

Capital Debt Affordability Committee

Treasurer Dereck E. Davis, Chair

Agenda

September 30, 2024

3 p.m. to 4:30 p.m.

1) Treasurer's Opening Comments

2) General Fund Estimate

Robert Rehrmann, Director, Bureau of Revenue Estimates, State Comptroller's Office

3) Assessable Base Estimate

Dan Phillips, Director, State Department of Assessments and Taxation

4) Review of Capital Program Needs:

Capital Program Overview

Christina Perrotti, Executive Director, Office of Capital Budgeting, Department of Budget and Management

Public School Construction Program

Alex Donahue, Executive Director, Interagency Commission on School Construction

5) CDAC Affordability Analysis and Update on State Credit Ratings

Rebecca Ruff, Director of Debt Management, State Treasurer's Office

The final CDAC meeting will be held on Thursday, October 17th at 11am to review and discuss the recommendation of general obligation and academic facility bond authorizations for fiscal 2026.

The background of the slide features a large, semi-transparent seal of the Commonwealth of Massachusetts. The seal is circular and contains a central shield with a cross and a bent arm holding a sword. Above the shield is a crest with a bent arm holding a broadsword. The shield is flanked by two figures: a Native American on the left and a European on the right. The shield is supported by a ribbon with the motto "FATTI MASCHII PAROLE FEMINE". The outer ring of the seal contains the Latin motto "SIGILLUM REIPUBLICAE MASSACHUSETTENSIS" and the year "1632".

September Forecast Estimates for CDAC

September 30, 2024

Robert J. Rehrmann
Director

Bureau of Revenue Estimates

Maryland General Fund Revenues
Fiscal Years 2024 - 2026
(\$ in thousands)

	FY 2024			FY 2025				FY 2026	
	Official Estimate ¹	Actual	Difference	Current Estimate ¹	September Revision	Difference	% Growth	September Estimate	% Growth
INCOME TAXES									
Individual Corporations	13,696,400	13,616,685	(79,715)	14,298,187	14,270,981	(27,206)	4.8%	14,860,589	4.1%
	1,773,416	1,903,957	130,541	1,746,700	1,920,595	173,895	0.9%	1,950,779	1.6%
Total	15,469,816	15,520,642	50,826	16,044,887	16,191,576	146,689	4.3%	16,811,369	3.8%
SALES AND USE TAXES	5,909,681	5,896,606	(13,075)	6,094,553	5,978,696	(115,858)	1.4%	6,134,721	2.6%
STATE LOTTERY RECEIPTS	649,367	654,968	5,601	532,970	531,664	(1,305)	-18.8%	483,758	-9.0%
OTHER REVENUES									
Business Franchise Taxes	271,376	280,148	8,772	274,873	276,901	2,028	-1.2%	280,389	1.3%
Insurance Premium Tax	710,325	741,837	31,512	727,362	735,603	8,241	-0.8%	726,440	-1.2%
Estate & Inheritance Taxes	247,617	213,407	(34,209)	275,927	213,775	(62,152)	0.2%	229,486	7.3%
Tobacco Taxes	416,570	405,071	(11,499)	402,866	401,448	(1,419)	-0.9%	312,402	-22.2%
Alcoholic Beverages Excises	36,553	34,102	(2,452)	37,083	34,376	(2,707)	0.8%	34,287	-0.3%
District Courts	36,490	37,266	777	34,813	35,572	759	-4.5%	33,971	-4.5%
Clerks of Court	23,696	26,603	2,907	22,804	25,298	2,494	-4.9%	26,203	3.6%
Hospital Patient Recoveries	63,200	77,036	13,836	80,036	80,036	-	3.9%	80,036	0.0%
Interest on Investments	302,430	379,818	77,388	128,462	225,000	96,538	-40.8%	125,000	-44.4%
Miscellaneous	358,510	445,284	86,774	312,254	327,331	15,078	-26.5%	307,791	-6.0%
Total	2,466,766	2,640,573	173,807	2,296,480	2,355,340	58,860	-10.8%	2,156,004	-8.5%
TOTAL CURRENT REVENUES	24,495,629	24,712,789	217,159	24,968,890	25,057,276	88,386	1.4%	25,585,851	2.1%
Extraordinary Revenues ²	150,000	150,000	-	-	-	-	-	-	-
Revenue Volatility Cap ³	-	#N/A	-	-	-	-	-	(301,282)	-
GRAND TOTAL	24,645,629	24,862,789	217,159	24,968,890	25,057,276	88,386	0.8%	25,284,569	0.9%

¹ The 2024 Legislative Session resulted in revenue adjustments beyond the March 2024 official estimate; this table has been adjusted accordingly

² The fiscal 2023 GAAP audit of the local income tax reserve account determined that the account was overfunded by \$316 million.

³ Established by Chapters 4 & 550 of 2017 and amended by several succeeding Budget Reconciliation And Financing Acts.

Summary of September Changes

Revenue Source	Fiscal Year 2024		Fiscal Year 2025		Fiscal Year 2026
	Actual		Forecast		Forecast
	\$ Change From Estimate	% Growth	\$ Change From Estimate	% Growth	% Growth
Personal Income Tax	(\$79.7)	1.1%	(\$27.2)	4.8%	4.1%
Corporate Income Tax	\$130.5	4.8%	\$173.9	0.9%	1.6%
Sales Tax	(\$13.1)	-1.8%	(\$115.9)	1.4%	2.6%
Other	\$179.4	3.6%	\$57.6	-12.4%	-8.6%
Total- Ongoing Revenues	\$217.2	1.0%	\$88.4	1.4%	2.1%

Notes: dollars in millions; amounts may not sum from rounding

Long-term GF Forecast (\$ in Millions)

	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>	<u>FY 30</u>
GF - Total	\$25,057.3	\$25,284.6	\$25,967.1	\$27,076.1	\$28,007.0	\$28,987.4
Growth Rate	0.8%	0.9%	2.7%	4.3%	3.4%	3.5%
Difference from March:						
Revenues	\$88.4	\$123.6	\$33.9	\$7.1	(\$2.8)	
Revenue Volatility Cap	\$0.0	(\$28.5)	(\$49.7)	(\$38.5)	\$0.0	
Net Change	\$88.4	\$95.1	(\$15.7)	(\$31.4)	(\$2.8)	

- FY 2027 and beyond are planning estimates
 - Not voted on by Board of Revenue Estimates

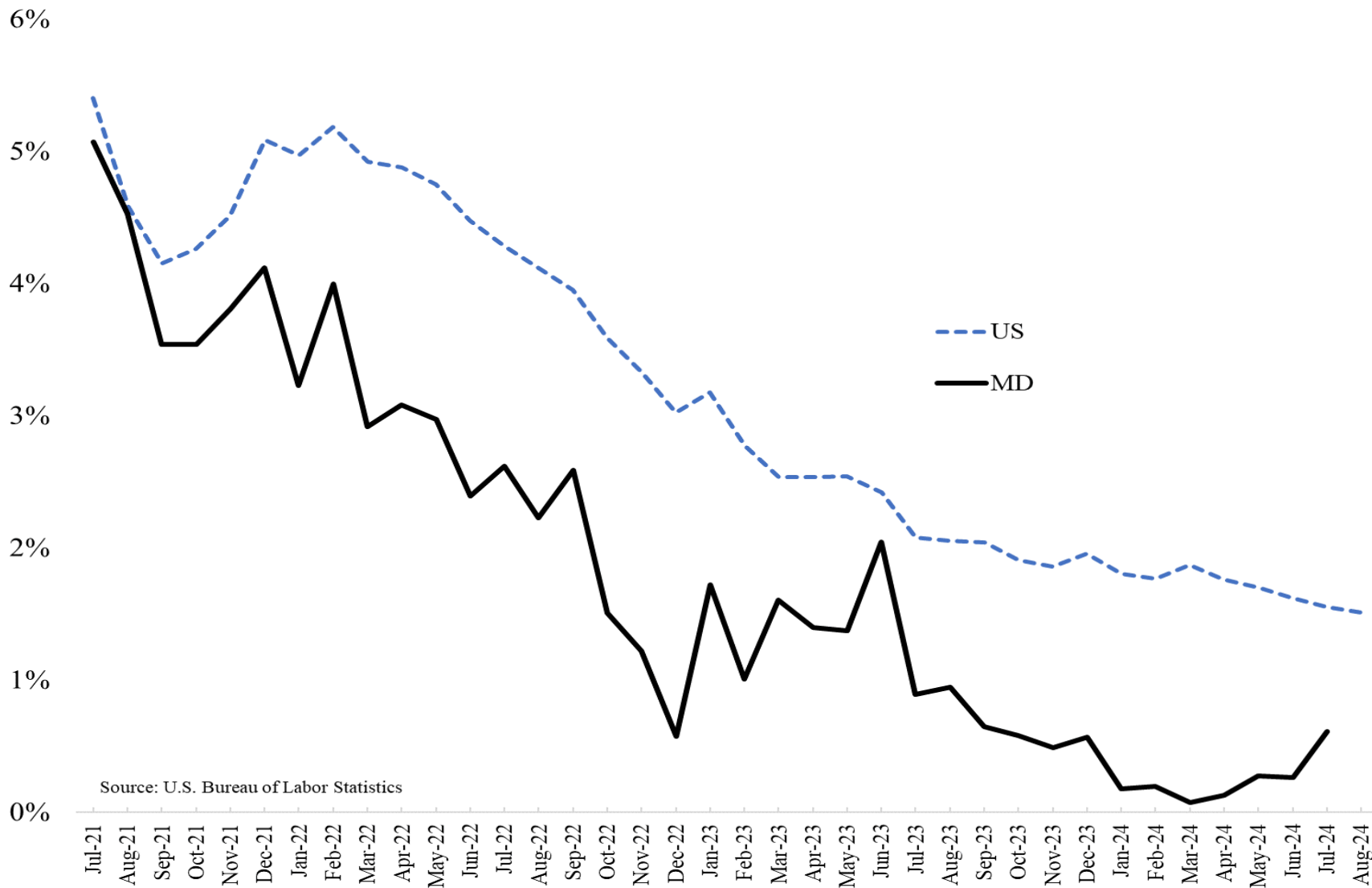
Ongoing General Fund Growth

Contribution by Source



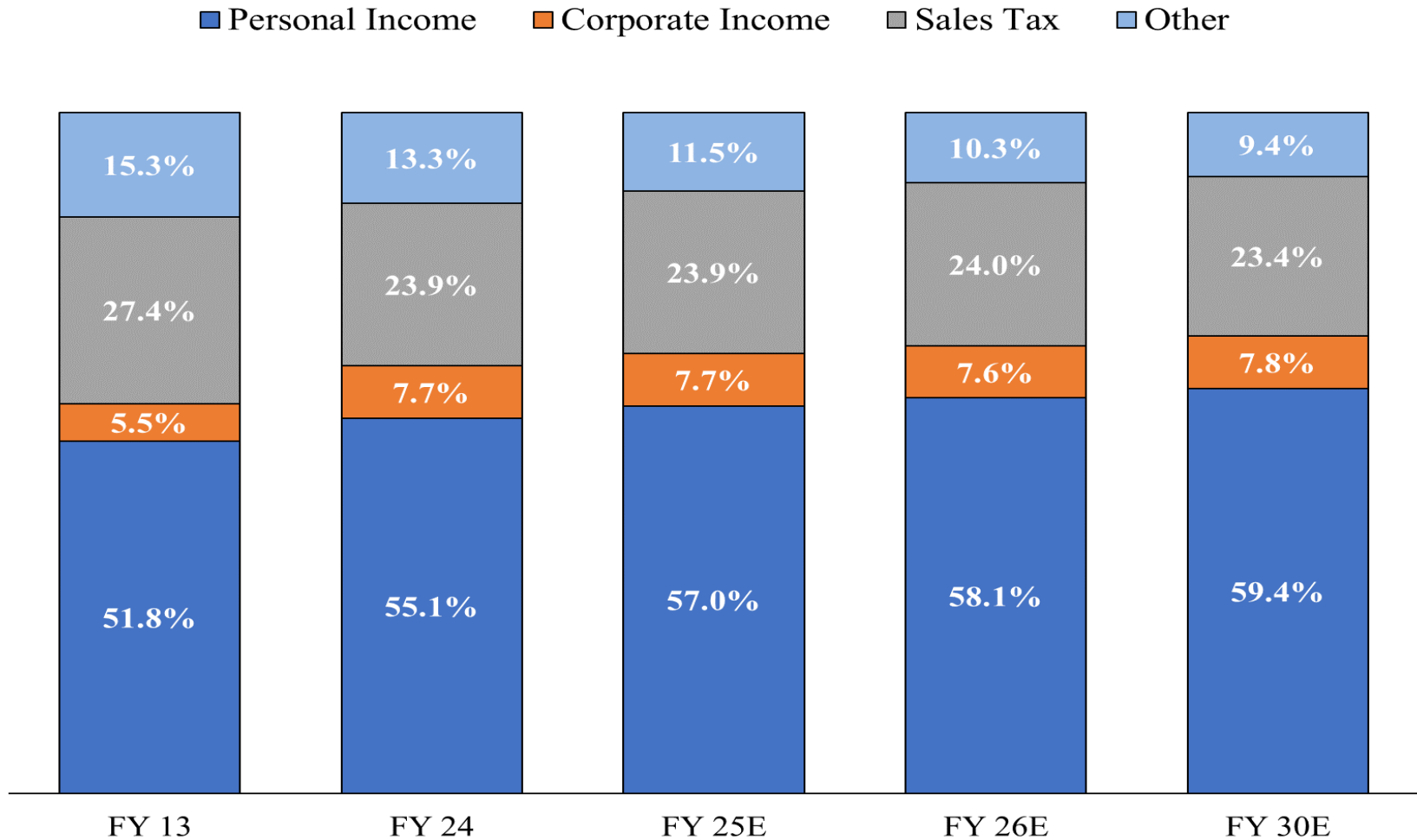
Payroll Employment Growth

Year over Year



Forecast Recalibration is an Extension of Long-term Trends

Share of ongoing GF revenues by Source



Forecast Summary and Risks

- Economy continues to slow but does not show signs of entering a recession
 - Significant turning point with Federal Reserve lowering interest rates but the mission is not accomplished yet
- The September forecast:
 - Continues to incorporate moderate, but positive, growth rates
 - Is a recalibration of where we will receive revenues
 - In total is a slight increase for FY 2025
- Federal government tax and spending decisions remain an elevated risk
 - Inability to consistently and predictably fund federal government operations
 - Congressional and presidential elections
 - Significant decisions loom in calendar 2025
 - Debt limit expiration, again
 - Tax Cuts and Jobs Act – personal income tax provisions expire at the end of calendar 2025





Thank You

Robert J. Rehrmann

Director, Bureau of Revenue Estimates

Comptroller of Maryland

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Base Estimates

Capital Debt Affordability Committee – September 30, 2024



Overview

- The assessable base is provided by SDAT in November and March.
 - The November assessable base reflects the recently completed reassessment.
 - The March assessable base reflects new construction additions and appeal adjustments.
- Estimates represent the taxable assessable base.
- It is important to always remember that base estimates ARE A SNAPSHOT in time.

The Estimated Taxable Assessable Base at the State Level
For the tax year beginning July 1, 2023
Base Estimate Date: March 31, 2024
(figures expressed in thousands)

County	Real Property Full Year	Real Property Half-Year New Construction	Railroad Operating Real Property	Total Assessable Base Subject to the Real Property State Tax Rate	Loss Due to Homestead Tax Credit	State Homestead Tax Credit Percentage	Net Assessable Base Subject to the Real Property State Tax Rate	Utility Operating Real Property Subject to the Utility Property State Tax Rate
Allegany	4,003,256	2,650	22,801	4,028,707	7,719	10%	4,020,989	8,283
Anne Arundel	102,349,382	184,596	1,171	102,535,150	66,202	10%	102,468,947	72,394
Baltimore City	46,004,023	152,497	305,209	46,461,730	201,699	10%	46,260,031	229,624
Baltimore	98,472,462	126,527	27,413	98,626,401	106,284	10%	98,520,117	193,738
Calvert	13,752,743	10,536	0	13,763,279	6,896	10%	13,756,383	448,579
Caroline	3,096,960	5,473	0	3,102,433	14,069	10%	3,088,364	7,619
Carroll	23,196,881	33,890	12,716	23,243,487	32,574	10%	23,210,914	16,646
Cecil	12,253,832	28,861	10,273	12,292,966	4,069	10%	12,288,897	25,657
Charles	22,271,406	103,301	1,702	22,376,409	47,350	10%	22,329,059	39,339
Dorchester	3,291,685	15,760	0	3,307,445	5,498	10%	3,301,947	2,813
Frederick	41,172,114	189,321	19,397	41,380,832	88,901	10%	41,291,931	30,670
Garrett	5,316,953	19,222	1,422	5,337,597	22,526	10%	5,315,071	38,356
Harford	32,139,012	100,438	3,470	32,242,920	7,976	10%	32,234,943	66,097
Howard	61,936,337	108,793	38,334	62,083,464	69,163	10%	62,014,301	46,708
Kent	3,187,956	9,002	0	3,196,959	1,995	10%	3,194,963	2,415
Montgomery	219,226,521	374,065	16,008	219,616,593	311,227	10%	219,305,366	134,383
Prince George's	119,203,231	409,436	11,202	119,623,869	302,776	10%	119,321,093	86,785
Queen Anne's	9,775,225	27,292	0	9,802,517	8,924	10%	9,793,593	9,200
St. Mary's	14,364,166	28,674	0	14,392,840	6,290	10%	14,386,550	17,193
Somerset	1,526,583	3,940	4,283	1,534,807	8,509	10%	1,526,298	2,140
Talbot	9,348,920	25,462	0	9,374,382	4,387	10%	9,369,995	3,773
Washington	14,976,585	248,713	53,771	15,279,070	61,498	10%	15,217,572	12,767
Wicomico	7,567,284	49,232	5,425	7,621,941	24,592	10%	7,597,349	26,833
Worcester	18,034,249	31,852	270	18,066,371	62,492	10%	18,003,880	8,556
TOTAL	886,467,767	2,289,532	534,868	889,292,168	1,473,615		887,818,553	1,530,568

Full year column includes new construction added for the full year (July 1).
New construction is property added for partial year levy (January 1).
Utility operating real property is taxed at a different rate than other real property.
State Department of Assessments and Taxation

- March 2024 Base Estimate for FY2024

The Estimated Taxable Assessable Base at the State Level
For the tax year beginning July 1, 2024
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Allegany	4,252,853	500	23,029	4,276,382	15,645	10%	4,260,737	8,200
Anne Arundel	107,788,357	162,500	1,182	107,952,040	235,504	10%	107,716,535	73,841
Baltimore City	48,842,148	50,000	311,313	49,203,461	272,692	10%	48,930,770	234,217
Baltimore	103,502,571	80,000	27,687	103,610,258	229,041	10%	103,381,217	197,613
Calvert	14,443,990	12,500	0	14,456,490	18,425	10%	14,438,065	457,550
Caroline	3,325,699	3,000	0	3,328,699	25,138	10%	3,303,562	7,771
Carroll	24,712,534	30,000	12,844	24,755,377	68,164	10%	24,687,213	16,480
Cecil	12,931,204	12,500	10,376	12,954,080	6,591	10%	12,947,489	25,400
Charles	24,242,501	85,000	1,719	24,329,220	95,210	10%	24,234,010	38,945
Dorchester	3,517,227	3,750	0	3,520,977	10,003	10%	3,510,975	2,869
Frederick	44,937,236	100,000	19,591	45,056,827	198,822	10%	44,858,005	30,364
Garrett	6,076,736	16,750	1,436	6,094,922	52,952	10%	6,041,970	37,972
Harford	33,843,870	45,000	3,504	33,892,375	17,709	10%	33,874,666	67,419
Howard	65,470,476	105,000	39,101	65,614,577	123,924	10%	65,490,653	46,241
Kent	3,346,513	2,500	0	3,349,013	5,786	10%	3,343,228	2,463
Montgomery	231,046,155	275,000	16,168	231,337,323	619,919	10%	230,717,404	135,727
Prince George's	127,972,932	365,000	11,314	128,349,247	433,921	10%	127,915,326	88,521
Queen Anne's	10,418,082	22,500	0	10,440,582	22,682	10%	10,417,900	9,292
St. Mary's	15,424,839	35,000	0	15,459,839	18,749	10%	15,441,090	17,021
Somerset	1,702,171	3,500	4,240	1,709,912	26,339	10%	1,683,573	2,161
Talbot	9,767,223	7,500	0	9,774,723	7,758	10%	9,766,965	3,811
Washington	16,569,529	25,000	54,309	16,648,838	148,346	10%	16,500,492	12,640
Wicomico	8,299,757	18,500	5,371	8,323,628	55,814	10%	8,267,814	27,370
Worcester	20,067,703	15,000	267	20,082,971	139,211	10%	19,943,759	8,727
TOTAL	942,502,308	1,476,000	543,452	944,521,760	2,848,345		941,673,415	1,552,615

Full year column includes new construction added for the full year (July 1).
New construction is property added for partial year levy (January 1).
Utility operating real property is taxed at a different rate than other real property.
State Department of Assessments and Taxation

- March 2024 Base Estimate for FY2025

**Taxable Assessable Base Projections
at the State Level**

	FY2024	FY2025	FY2026	FY2027
	7/1/2023	7/1/2024	7/1/2025	7/1/2026
Real Property Base	888,757,299	943,978,308	978,970,729	1,008,000,000
Operating Real Property Railroads	534,868	543,452	548,000	553,000
Less: Homestead Credit	1,473,615	2,848,345	3,845,198	3,845,198
Base Subject to Real Property Rate	887,818,552	941,673,415	975,673,531	1,004,707,802
Operating Real Property Public Utilities <i>(Subject to Separate Tax Rate)</i>	1,530,568	1,552,615	1,562,000	1,572,000

All figures expressed in thousands

Estimate date: March 31, 2024

- Taxable Assessable Base Projections

Questions



Review of Capital Improvement Program and Funding Demands

Presentation to

Capital Debt Affordability Committee

by

Christina Perrotti

Maryland Department of Budget & Management

September 30, 2024



Presentation Summary

- FY 2026 – 2029 Capital Improvement Program (CIP)
 - GO bond and general fund levels
 - Planned CIP by program area

- Requests by Fiscal Year: FY 2026 – 2030
 - Overview of capital funding requests
 - Requests by program area



FY 2025 - 2029 Capital Improvement Program

- The CIP plans approximately \$1.7 billion in GO bonds annually and between \$1 million and \$168 million in general funds annually.
 - General funds meet the state’s \$167 million contribution to WMATA in FY 2027-2029. The contribution is planned in GO bonds in FY 2026.
 - The FY 2025-2029 CIP does not fully utilize \$1.75B in out-year GO bond capacity in FY 2027-2029. Though CDAC voted only on the FY 2025 debt limit last year, \$1.75B was also utilized in the out-years for planning purposes.

Planned Capital Improvement Program						
	<i>Enacted</i>	FY 2026-2029 Planned CIP				
<i>\$ in '000s</i>	<i>FY 2025</i>	<i>FY 2026</i>	<i>FY 2027</i>	<i>FY 2028</i>	<i>FY 2029</i>	<i>Total</i>
GO Bonds	1,845,046	1,750,000	1,742,457	1,714,393	1,670,273	6,877,123
General Funds	146,219	1,000	168,000	168,000	168,000	505,000
Subtotal	1,991,265	1,751,000	1,910,457	1,882,393	1,838,273	7,382,123
Federal Funds	449,185	313,892	274,339	86,813	89,833	764,876
Other Funds*	907,294	659,983	608,743	611,329	635,764	2,515,819
Grand Total	3,347,743	2,724,875	2,793,538	2,580,535	2,563,870	10,662,818

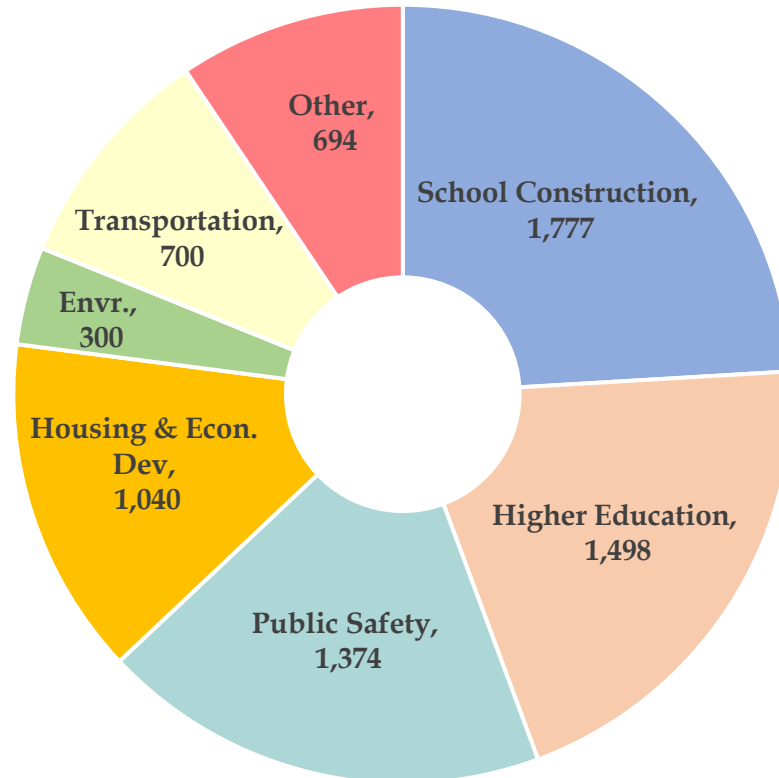
*Other funds include special funds and revenue bonds.



Planned CIP by Program Area

GO Bonds and General Funds Planned for FY 2026 – 2029

*\$ in
millions*



GO/GF

FY 2026: **\$1.751 b**

FY 2027: **\$1.910 b**

FY 2028: **\$1.882 b**

FY 2029: **\$1.838 b**

Total: \$7.382 b



Requests for Capital Funding (GO and GF) FY 2026 - FY 2030

<i>\$ in thousands</i>	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Totals
State-Owned Facilities	910,690	1,164,067	1,176,773	849,059	985,598	5,086,187
Capital Grant Programs	1,321,250	1,456,085	1,448,694	1,383,430	1,371,833	6,981,292
Estimated Request Total	2,231,940	2,620,152	2,625,467	2,232,489	2,357,431	12,067,479
Planned CIP - GO/GF	1,751,000	1,910,457	1,882,393	1,838,273	N/A	7,382,123
Requests over CIP	480,940	709,695	743,074	394,216	N/A	2,327,925

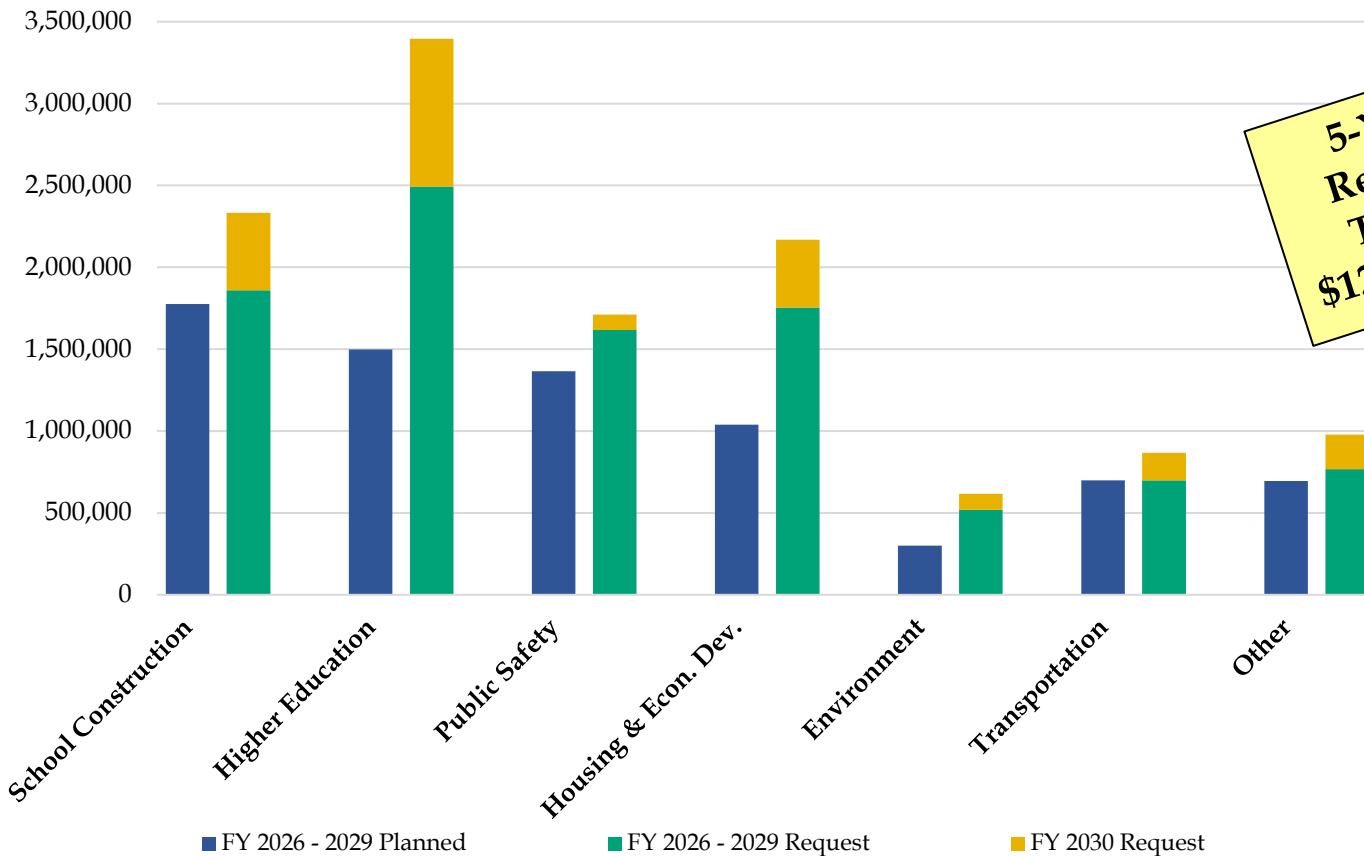
- Requests do not necessarily reflect annual funding demand - DBM analyzes spending capacity by project to determine how much can realistically be spent each year.

The above totals do not include miscellaneous requests to the Governor or the Legislature:

Misc. Capital Grant Requests: FY 2021 to FY 2025 Annual Average	
<i>\$ in millions</i>	
Requests to Governor	1,077
Legislative Initiatives	178



Planned Funds and Sources of Demand (GO/GF - \$ in '000s)



**5-Year
Request
Total =
\$12.1 billion**

Interagency Commission on School Construction

Report to the Capital Debt Affordability Committee



Photo: MCPS

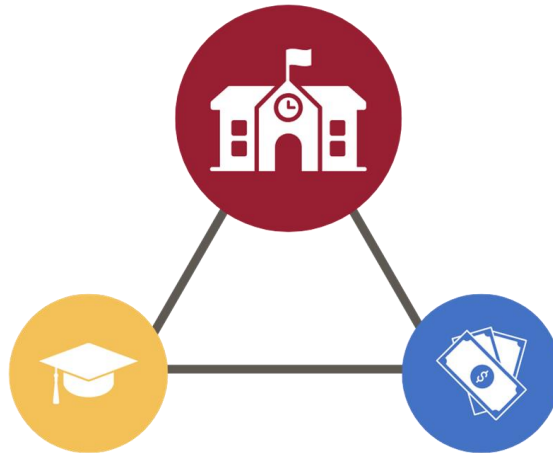
**Stonegate Elementary School, Montgomery County
Completed for School Year 2023-2024**

Educationally Effective + Fiscally Sustainable

School Facilities Portfolio

Educationally Effective

- **Design** (including configuration and equipment)
- **Size**
- **Level of maintenance**



Fiscally Sustainable

- **Total cost of ownership**, including
 - Construction
 - Operation
 - Maintenance
 - Capital Renewal and Replacement
- **Resources** (funding) available now and in the future

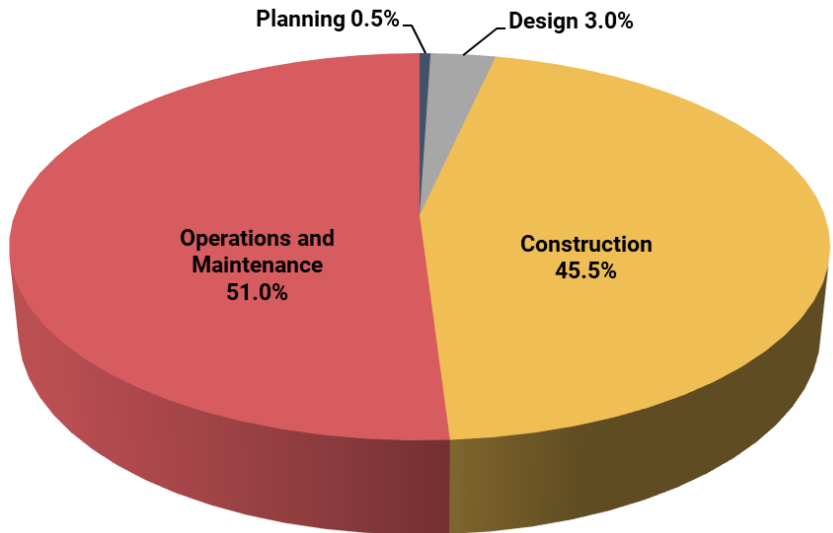
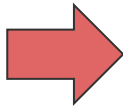
PK-12 Public School Facilities Quick Facts

- 1. Number of FTE students (9/30/2023): 885,458**
- 2. Number of school facilities: 1,362**
- 3. Gross square feet (GSF) within schools: More than 142.1 million**
- 4. Average gross square feet (GSF) per student: 160**
- 5. Average age of GSF: 31 years (increase of 7 years since 2005)**
- 6. Replacement Value \approx \$68 B (@ \$481/GSF incl. site development)**

Total Cost of Facility

Average Percentage over 30 Years

- 1) Custodial
- 2) Routine & Preventive Maintenance
- 3) Capital Maintenance (system replacements)



Five Areas of School Facilities Need

Areas of Need	Drivers/Requirements
---------------	----------------------

Perennial

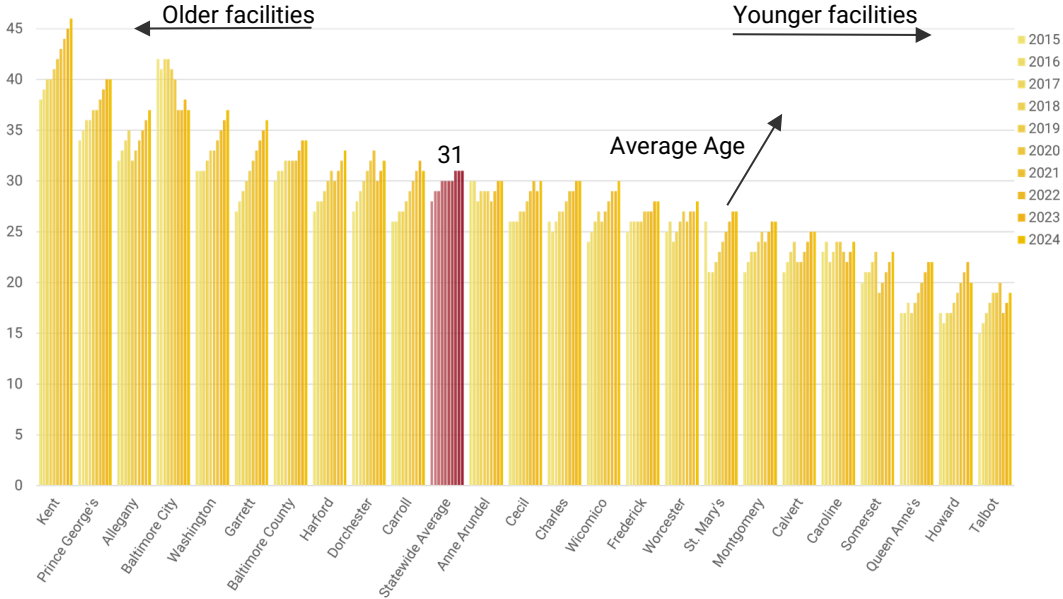
1) Maintain sufficient physical condition 2) Maintain educational sufficiency	<ul style="list-style-type: none">● Support teaching and learning● Keep facilities affordable to own & operate
3) Accommodate projected enrollment growth	<ul style="list-style-type: none">● Support teaching and learning

New/Recent

4) Expand pre-Kindergarten services	<ul style="list-style-type: none">● Blueprint for Maryland's Future
5) Decarbonize by 2045	<ul style="list-style-type: none">● State-adopted climate-protection goals

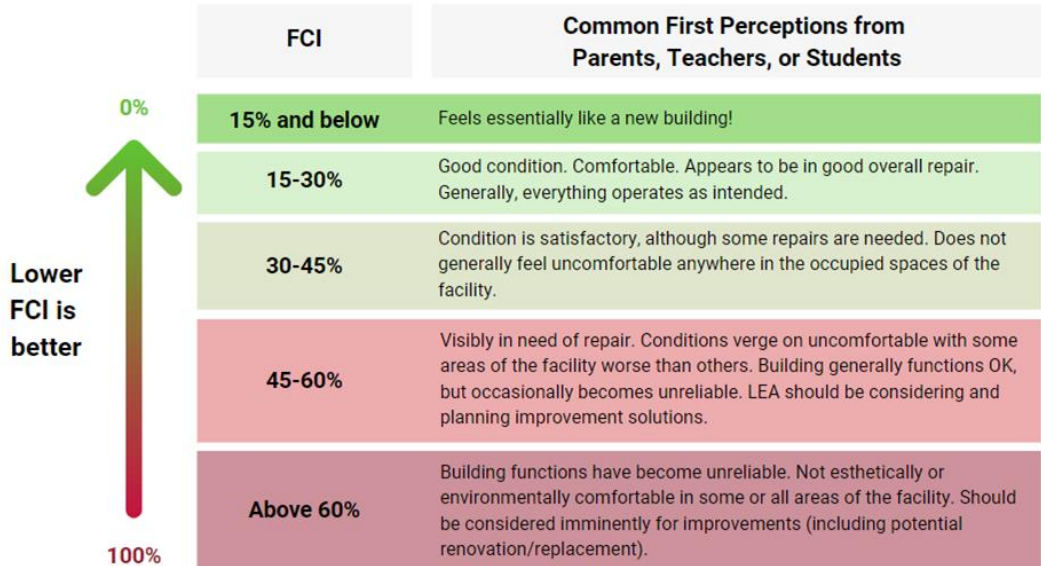
Need Area #1: Condition

Average Age of Square Footage, 2015-2024



Need Area #1: Condition

Facility Condition Index (FCI) Bands



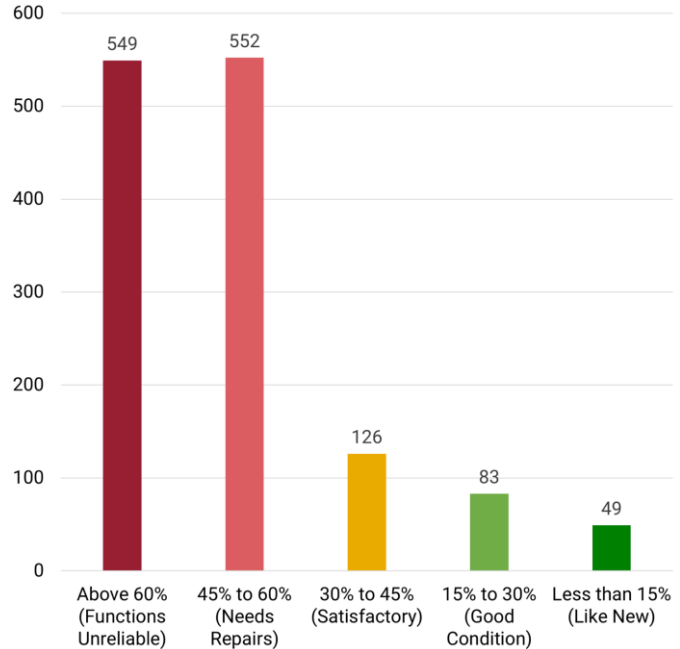
Need Area #1: Condition

Statewide Facility Condition Distribution by Band

1,359 Public PK-12 Facilities Assessed

Weighted Average Asset Condition (FCI):
52.66% of expected useful lifespan (EUL)
 depleted

FCI	# of Buildings	% of Buildings
Above 60% (Functions Unreliable)	549	40.40%
45% to 60% (Needs Repairs)	552	40.62%
30% to 45% (Satisfactory)	126	9.27%
15% to 30% (Good Condition)	83	6.11%
Less Than 15% (Like New)	79	3.61%
Total	1359	100%



Key Factors Affecting Current Condition

Factors	Consequences
<p>1) Significant population growth and migration in the 1960s-1970s drove a bulge of spending and construction</p>	<ul style="list-style-type: none"> ● Large number of facilities reaching end of useful lifespan in 2020s <ul style="list-style-type: none"> ○ >250 (>18%) of Maryland schools are 50+ years old
<p>2) Construction costs have doubled since 2012 while local and State capital budgets have not increased commensurately</p> <ul style="list-style-type: none"> a) State Cost/SF 2012: \$207 b) State Cost/SF 2024: \$416 	<ul style="list-style-type: none"> ● Purchasing power of local and State budgets has been cut nearly in half ● LEAs have deferred more and more of the needed maintenance, capital-maintenance, and capital-renewal work

Need Area #1: Condition

Findings	Conclusions
1) Average facilities condition has steadily deteriorated over the past 15+ years	<ul style="list-style-type: none">● Current levels of capital expenditure are not holding condition steady
2) The backlog of deferred maintenance & capital renewal is large and growing	<ul style="list-style-type: none">● At current levels of capital expenditure, future cost liabilities are trending towards unmanageable
3) Average facilities condition today (53% depleted) is counter-supportive to both teaching & learning and facilities affordability	<ul style="list-style-type: none">● Additional capital expenditures in the near-to-mid term are needed to support facilities' effectiveness/purpose and long-term fiscal sustainability

Estimating the Condition-Related Costs

- Maryland Statewide Facilities Assessment (SFA) provides data on 40+ major building system components for each of 1,359 PK-12 public school facilities, including
 - Remaining useful lifespan
 - Current replacement value
- These data allow rough estimation of annual capital expenditure levels required to attain target levels of average facility condition:

Goal	Est. Avg. Annual Investment over 20 Years	FY 2023 Total Local Capital Funding	FY 2025 Total State Capital Funding (excl. Nonpublic programs)	Est. Annual Gap at Current Local & State Funding Levels
Maintain current avg. condition (FCI 53%)	\$1,840 million	\$841 million	\$875 million*	\$97 million
Optimize educational effectiveness & long-term fiscal sustainability (FCI ~35%)	\$2,333 million			\$590 million

* Includes \$425M in Built to Learn allocations

Need Areas #2 & #3

Need Area	Key Points
#2) Educational Sufficiency	<ul style="list-style-type: none">● Not yet measurable in a simple manner● IAC is working with LEAs to identify the most essential needed improvements● Capital-renewal projects replacing the worst-condition buildings will cover some but not all educational sufficiency needs
#3) Capacity for Enrollment Growth	<ul style="list-style-type: none">● MDP projects statewide total growth of 1.5% (12,400 students) by 2033<ul style="list-style-type: none">○ 14 of 24 counties will see >1.5% growth○ Existing capacity may accommodate some of this growth but some new seats will be needed

Need Areas #4 & #5

Need Area	Key Points
#4) Additional classrooms for Blueprint Pre-K	<ul style="list-style-type: none">● Rough estimate: 300 classrooms @ \$1M each<ul style="list-style-type: none">○ @ Current average State share (~62%) = \$186 million State liability spread over the next ~5 years
#5) Decarbonization by 2045	<ul style="list-style-type: none">● No cost estimate currently available● IAC working to develop need-scoping framework, collect needed data, and develop scenarios with various trajectory options and cost estimates● Capital-renewal projects replacing the worst-condition buildings can and should decarbonize some facilities if the new facilities are fully electrified and Net-Zero-Energy

Legislative/Statutory Funding Targets for 2026

The following are statutory requirements or legislative targets for the **2026 Capital Budget**:

Target total per Ch. 20 (2020) as amended by Ch. 32 (2022): “at least \$450,000,000” outside of funding provided through the Built to Learn Act (Ch. 354 (2024)).

Statutorily Required:

2026 Enrollment Growth & Relocatable Classrooms Program (Ed. Art. 5-313(e)):	\$40,000,000
2026 Healthy School Facility Fund (Ed. Art. 5-322(j)):	\$90,000,000
2026 Aging Schools Program (Ed. Art. 5-324(f)):	\$6,109,000

Flexible:

2026 Capital Improvement Program (CIP):	Remainder = <u>\$313,891,000</u>
	\$450,000,000

Additionally, MSA will issue special revenue bonds for the Built to Learn program on an as-needed basis up to the total \$2.2 billion authorized for the program (projects must be approved by the IAC within the first five years of the program). The IAC and MSA have identified 47 projects across 17 LEAs that will receive BTL funds. Seven more projects are being reviewed at this time. This includes \$1.19 billion of awarded projects plus approximately \$370 million of upcoming allocations for a cumulative estimated maximum BTL award of \$1.56 billion, leaving an estimated \$142 million available to be allocated.

State School Construction Funding – Recent Fiscal Years

(in millions)

<i>Legislative Target for Annual Appropriations</i>	≥\$400.0	≥\$400.0	≥\$450.0	≥\$450.0	≥\$450.0	≥\$450.0	≥\$450.0
Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual Appropriations	\$401.1	\$431.1	\$486.1	\$460.0	\$450.0		
Built to Learn Program* Allocations (Est. max. \$1.7 billion)	N/A	\$333.0	\$221.0	\$161.8**	\$425.4**	<i>Est. \$370.0**</i>	<i>Est. \$188.8**</i>
Total State Funding Deployed	\$401.1	\$764.1	\$707.1	\$621.8	\$875.4		

* Funded through Stadium Authority special-purpose revenue bonds.

** Excludes \$27M/year provided to Prince George's County P3.

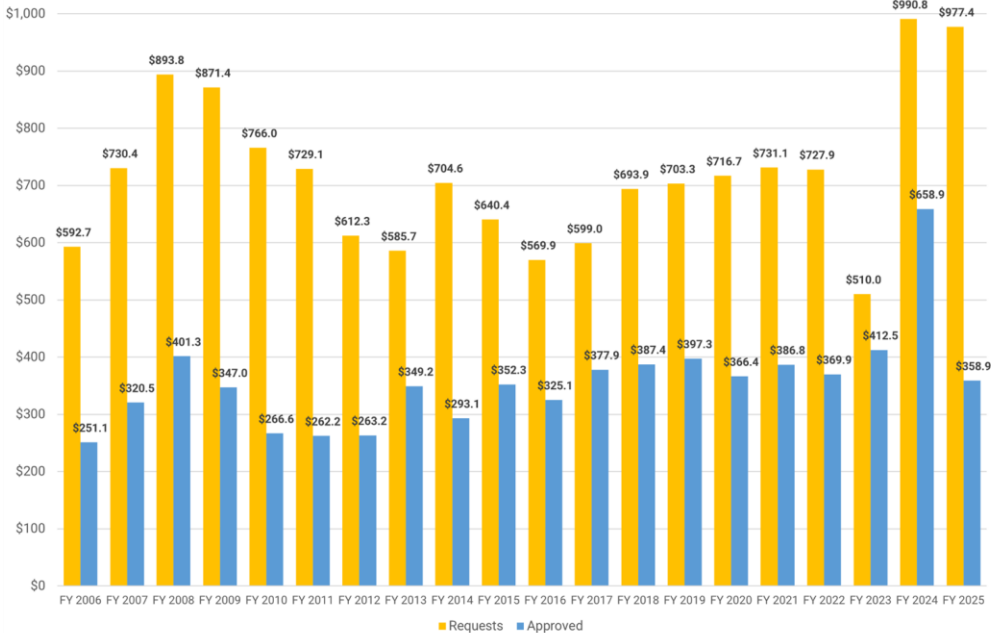
Summary of Known Likely Future State Obligations as of 5/9/2024

Allegany County	\$20,000
Anne Arundel County	\$2,096,887
Baltimore City	\$36,163,138
Baltimore County	\$82,691,770
Calvert County	\$10,986,588
Cecil County	\$41,528,006
Charles County	\$3,501,322
Frederick County	\$66,837,222
Garrett County	\$14,273,638
Harford County	\$16,634,556
Kent County	\$20,808,000
Maryland School for the Blind	\$49,597,000
Montgomery County	\$63,222,029
Prince George's County	\$40,443,038
Somerset County	\$16,446,628
Talbot County	\$2,273,199
Washington County	\$162,787
Wicomico County	\$43,619,000
Total	\$511,304,808

- 1) This table shows CIP projections based upon the IAC's 2025 CIP Publication.
- 2) Please note that LEAs *not listed here* have received no IAC project approvals that carry a future State obligation at this time. However, those LEAs are still anticipated to submit annual CIP requests in coming years.
- 3) This list is incomplete because
 - a) Since 2018, the IAC statutorily may not require LEAs to annually submit a summary of expected/projected future CIP needs; and
 - b) This excludes 2026 requests for major construction projects or projects (to be submitted by Oct. 4, 2025) that can be completed in a single fiscal year, such as systemics or some limited renovation projects.

Comparison of Capital Improvement Program Funding Requests to Approved Funding

(excludes other IAC programs; figures displayed in millions)



We'd love
to hear your questions



Capital Debt Affordability Committee: 2024 Affordability Analysis

Presented by

Rebecca Ruff, Director of Debt Management

Maryland State Treasurer's Office

September 30, 2024

The Concept of Affordability

- To make its recommendation, CDAC uses the **concept of affordability**.
- The crux of affordability is not simply whether the State can pay its debt service; instead, affordability implies the ability to **manage debt over time to achieve the State's goals**.
- CDAC's challenge is to find a balance between providing sufficient funds for necessary investment in capital projects while remaining within the framework of the State's **debt capacity**.
- The two self-imposed **affordability benchmarks** used to determine debt capacity are:
 - Tax-supported debt outstanding should be no more than **4.0%** of total personal income
 - Tax-supported debt service should be no more than **8.0%** of total tax revenues

Debt Outstanding to Personal Income

Tax-supported debt outstanding is defined as the outstanding principal on State debt that is either repaid with State tax revenue or uses State tax revenue as a backstop.

Personal income encompasses all sources of individual income in Maryland.

❖ Tax-Supported Debt Outstanding

- General Obligation Bonds (75.2%*)
- Consolidated Transportation Bonds (21.8%)
- Bay Restoration Bonds (1.0%)
- Capital Leases – pre-GASB87 rule change (1.0%)
- Stadium Authority Leases (0.9%)

❖ Personal Income

- Wages, salaries, and benefits
- Dividends, interest, and rent
- Government transfers to individuals
- Business owner’s income

*The percentage listed next to each type of tax-supported debt represents the outstanding principal of that type of debt as a percentage of total tax-supported debt outstanding during fiscal year 2024.



Debt Service to Revenues

Tax-supported debt service is defined as debt service on bonds that is either repaid with State tax revenue or uses State tax revenue as a backstop.

Revenues are defined as tax revenues and direct sources of repayment for State tax-supported debt.

❖ Tax-Supported Debt Service

- General Obligation Bonds
- Consolidated Transportation Bonds
- Bay Restoration Bonds
- Capital Leases – pre-GASB87 rule change
- Stadium Authority Leases

❖ Revenues

- General Funds
- Transportation Taxes
- State Property Taxes
- Online Sales Tax
- Transfer Tax
- Bond Premium
- Bay Restoration Fees
- Stadium Lease Revenue
- Federal Interest Subsidies

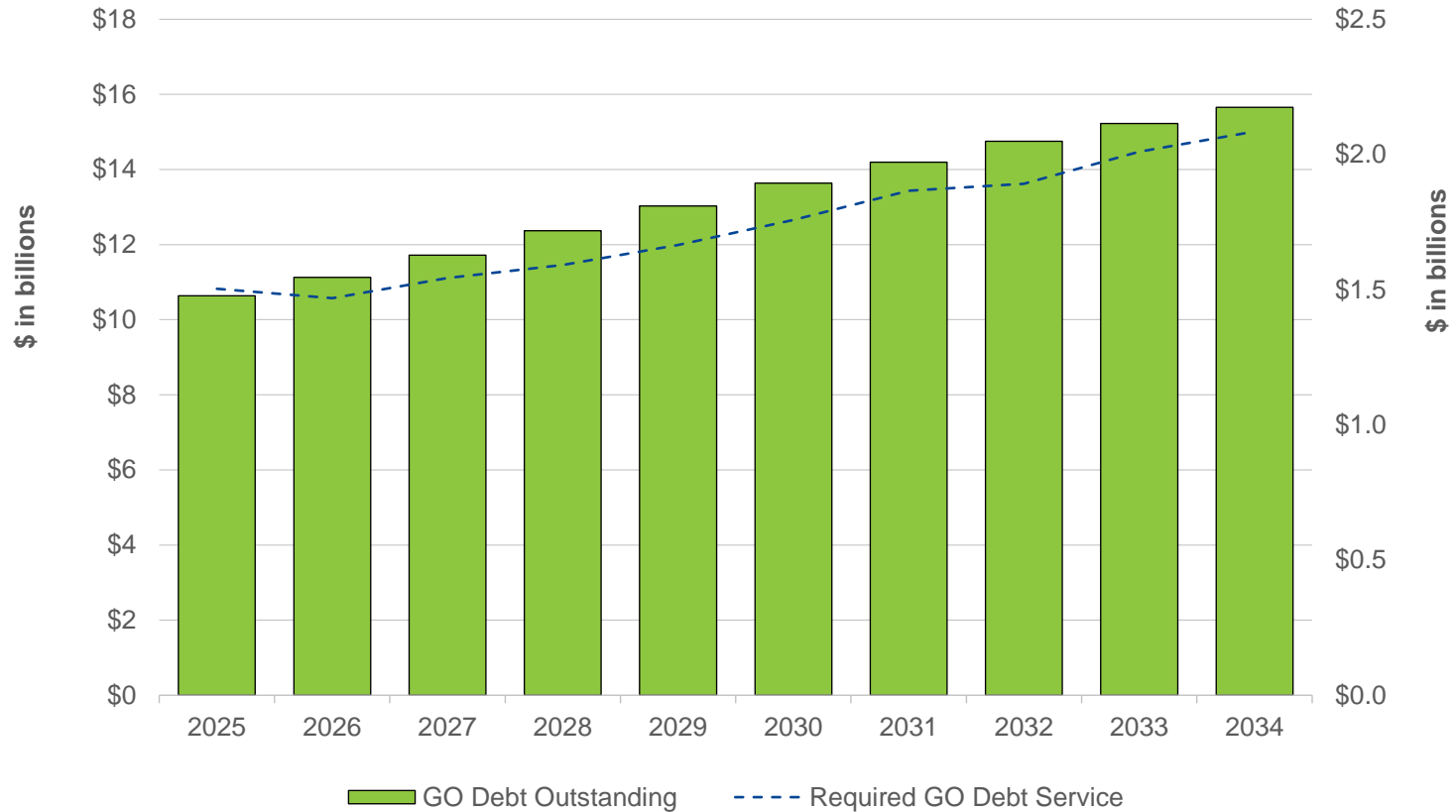
CDAC Planning Assumptions

- The authorization and issuance assumptions in calculating the CDAC ratios do not anticipate that future P3s will be included as tax-supported debt.
- The projected debt service ratios assume a 5% coupon for all maturities with no future refunding savings or use of premium and are subject to change.
- 2023 CDAC proposed GO authorizations would project the following issuances:

<u>Fiscal Year</u>	<u>Authorizations</u>	<u>Issuances</u>
2025	\$1,750	\$1,390
2026	\$1,750	\$1,535
2027	\$1,750	\$1,640
2028	\$1,750	\$1,700
2029	\$1,750	\$1,750
2030	\$1,750	\$1,750

CDAC Planning Assumptions

**At \$1.75 Billion Annual GO Authorization,
GO Debt Outstanding Grows to \$15.7 Billion and GO Debt
Service Grows to \$2.1 Billion in Fiscal 2034**



All figures are preliminary forecasts as of September 2024 and are subject to change.

Tax-Supported Debt Affordability Metrics



Tax-Supported Debt Outstanding Ratio

(\$1.75B Annual GO Authorization - \$ in billions)

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

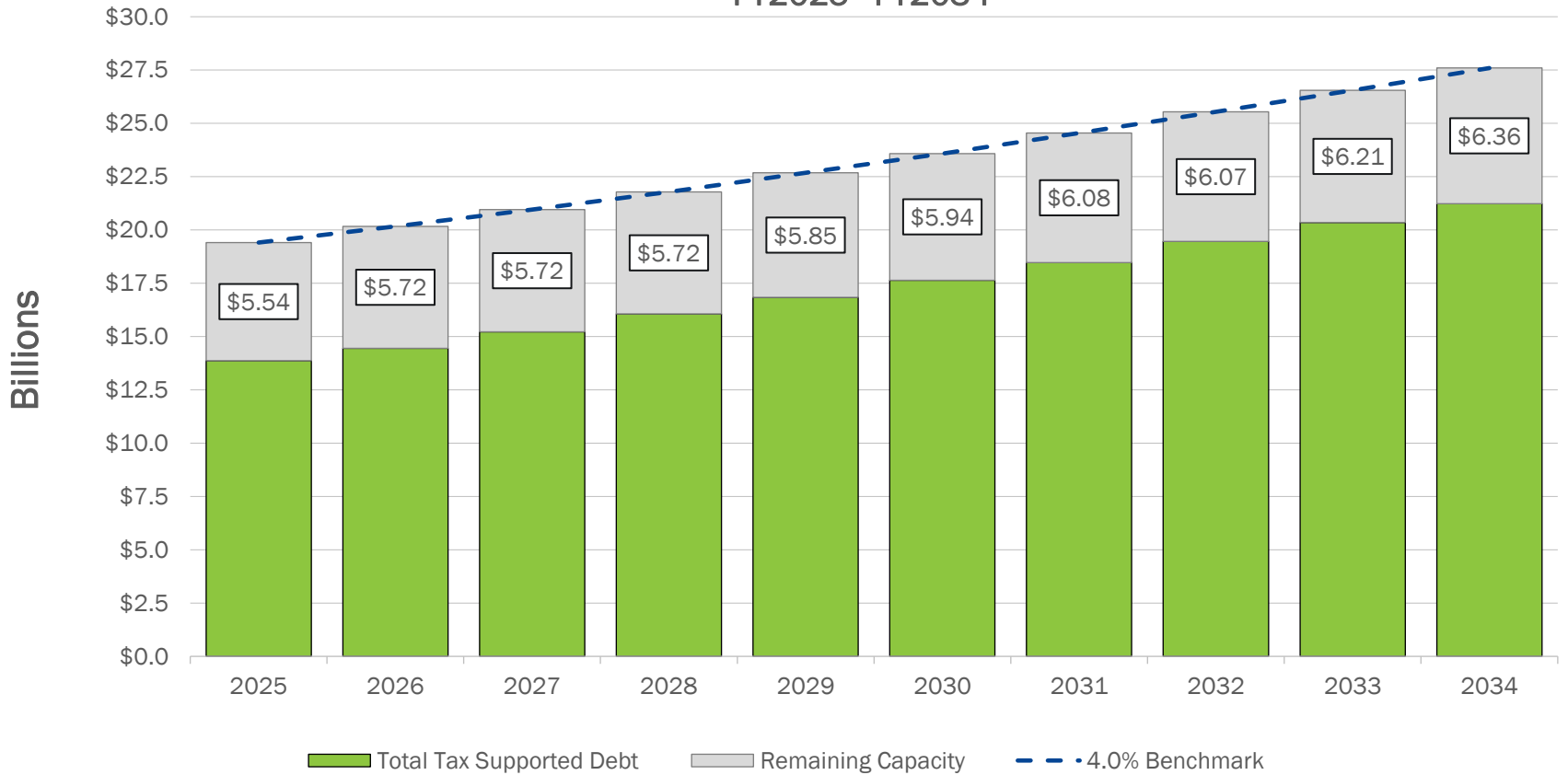
Fiscal Year	Debt Outstanding	Personal Income	Ratio (%)
2025	\$13.870	\$485.228	2.86%
2026	14.541	504.270	2.87%
2027	15.227	523.786	2.91%
2028	16.064	544.698	2.95%
2029	16.834	567.027	2.97%
2030	17.644	589.630	2.99%
2031	18.470	613.688	3.01%
2032	19.463	638.402	3.05%
2033	20.343	663.834	3.06%
2034	21.236	689.816	3.08%

All figures are preliminary forecasts as of September 2024 and are subject to change.

Tax-Supported Debt Outstanding Ratio

(\$1.75B Annual GO Authorization - \$ in Billions)

Tax Supported Debt Outstanding to Personal Income
Available Debt Capacity using the 4.0% Benchmark
FY2025 - FY2034



All figures are preliminary forecasts as of September 2024 and are subject to change.



Tax-Supported Debt Service Ratio

(\$1.75B Annual Authorization - \$ in millions)

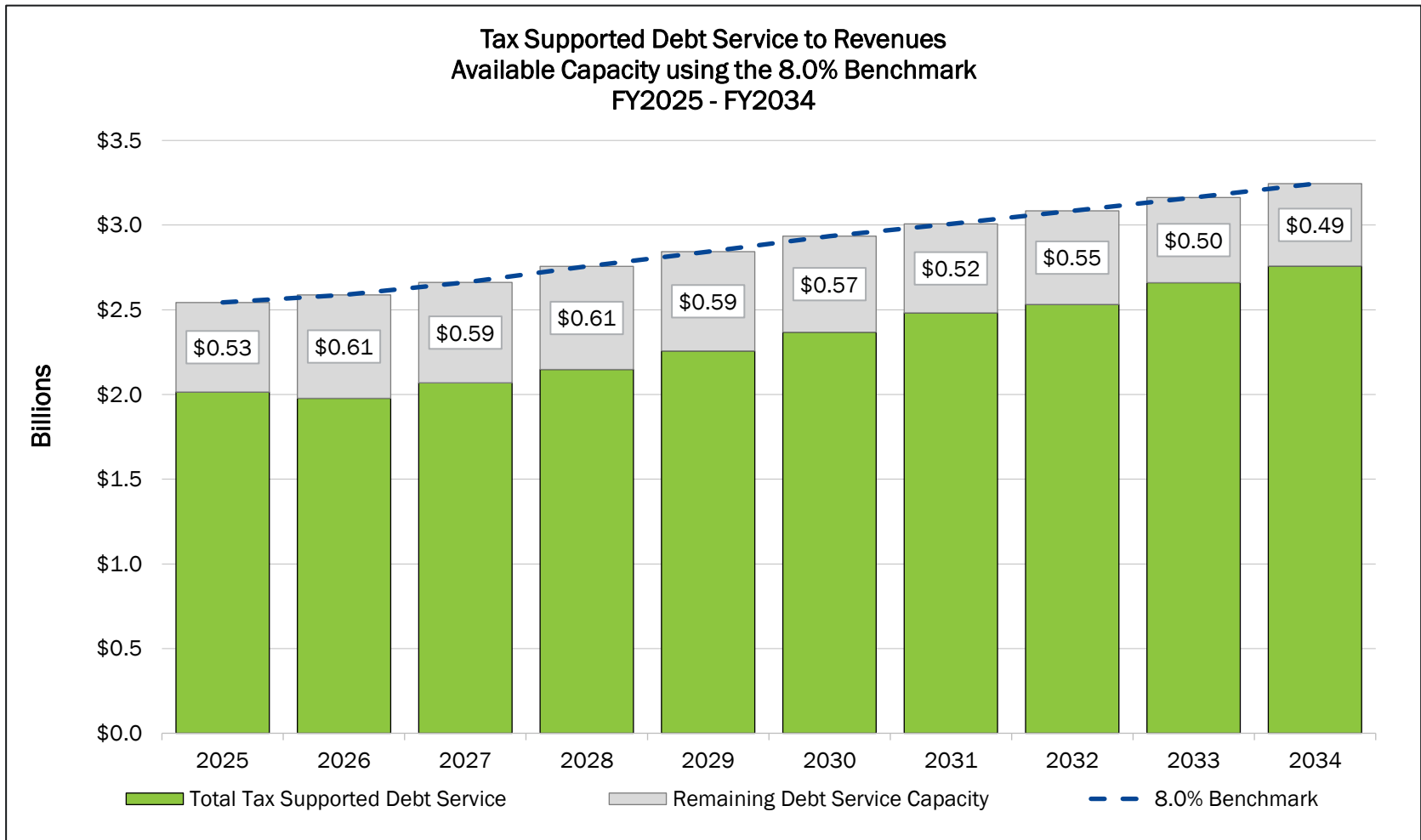
The planning assumptions for authorizations and issuance result in the following projections of tax-supported debt service:

Fiscal Year	Debt Service	Revenues	Ratio (%)
2025	\$2,015	\$31,797	6.34%
2026	1,978	32,358	6.11%
2027	2,069	33,274	6.22%
2028	2,147	34,451	6.23%
2029	2,257	35,552	6.35%
2030	2,368	36,694	6.45%
2031	2,482	37,585	6.60%
2032	2,532	38,547	6.57%
2033	2,660	39,544	6.73%
2034	2,758	40,562	6.80%

All figures are preliminary forecasts as of September 2024 and are subject to change.

Tax-Supported Debt Service Ratio

(\$1.75B Annual Authorization - \$ in billions)



All figures are preliminary forecasts as of September 2024 and are subject to change.

Credit Analysis Update



State of Maryland Bond Rating

As of May 2024, the State's Issuer Rating and GO Bond rating was:

- Fitch: **AAA**, Stable
- S&P: **AAA**, Stable
- Moody's: **Aaa**, Negative

Maryland remains one of only 15 States in the nation to hold a Triple-A credit rating from all three major credit rating agencies.

State of Maryland Bond Rating

Credit Highlights:

- Stable economy with high wealth and income levels
- Unlimited legal authority to raise operating revenues
- Strong ability to adjust spending commitments
- Well-funded budgetary reserves
- Consensus-oriented decision-making structure
- Proven history of fiscal responsibility
- Multi-year forecasting and planning process
- Well-developed debt management practices, including rapid amortization of principal

Credit Negatives:

- Comparatively high debt and net pension liability
- Vulnerable to swings in federal spending
- Significant projected structural imbalance



CDAC Defined Tax-Supported Debt is Not Consistent with Rating Agencies

CDAC

Debt Type	Amount (\$000)
GO Bonds	\$10,001,238
Transportation Bonds	\$3,297,030
Bay Restoration Bonds	\$161,605
Stadium Authority (Appropriation Debt)	\$142,020
Capital Leases	\$147,086
GARVEE Bonds	0
Total Net Tax-Supported Debt:	\$13,748,979

S&P

Debt Type	Amount (\$000)
CDAC Debt	\$13,748,979
Financing Agreements	\$217,625
Total Net Tax-Supported Debt:	\$13,966,604

Fitch

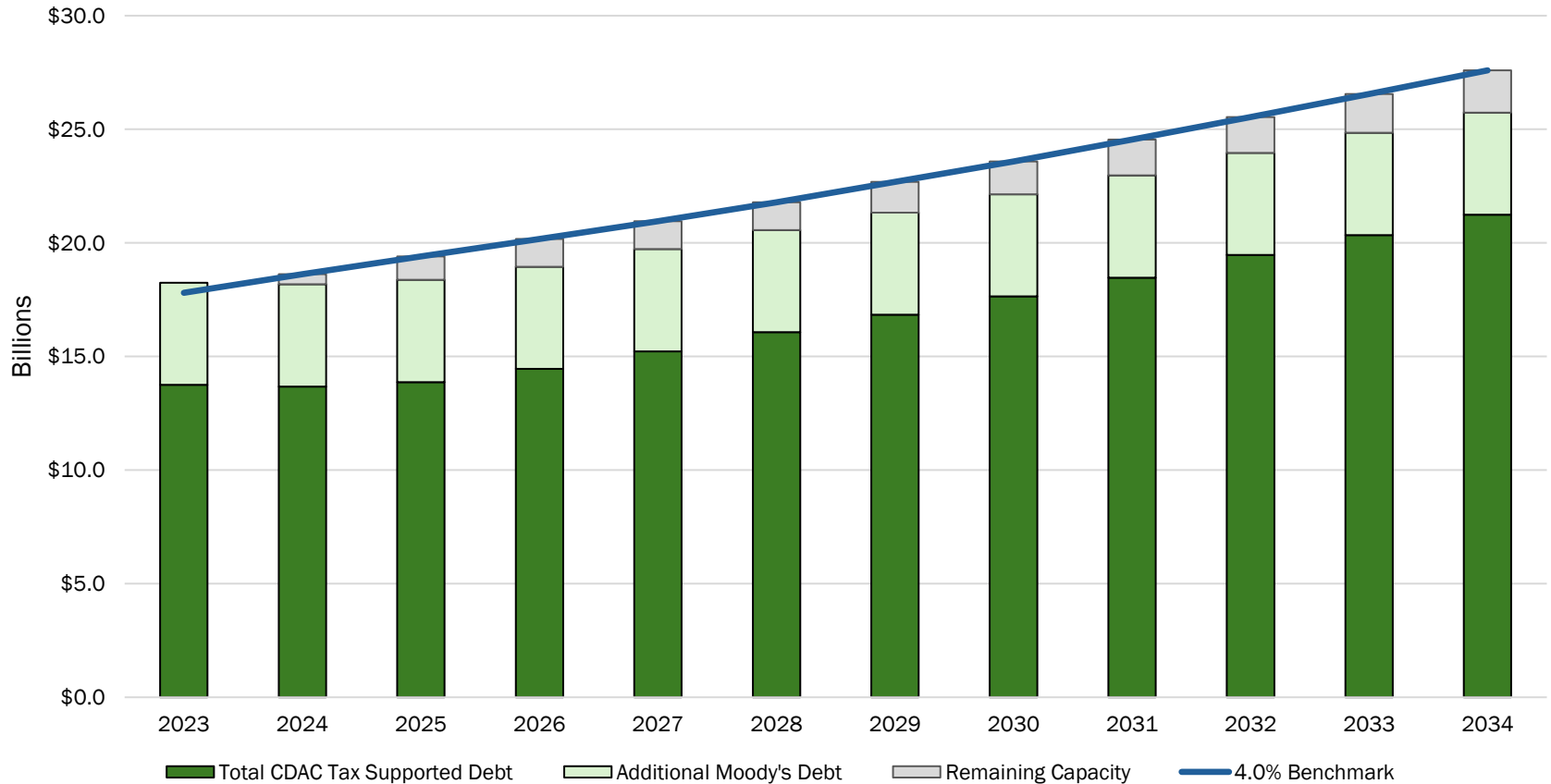
Debt Type	Amount (\$000)
CDAC Debt	\$12,424,717
Maryland Stadium Authority (not include Debt for Baltimore City Public Schools)	\$649,400
Maryland Stadium Authority (Baltimore City Public Schools)	\$1,000,000
Built to Learn Revenue Bonds	\$622,400
P3 Commitments	\$2,543,500
Total Net Tax-Supported Debt:	\$17,240,017

Moody's

Debt Type	Amount (\$000)
CDAC Debt	\$13,628,173
Special Transportation Project Revenue Bonds	\$410,365
Department of Transportation - COPs	\$21,805
Capital Leases	\$1,113,178
Built to Learn Revenue Bonds	\$697,577
Baltimore City Public Schools Construction and Revitalization Revenue Bonds	\$475,719
Net Premium/Discount	\$1,919,233
Total Net Tax-Supported Debt:	\$18,266,050

Rating Agency Defined Debt Profiles Push Debt Affordability Limits

**FY 2026 Available Debt Capacity is Reduced to \$1.2 Billion
When Using Moody's Profile of State Debt**



Rating Methodology Revisions

- Rating Methodologies are becoming more focused on quantitative metrics to improve comparability across credits
 - Moody's updated its rating methodology for US States and Territories on July 24, 2024
 - Continues use of scorecard but expands the application of the methodology to certain special tax debt instruments
 - No anticipated impact to the State rating, but CTBs and Bay Restoration bonds each received a one-notch upgrade, to Aaa and Aa2, respectively
 - BTL bonds currently under review for possible upgrade
 - S&P updated its State methodology as of Sept. 2024 to implement use of a more clearly defined scorecard
 - No anticipated change to the State rating, but it is currently under review
- CDAC may wish to further evaluate how to factor the debt analysis and methodologies used by the rating agencies into future decision-making

Next Steps

CDAC virtual meeting on October 17th @ 11am

Voting Session

Per statute, the Committee is required to provide the Governor and the General Assembly the following information by October 20th:

- An estimate of the total amount of new State debt that prudently may be authorized for the next fiscal year; and
- An estimate of the amount of new bonds for academic facilities that may be authorized in the aggregate 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