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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

HOUSE BILL 887 State Debt – Annuity Bond Fund – Use of Bond Premiums (CHANG)

POSITION: OPPOSE

DATE: February 17, 2021

COMMITTEE: House Appropriations

SUMMARY OF BILL: HB 887 expands the authorized uses of bond premiums to include paying for capital projects or other uses authorized by the Internal Revenue Code of 1986.

EXPLANATION: Under current Maryland law, Bond Premium funds can only be used for debt service, unless specifically authorized for projects by the legislature. This helps the operating budget in the year the premiums are received. As Bond Premiums have become more common and larger, the municipal bond industry has begun to frown on their use for operating expenses. Based on IRS regulation on the allowable uses of tax-exempt bond proceeds, Maryland's Bond Counsel has advised that we must limit the use for debt service to three years of interest on the current bond sale. The remaining premium can be used to: (1) fund additional capital projects; (2) pay for already-authorized projects with premium rather than issuing debt; or (3) resizing bond sales, which decreases debt outstanding and debt service.

HB 589/SB 493 (p. 20, lines 1-22) - Budget Reconciliation and Financing Act includes a provision that would allow the use of bond premiums for capital projects, and, beginning in FY 2024, restrict the use of bond premiums to interest to the extent permitted and to resizing current or future bond sales.

This arrangement would begin to take advantage of Maryland's bond premium earnings to sustainably reduce long-term general fund debt service costs - by far the fastest growing segment of the general fund budget. General Fund Debt Service is projected to grow over 17% annually from FY 2022 - FY 2026, which is four times the projected growth rate of revenues. *In fact, the Department of Legislative Services likewise recommended to the Spending Affordability Committee at its October 27, 2020 meeting that it consider use of bond premiums to resize bond sales to minimize the impact of debt service on the General Fund.* Spending Affordability Briefing, Oct. 27, 2020, p. 21

DBM recommends that the General Assembly adopt the BRFA provision, in lieu of enacting SB 60. Otherwise, the Department respectfully requests the Committee to amend SB 60 to conform to the BRFA provisions.

For additional information, contact Barbara Wilkins at (410) 260-6371 or barbara.wilkins1@maryland.gov