

**XA.00
Public Debt**

Operating Budget Data

(\$ in Thousands)

	FY 01	FY 02	FY 03		% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$106,200	\$103,455	\$94,020	(\$9,435)	(9.1%)
Special Fund	266,578	293,586	311,357	17,771	6.1%
Reimbursable Fund	<u>98,292</u>	<u>100,523</u>	<u>103,862</u>	<u>3,339</u>	<u>3.3%</u>
Total Funds	\$471,069	\$497,564	\$509,239	\$11,676	2.3%

- The allowance for the Annuity Bond Fund is \$11.7 million (2.3%) more than the fiscal 2002 working appropriation. Debt service increases by \$8.5 million while funds budgeted for the remittance of arbitrage earnings increases by \$3.2 million.
- Special funds, made up primarily of property tax revenue, increase by \$17.8 million. This is offset by a decrease in general funds, both credited directly to the Annuity Bond Fund and budgeted in the Maryland State Department of Education (MSDE) budget and received as reimbursable funds, of \$6.1 million.

Analysis in Brief

Recommended Actions

1. Concur with Governor's allowance.

Note: Numbers may not sum to total due to rounding.

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Operating Budget Analysis

Program Description

The Annuity Bond Fund provides for debt service payments on the State's general obligation bond debt. Funds for this purpose are provided from property tax revenues, general funds, and repayments from certain State agencies, subdivisions, and private organizations. General fund appropriations to the Annuity Bond Fund allow the property tax rate to be lower than it otherwise would be since the property tax is the dedicated source of revenue the State pledges to pay debt service. General funds to pay debt service on public school construction loans are also appropriated to the Maryland State Department of Education (MSDE) and credited to this program as reimbursable funds. Since fiscal 1996, bond discount and penalty and rebate expenses have been budgeted in a program separate from that which pays debt service.

Governor's Proposed Budget

The fiscal 2003 allowance of \$509.2 million represents an increase of \$11.7 million (2.3%) over the fiscal 2002 working appropriation. Special funds increase by \$17.8 million (6.1%) while general funds, both those credited directly to the Annuity Bond Fund and those budgeted in MSDE and received as reimbursable funds, decrease by \$6.1 million (-3.0%). Payment of debt service increases by \$8.5 million (1.7%) while funds budgeted for the remittance of arbitrage earnings increases by \$3.2 million (877.8%). The high arbitrage remittance results from the high bond cash balance that the State carried for several years. These cash balances were reduced by decreasing the size of a bond sale in 1999 and cancellation of the February 2000 bond sale.

The funds received from MSDE represent payment of debt service on bonds sold for public school construction. General funds are appropriated to the Annuity Bond Fund to allow the property tax rate to remain at the current level of \$0.084 per \$100 of the assessed value of real property (assessed at full value). **Exhibit 1** lists the sources and uses of revenues appropriated to the Annuity Bond Fund for fiscal 2001 through 2003.

Appendix 4, included for informational purposes, lists the interest rates obtained on Maryland General Obligation bond sales over the past 20 years.

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Exhibit 1

**Annuity Bond Fund Revenues
Debt Service and Discount/Penalties
Fiscal 2001 and 2002**

	FY 2001 <u>Actual</u>	FY 2002 <u>Working</u>	FY 2003 <u>Allowance</u>
Special Fund Income			
Balance Beginning of Fiscal Year	\$8,220,847	\$10,178,753	\$10,269,944
Property Taxes			
Receipts	257,100,413	269,714,428	283,197,516
Interest and Penalties	1,231,784	1,000,000	1,000,000
Other Repayments	3,063,570	3,830,341	2,798,252
Miscellaneous Receipts	1,434,052	441,220	200,000
Accrued Interest on Bonds Sold	263,728	325,371	0
Prior Year's Discount	(84,297)	(7,625)	0
Bond Premium	5,526,425	18,373,467	14,043,707
Transfer to Reserve	(10,178,753)	(10,269,944)	(152,267)
Subtotal Special Funds	\$266,577,769	\$293,586,011	\$311,357,152
General Fund Support			
Approp. directly to Annuity Bond Fund	106,000,000	103,094,800	90,500,000
Budgeted in MSDE (RA.02.45)	98,291,560	100,522,850	103,862,347
Subtotal General Funds	\$204,291,560	\$203,617,650	\$194,362,347
Total Funds -- Debt Service	\$470,869,329	\$497,203,661	\$505,719,499
Penalty\Discount Expenses (General Funds)			
Discount	0	0	0
Penalty	200,075	360,000	3,520,000
Total Discount\Penalty Expenses	\$200,075	\$360,000	\$3,520,000
Total -- All Funds Debt Service\Discount	\$471,069,404	\$497,563,661	\$509,239,499
Total -- Direct GF to Annuity Bond Fund	\$106,200,075	\$103,454,800	\$94,020,000

Source: State Treasurer's Office

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Public Debt
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2001					
Legislative Appropriation	\$106,015	\$266,411	\$0	\$98,292	\$470,718
Deficiency Appropriation	200	0	0	0	200
Budget Amendments	0	255	0	0	255
Reversions and Cancellations	(15)	(88)	0	0	(103)
Actual Expenditures	\$106,200	\$266,578	\$0	\$98,292	\$471,069
Fiscal 2002					
Legislative Appropriation	\$103,455	\$293,607	\$0	\$100,523	\$497,584
Budget Amendments	0	(21)	0	0	(21)
Working Appropriation	\$103,455	\$293,586	\$0	\$100,523	\$497,564

Note: Numbers may not sum to total due to rounding.

Fiscal 2001

In fiscal 2001 the deficiency covered the remittance of arbitrage earnings to the federal government. The special fund amendment was needed because debt service was higher than the estimate upon which the budget had been built. The general and special funds not needed for debt service at the end of the year are cancelled. The funds remain in the annuity bond fund and roll forward into the next year.

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Fiscal 2002

The fiscal 2002 special fund adjustment reflects the downward revision in the estimate of debt service based on lower interest rates.

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Appendix 2

Object/Fund Difference Report Public Debt					
<u>Object/Fund</u>	<u>FY01 Actual</u>	<u>FY02 Working Appropriation</u>	<u>FY03 Allowance</u>	<u>FY02 - FY03 Amount Change</u>	<u>Percent Change</u>
Objects					
13 Fixed Charges	\$ 471,069,404	\$ 497,563,661	\$ 509,239,499	\$ 11,675,838	2.3%
Total Objects	\$ 471,069,404	\$ 497,563,661	\$ 509,239,499	\$ 11,675,838	2.3%
Funds					
01 General Fund	\$ 106,200,075	\$ 103,454,800	\$ 94,020,000	(\$ 9,434,800)	(9.1%)
03 Special Fund	266,577,769	293,586,011	311,357,152	17,771,141	6.1%
09 Reimbursable Fund	98,291,560	100,522,850	103,862,347	3,339,497	3.3%
Total Funds	\$ 471,069,404	\$ 497,563,661	\$ 509,239,499	\$ 11,675,838	2.3%

Fiscal Summary Public Debt								
<u>Unit/Program</u>	FY01	FY02	FY02	FY01 - FY02	FY03	FY02 - FY03		
	<u>Actual</u>	<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>		
01 Redemption and Interest on State Bonds	\$ 470,869,329	\$ 497,224,205	\$ 497,203,661	5.6%	\$ 505,719,499	1.7%		
05 Related Expenses on State Bonds	200,075	360,000	360,000	79.9%	3,520,000	877.8%		
Total Expenditures	\$ 471,069,404	\$ 497,584,205	\$ 497,563,661	5.6%	\$ 509,239,499	2.3%		
General Fund	\$ 106,200,075	\$ 103,454,800	\$ 103,454,800	(2.6%)	\$ 94,020,000	(9.1%)		
Special Fund	266,577,769	293,606,555	293,586,011	10.1%	311,357,152	6.1%		
Total Appropriations	\$ 372,777,844	\$ 397,061,355	\$ 397,040,811	6.5%	\$ 405,377,152	2.1%		
Reimbursable Fund	\$ 98,291,560	\$ 100,522,850	\$ 100,522,850	2.3%	\$ 103,862,347	3.3%		
Total Funds	\$ 471,069,404	\$ 497,584,205	\$ 497,563,661	5.6%	\$ 509,239,499	2.3%		

