MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

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Governor
ANTHONY BROWN
Lieutenant Governor

T. ELOISE FOSTER
Secretary
DAVID C. ROMANS
Deputy Secretary

MEMORANDUM

DATE: September 26, 2012

TO: Members, Capital Debt Affordability Committee

FROM: Secretary T. Eloise Foster TEF

RE: Recommended GO Bond Authorization Increases for FY 2014 – FY 2018

At the September 24, 2012 Capital Debt Affordability Committee meeting, the Department of Budget and Management recommended increasing the State's GO bond authorization levels for FY 2014 – FY 2018 by $150 million each year. The increase is possible due to the State's improving revenue outlook. Since the CDAC voted on an authorization level last December, State revenues have grown faster than projected. Ongoing State revenues will continue to increase in light of actions undertaken by the Governor and the General Assembly. Most recently the Board of Revenue Estimates raised the revenue estimate for FY 2013 by $181 million and raised ongoing revenue estimates by $120 to $185 million per year. The favorable revenue forecast provides the CDAC with the capacity to increase the debt authorization while comfortably remaining within the affordability ratios for both debt service to revenues and debt outstanding to personal income.

The proposed increase to the State's GO bond authorization levels for FY 2014 – FY 2018 will:

- Add a total of $750 million to the State's debt capacity over the next 5-year period, creating and supporting thousands of job in Maryland, while taking advantage of historically low interest rates;
- Allow the State to fund all of the projects called for in the CIP as well as the $457 million in preauthorized projects approved by the legislature during the 2012 session;
- Allow the Governor to expand current or invest in new initiatives that are 'shovel-ready;' and
- Be achievable while remaining within affordability ratios that are lower than previously estimated.

Jobs and Revenues

Projects funded through the increased authorization levels will support the creation of 7,500 to 9,225 jobs. In addition to providing employment for thousands of Marylanders, these jobs will generate additional GF revenues in the magnitude of $30 million to $37 million over the life of the projects.

Capacity for Current and Future Projects

During the 2012 legislative session, the General Assembly preauthorized more than $457 million in GO projects in the CIP. Chief among these preauthorized projects are:

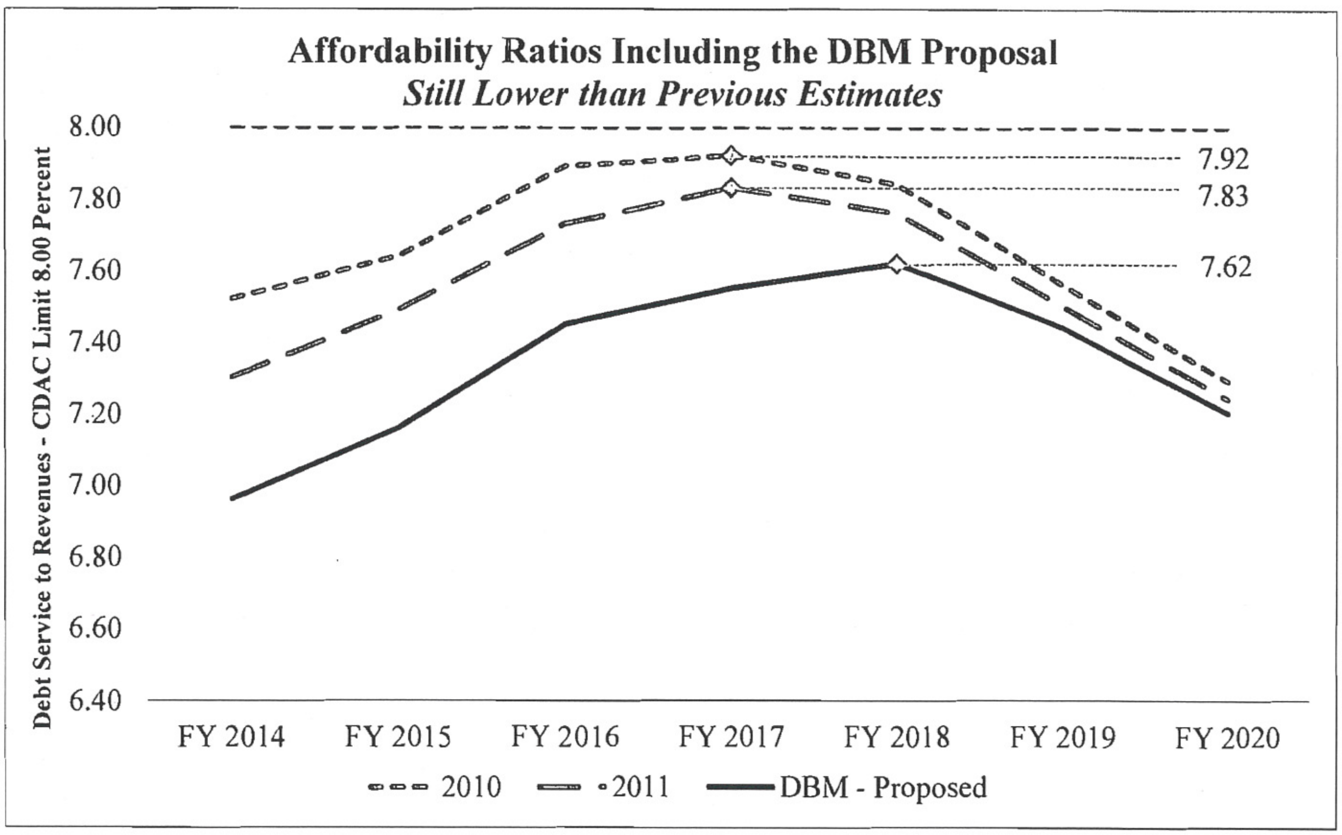
- The USM Biomedical Science and Engineering building at Shady Grove – $168 million
- The new Library at Salisbury University - $104 million
- The Bioengineering building at the University of Maryland, College Park – $97 million
- The High Performance Computing Center at The Johns Hopkins University – $27 million

Accommodating these obligations will require deferring or downsizing many projects that were already included in the FY 2013-FY 2017 CIP. Increasing the debt authorizations will provide the capacity to meet these legislative pre-authorizations as well as to fund projects already in the funding queue.

The remaining increase in debt authority will be used to fund additional 'shovel-ready' and other high-priority projects approved through the capital budget process.

Affordability

The increase in authorizations will change the affordability ratios. However, even with the increased authorizations, the ratios in the 2012 CDAC report will be more than 20 basis points lower than those included in the revised 2011 CDAC report.



While the additional authorizations will increase the debt outstanding to personal income ratio, the revised ratio will remain less than what was included in the last year CDAC report.

The Recommended Increase Will Still Lower Ratios
Debt Outstanding to Personal Income – Previous Max: 3.53%
($ in millions)

	September Baseline	$150 Million Increase
FY 2014	3.45%	3.46%
FY 2015	3.39%	3.43%
FY 2016	3.28%	3.34%
FY 2017	3.16%	3.26%
FY 2018	3.08%	3.21%
FY 2019	3.00%	3.15%
FY 2020	2.92%	3.08%
FY 2021	2.87%	3.01%
FY 2022	2.81%	2.94%

DBM considered the sensitivity of the revenues and the recommendation and determined that revenues could withstand an approximate 4.45 percent reduction in FY 2018 before the State would exceed the CDAC affordability ratios. This 4.45 percent represents approximately $1,037 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.

Conclusion

Increasing the State's GO bond authorizations by $150 million per year over the next 5 years will add $750 million to the CIP and will:

- Create and support thousands of jobs in Maryland, providing employment opportunities to citizens and generating additional revenue to the State
- Satisfy obligations resulting from legislative preauthorizations approved in the 2012 session, and
- Expand our capacity to invest in priority projects.

All of the outputs will be funded with debt issued at historically low interest rates that will not be available in the future, guaranteeing that the same $750 million will be more costly to the State later than it is now. Moreover, we have the ability in future years to make downward revisions in our authorization levels as we did during the 2010 CDAC process should we determine they are necessary to remain within affordability ratios.