%
2020	14,640	425,771	3.44%
2021	15,004	440,708	3.40%
2022	15,390	456,340	3.37%
2023	15,562	472,531	3.29%
2024	15,868	489,628	3.24%
2025	16,017	507,796	3.15%

Tax-Supported Debt Outstanding Capacity

(Final 2015 Legislative Authorization)



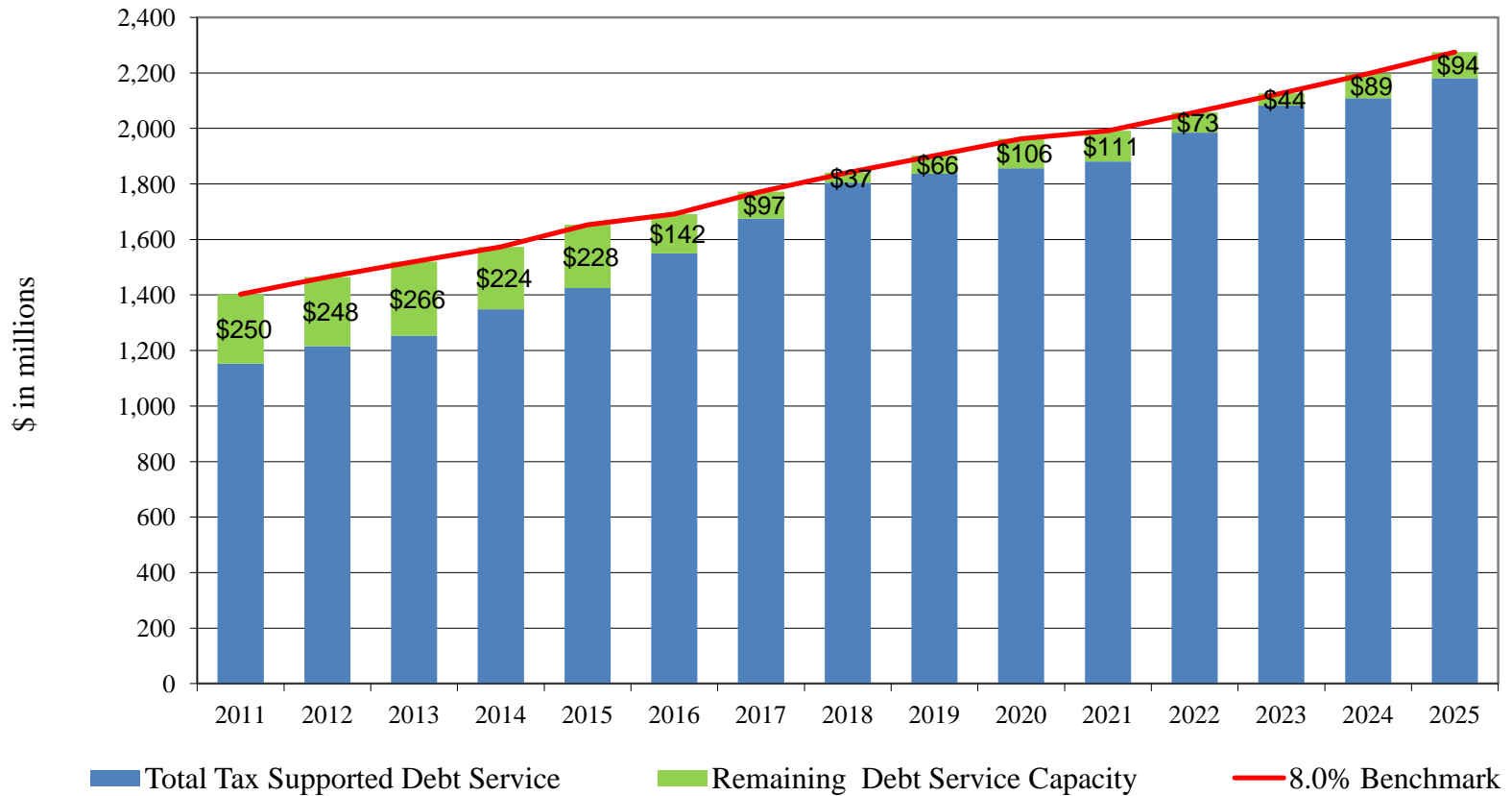
Tax-Supported Debt Service Ratio

(Final 2015 Legislative Authorization)
(\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Service	Revenues	Ratio (%)
2016	1,550	21,296	7.28%
2017	1,675	22,152	7.56%
2018	1,804	23,013	7.84%
2019	1,836	23,775	7.72%
2020	1,857	24,533	7.57%
2021	1,881	24,897	7.55%
2022	1,985	25,721	7.72%
2023	2,082	26,584	7.83%
2024	2,109	27,470	7.68%
2025	2,181	28,441	7.67%

Tax-Supported Debt Service Capacity (Final 2015 Legislative Authorization)



Tax-Supported Debt Outstanding Ratio

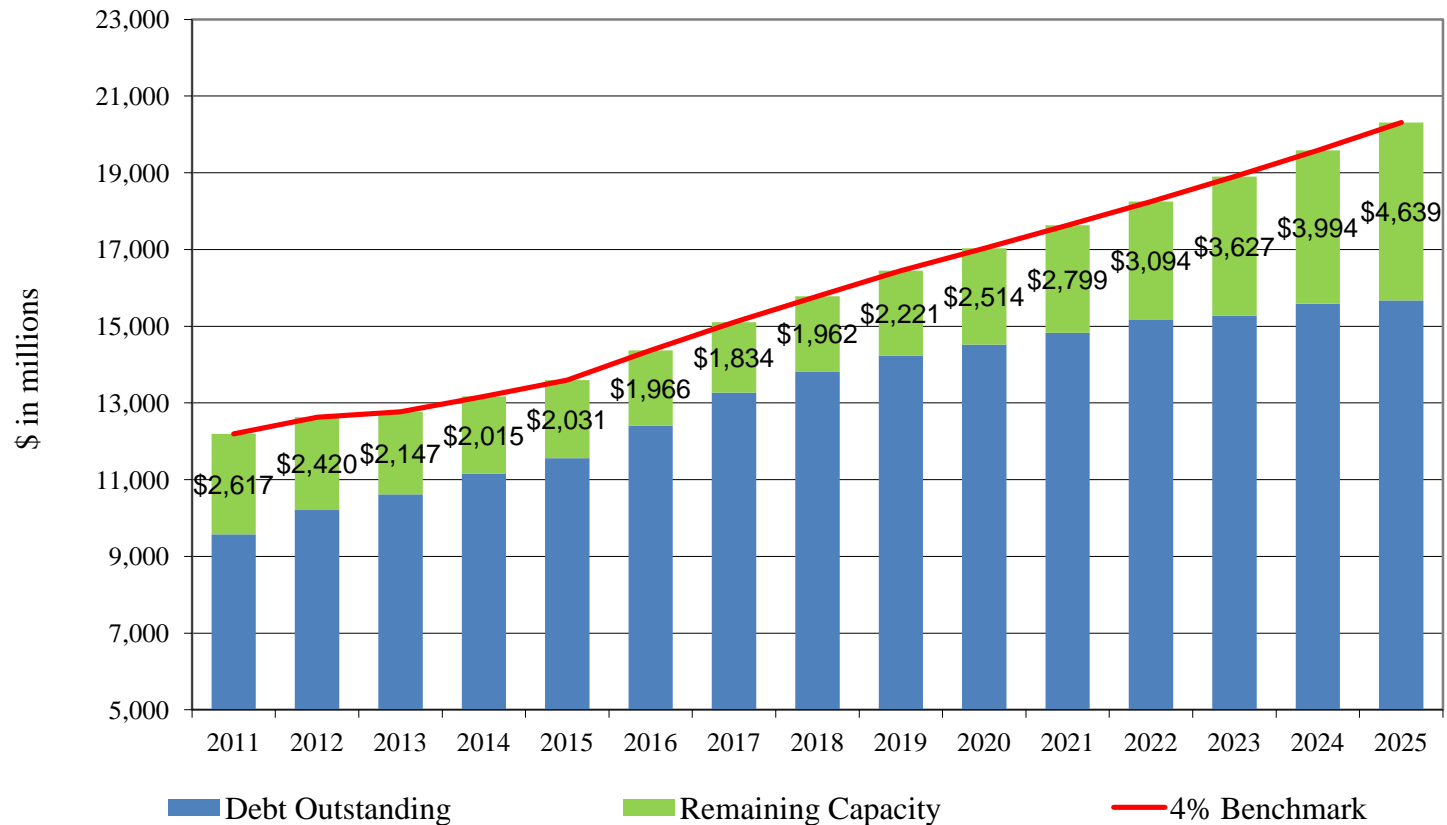
(Governor's Projected GO Authorizations as of 09/16/15)
(\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Outstanding	Personal Income	Ratio (%)
2016	12,402	359,210	3.45%
2017	13,273	377,667	3.51%
2018	13,821	394,575	3.50%
2019	14,226	411,180	3.46%
2020	14,517	425,771	3.41%
2021	14,829	440,708	3.36%
2022	15,160	456,340	3.32%
2023	15,274	472,531	3.23%
2024	15,591	489,628	3.18%
2025	15,673	507,796	3.09%

Tax-Supported Debt Outstanding Capacity

(Governor's Projected Authorizations as of 09/16/2015)



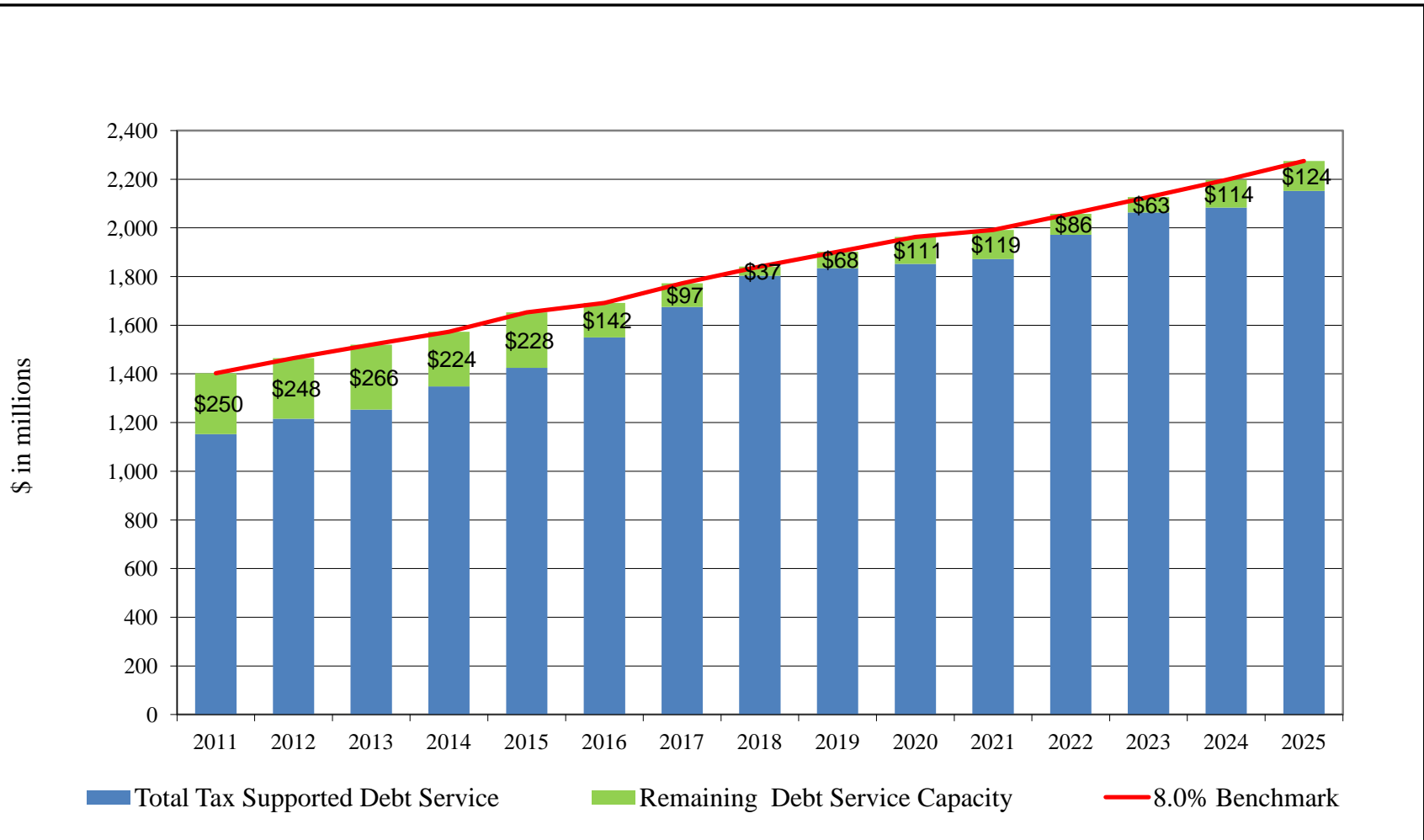
Tax-Supported Debt Service Ratio (Governor's Projected as of 09/16/2015) (\$ in Millions)

The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt outstanding:

Fiscal Year	Debt Service	Revenues	Ratio (%)
2016	1,550	21,296	7.28%
2017	1,675	22,152	7.56%
2018	1,804	23,013	7.84%
2019	1,834	23,775	7.72%
2020	1,852	24,533	7.55%
2021	1,872	24,897	7.52%
2022	1,972	25,721	7.67%
2023	2,064	26,584	7.76%
2024	2,084	27,470	7.59%
2025	2,152	28,441	7.57%

Tax-Supported Debt Outstanding Capacity

(Governor's Projected Authorizations as of 09/16/2015)



General Obligation Bond Authorization

CDAC 2016 Recommendation

- Four options have been presented to the Capital Debt Affordability Committee as a recommended authorization level to support the fiscal year 2017 capital program.
 - \$1.18 billion (October 2014 CDAC recommendation of \$1,095 million with \$75 million increase and 3% growth)
 - \$1.105 billion (October 2014 CDAC recommendation of \$1,095 million with 3% growth but not with \$75 million increase)
 - \$1.075 billion (Final Legislative Authorization of \$1,045 million with 3% growth)
 - \$1.03 billion (Governor's Projected Authorization)

GO Bonds Authorization Summary

Comparison of Debt Service Ratios

(\$ in millions)

FY	CDAC W/\$75	%	CDAC Baseline	%	Final Legislative	%	Governor's Projected	%
16	1,170		1,095		1,045		995	
17	1,180	7.56	1,105	7.56	1,075	7.56	1,030	7.56
18	1,275	7.85	1,200	7.84	1,110	7.84	1,060	7.84
19	1,315	7.75	1,240	7.73	1,140	7.72	1,090	7.72
20	1,355	7.62	1,280	7.59	1,175	7.57	1,120	7.55
21	1,320	7.65	1,320	7.60	1,210	7.55	1,150	7.52
22	1,360	7.87	1,360	7.79	1,250	7.72	1,180	7.67
23	1,400	8.04	1,400	7.94	1,285	7.83	1,210	7.76
24	1,440	7.93	1,440	7.83	1,325	7.68	1,240	7.59
25	1,480	7.94	1,480	7.84	1,365	7.67	1,270	7.57

CDAC 2016 Planning Assumptions

- The authorization and issuance assumptions in calculating the CDAC ratios do not anticipate that future financings for State Center, the Purple Line or any other P3s would be included as tax-supported debt.
- The projected debt service ratios assume a 5% interest rate with no refunding savings or use of premium and are subject to change.
- Four planning assumptions for fiscal years 2018 through 2025 have also been presented:
 - 3% annual growth (October 2014 CDAC baseline of \$1,095 million)
 - 3% annual growth (October 2014 CDAC baseline of \$1,095 million) with a \$75 million increase through FY2020
 - 3% annual growth (Final 2015 Legislative Authorization of \$1,045 million)
 - \$30 million annual increase (Governor's Projected)

Academic Facilities Bonds Authorization



Recommendation of Amount of New Bonds for Academic Facilities for Fiscal Year 2017

Amount of new bonds for academic facilities for fiscal year 2017 requested by institution:

University System of Maryland:	\$22.0 million
Morgan State University:	\$0
St. Mary's College of Maryland:	\$0
Baltimore City Community College:	<u>\$0</u>
Total Requested	\$22.0 million



MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

September 30, 2015

MEMORANDUM

TO: Capital Debt Affordability Committee
FROM: David R. Brinkley, Secretary
RE: Recommended GO Bond Authorizations FY 2017 – FY 2021

The Department of Budget and Management (DBM) supports the GO bond authorization baseline of \$995 million for fiscal years FY 2017 – FY 2021. Last fall (under the previous Administration), the CDAC recommended a debt level of \$1.105 billion for fiscal year 2017. Subsequently, state revenue estimates declined, making that level of debt unaffordable within Maryland's established debt guidelines. The Hogan-Rutherford Administration supports a \$995 million level of debt authorizations in order to begin reversing the recent, unsustainable increases in debt service expenses.

Recent Increases in Debt Levels Have Brought Maryland to the Edge of Affordability Limits

To accommodate larger capital budgets, CDAC increased the debt limit in six of the last eight years. These levels of debt authorizations, if continued, would cause the State to approach its established limit of 8% debt service as a percent of revenues and remain very near the limit through FY 2025 (based on current revenue estimates). Moreover, the cost of debt service funded by general funds has increased by 80% from FY 2015 to FY 2016. DBM estimates that in FY 2017 the cost of debt service will near \$400 million in general funds: more than the state's annual investment in public school construction.

The debt limit must be lowered to remain comfortably within debt ratios and to reduce the burden on the general fund. A \$995 million debt level will significantly reduce the amount of general funds needed for debt service over time.

- DBM estimates that this debt level would reduce the amount of general funds needed for debt service by \$447 million over the next ten years. Given the 15-year life span of State GO bonds, it takes many years for savings from smaller capital budgets to be realized

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however; by 2025 the state will be saving approximately \$150 million a year in annual debt service.

- By 2025, the state would be 0.68 percentage points away from the 8% limit. This lowers the State's financial risk if revenue estimates fall.

DEBT LIMIT RECOMMENDATION

With a \$995 million GO bond authorization level the State is well within the guidelines for debt outstanding as a share of personal income as well as the 8% ceiling for debt service as a percentage of revenues. The data used in this memo is the most recently published information. Revenue estimates will likely result in slight changes to the data.

The recommended \$995 authorization level demonstrates fiscal restraint by holding the debt level under \$1 billion, and freezing it at that level for the duration of the five-year Capital Improvement Plan.

It demonstrates good financial management. Maryland's debt ratios would remain within the established affordability guidelines for each of the next ten years, with a modest cushion, according to the Treasurer's Office projections.

It will begin to moderate the growth of future debt service requirements. By 2023, debt service would be \$80 million less compared to the previous CDAC recommended levels.
