

# X00A00 Public Debt

## *Executive Summary*

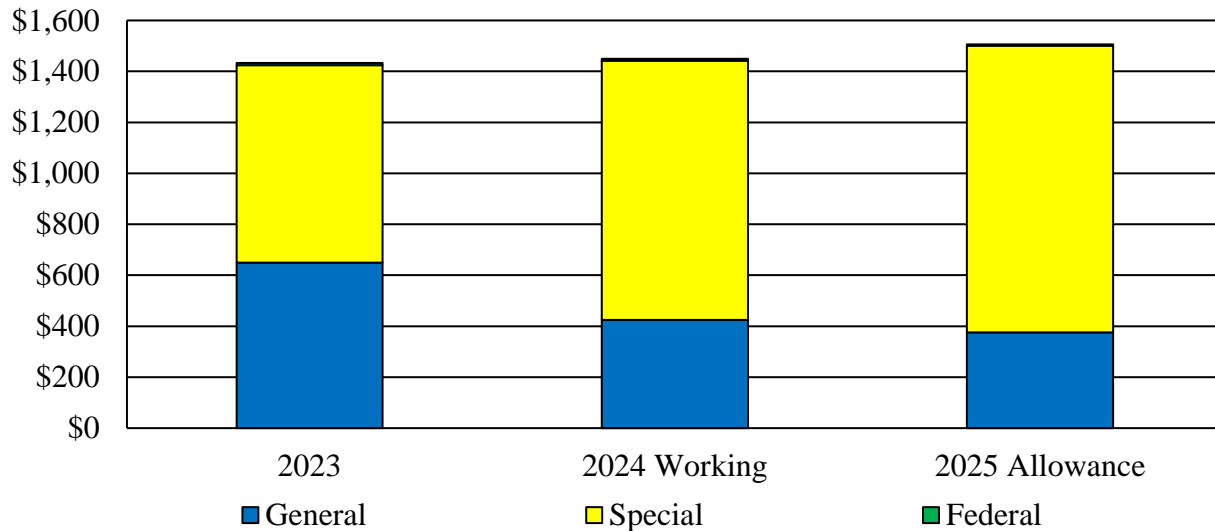
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The Public Debt program appropriates funds for general obligation (GO) bonds' debt service principal and interest payments. GO bonds support the State's general construction program. GO bonds do not pledge specific revenues but rather pledge the State's full faith and credit. Debt service payments are supported by the Annuity Bond Fund (ABF), whose largest revenue source is the State property tax. At the current State property tax rate of \$0.112 per \$100 of assessable base, property tax revenues are insufficient to fund all debt service costs, so general funds are also appropriated.

## *Operating Budget Summary*

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**Fiscal 2025 Budget Increases \$56.4 Million, or 3.9%, to \$1,505.7 Million (\$ in Millions)**



Note: Numbers may not sum due to rounding.

- The Department of Legislative Services (DLS) agrees that the budget's estimates are reasonable, but DLS calculates that the fiscal 2024 closing balance is \$27 million less than shown in the Governor's budget books. Consequently, the ABF has insufficient funds to cover capital projects authorized from the ABF. **DLS recommends that the Administration add \$22 million to fiscal 2025 through a supplemental budget item.**

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## ***Key Observations***

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- ***Outlook for June 2024 Bond Sale:*** The State Treasurer’s Office (STO) advises that the next GO bond sale will be in June 2024. This will be the first bond sale since March 2023, as STO canceled the summer 2023 and winter 2024 bond sales. The sale’s par value is projected to be \$1,065 million. STO has required a 5.00% coupon rate for recent bond sales. If interest rates exceed the coupon rate, GO bond debt service costs will exceed appropriations and additional fund will need to be appropriated. But at this point, there is no reason to expect that interest rates for Maryland GO bonds will exceed 5.00%.
- ***Increased Authorizations Are Affordable and Costly in the Out-years:*** In calendar 2023, the Capital Debt Affordability Committee (CDAC) and the Spending Affordability Committee (SAC) both recommended to increase the fiscal 2025 GO bond authorization to \$1.75 billion. The SAC recommendation from calendar 2022 was a \$1.205 billion authorization, so this is \$545 million increase over the previously proposed amount. The CDAC forecast maintains a \$1.75 billion GO program through fiscal 2029, which deviates from the SAC recommendation to increase authorizations by 2% annually to account for inflation. This debt is affordable as both debt service to State revenues and debt outstanding to personal income are below the affordability thresholds. However, the authorizations result in substantially larger debt service payments beyond the forecast period.
- ***Maryland’s Long-term Liabilities Are Larger Than Most States, Especially AAA-rated States:*** In September 2023, Moody’s Investors Service released its annual report on state liabilities. Of the 14 states rated AAA by the major rating agencies at that time, most states’ long-term liabilities are less than the national median. Maryland has the highest ratio of long-term liabilities to revenues of all AAA-rated states. **The State Treasurer should be prepared to brief the committees on how the highest credit rating and low interest rates can be maintained as a high-debt state that is expanding its bond program.**

## **Operating Budget Recommended Actions**

1. Concur with Governor’s allowance.

**X00A00**  
**Public Debt**

***Operating Budget Analysis***

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**Program Description**

The Public Debt program appropriates funds for GO bonds' debt service payments. This includes principal and interest payments. CDAC develops State debt policies and recommends limits on State debt. SAC advises the legislature on debt policies. GO bonds support the State's general construction program, which includes grants to local public-school construction, other grants to local jurisdictions and nonprofit organizations, higher education facilities, and State facilities. GO bonds do not pledge specific revenues but rather pledge the State's full faith and credit. Past issuances include:

- tax-exempt bonds sold to institutional investors;
- tax-exempt bonds sold to retail investors;
- taxable bonds sold to institutional investors;
- Build America Bonds (BAB) that are taxable bonds for which the State receives a direct subsidy from the federal government;
- Qualified Zone Academy Bonds (QZAB) that support specific education projects. Depending on the date of issuance, these bonds have received federal tax credits or direct federal subsidies;
- Qualified School Construction Bonds (QSCB) that supported specific education projects. Depending on the date of issuance, these bonds have received federal tax credits or direct federal subsidies; and
- Qualified Energy Conservation Bonds (QECCB) that are direct federal subsidy bonds that support energy efficiency capital expenditures in public buildings, renewable energy production, and other related projects.

GO bond debt service payments are supported by the ABF. ABF revenues include State property tax revenues; federal subsidies; bond sale premiums; and repayments from certain State agencies, subdivisions, and private organizations. General funds may subsidize debt service if these funds are insufficient.

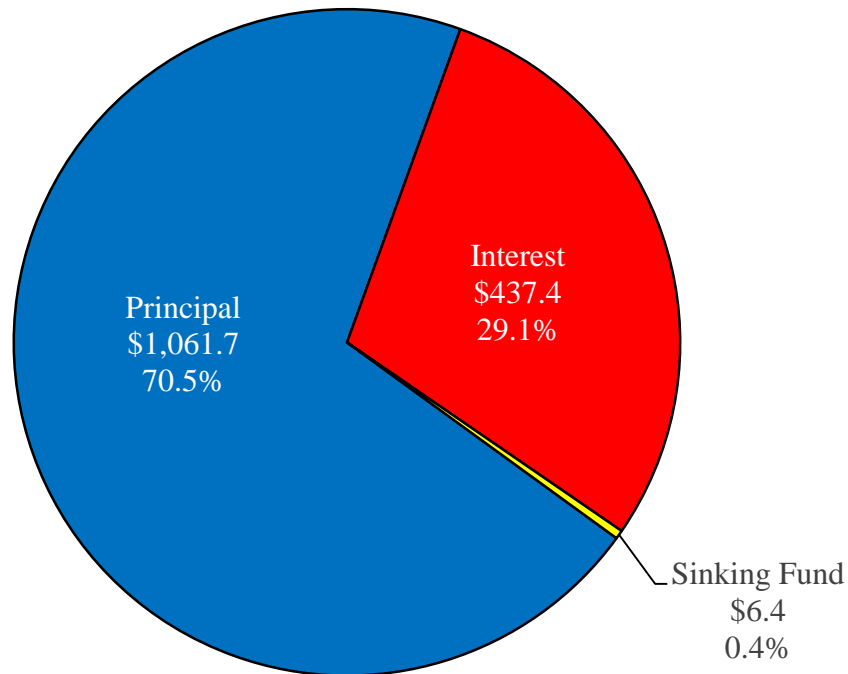
The State usually issues tax-exempt GO bonds to institutional investors twice a year. Other bonds are issued as they become authorized as needed (taxable) or as they are in demand (retail bonds). Each issuance's goal is to minimize the bonds' debt service costs.

## Fiscal 2025 Overview of Public Debt Spending

**Exhibit 1** shows that over 69% of debt service costs are principal payments. This is an uncommonly high level of principal payments and is attributable to Maryland GO bonds’ relatively short maturities. The State constitution does not allow for any State debts to mature in more than 15 years. To level out debt service payments, each issuance sells tranches of bonds that mature between 3 and 15 years with an average maturity of 10 years. This means that Maryland tends to have higher debt service payments for the level of debt that is outstanding and retires debt more quickly.

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**Exhibit 1**  
**Overview of Public Debt Spending**  
Fiscal 2025 Allowance  
(\$ in Millions)



Source: Comptroller’s Office; Department of Budget and Management; Department of Legislative Services

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*X00A00 – Public Debt*

**Exhibit 2** shows that 96% of the fiscal 2025 debt service cost is for debt that has already been issued and that most of the State’s debt is fixed-rate, tax-exempt bonds sold to institutional investors. The State has also issued taxable bonds and has \$297 million taxable debt outstanding at the beginning of fiscal 2025, of which \$120 million will be retired during the year. BAB, QZAB, QSCB, and QECB issuances are structured to take advantage of federal tax credits or subsidies. Debt service payments for these issuances are less than traditional GO bonds. At the beginning of fiscal 2025, \$250 million of the State’s GO debt outstanding is attributable to these bonds.

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**Exhibit 2**  
**Debt Service Costs**  
**Fiscal 2025**  
**(\$ in Millions)**

<u>Type of Debt</u>	<u>Principal</u>	<u>Interest</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Share of Total</u>
<b>Previously Issued Debt</b>					
GO Bonds Sold to Institutional Investors	\$858.3	\$364.3	\$0.0	\$1,222.6	81.2%
Taxable Bonds	120.3	7.1	0.0	127.5	8.5%
Build America Bonds	81.2	4.1	0.0	85.3	5.7%
Qualified Zone Academy Bonds	1.9	1.3	0.3	3.5	0.2%
Qualified School Construction Bonds	0.0	2.0	6.4	8.3	0.6%
Qualified Energy Conservation Bonds	0.0	0.3	0.0	0.3	0.0%
<b>Subtotal</b>	<b>\$1,061.7</b>	<b>\$379.1</b>	<b>\$6.7</b>	<b>\$1,447.5</b>	<b>96.1%</b>
<b>Debt to be Issued</b>					
June 2024 Bond Sale	\$0.0	\$58.3	\$0.0	\$58.3	3.9%
<b>Total</b>	<b>\$1,061.7</b>	<b>\$437.4</b>	<b>\$6.7</b>	<b>\$1,505.7</b>	<b>100.0%</b>

GO: general obligation

Note: Estimated bond issuance is \$1,065 million in June 2024. These are a function of anticipated cash flow needs and subject to change. Debt service costs do not match the Governor’s budget books.

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**Operating Budget ABF Forecast**

**Exhibit 3** presents the six-year annuity debt service forecast. The exhibit shows that most of the revenues supporting GO bond debt service are derived from State property taxes. The estimates do not match the Governor’s budget books. While DLS agrees that the proposed estimates are reasonable, DLS’ fiscal 2024 closing balance is \$44 million, compared to \$71 million

*X00A00 – Public Debt*

estimated in the budget books. Consequently, DLS projects that the fiscal 2025 allowance is \$22 million below what is needed to support capital projects authorized with bond premiums. **DLS recommends that the Administration add \$22 million to the allowance through a supplemental budget item.**

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**Exhibit 3**  
**Revenues Supporting Debt Service**  
**Fiscal 2024-2029**  
**(\$ in Millions)**

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>Annual % Change</u>
<b>Special Fund Revenues</b>							
State Property Tax Receipts	\$994	\$1,052	\$1,066	\$1,087	\$1,109	\$1,131	2.6%
Capital Authorizations	-29	0	0	0	0	0	n/a
Other Revenues	3	3	3	3	3	3	0.0%
Prior Year ABF Fund Balance Transferred	<u>70</u>	<u>42</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	-56.8%
Subtotal Special Fund Revenues	\$1,037	\$1,097	\$1,070	\$1,090	\$1,112	\$1,135	1.8%
General Funds	425	376	393	446	471	542	5.0%
Supplemental General Funds							
Transfer Tax Special Funds	7	7	2	0	0	0	-100.0%
Federal Funds	6	5	2	1	0	0	-100.0%
<b>Total Revenues</b>	<b>\$1,475</b>	<b>\$1,485</b>	<b>\$1,467</b>	<b>\$1,537</b>	<b>\$1,583</b>	<b>\$1,677</b>	<b>2.6%</b>
<b>Debt Service Expenditures</b>	<b>\$1,433</b>	<b>\$1,506</b>	<b>\$1,466</b>	<b>\$1,537</b>	<b>\$1,582</b>	<b>\$1,675</b>	<b>3.2%</b>
<b>End-of-year ABF Balance</b>	<b>\$42</b>	<b>-\$21</b>	<b>\$1</b>	<b>\$1</b>	<b>\$1</b>	<b>\$1</b>	
<b>Supplemental General Funds</b>	<b>\$0</b>	<b>\$22</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	

ABF: Annuity Bond Fund

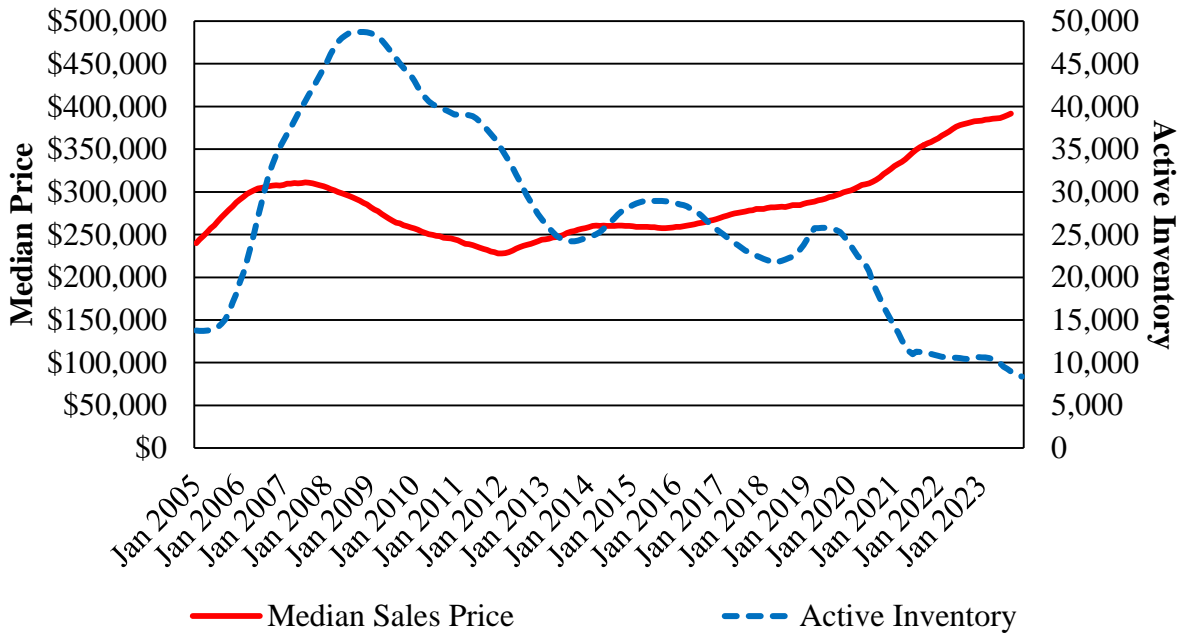
Source: Department of Legislative Services

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### ABF Six-year Forecast

State property tax collections are influenced by trends in the housing market. **Exhibit 4** shows that the median home price has increased steadily since calendar 2012, with prices increasing more sharply in calendar 2020 and 2021. Even more pronounced is the decline in the inventory of houses for sale. Inventories since September 2021 have been lower than the number of inventories since before calendar 2000. DLS notes that inventories have been revised upward modestly in recent years, so the decline may not be as pronounced as the data suggest. Home sales have also declined substantially since calendar 2021. There were approximately 107,400 sales in Maryland in calendar 2021, compared to 84,700 in calendar 2022 and 50,400 through September 2023. Since the summer months have the highest sales, it is expected that calendar 2023 sales will be well below calendar 2021 levels. It seems that higher interest rates have affected sales more than home values (which have seen prices increase). One hypothesis about slowing sales is that homeowners with low interest rate mortgages are reluctant to sell their home and lose a mortgage that is now below market rates.

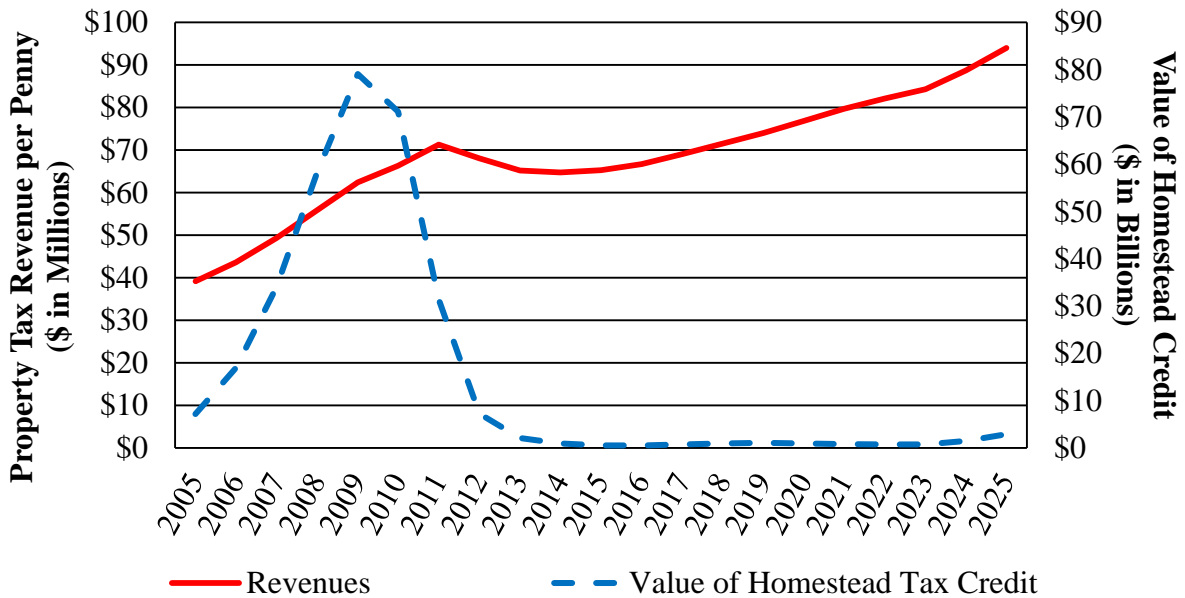
**Exhibit 4**  
**Maryland Housing – Median Prices and Inventory**  
**12-month Moving Average**  
**January 2005 to December 2023**



Source: Maryland Association of Realtors; Department of Legislative Services

**Exhibit 5** shows how much revenue one cent on the State property tax has generated since fiscal 2005. State property tax receipts generated per one cent of tax increased through fiscal 2011, even as home values peaked in fiscal 2007. Revenues declined from fiscal 2012 to 2014 but have generally increased since fiscal 2015.

**Exhibit 5**  
**State Property Tax Homestead Tax Credits and Property Tax Receipts**  
**Fiscal 2005-2025**



Source: State Department of Assessments and Taxation; Department of Budget and Management; Department of Legislative Services

Assessment policies and the Homestead Tax Credit (HTC) account for the lag between changes in the real estate market and tax receipts. Property values are assessed every three years, and increases are phased in over three years. For example, if a value increases by 9%, the increase would be 3% in the first year, 6% in the second year, and 9% in the third year. Having three years between assessments also moderates fluctuations in State property taxes. Properties assessed in calendar 2024 will have last been assessed in calendar 2021. Home values have increased steadily, which has increased the value of HTC.

HTC limits the annual increase in State property assessments subject to the property tax to 10%. If reassessing a resident’s assessed property value results in an increase that exceeds 10%, the homeowner receives a credit for any amount above 10%. This limits revenue growth when property values rise quickly. Taken together, the three-year assessment process and HTC slowed

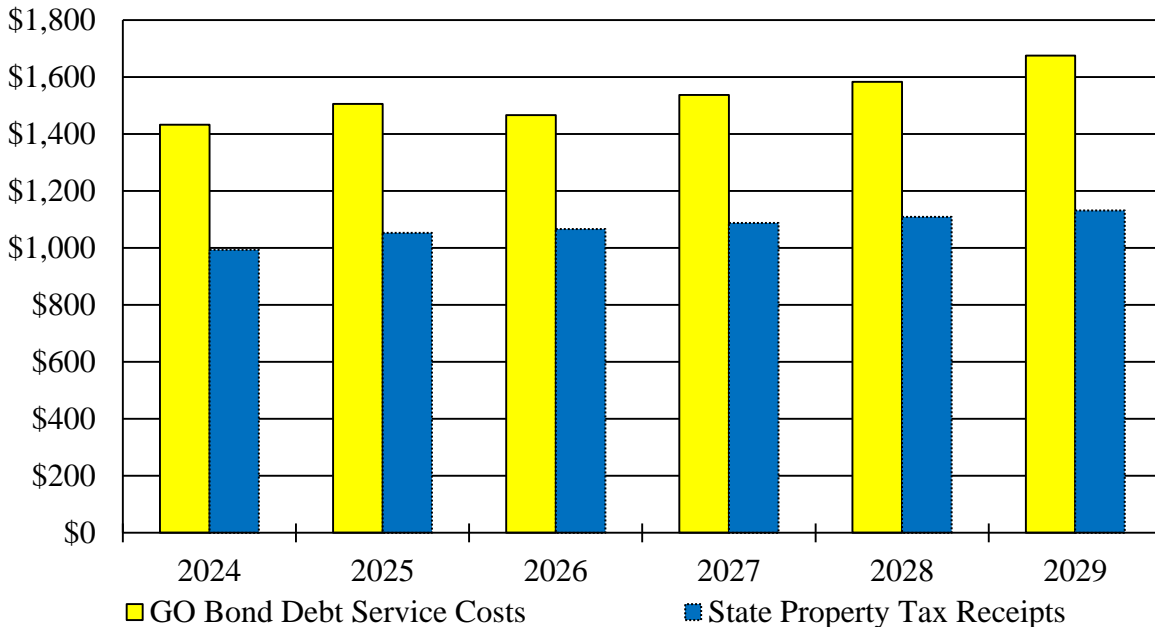


the revenue increases during the real estate boom and delayed the peak until after the decline in property values. Current market conditions suggest that State property tax receipts should be stable over the next few years, even if home values slow or decline modestly.

### General Fund Appropriation Is Necessary to Avoid State Property Tax Increases

State property tax revenues are estimated to increase annually at a 2.6% rate from fiscal 2024 to 2029. This is affected by a 5.9% increase from fiscal 2024 to 2025. State property tax rates have been \$0.112 per \$100 of assessable base since fiscal 2007. This policy keeps taxes low but requires general fund appropriations to fund GO bond debt service. **Exhibit 6** shows that steady increases in State property tax revenues and debt service costs are projected and that debt service will continue to exceed State property tax revenues.

**Exhibit 6**  
**GO Bond Debt Service Costs and State Property Tax Revenue Collections**  
**Fiscal 2024-2029**  
**(\$ in Millions)**



GO: general obligation

Source: State Department of Assessments and Taxation; Department of Legislative Services

## *Issues*

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### **1. Outlook for June 2024 Bond Sale**

STO advises that the next GO bond sale will be in June 2024. This will be the first bond sale since March 2023, as STO canceled the summer 2023 and winter 2024 bond sales. The sale's par value is projected to be \$1,065 million. STO has required a 5.00% coupon rate<sup>1</sup> for recent bond sales. If interest rates exceed the coupon rate, GO bond debt service costs will exceed appropriations and additional fund will need to be appropriated. But at this point, there is no reason to expect that interest rates for Maryland GO bonds will exceed 5.00%.

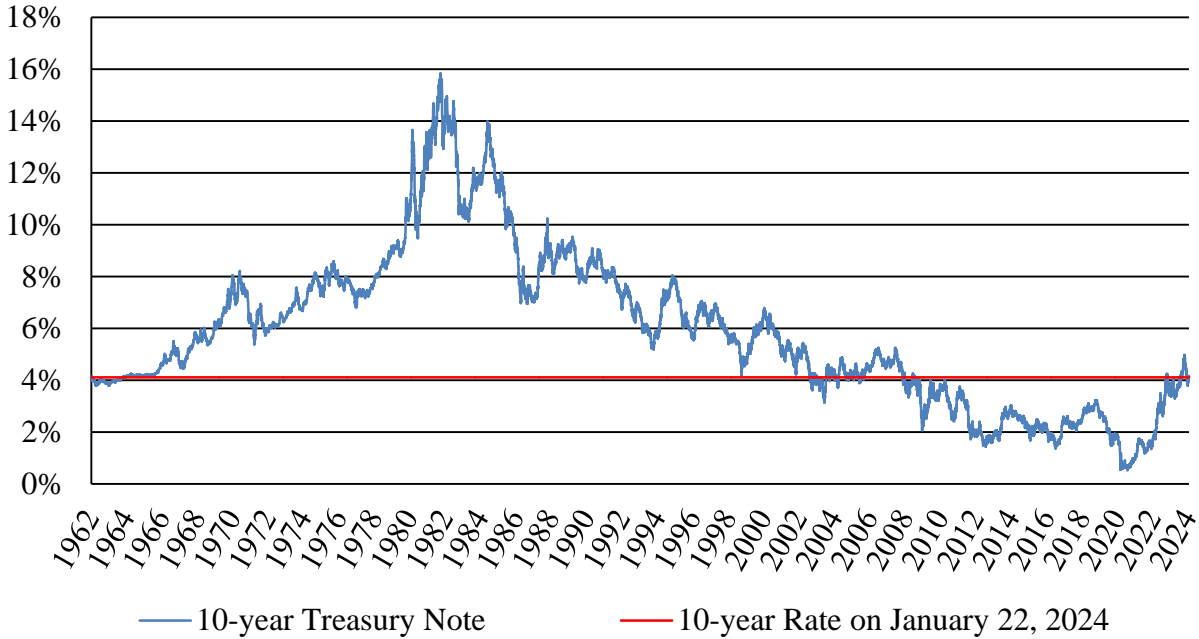
#### **Interest Rates Are No Longer Unusually Low but Are Still Below the Coupon Rates**

Although recent increases in interest rates are well above what the economy is accustomed to since the Great Recession, interest rates are low when compared to rates over the last 62 years. State GO bonds are structured to mature between 3 and 15 years after issuance. The average maturity is 9.8 years, which is common. As such, DLS uses 10-year maturity indices when evaluating bonds. **Exhibit 7** shows that U.S. Treasury Note yields since 1962, which is the longest data set available, and the yield on January 22, 2024, the most recent day that data was available when this analysis was prepared. Over this period, 70% of yields exceeded the rate on January 22. Almost all hyper-low yields were after the Great Recession. It is unclear how interest rates will change moving forward, but it is reasonable to expect that they will not return to the unusually low rates experienced over the last 16 years.

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<sup>1</sup> The coupon rate is the interest rate that is paid to the bondholders on the par value of the bonds. Par value is the nominal value of the bond as indicated by the Official Statement. As interest rates change, bonds can be sold for more or less than par value. Since the State pays a fixed interest rate on a fixed par value, market changes do not have any effect on principal or debt service payments.

**Exhibit 7**  
**Interest Rates for 10-year U.S. Treasury Notes**  
**January 1962 to January 2024**

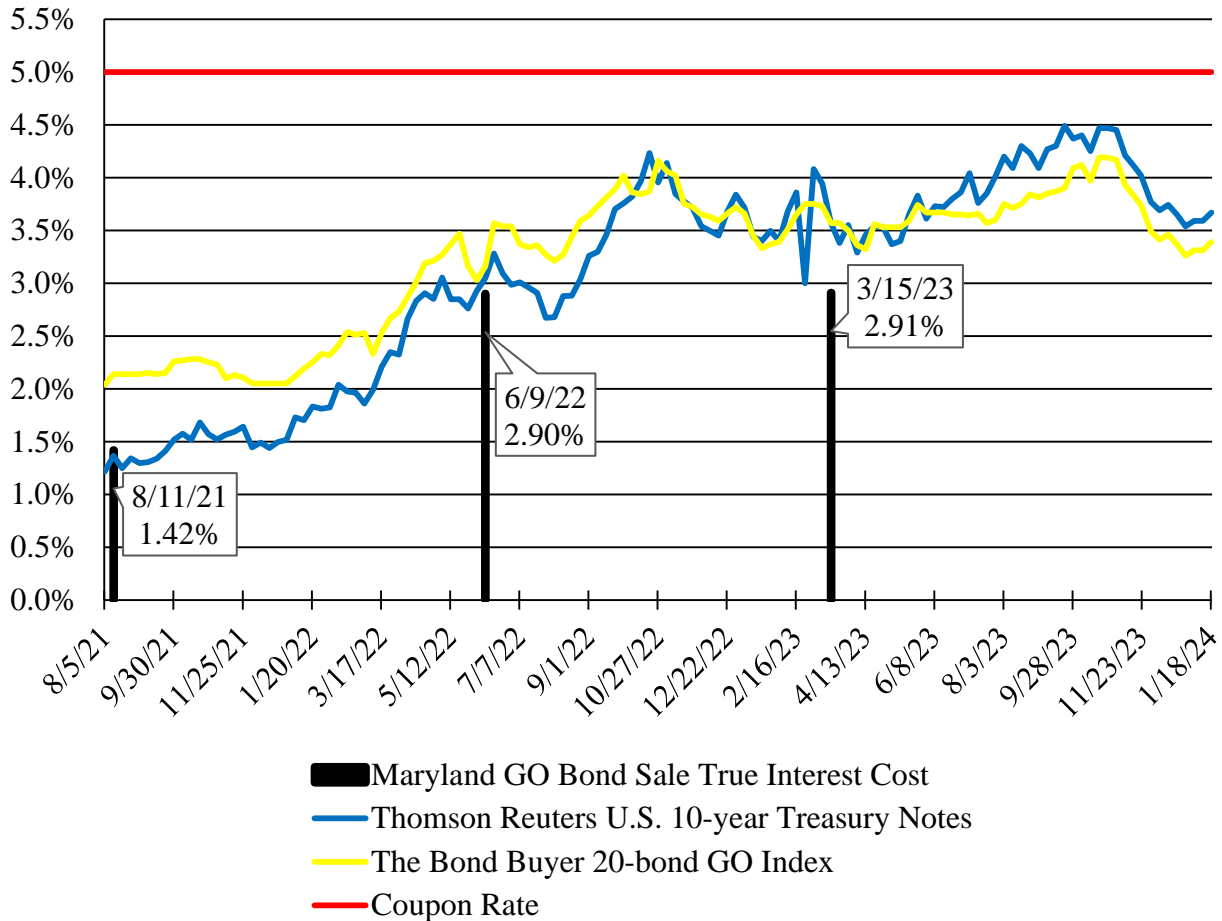


Source: Board of Governors of the Federal Reserve System

Bond sales since calendar 2020 have offered a 5.00% coupon rate, and this rate is assumed in the out-years. **Exhibit 8** shows that U.S. Treasury Notes' interest rate peaked at 4.49% in September 2023 and The Bond Buyer 20-bond Index<sup>2</sup> peaked at 4.19% in October 2023. While these rates have approached the GO bonds' coupon rate, they remain below it, so current assumptions are appropriate. DLS will continue to monitor interest rates.

<sup>2</sup> The Bond Buyer 20-bond Index includes GO bonds maturing in 20 years with an average rating equivalent to Moody's Aa2 and S&P's AA.

**Exhibit 8  
Interest Rates and GO Bond’s True Interest Cost  
August 2021 to January 2024**



GO: general obligation

Source: The Bond Buyer

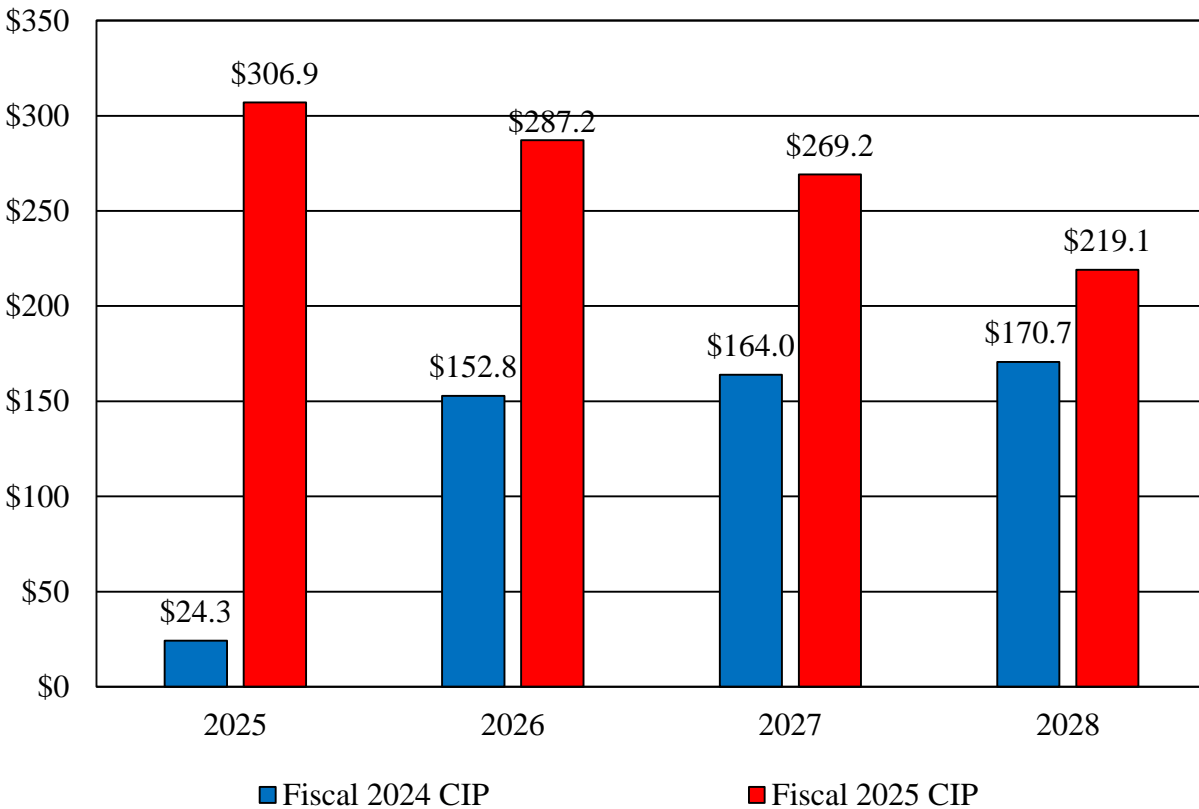
**Additional Costs if Coupon Rates Exceed 5%**

The effects of higher interest rates are initially modest but can add up if higher rates persist. DLS estimates that having a coupon rate that is 5.50% instead of 5.00% adds \$55.4 million (\$5.3 million annually in the first two years and \$3.4 million annually in years 13 to 15) to the June 2024 bond sale’s debt service costs. STO projects issuing \$1.36 billion to \$1.75 billion annually from fiscal 2025 to 2029, so higher interest rates could substantially increase debt service costs.

## Moving General Fund Spending to the GO Program Also Increases the GO Bond True Interest Cost

The fiscal 2025 *Capital Improvement Program* (CIP) increases the amount of authorizations for private use and private activity bonds over planned levels in the 2024 CIP, especially in bonds supporting the Department of Housing and Community Development and the Maryland Department of the Environment. These bonds are taxable. **Exhibit 9** shows that the amount of taxable bonds authorized in fiscal 2025 increases by \$283 million.

**Exhibit 9**  
**Taxable General Obligation Bonds Authorized**  
**Fiscal 2025-2028**  
**(\$ in Millions)**



CIP: *Capital Improvement Program*

Source: Department of Budget and Management *Capital Improvement Program*

## *X00A00 – Public Debt*

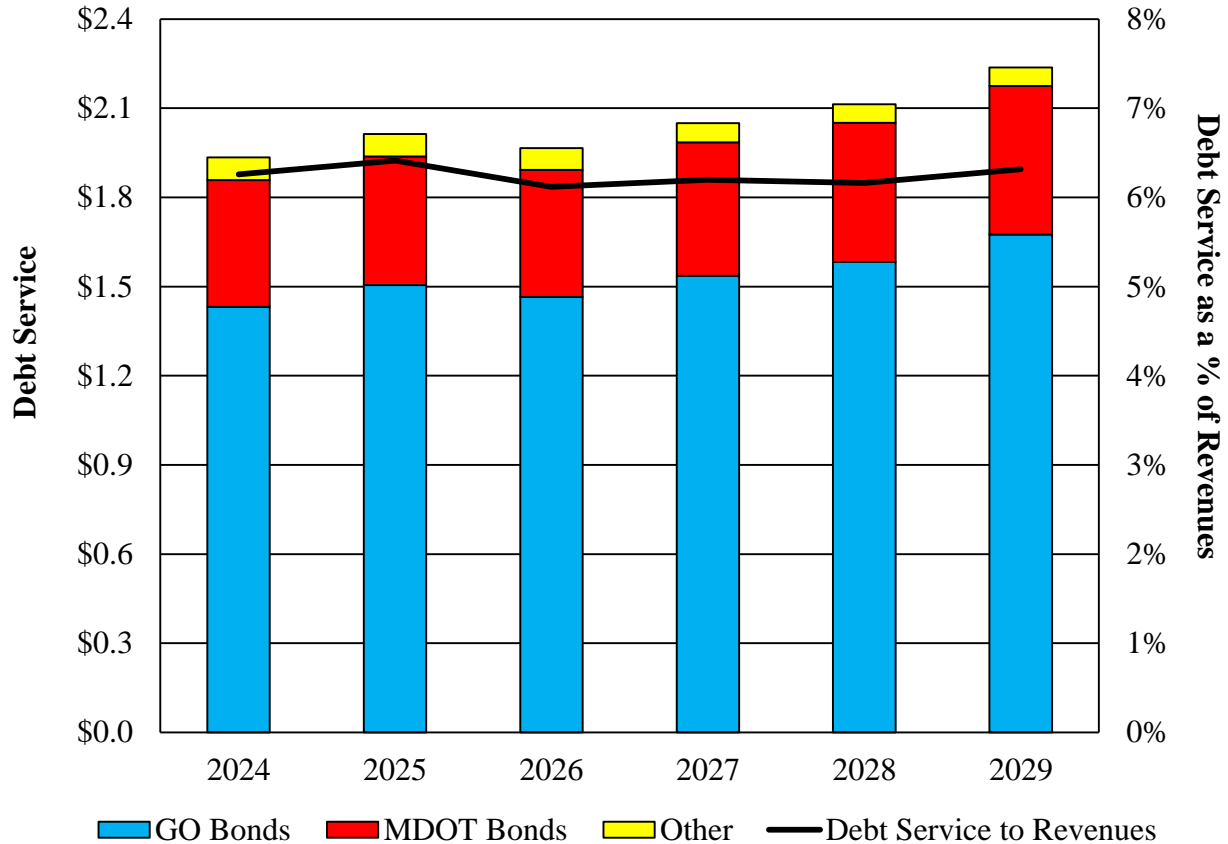
Taxable debt is more expensive than tax-exempt debt. To minimize these additional costs, taxable bonds are issued with shorter maturities. This limits the extra costs paid for taxable bonds but also increases debt service cost in the short term to retire the debt more quickly. For example, the State sold \$50 million in taxable GO bonds at the August 2019 bond sale to institutional investors with three- and four-year maturities. The issuance's yield was 1.61% for the four-year bonds. 30 minutes later, the State also issued \$14.89 million in tax-exempt bonds to institutional investors. The tax-exempt bond sale had a true interest cost of 0.94%. The difference between the four-year bonds was 0.67% (67 basis points). DLS estimates that the additional 67 basis points paid for taxable three- and four-year bonds increased interest payments by \$1.13 million from fiscal 2020 to 2023.

## **2. Increased Authorizations Are Affordable and Costly in the Out-years**

State debt includes GO bonds, the Maryland Department of Transportation's (MDOT) transportation bonds, Grant Anticipation Revenue Vehicles capital leases supported by State revenues, Maryland Stadium Authority (MSA) bonds supported by State revenues, and bay restoration bonds. To manage this State debt, CDAC was created in 1978. The committee sets limits on GO bond issuances. The committee also evaluates the affordability of all State debt. CDAC has two affordability criteria: State debt outstanding cannot exceed 4% of State personal income; and State debt service cannot exceed 8% of State revenues.

CDAC and SAC recommended that the State increase its fiscal 2025 GO bond authorizations from \$1.205 billion to \$1.75 billion. The out-year CDAC planning assumption was to keep authorizations at \$1.75 billion through fiscal 2029 in the CIP, but SAC recommended that authorizations increase 2% annually. This modestly increases debt service costs. For this analysis, DLS is using CIP authorizations. The State is well below the affordability limits, so this additional debt does not push debt service to revenues above 8% or debt outstanding to personal income above 4%. **Exhibit 10** shows that debt service expenditures increase to \$1.7 billion for GO bonds and \$2.2 billion for all bonds by fiscal 2029, when debt service is 6.32% of State revenues.

**Exhibit 10**  
**Debt Service as a Percentage of State Revenues**  
**Fiscal 2024-2029**  
**(\$ in Billions)**

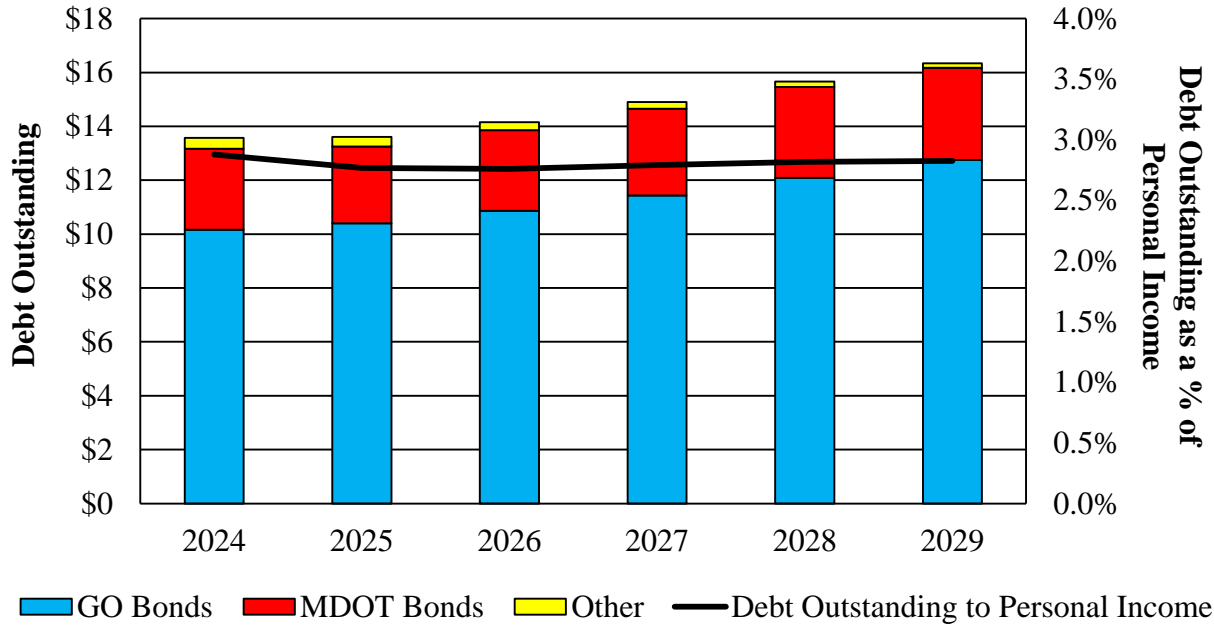


GO: general obligation  
 MDOT: Maryland Department of Transportation

Source: Board of Revenue Estimates; Maryland Department of Transportation; State Treasurer’s Office; Maryland Stadium Authority; Maryland Department of the Environment; Capital Debt Affordability Committee; State Department of Assessments and Taxation; Department of Legislative Services

**Exhibit 11** shows that higher authorizations increase GO debt outstanding to \$13 billion and total debt outstanding to \$16 billion in fiscal 2029. Debt outstanding is 2.83% of personal income in fiscal 2029.

**Exhibit 11**  
**Debt Outstanding as a Percentage of Personal Income**  
**Fiscal 2024-2029**  
**(\$ in Billions)**



GO: general obligation  
 MDOT: Maryland Department of Transportation

Source: Board of Revenue Estimates; Maryland Department of Transportation; State Treasurer’s Office; Maryland Stadium Authority; Maryland Department of the Environment; Capital Debt Affordability Committee; State Department of Assessments and Taxation; Department of Legislative Services

DLS observes that there are factors that could increase debt service ratios and advises caution if rates approach the affordability criteria. Specific factors that could increase debt affordability ratios are:

- Additional Transportation Revenues:** MDOT’s capital program is constrained, and efforts to enhance it have begun. If MDOT were to receive additional revenues, the additional debt issued would exceed the additional capacity that the revenues provide, so MDOT would take a larger share of CDAC’s debt service ratio. This is because MDOT’s issuance policies are guided by its debt service coverage tests, which are established in the department’s bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service



## *X00A00 – Public Debt*

payments on all MDOT bonds supported by the Transportation Trust Fund outstanding and to be issued. The department has adopted a management practice that requires a minimum coverage of 2.5 times the maximum future debt service. This allows MDOT to expand its capital program and manage its debt.

- ***A Recession:*** Even a modest recession that does not result in less revenues increases the debt service to revenues ratio. Revenues are forecast to increase, so even slower growth affects the ratio.

MDOT's debt service coverage test provide a hedge against events beyond its control, which is a prudent approach to debt management. CDAC could adopt similar policies that could slow authorizations if the State approaches its affordability ratios.

### **Out-year Costs of Increasing Authorizations**

Increasing GO bond authorizations modestly increases debt service costs in the short term but later leads to substantial increases in costs. The delays are attributable to State policies to:

- ***Issue Bonds When Funds Are Needed for Capital Projects:*** Capital projects often take years to plan and construct. The federal government's arbitrage rules require that bond proceeds are used within specified periods. If the funds are not used in the time allotted, issuers pay arbitrage rebates to the federal government. To avoid paying arbitrage rebates, GO bond issuances are delayed until STO and the Department of Budget and Management expect that the funds are needed. STO estimates that it takes five years to issue bonds for each annual authorization, with 31% issued in the first year; and
- ***Pay Only Interest In The First Two Years:*** The first tranche of bonds is retired three years after issuance. Debt service payments are even from years three to fifteen, when the final tranche is retired.

Because of delayed issuances and interest only payments in the first two years after issuance, the full impact increasing authorizations is not realized until the tenth year after authorizations are increased. **Exhibit 12** shows how debt service costs increase slowly in early in the forecast period and then increase at an accelerated rate. STO advises that the fiscal 2025 GO bond sale will be in the second half of the fiscal year, so there will be no debt service costs from that sale until the following fiscal year.

**Exhibit 12**  
**Effect of Increased Authorizations on Debt Outstanding and Debt Service**  
**Fiscal 2025-2029**  
**(\$ in Millions)**

<b>Fiscal Year</b>	<b>Previously Proposed Authorizations</b>	<b>Additional Authorization</b>	<b>Additional Debt Outstanding</b>	<b>Additional Debt Service<sup>1</sup></b>	<b>Maximum Debt Service<sup>2</sup></b>
2025	\$1,205	\$545	\$169	\$0	\$376
2026	1,205	545	475	8	376
2027	1,205	545	890	24	376
2028	1,205	545	1,377	54	376
2029	1,205	545	1,895	103	376

<sup>1</sup> This adds debt service costs incrementally as bonds are sold. The State Treasurer’s Office projects issuing bonds in the second half of each fiscal year. Consequently, there are no debt service costs until the following fiscal year and no principal payments until the fourth fiscal year.

<sup>2</sup> Maximum debt service costs show what cumulative debt service costs are costs in the tenth fiscal year after the authorization.

Source: Department of Legislative Services

**3. Maryland’s Long-term Liabilities Are Larger Than Most States, Especially AAA-rated States**

Each year, Moody’s Investors Service compares State debt levels. Two of the measures estimated by Moody’s are measures that the State uses when evaluating debt: debt outstanding to personal income; and debt service to revenues. Among states rated AAA by the three major rating agencies (Moody’s, S&P Global Ratings, and FitchRatings), Maryland has the second highest debt service to revenues ratio and debt outstanding to personal income ratios. **Exhibit 13** shows that Maryland also has the highest net pension liability and total liabilities.

**Exhibit 13**  
**Ranking AAA-rated States' Long-term Liabilities**  
**Fiscal 2022**

<b>State</b>	<b>Total Long-term Liabilities to Revenues</b>	<b>State Debt to Personal Income</b>	<b>Implied Debt Service to Revenues</b>	<b>Net Pension Liability to Personal Income</b>	<b>Net OPEB Liability to Personal Income</b>	<b>Capital Asset Depreciation Ratio</b>
Maryland	7	10	12	9	13	8
Delaware	12	4	11	18	2	36
Texas	13	33	31	20	11	49
Missouri	23	42	36	30	20	24
Iowa	34	42	41	24	36	18
Virginia	37	18	17	42	31	46
Indiana	38	45	44	29	44	6
Florida	39	37	26	50	27	21
Georgia	40	26	20	47	31	20
North Carolina	41	32	34	42	22	50
Minnesota	42	23	26	34	36	22
Utah	44	30	30	37	44	42
Tennessee	49	47	16	49	31	41
South Dakota	50	40	44	36	44	44

X00A00 – Public Debt

OPEB: Other Postemployment Benefits

Note: Rankings compare 50 states and do not include the District of Columbia or territories. Shaded areas are Maryland and states with higher liabilities than Maryland.

Source: Moody's Investors Services, September 2023

### *X00A00 – Public Debt*

States polices can vary substantially, making comparisons difficult. In some cases, like assuming a lower pension rate of return, assuming a lower rate is prudent but leads to a higher unfunded liability. This penalizes states for responsibly estimating pension liabilities. To make the data comparable and avoid exaggerating the liabilities of states with responsible polices, Moody's made the following adjustments:

- Bonds supported by lottery revenues are classified as State debt. Moody's does this because lottery revenues support State priorities, like education, that would otherwise be supported by State revenues. Lottery revenues take pressure off other State revenues and thus serve the same purpose as State revenues. Recent MSA authorizations supported by lottery bonds, like the Orioles and Ravens stadiums and Prince George's County Blue Line Corridor, and Sports and Entertainment Facilities Financing Fund, are not classified as State debt by CDAC.
- To calculate implied debt service to revenues, debt service costs are amortized over 20 years. This normalizes the data so that debt service costs are comparable. Since Maryland bonds' maturities cannot exceed 15 years, Maryland's debt service payments are reduced in Moody's ratios. Conversely, states with debt service payments of debt that exceeding 20 years have higher implied debt service costs. Even with this favorable adjustment, Maryland's debt service to revenue ratio is the second highest among AAA-rated states.
- A standard discount rate is used to compare unfunded pension liabilities. It is common for different pension plans to use different discount rates when estimating unfunded pension liabilities. The Maryland State Retirement System uses a 6.8% rate, which is slightly below commonly used rates.

Because Maryland is a high-debt State, careful debt management is more important to bond markets and retaining the AAA rating. When evaluating Maryland GO bonds, a key credit strength is Maryland's affordability process, which is regarded as strong, well-embedded, and sustainable. **The State Treasurer should be prepared to brief the committees on how the highest credit rating and low interest rates can be maintained as a high-debt state that is expanding its bond program.**

## ***Operating Budget Recommended Actions***

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1. Concur with Governor's allowance.

**Appendix 1  
Object/Fund Difference Report  
Public Debt**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
13 Fixed Charges	\$ 1,430,892,085	\$ 1,449,300,000	\$ 1,505,700,000	\$ 56,400,000	3.9%
<b>Total Objects</b>	<b>\$ 1,430,892,085</b>	<b>\$ 1,449,300,000</b>	<b>\$ 1,505,700,000</b>	<b>\$ 56,400,000</b>	<b>3.9%</b>
<b>Funds</b>					
01 General Fund	\$ 649,000,000	\$ 425,100,000	\$ 376,100,000	-\$ 49,000,000	-11.5%
03 Special Fund	775,499,502	1,016,700,000	1,124,700,000	108,000,000	10.6%
05 Federal Fund	6,392,583	7,500,000	4,900,000	-2,600,000	-34.7%
<b>Total Funds</b>	<b>\$ 1,430,892,085</b>	<b>\$ 1,449,300,000</b>	<b>\$ 1,505,700,000</b>	<b>\$ 56,400,000</b>	<b>3.9%</b>

Note: The fiscal 2024 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2025 allowance does not include contingent reductions or cost-of-living adjustments.