

# **Capital Debt Affordability Committee**

**Treasurer Nancy K. Kopp, Chair  
Louis L. Goldstein Treasury Building  
80 Calvert Street, Assembly Room  
Annapolis, MD 21401**

## **Agenda**

**September 26, 2018**

**1:00 PM**

- 1) Treasurer's Opening Comments**
- 2) Affordability Analysis**  
Christian Lund, Director of Debt Management, State Treasurer's Office
- 3) Discussion of recommendations for FY 2020 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 2020.
- 4) Discussion of planning assumptions for FY 2021 – FY 2028 to be included in the 2018 annual report:**
  - Recommendation of planning assumptions for the total amount of new State debt for future fiscal years.
- 5) Discussion of recommendations for FY 2020 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 2020 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 2018 Capital Debt Affordability Committee

September 26, 2018

# Topics of Discussion

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1. CDAC Responsibilities
2. Three Approaches to Capital Budget Authorizations
3. Review of Tax Supported Debt Affordability Benchmarks
4. Recommendation for General Obligation Bond Authorization
5. Recommendation for Academic Facilities Bond Authorization

# CDAC Responsibilities

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- CDAC's primary charge is to submit to the Governor and the General Assembly its estimate of the total amount of new State debt that may be prudently authorized for the upcoming fiscal year (State Finance and Procurement Article, §8-112). For planning purposes only, it also provides estimates for the out years.
  - The two benchmarks used to determine debt affordability 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 revenues
- CDAC also recommends an authorization for Academic Facilities Bonds for the University System of Maryland, Morgan State University, St. Mary's College, and Baltimore City Community College.

## Debt Capacity and State's Capital Needs

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- Department of Budget and Management reports that unmet requests for State facilities and grants through FY 2024 total \$3.7 billion. This figure **does not** include deferred maintenance, some facilities that require total replacement, and other infrastructure needs if they were not officially requested during the capital budgeting process.
- Public school construction requests exceed funding by over \$300 million in FY 2019 alone; State funding has been less than 50% of requests in seven of the last thirteen years, and less than 60% in eleven of thirteen.
- The University System of Maryland reported \$1.9 billion in deferred maintenance in fall 2016; Morgan State University reports an additional \$100 million.

# Three Approaches to General Obligation Bond Authorizations

# Assumptions Used

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- Major assumptions in this analysis include:
  - Projections are based on estimates provided by the relevant State agencies.
  - 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.
  - The State Department of Assessments and Taxation (SDAT) only provides data required for property tax revenue estimates through fiscal year 2019. Because SDAT will not provide this data for the out years, property tax revenues are assumed to grow only 2% annually (these revenues grew by 3.5% and 4.1% in FY 2017 and FY 2018, respectively.)

*Note: the final two assumptions create a tendency for CDAC projections to be more conservative than the actual result.*

# Three Scenarios for General Obligation Bond Authorizations

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- Three scenarios based on past debt recommendations will be presented:
  - **Scenario 1:** Governor's flat capital program (\$995m annually)
  - **Scenario 2:** 2017 Spending Affordability Committee approach (1% annual growth, an amount lower than projected State property tax revenue growth)
  - **Scenario 3:** Traditional CDAC approach (3% annual growth – 2% to account for inflation and 1% for increased demand for capital funding)
- **All three scenarios are within the debt affordability benchmarks and are therefore affordable.** In fact, significant capacity remains for additional debt service and debt outstanding under all three approaches.



# CDAC Authorization Scenarios

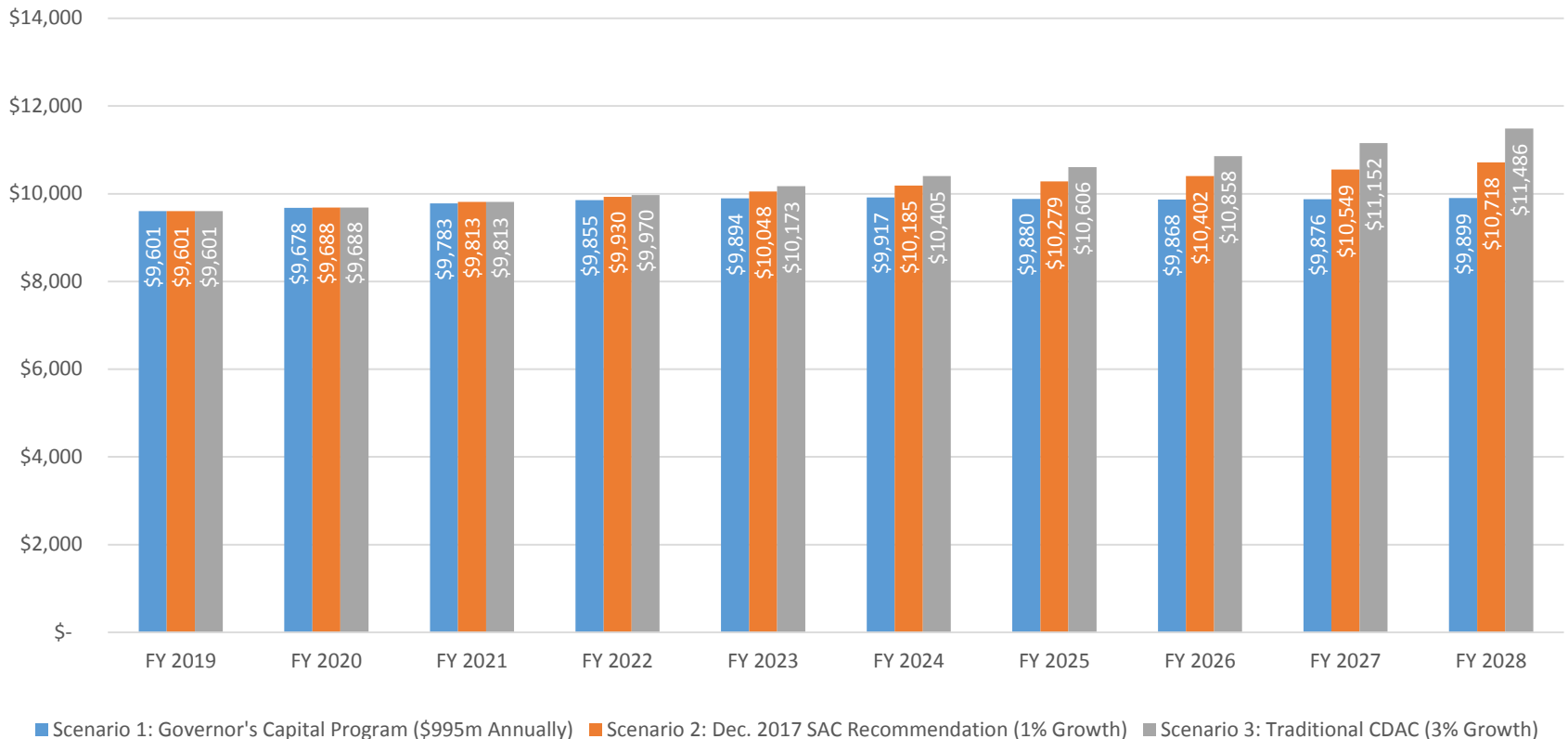
(\$ in millions)

	<b>Scenario 1: Governor's Capital Program (\$995m Annually)</b>	<b>Scenario 2: Dec. 2017 SAC Recommendation (1% Growth)</b>	<b>Scenario 3: Traditional CDAC (3% Growth)</b>
FY	Authorization	Authorization	Authorization
2019 (actual)	1,075	1,075	1,075
2020	995	1,086	1,108
2021	995	1,097	1,142
2022	995	1,108	1,177
2023	995	1,120	1,213
2024	995	1,132	1,250
2025	995	1,144	1,288
2026	995	1,156	1,327
2027	995	1,168	1,367
2028	995	1,180	1,409

All figures are preliminary forecasts as of September 2018 and are subject to change.

# Three Approaches to General Obligation Bond Authorizations

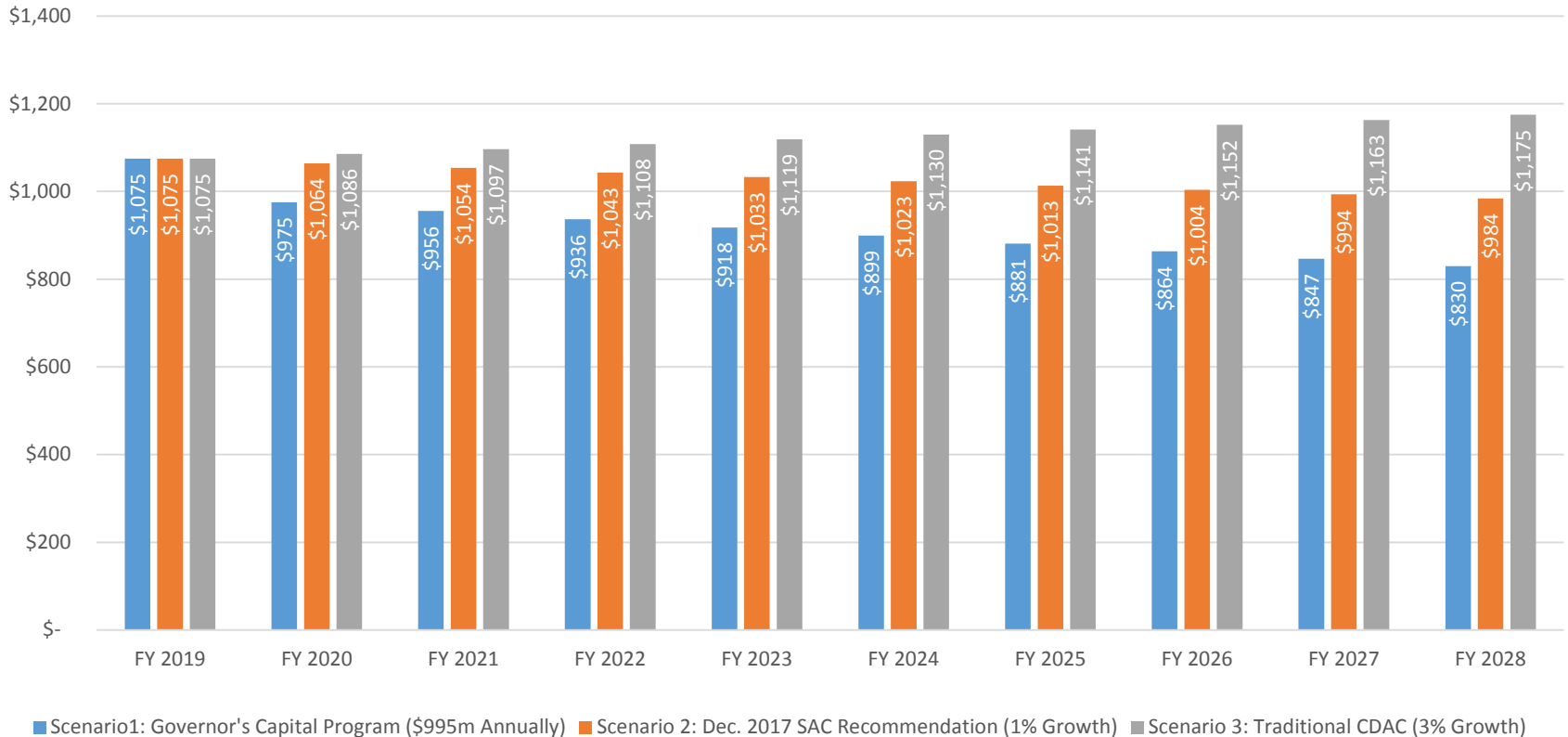
Projected General Obligation Debt Outstanding, FY 2019 - 2028  
(\$ in millions)



All figures are preliminary forecasts as of September 2018 and are subject to change.

# Three Approaches to General Obligation Bond Authorizations

Projected Purchasing Power of Authorizations, FY 2019 - 2028  
Inflation Adjusted Authorizations in Today's Dollars (\$ in millions)



All figures are preliminary forecasts as of September 2018 and are subject to change. Assumed inflation rate is 2.0%.

# Review of Tax-Supported Debt Affordability Benchmarks

## Total Tax-Supported Debt Outstanding\* to Personal Income\*\* Ratio (Benchmark: $\leq 4.0\%$ )

The planning assumptions for authorizations and issuance result in the following projections of the ratio of personal income to total tax-supported debt outstanding:

Fiscal Year	Personal Income**	Scenario 1: Governor's Capital Program (\$995m Annually)		Scenario 2: Dec. 2017 SAC Recommendation (1% Growth)		Scenario 3: Traditional CDAC (3% Growth)	
		Total Tax-Supported Debt Outstanding*	Ratio	Total Tax-Supported Debt Outstanding*	Ratio	Total Tax-Supported Debt Outstanding*	Ratio
<b>2019</b>	<b>388,949,151</b>	<b>13,586,024</b>	<b>3.49%</b>	<b>13,586,024</b>	<b>3.49%</b>	<b>13,586,024</b>	<b>3.49%</b>
2020	404,112,581	13,955,494	3.45%	13,965,494	3.46%	13,965,494	3.46%
2021	419,233,028	14,230,818	3.39%	14,260,818	3.40%	14,260,818	3.40%
2022	435,553,366	14,473,160	3.32%	14,548,160	3.34%	14,588,160	3.35%
2023	451,406,962	14,488,885	3.21%	14,643,323	3.24%	14,768,323	3.27%
2024	467,395,456	14,640,844	3.13%	14,908,566	3.19%	15,128,566	3.24%
2025	484,558,788	14,228,222	2.94%	14,626,611	3.02%	14,954,362	3.09%
2026	502,901,468	14,253,895	2.83%	14,788,234	2.94%	15,243,841	3.03%
2027	523,111,227	14,305,176	2.73%	14,978,539	2.86%	15,581,301	2.98%
2028	545,310,948	14,383,909	2.64%	15,202,894	2.79%	15,970,976	2.93%

\*Total tax-supported debt outstanding includes all outstanding debt from General Obligation Bonds, Consolidated Transportation Bonds, Bay Restoration Bonds, GARVEEs, most capital leases, and certain debt held by the Maryland Stadium Authority.

\*\*Personal income estimates provided by the Bureau of Revenue Estimates.

\$ in thousands. All figures are preliminary forecasts as of September 2018 and are subject to change.

# Total Tax-Supported Debt Outstanding\* to Personal Income\*\* Ratio

(Scenario 1: Governor's Capital Program, \$995m Annually)

Tax Supported Debt Outstanding to Personal Income  
Available Debt Capacity using the 4.0% Benchmark  
FY2019 - FY2028



\*Total tax-supported debt outstanding includes all outstanding debt from General Obligation Bonds, Consolidated Transportation Bonds, Bay Restoration Bonds, GARVEEs, most capital leases, and certain debt held by the Maryland Stadium Authority.

\*\*Personal income estimates provided by the Bureau of Revenue Estimates.

# Total Tax-Supported Debt Outstanding\* to Personal Income\*\* Ratio

(Scenario 2: Dec. 2017 SAC Recommendation, 1% Growth)

Tax Supported Debt Outstanding to Personal Income  
Available Debt Capacity using the 4.0% Benchmark  
FY2019 - FY2028



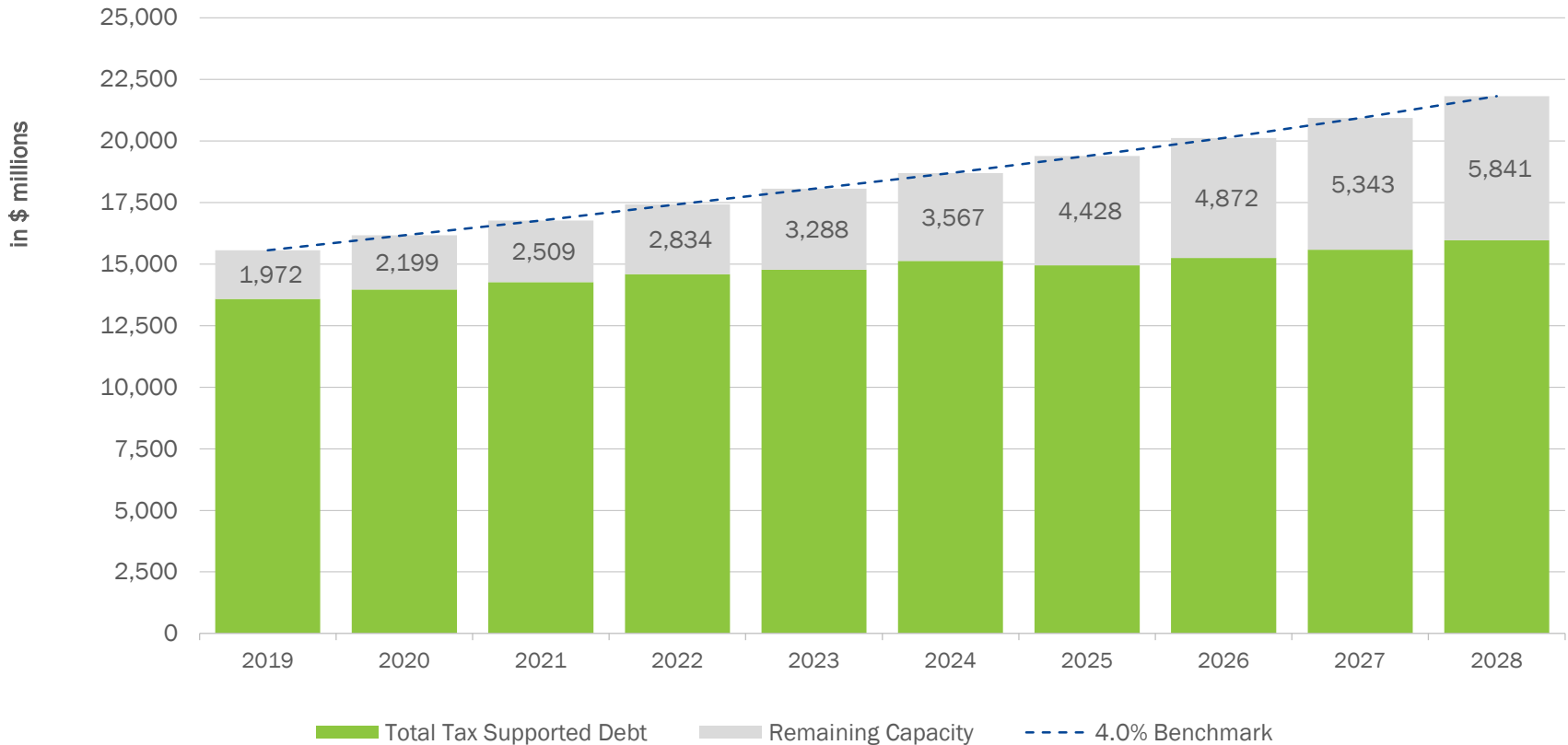
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# Total Tax-Supported Debt Outstanding\* to Personal Income\*\* Ratio

(Scenario 3: Traditional CDAC, 3% Growth)

Tax Supported Debt Outstanding to Personal Income  
Available Debt Capacity using the 4.0% Benchmark  
FY2019 - FY2028



\*Total tax-supported debt outstanding includes all outstanding debt from General Obligation Bonds, Consolidated Transportation Bonds, Bay Restoration Bonds, GARVEEs, most capital leases, and certain debt held by the Maryland Stadium Authority.

\*\*Personal income estimates provided by the Bureau of Revenue Estimates.



## Total Tax-Supported Debt Service\* to Revenue\*\* Ratio (Benchmark: $\leq$ 8.0%)

The planning assumptions for authorizations and issuance result in the following projections of the ratio of total tax-supported debt service to revenues:".

Fiscal Year	Revenues	Scenario 1: Governor's Capital Program (\$995m Annually)		Scenario 2: Dec. 2017 SAC Recommendation (1% Growth)		Scenario 3: Traditional CDAC (3% Growth)	
		Total Tax-Supported Debt Service*	Ratio	Total Tax-Supported Debt Service*	Ratio	Total Tax-Supported Debt Service*	Ratio
2019	23,664,725	1,788,605	7.56%	1,788,605	7.56%	1,788,605	7.56%
2020	24,471,743	1,806,737	7.38%	1,806,862	7.38%	1,806,862	7.38%
2021	24,576,326	1,800,397	7.33%	1,801,147	7.33%	1,801,147	7.33%
2022	25,343,520	1,885,533	7.44%	1,887,533	7.45%	1,888,033	7.45%
<b>2023</b>	<b>26,197,826</b>	<b>1,979,520</b>	<b>7.56%</b>	<b>1,984,825</b>	<b>7.58%</b>	<b>1,987,825</b>	<b>7.59%</b>
2024	27,006,020	1,976,434	7.32%	1,987,225	7.36%	1,994,725	7.39%
2025	27,892,508	2,016,082	7.23%	2,035,376	7.30%	2,049,972	7.35%
2026	28,805,322	2,004,756	6.96%	2,035,368	7.07%	2,060,563	7.15%
2027	29,473,605	2,083,268	7.07%	2,127,644	7.22%	2,165,110	7.35%
2028	30,441,693	2,089,466	6.86%	2,149,343	7.06%	2,201,167	7.23%

\*Total tax-supported debt service includes debt service on all General Obligation Bonds, Consolidated Transportation Bonds, Bay Restoration Bonds, GARVEEs, most capital leases, and on certain debt held by the Maryland Stadium Authority.

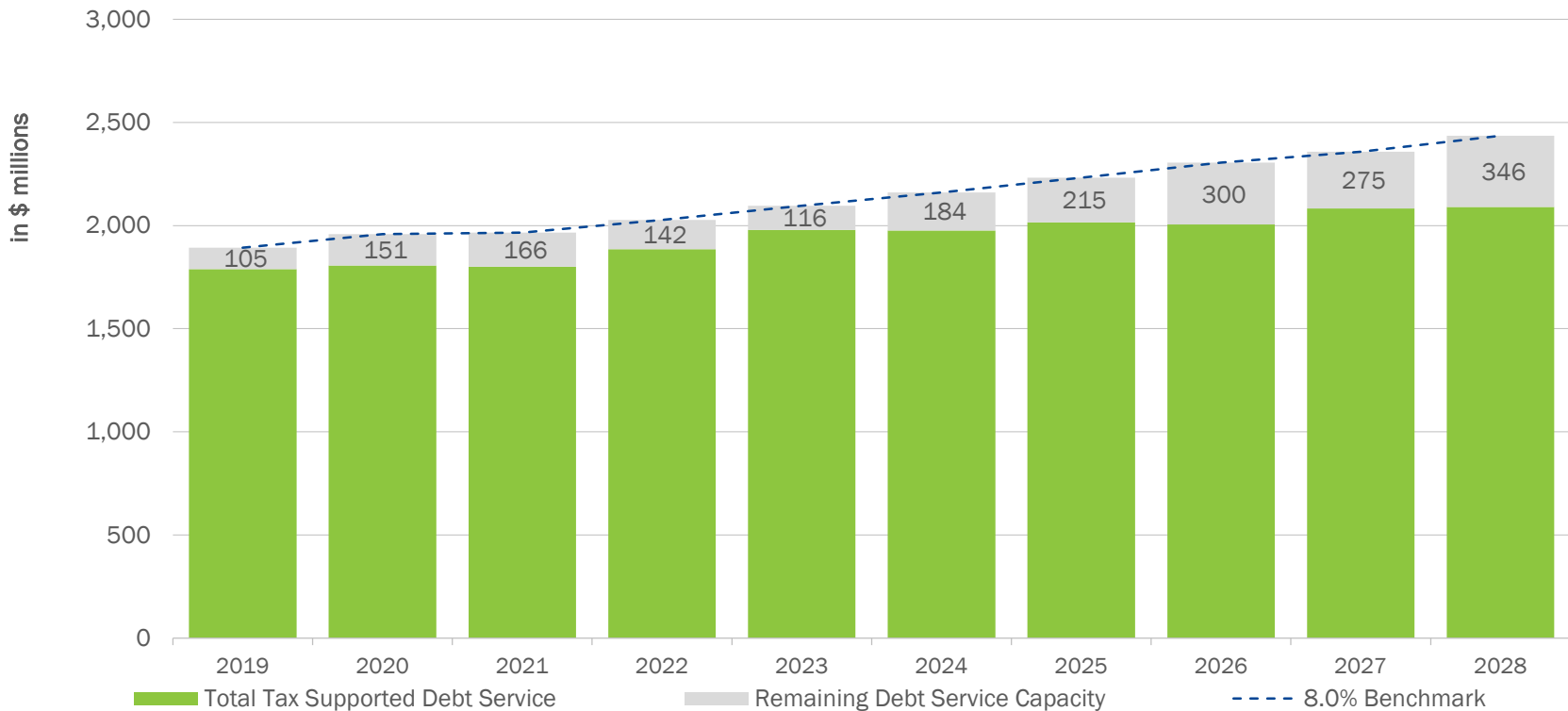
\*\*Total revenue estimates are provided by the Bureau of Revenue Estimates and the relevant State agencies.

\$ in thousands. All figures are preliminary forecasts as of September 2018 and are subject to change.

# Total Tax-Supported Debt Service\* to Revenue\*\* Ratio

(Scenario 1: Governor's Capital Program, \$995m Annually)

Tax Supported Debt Service to Revenues  
Available Capacity using the 8.0% Benchmark  
FY2019 - FY2028



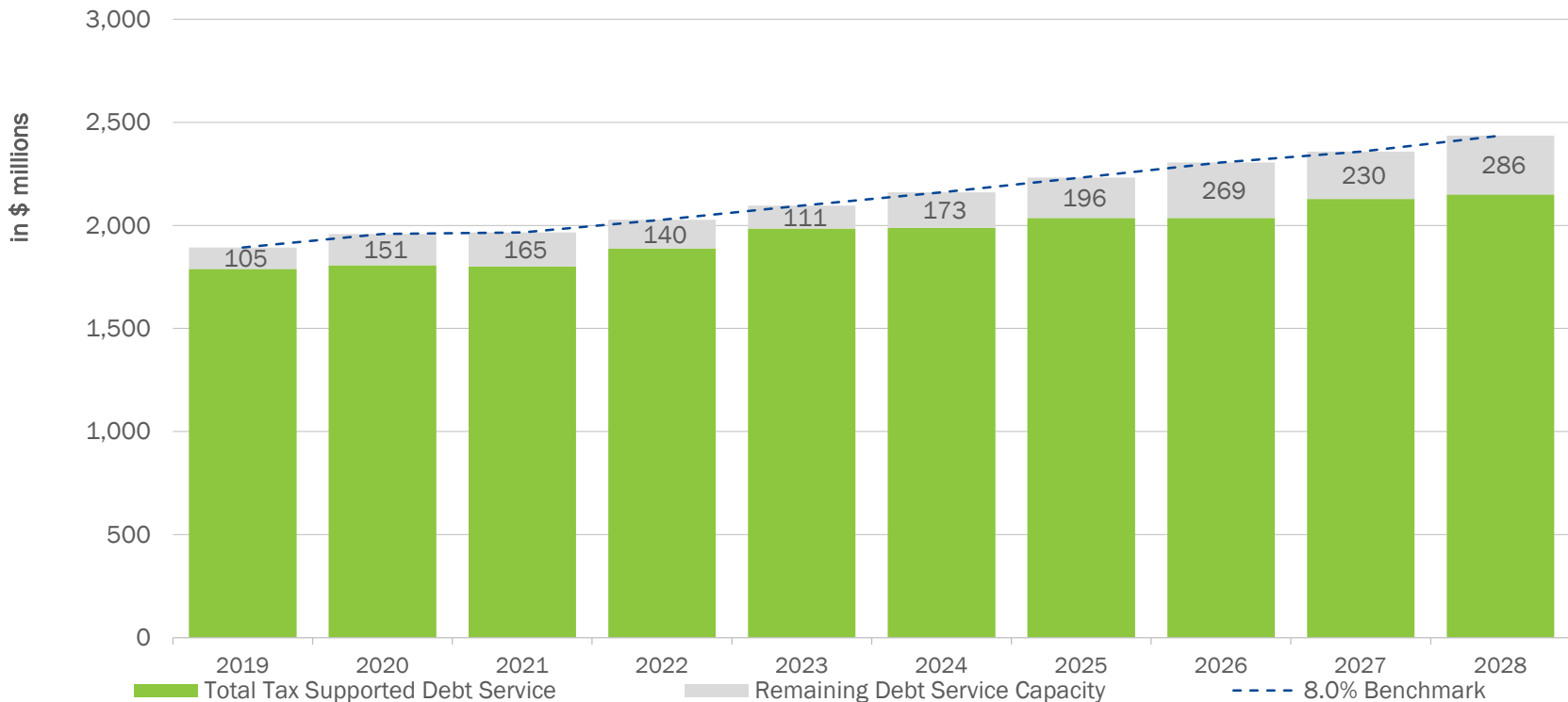
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# Total Tax-Supported Debt Service\* to Revenue\*\* Ratio

(Scenario 2: Dec. 2017 SAC Recommendation, 1% Growth)

Tax Supported Debt Service to Revenues  
Available Capacity using the 8.0% Benchmark  
FY2019 - FY2028



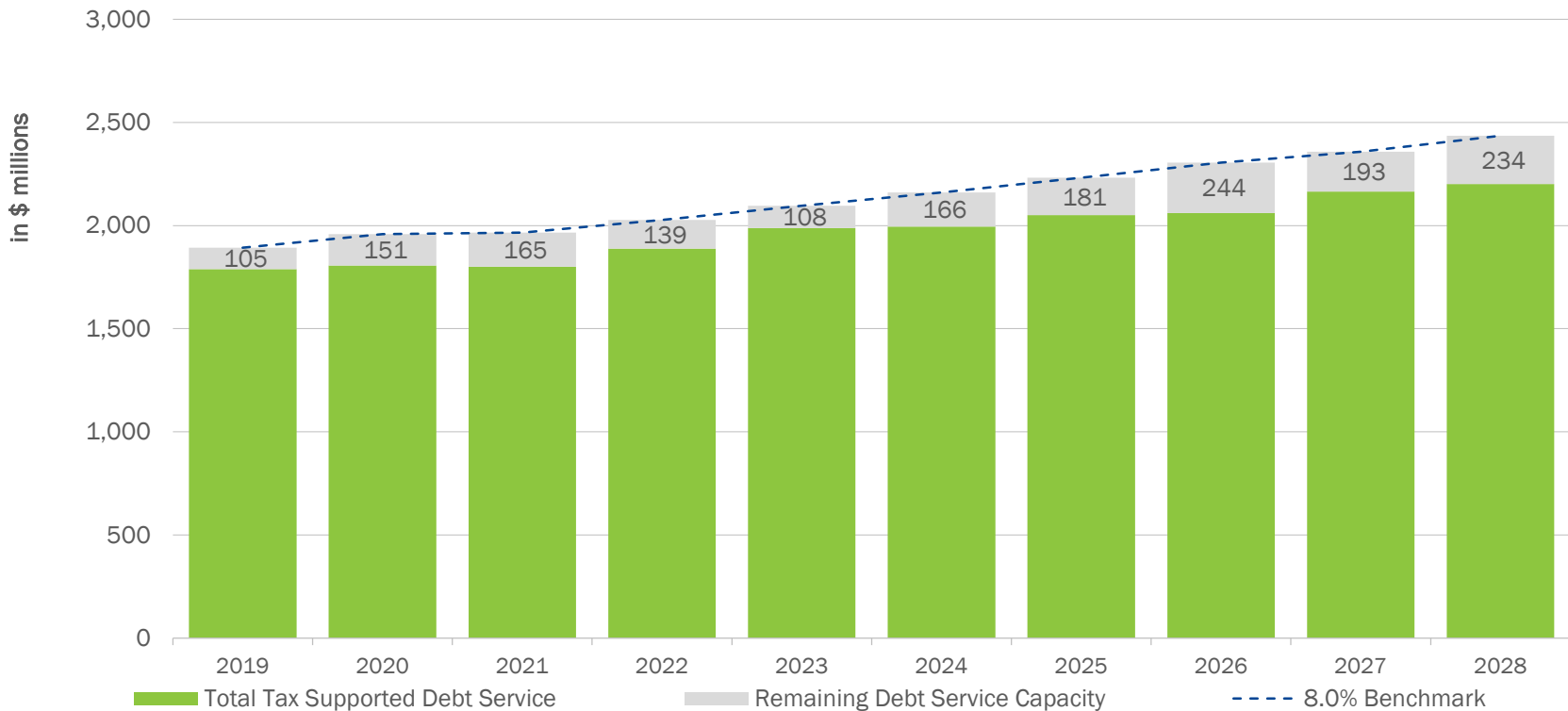
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# Total Tax-Supported Debt Service\* to Revenue\*\* Ratio

(Scenario 3: Traditional CDAC, 3% Growth)

Tax Supported Debt Service to Revenues  
Available Capacity using the 8.0% Benchmark  
FY2019 - FY2028



\*Total tax-supported debt service includes debt service on all General Obligation Bonds, Consolidated Transportation Bonds, Bay Restoration Bonds, GARVEEs, most capital leases, and on certain debt held by the Maryland Stadium Authority.

\*\*Total revenue estimates are provided by the Bureau of Revenue Estimates and the relevant State agencies.

# Recommendation of Amount of New General Obligation Bonds for Fiscal Year 2020

# 2017 CDAC General Obligation Bond Authorization

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- CDAC needs to vote on its recommendation for a General Obligation Bond authorization for FY 2020.
- CDAC only votes on the upcoming fiscal year's authorization (FY 2020). Assumed authorizations for FY 2021 – 2028 are for planning purposes only and subject to change.

# Recommendation of Amount of New Bonds for Academic Facilities for Fiscal Year 2020



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Amount of new bonds for academic facilities for fiscal year 2020 requested by institution:

University System of Maryland:	\$34.0 million
Morgan State University:	\$0
St. Mary's College of Maryland:	\$0
Baltimore City Community College:	<u>\$0</u>
Total Requested	\$34.0 million