



MARYLAND STATE TREASURER
Dereck E. Davis

Testimony of the Maryland State Treasurer's Office

X00A00 – Public Debt Budget | Fiscal Year 2024

Senate Budget and Taxation Committee

February 14, 2023

The State Treasurer's Office (STO) respectfully requests that the Committee concur with the Department of Legislative Services' recommendation to concur with the Governor's allowance for Public Debt for fiscal year 2024.

The analysis details the State's credit strengths, which have helped Maryland to maintain its AAA rating for many years despite significant debt. Among the positives that contribute to the State's rating are the 15-year maturity requirement for debt, which is shorter than other states' maturity standards, and the Capital Debt Affordability Committee (CDAC) process, which lends stability to the State's fiscal planning. As the analysis notes, the State is considered a high-debt state relative to other AAA rated states.

Among its recommendations, the analysis encourages STO to revisit its policy regarding the coupon rate, which is set at 5%. A coupon rate is the interest paid to an investor based on the value of the bond and the principal when bonds mature. The State's financial advisors indicate that there are reasons why the State should maintain the 5% coupon rate. STO commits to adjusting the coupon rate if the financial advisors recommend at any point in time that an adjustment would bring the State better value in an upcoming bond sale.

The analysis further recommends that CDAC evaluate increased general obligation bond authorizations and have a target debt service to revenues ratio that acts as a hedge against underperforming revenues. Given STO's role in staffing and the Treasurer's role in chairing CDAC, STO plans to spend considerable time this year discussing these issues in greater detail.

On the immediate horizon, later this month, the State's fiscal officers will meet with the three major rating agencies in preparation for the bond sale on March 15, 2023, at the Board of Public Works. STO will remain in contact with the Committee to share the outcome of those meetings and the updated ratings that the State receives.

Bearing all of this in mind, STO requests that the Committee concur with DLS' recommendation to concur with the Governor's allowance. Please contact Jonathan Martin, Chief Deputy Treasurer (jmartin@treasurer.state.md.us), with any questions.