DEPARTMENT OF
BUDGET & MANAGEMENT

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PUBLIC DEBT
FY 2019 Budget Hearing

Testimony of
David R. Brinkley, Secretary
Department of Budget and Management

Senate Budget and Taxation Committee
February 13, 2018

House Appropriations Committee
February 16, 2018

The Department of Budget and Management (DBM) appreciates this opportunity to respond to the Department of Legislative Services' (DLS) thorough review of the Public Debt budget. DBM's response to the analysis is provided below.

ISSUE:

Debt Capacity:

The Administration remains concerned with growing debt levels and the steeply rising general fund debt service subsidy, which is projected to approach $500 million annually by fiscal year 2022. To that end, the Governor's fiscal year 2019 – 2023 Capital Improvement Plan continues the policy of holding new general obligation bond authorizations under $1 billion annually, which will begin to bend the curve back towards sustainable, affordable levels of debt service. The positive effects of prudent debt authorization can already begin to be seen as debt service expenditures are currently projected to peak at $523 million in fiscal year 2025 before beginning to decline (see attached graph).

By limiting new debt authorization to $995 million a year for the next five years, the State will further reduce debt service expenditures and will save $740 million over the next 15 years by limiting issuances to this level when compared to the recommendations of the General Assembly's Spending Affordability Committee.

DLS OPERATING BUDGET RECOMMENDATIONS:

1. **Budget Bill Language – Reversion of General Fund Debt Service**

   DBM Response: DBM is concerned with the new policy being recommended by the Department of Legislative Services to the General Assembly to reflect bond premiums from sales that occur after the conclusion of the Session in the current budget. The General Assembly need look no further than the DLS analysis to see why this change in policy is **NOT** a good idea.

   > "Why should the State budget premiums carefully? Because interest rates in this environment are volatile, even estimates prepared weeks before a bond sale are routinely off by millions of dollars. There are many factors influencing premiums that cannot be forecast accurately."

   Further, to the extent that these savings are used to balance the fiscal year 2019 budget, it will be more difficult to balance the fiscal year 2020 budget as bond premium savings, which have always been an important part of balancing the next budget, will no longer be available. The current policy reflects an inherently conservative approach to setting aside savings for future years, which should be continued. DBM believes that the General Assembly should balance the FY 2019 budget with permanent ongoing reductions, not one-time savings from bond premiums.

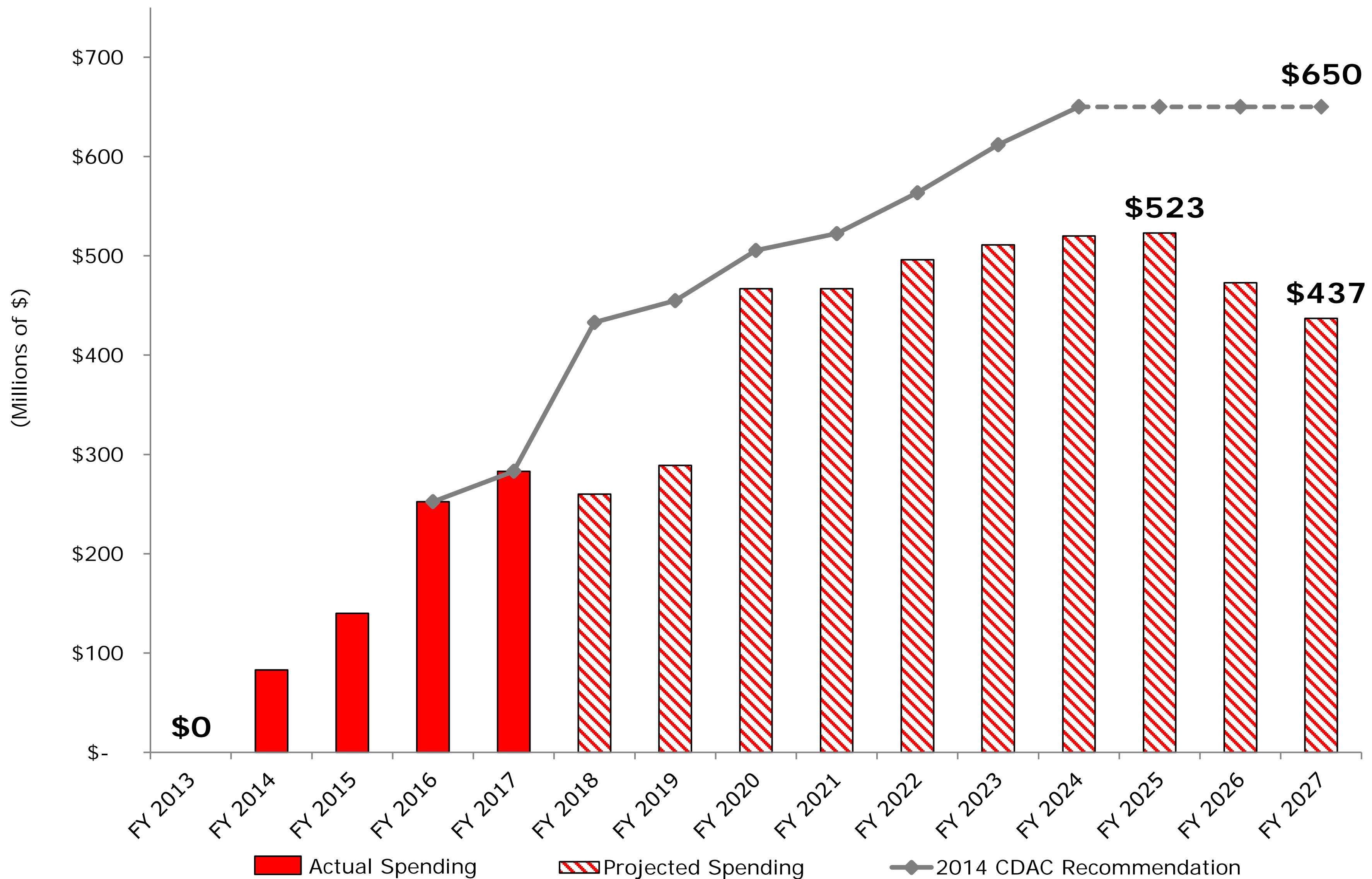
   DBM would also note that DLS projections of bond premiums have significantly missed the mark in recent years in a declining interest rate environment. While recent projections have fallen short of actual collections, DBM would be concerned that current projections might exceed actual collections in a rising interest rate environment.

   Finally, the rating agencies have consistently marked Maryland highly for its financial practices, which include not assuming bond premium in future fiscal years. Breaking from this norm, while perhaps not impacting the bond rating, is a departure from our standard of fiscal prudence and one the Administration believes should not be taken.

2. **Report on Examining Effects of New Accounting Standards on State Capital Leases**

   DBM Response: DBM concurs with the reporting requirement and will work with the Departments of Transportation and General Services to complete the report.

GF Debt Service Subsidy



Sources: Capital Debt Affordability Committee, *2014 Report* (September 2014)
Department of Budget and Management, *FY 2013 – FY 2019 State Budgets*