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***STATE OF MARYLAND***

***COMMISSION  
ON  
STATE DEBT***

***Report to the Board of Public Works  
April 18, 2023***

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**State of Maryland  
Commission on State Debt**

**Report to the  
Board of Public Works**

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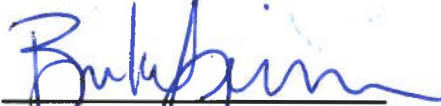
April 18, 2023

TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2024 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28.0 cents (\$0.28) per \$100 of assessed value of real property of public utilities.



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Comptroller of the Treasury




Helene T. Grady  
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Budget and Management



Samantha J. Biddle  
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The chairmen of the Capital Budget Subcommittees in the Senate and the House of Delegates serve as ex-officio, non-voting members.

Craig Zucker  
Chair, Capital Budget Subcommittee  
Senate Committee on Budget and Taxation

Mark Chang  
Chair, Capital Budget Subcommittee  
House Appropriations Committee

## **2023 REPORT OF THE COMMISSION ON STATE DEBT**

### **Charge of the Commission**

Executive Order 01.01.1980.06 created the Commission on State Debt as an advisory group to recommend to the Board of Public Works on an annual basis a State property tax rate sufficient to meet debt service requirements on outstanding general obligation bonds during the next fiscal year.

### **General Obligation Bonds**

General obligation bonds are authorized and issued to provide funds for:

- General construction and capital improvements to State-owned facilities, including institutions of higher education;
- Grants to local educational authorities for construction and capital improvements to public schools; and
- Financial assistance in the form of loans or grants to local governments and the private sector for individual capital projects such as water quality improvements, jails and detention facilities, community colleges, economic development, community health facilities, historic preservation, private higher education, and other community projects.

### **Sources of Debt Service Funds**

Several sources provide funds for general obligation debt service in addition to the State property tax:

- (1) Under certain loan enabling acts, the State uses bond proceeds to make loans to local governments, private non-profit organizations, and other private entities. Under the terms of the loans, repayments are required and are credited to the Annuity Bond Fund. Some loan repayments, such as repayments of loans for sewerage facilities and hospitals, extend over a period of up to 40 years, exceeding the fifteen-year life of the bonds;
- (2) Periodically, grantees remit proceeds from the sale of capital assets;
- (3) The State has historically deposited premiums from the sale of general obligation bonds into the Annuity Bond Fund to be used for the payment of debt service. However, in the 2021 session, the General Assembly amended Section 8-132 of the State Finance and Procurement Article to permit premium to be used to pay for capital projects;

- (4) From fiscal year 1972 through fiscal year 2003 and in fiscal year 2008 the State appropriated general funds to support debt service. General fund appropriations were also made in fiscal years 2014 through 2023, and an appropriation is also included in fiscal year 2024.
- (5) Beginning in fiscal year 2010, and continuing through fiscal year 2013, the State issued approximately \$720.0 million of taxable general obligation bonds with an interest subsidy from the US Treasury; and
- (6) Chapter 419 Acts of 2009 authorized \$70.0 million in bond funds for the Department of Natural Resource's Program Open Space (POS) land acquisition program and the use of property transfer tax revenue to pay principal and interest on these POS bonds. This authorization was issued in July 2010 in the 2010 Second Series and transfer taxes were credited to the Annuity Bond Fund beginning in fiscal year 2011.

### **General Obligation Bonds Outstanding**

The amount of general obligation bonds issued, redeemed, and outstanding for fiscal years 2023 and 2024 is shown on Schedule A (page 6). General obligation bonds outstanding are projected to total \$10.0 billion on June 30, 2023. The State issued \$400.0 million in general obligation bonds in fiscal year 2023 and general obligation bonds redeemed and refunded totaled \$987.4 million.

General obligation bonds outstanding are projected to total \$10.0 billion on June 30, 2024. In fiscal year 2024, general obligation bond issuances are expected to total \$960.0 million and general obligation bond redemptions are estimated to total \$1.0 billion.

### **General Obligation Bonds Authorized But Unissued**

Bonds are not issued immediately following an authorization but rather are issued as funds that are required to make payment on authorized capital projects. The amount authorized but unissued is allocated and dedicated to the specified project authorized. Schedule B (page 7) estimates total unissued authorizations of general obligation bonds on June 30, 2023. General obligation bonds authorized but unissued are projected to total \$3.1 billion on June 30, 2023. This amount includes \$1.2 billion in net new authorizations approved during the 2023 session of the Maryland General Assembly and effective on June 1, 2023 to support the fiscal year 2024 capital budget.

### **Annuity Bond Fund**

Debt service for general obligation bonds is paid from the Annuity Bond Fund. Schedule C (page 8) reflects the effect of the continuation of the current rate of 11.2 cents per \$100 of assessed value on real property and 28 cents per \$100 of assessed value on operating real property of public utilities for fiscal years 2022 - 2028. In fiscal year 2024, \$433.1 million is appropriated from the general fund to support debt service assuming that the Board of Public Works maintains the current tax rate. Projections show increasing gaps between revenues and debt service assuming current property tax levels continue. Current projections, as detailed on Schedule C, show general

funds totaling \$347.1 million, \$381.5 million, \$386.8 million; and \$348.9 million will be required in fiscal years 2025, 2026, 2027 and 2028 respectively. These projections include net bond premium totaling \$57.8 million in fiscal year 2023. The remainder of the bond premium earned is appropriated for capital projects. No premium is included in the estimates for fiscal years 2024 - 2028 because premium is volatile and difficult to project. These estimates make assumptions on future bond issuances, interest rates, and increasing property tax income. The lower general fund appropriations predicted arose from an increase in SDAT's assessed property values on March 31, 2023, a reduced General Obligation bond issuance in March of 2023 and a lower than expected interest rate on that issuance. For fiscal years 2024 - 2025, an estimate of 3.0% annual growth in real property tax collections is assumed. For fiscal years 2026 - 2027 an annual growth rate of 2.5% is assumed and 2.0 % is assumed for fiscal year 2028. The five-year average assumption is 3.0%.

### **History of Property Tax Rates and General Fund Appropriations to the Annuity Bond Fund**

#### ***Property Tax Rates***

Between fiscal years 1983 through 2001, the property tax rate on real property was 21 cents per \$100 of assessed valuation. Also during this time period, real property was assessed at only 40% of full cash value. In fiscal year 2002, the assessment process was reformed to become more transparent and real property began to be assessed at 100% of full cash value. The rate was, therefore, adjusted to 8.4 cents per \$100 of valuation (8.4 cents is 40% of 21.0 cents so there was no change to the overall tax burden). Tax rates increased to 13.2 cents per \$100 of assessed valuation in fiscal years 2004 – 2006. In fiscal year 2007, the rate was reduced to 11.2 cents per \$100 of assessed valuation and has remained at that reduced level since that time. Schedule D (page 9) provides the property tax rates for fiscal years 2002 – 2021 and the recommended rate for fiscal year 2024.

#### ***General Fund Appropriations to the Annuity Bond Fund***

In fiscal year 2008, \$29.4 million in general funds were appropriated to the Annuity Bond Fund. Previous reports projected that, at current property tax levels, there would be insufficient revenues in the Annuity Bond Fund to cover debt service in future years and that general funds would be necessary to bridge this gap. In fiscal years 2009 through 2013, however, the projected gaps were not realized and a general fund appropriation was not necessary. This was due to three primary factors:

- Interest rates have remained low as the economy continues to rebound slowly from the recession and as investors have sought high quality bonds like Maryland general obligation bonds;
- Debt service has been lower than initially forecast because of the issuance of refunding bonds and the use of federally-supported ARRA bonds which were cheaper for the State than traditional tax-exempt bonds; and
- Actual premiums realized from general obligation bond sales have been significant.

In fiscal year 2024, \$433.1 million in general funds is appropriated to the Annuity Bond Fund. Schedule D (page 9) provides the general fund appropriations to the Annuity Bond Fund for fiscal years 2004 – 2024.

**Recommendation**

The Commission on State Debt recommends to the Board of Public Works a State property tax rate of 11.2 cents per \$100 of assessed value on real property and 28.0 cents per \$100 of assessed value on operating real property of public utilities for fiscal year 2024.

**SCHEDULE A**  
**PROJECTED GENERAL OBLIGATION BONDS**  
**OUTSTANDING**  
**JUNE 30, 2023 AND JUNE 30, 2024**

	<b>Bonds Outstanding</b>
<b>Bonds Outstanding - June 30, 2022</b>	<b>\$ 10,588,592,992</b>
Issued Fiscal Year 2023 <sup>(a)</sup>	400,000,000 <sup>(b)</sup>
Redeemed Fiscal Year 2023	(987,355,332)
Refunded Fiscal Year 2023	0
 <b>Bonds Outstanding - June 30, 2023</b>	 <b>10,001,237,659</b>
Projected Issuance Fiscal Year 2024 <sup>(c)</sup>	960,000,000 <sup>(b)</sup>
Redeemed Fiscal Year 2024	(1,005,999,332)
 <b>Bonds Outstanding - June 30, 2024</b>	 <b><u><u>\$ 9,955,238,327</u></u></b>

<sup>(a)</sup> Bonds Issued and Closed in Fiscal Year 2023:

March-23	-	<u>\$400,000,000</u>	2023 First Series
		<u><u>\$400,000,000</u></u>	

<sup>(b)</sup> The State combined the two scheduled CY 2022 bond sales. This means that a larger than usual amount was issued in FY 2022 and a smaller than usual amount was issued in FY 2023.

<sup>(c)</sup> Projected Bond Issuances in Fiscal Year 2023:

8/1/2023		\$480,000,000	2023 Second Series
March-24	-	<u>\$480,000,000</u>	2024 First Series
		<u><u>\$960,000,000</u></u>	



**SCHEDULE B**  
**GENERAL OBLIGATION BONDS AUTHORIZED**  
**BUT UNISSUED**  
**JUNE 30, 2023 – PROJECTED**

	<b>Bonds Authorized but Unissued</b>
<b>Bonds Authorized but Unissued - June 30, 2022</b>	<b>\$ 2,332,417,895</b>
Issued Fiscal Year 2023 (projected & net of refunding bonds)	(400,000,000)
Cancelled Fiscal Year 2023 (through March 31, 2022) <sup>(a)</sup>	-
Net New Authorizations Effective June 1, 2023 <sup>(b)</sup>	1,205,000,000
 <b>Bonds Authorized but Unissued - June 30, 2023</b>	 <b>\$ 3,137,417,895</b>

<sup>(a)</sup> As of March 31, 2023  
Authorizations have been cancelled as a result of the following:  
Section 8-128 of the State Finance and Procurement Article

<sup>(b)</sup> MCCBL of 2023	
New General Obligation Bond Authorizations	\$ 1,216,639,000
De-authorizations of prior authorizations	\$ (11,639,000)
	\$ 1,205,000,000

## SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

	FISCAL YEARS						
	2022	2023	2024	2025	2026	2027	2028
	Actual	Estimated	<b>MAINTAIN THE RATE AT \$0.112 per \$100 of ASSESSED VALUATION (A)</b>				
<b>Beginning Balance</b>	\$ 184,436,833	\$ 85,287,575	\$ 103,201,621	\$ 111,322,965	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Total Property Tax Collections (B)	\$ 919,223,974	\$ 985,393,128	\$ 1,013,404,113	\$ 1,043,806,237	\$ 1,069,901,392	\$ 1,096,648,927	\$ 1,118,581,906
General Fund Appropriation	\$ 260,000,000	\$ 430,000,000	\$ 433,100,000	\$ 347,142,074	\$ 381,491,669	\$ 386,753,586	\$ 348,885,296
Bond Sale Premium (C)	\$ 115,798,314	\$ 57,791,576	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for ARRA Bonds (D)	\$ 7,864,432	\$ 7,336,742	\$ 6,173,556	\$ 4,948,977	\$ 2,564,502	\$ 873,528	\$ 213,220
Transfer Tax (E)	\$ 6,916,673	\$ 6,974,685	\$ 6,979,887	\$ 6,985,606	\$ 1,654,047	\$ -	\$ -
Other Cash Receipts (F)	\$ (29,890,072)	\$ 2,110,000	\$ 2,110,000	\$ 2,110,000	\$ 2,110,000	\$ 2,110,000	\$ 2,110,000
Capital Projects (G)	\$ -	\$ (259,800,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Deficiency Appropriation (H)	\$ -	\$ 219,000,000	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service (I)	\$ (1,379,062,578)	\$ (1,430,892,085)	\$ (1,453,646,212)	\$ (1,514,315,859)	\$ (1,457,721,611)	\$ (1,486,386,042)	\$ (1,469,790,422)
<b>Ending Balance</b>	<b>\$ 85,287,575</b>	<b>\$ 103,201,621</b>	<b>\$ 111,322,965</b>	<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>

**THESE ARE PROJECTIONS AS OF APRIL 18, 2023. ALL ESTIMATES FROM 2023 THROUGH 2028 CAN AND WILL CHANGE.**

**THE PROJECTIONS ARE DEPENDENT ON EACH OF THE FOLLOWING VARIABLES: PROPERTY VALUES, COLLECTIONS, BOND PREMIUM AND INTEREST RATES.**

- (A) Rate is projected at 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities. This has been the rate since fiscal year 2007.
- (B) For fiscal years 2022 - 2023, property tax collections are calculated from estimates of assessable base provided by SDAT on March 31, 2023. For fiscal years 2024 - 2025, an estimate of 3.0% annual growth in collections is assumed. For fiscal years 2026 - 2027 an annual growth rate of 2.5% is assumed and 2.0 % is assumed for fiscal year 2028. The five-year average is 3.0%.
- (C) Bond premiums are volatile and difficult to forecast so no premium is assumed for fiscal years 2024 - 2028.
- (D) Federal Subsidies from US Treasury are for Build America Bonds, Qualified School Construction Bonds, and certain Qualified Zone Academy Bonds.
- (E) A portion of the Transfer Tax covers debt service for \$70 million of Program Open Space Bonds authorized in 2009 and issued in 2010.
- (F) Other cash receipts include interest and penalties on property taxes, loan repayments and miscellaneous receipts.
- (G) Capital projects may be paid for using excess bond premium. If insufficient bond premium is attained, the projects will not be funded.
- (H) The legislature approved a General Fund Appropriation to supplement under attained premium earned in fiscal year 2022.
- (I) Debt service is based on the amount authorized for fiscal year 2024 and authorizations projected in the Governor's Capital Improvement Plan for fiscal years 2024 - 2028.

**SCHEDULE D**  
**COMMISSION ON STATE DEBT**

**HISTORY OF PROPERTY TAX RATES AND  
GENERAL FUND APPROPRIATIONS**

<b>Real Property Tax Rates</b>			<b>General Fund Appropriations</b>	
per \$100 of assessed valuation				
<b>Fiscal Year</b>	<b>Other Than Utilities</b>	<b>Public Utilities</b>	<b>Fiscal Year</b>	<b>Amount</b>
2003	8.4 cents	21.0 cents	2003	\$ 90,500,000
2004	13.2 cents	33.0 cents	2004	-
2005	13.2 cents	33.0 cents	2005	-
2006	13.2 cents	33.0 cents	2006	-
2007	11.2 cents	28.0 cents	2007	-
2008	11.2 cents	28.0 cents	2008	\$29,349,121
2009	11.2 cents	28.0 cents	2009	-
2010	11.2 cents	28.0 cents	2010	-
2011	11.2 cents	28.0 cents	2011	-
2012	11.2 cents	28.0 cents	2012	-
2013	11.2 cents	28.0 cents	2013	-
2014	11.2 cents	28.0 cents	2014	\$83,000,000
2015	11.2 cents	28.0 cents	2015	\$140,000,000
2016	11.2 cents	28.0 cents	2016	\$252,400,000
2017	11.2 cents	28.0 cents	2017	\$259,395,129
2018	11.2 cents	28.0 cents	2018	\$259,648,777
2019	11.2 cents	28.0 cents	2019	\$286,000,000
2020	11.2 cents	28.0 cents	2020	\$287,000,000
2021	11.2 cents	28.0 cents	2021	\$131,000,000
2022	11.2 cents	28.0 cents	2022	\$260,000,000
2023	11.2 cents	28.0 cents	2023	\$430,000,000
2024*	11.2 cents	28.0 cents	2024	\$433,100,000

\*Reflects the rates as recommended by the Commission on State Debt to the Board of Public Works.